BREAKING FREE
OF THE ASP MODEL

**THIS WAY TO THE
FUTURE-READY BANK**

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Many of today's consumer transactions are but a digital click away. A flight passenger, for example, can purchase a plane ticket, check-in for the flight, board the airplane, and secure a cab from the airport—all through a mobile app. Most would think that opening a bank account over such an app would be just as intuitive, simple, and quick. Think again.

Only 8 percent of bank customers in the US could open an account of any kind entirely in the digital channel, according to a Javelin Strategy & Research survey.[1] Yet, Juniper Research predicts that by 2021, nearly three billion users globally will access retail banking services via smartphones, tablets, PCs and smart watches—up 53 percent from the prior year's forecast.[2] A RateWatch and Simon-Kucher study found that 69 percent of small businesses (of up to $4.9 million in annual revenues) do not have a positive perception of mobile banking services offered by their institutions.[3] Interactions like account opening, check deposits, money pooling and peer-to-peer payments should be digital table stakes for every bank.

Why are they not?

3B USERS

are predicted to access retail banking services via smartphones, tablets, PCs and smart watches.[1]

A BIG IT BARRIER:
THE ASP MODEL

Significant IT constraints hinder traditional banks from becoming truly digital and delivering distinctive customer experience—doing things like migrating basic transactions from physical to digital channels, creating API-driven open banking, and shedding cost and complexity of legacy-based architectures. Most often, the barriers stem from banks' underlying legacy core banking platform and associated delivery models, particularly the application service provider (ASP) model.

Under the ASP model, a bank rents the use of core banking software that is centrally hosted and managed by a vendor. Typically, the bank is locked into using all the digital channels provided by the one ASP vendor as the core banking solution is tightly integrated into the channels. Most of the core banking platforms under traditional ASP models were built on 30-year-old technology which makes them difficult to integrate and maintain

the technology. According to Aite Group research, some 65 percent of banks ran their core banking solution in a hosted environment in 2015; 87 percent of banks' new core replacement contracts in 2015 were for hosted deployments.[4]

The catalyst that fueled the surge in ASPs in the early 2000s is also what is causing the model to be a key inhibitor for banks in pivoting to digital innovation: cost. Back then, it was costs of the up-front software purchase, resources needed to install and maintain the applications and build out of the IT infrastructure. The ASP model for core banking proved useful in helping banks lower total cost of IT ownership and speed up deployment (particularly for new launches). One ASP reports that between 2008 and 2014, its banking customers enjoyed an 8.6 percentage point lower cost/income ratio than banks running legacy applications.[5] Banks happily added on other components, such

as digital front-ends, that ultimately created a single Frankenstein-like system of many stitched-together pieces and parts that made them even harder to maintain and slow to change.

Today, the ASP model is increasingly restrictive for incumbent banks that now must compete with agile digital-based rivals like Facebook, Google, Virgin Money, Ant Financial, Monzo, PayPal, T-Mobile, mBank and others. Consider the chip-based IT behind ApplePay's contactless point-of-sale payment capability or the sophisticated technology powering custom, cheaper, more transparent payday loans at LendPay. Such IT flexibility is out of reach for those banks (particularly small- and mid-sized ones) that are locked into a fixed, one-provider ASP model and are unable to change as quickly as others. It puts them at great risk of becoming digitally-irrelevant and targets for acquisition.

RETURN TO STRENGTH:
BECOMING A FUTURE-READY BANK

Our view is that between the status quo and the bank of the future is a "Future-Ready Bank" with the following high-level characteristics:

- Cost/income ratios of around 40 percent and a return on equity of about 15 percent, generating funding to invest in transformation

- Simplified and more transparent business, operating and cost models

- Cultural shift to solving for clients, business and shareholders (cost culture, service culture)

Getting there does not involve blowing up the business. Rather, it means making the business simpler, more transparent, more manageable and technology smarter to gain agility and efficiency.

THE CRUX OF THE ASP MATTER

Most banks recognize the severity of the situation: unless they renew and gain control over their entire core to quickly digitalize their business, it will be very difficult for them to have a comprehensive view of customers and deliver the real-time response they want.

Among the common pain points to address:

- **Little room for differentiation.** While offering joint economies of scale, the ASP model is built for all and customized for none, which often forces clients to run the same vintage of core banking platform. This can confine users to offering similar channel experiences because channel offerings are tied heavily to the core banking solution and considered an out-of-the-box functionality. Limited customization capabilities do exist. However, ASP solutions are, by design, very restrictive and often only allow minor branding touch-ups.

- **Innovation future in the hands of others.** Vendor priorities dictate and shape the product roadmap. ASP models force the clients down a premeditated vendor-guided digital experience. As the digital experience progressively becomes the face of an organization to the outside world, this model trait begs the question: Who is controlling the innovation roadmap?

- **Risk of slower market response.** Frequency of vendor releases (quarterly in many cases) can result in longer lead times to get new feature functionality out into the market. A key question in the digital economy is not "Will things change?", but rather, "How fast will it happen?"

- **High customization and/or integration costs.** Many financial services institutions consider a custom-built approach as their strategy (Figure 1).[6] Yet under the ASP model, custom development and integration is expensive due to the proprietary software involved. Also, it can often mean a dependency on vendor resources.

Large banks have the freedom to quasi-address these and other ASP challenges by taking a fake-it-until-you-make-it approach. For example, they may show a checking account customers an immediate view of their deposits, purchases and account balances to create a perception of modern user experience. When under the hood, they are heavily reliant on batch processing and their vendor's core banking platform. Middle- and small-sized banks with smaller IT budgets cannot afford such luxury.

FIGURE 1.
Financial services institutions consider a custom-built approach as their strategy

"What is the main strategic objective of your financial services institution regarding your platform of financial services applications (e.g., banking platforms)?"

Use mainly custom-build developed applications with a low share of off-the-shelf applications — **10%**

Use mainly a complete suite of integrated applications (e.g., integrated banking platform) that provides on average best overall functionality (best-of-suite) — **8%**

Use mainly best-in-class applications off-the-shelf and integrate — **39%**

Use custom-build and off-the-shelf applications equally and integrate — **36%**

No strategy — **6%**

IN AN AGE WHERE THE DIGITAL EXPERIENCE IS PROGRESSIVELY BECOMING THE FACE OF AN ORGANIZATION, WHO CONTROLS YOUR INNOVATION ROADMAP?

HOW WELL CAN YOUR CORE BANKING ENABLE THIS... IF AT ALL?

BANKS THAT ARE UNABLE TO INNOVATE FAST AND EFFICIENTLY TO DELIVER WHAT CUSTOMERS WANT, ARE ON THEIR WAY OUT

Given an environment where consumers increasingly expect experiences that are convenient, engaging, value-adding, and quick, a bank's customer experience must be unique and compelling. It requires a core banking platform with the agility, speed and cost structure to enable winning digital business models and deliver a frictionless customer experience.

For example, digital-ready core banking can enable a bank to:

- Originate hyper-individualized products and services— for example, a rate based on a customer's banking relationship and profile.

- Deploy rich omni-channel touchpoints in real-time that are based on embedded analytics to be most relevant to customers.

- Satisfy customers' banking needs with a blended workforce comprised of people and artificial intelligence. Seventy-one percent of customers are willing to receive automated support[7].

- Connect with broader digital ecosystems to offer hyper-relevant and adaptable services that extend from banking to areas as diverse as smart cities, home/building automation, travel, health care, connected cars and wearable devices.

# FREE UP CORE BANKING FOR SPEED, FLEXIBILITY AND ADAPTABILITY

Any path forward for banks begins with re-structuring core IT systems to create a more agile and innovative way to grow and compete (Figure 2). It means a footloose core banking IT architecture that is unrestricted in its transaction operations and able to respond swiftly, efficiently and effectively to market fluctuations.

FIGURE 2.
**Banking shift from the typical ASP model to an agile, innovative architecture**

Source: Accenture

CURRENT STATE
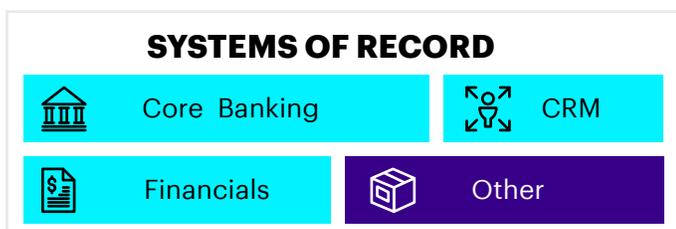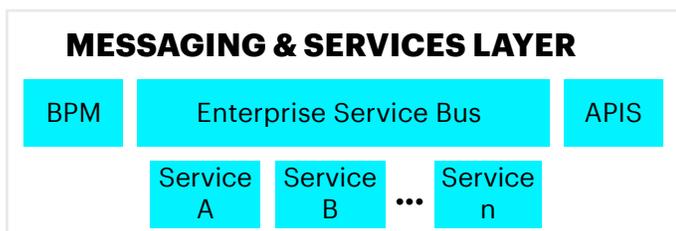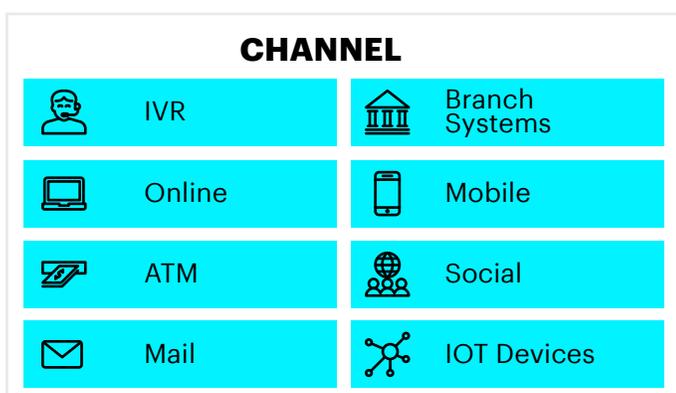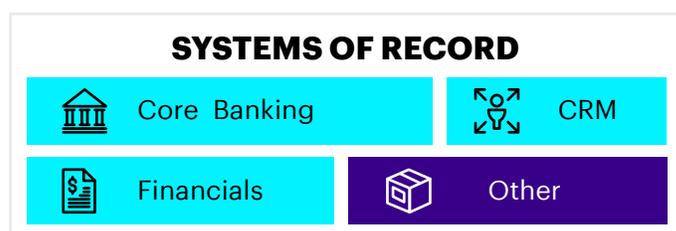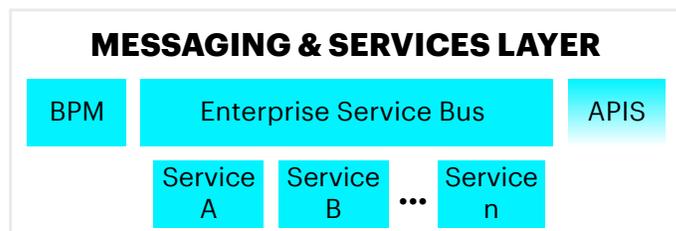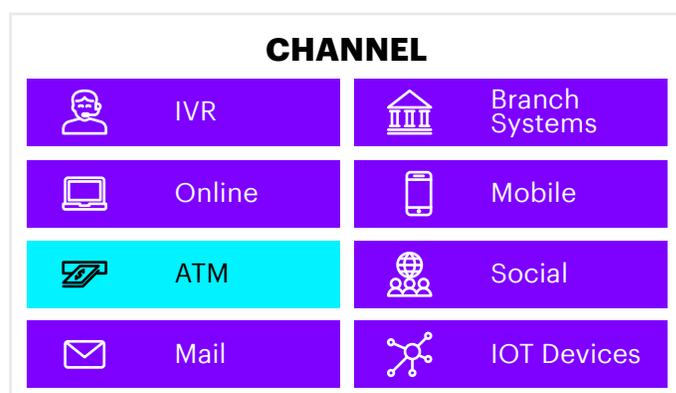
CHANNEL

IVR		Branch Systems	
Online		Mobile	
ATM		Social	
Mail		IOT Devices	

MESSAGING & SERVICES LAYER

BPM	Enterprise Service Bus	APIS

Service A	Service B	•••	Service n

SYSTEMS OF RECORD

Core Banking		CRM
Financials		Other

- Application Service Provider model vendor
- Best-of-breed technology vendor
- In-house

FUTURE STATE

CHANNEL

IVR		Branch Systems	
Online		Mobile	
ATM		Social	
Mail		IOT Devices	

API MANAGEMENT LAYER

API Gateway

MESSAGING & SERVICES LAYER

BPM	Enterprise Service Bus	APIS

Service A	Service B	•••	Service n

SYSTEMS OF RECORD

Core Banking		CRM
Financials		Other

In the future-state IT architecture, the ASP model continues to serve as the engine for Systems of Record and Messaging and Services activity. No longer dated, the ASP model components are:

- **Open**, allowing applications to integrate with one another seamlessly, taking full advantage of Big Data for hyper-relevant engagement with customers.

- **Modern and secure**, including next-generation technology, such as an application programming interface (API) management layer and cloud hosting.

- **Agile**, enabling add-on solutions and aligning with initiatives, such as Banking Industry Architecture Network (BIAN) international banking standards, that encourage plug-and-play banking system modules.

Banks can then address omni-channel, APIs, micro-services and all other aspects of their IT architecture by anchoring additional best-of-breed technology applications from trusted third-party providers into the core. Rather than having the lion share of the IT served by a single ASP provider (cloud-based, software-as-a-service and others), the provider pool becomes more diverse and fluid with plug-and-play ability. Now able to upgrade single pieces without uprooting the whole, banks can create a more open core ecosystem and move more rapidly—adapting, going to market and responding to consumer demand quickly.

Banks that opt to break free from the traditional ASP model and evolve to a modern, future state can do so through two strategic actions:

- **Re-wire the IT delivery organization** to adopt a multi-speed approach. Multi-speed IT is all about being flexible (organizationally as well as operationally) to deliver innovative changes without compromising speed or quality. 70 percent of executives Accenture surveyed believed they or their IT organization could operate and simultaneously support multiple business objectives, or "multi-speed IT."[8] Yet 81 percent of executives stated that most IT organizations do not know how to operate effectively while supporting multiple objectives at the same time.[9] Organizations coded to deliver at single speed are destined for failure.

- **"Hollow out the core"** and diversify the providers of IT technology for greater flexibility and innovation. The primary idea behind this action is to have traditional core banking platforms solely act as systems of record that securely hold information about customers' transactions, history and status. Doing so enables IT teams to setup the scaffoldings for a modern plug-and-play architecture powered by newer, best-in-breed digital technology solutions.

BANKING AS A SERVICE (BAAS) FOR A DIFFERENTIATED SERVICE OFFERING

Many banks are accelerating their progressive journey to hollowing out the core by establishing a "digital attacker" sub brand from their existing bank. With this approach banks look to differentiate themselves in the market through being a first mover in a specific digital capability. Banks can keep this separate from their existing core system and stand up on a next generation core. This allows them to progressively move capabilities to the new core overtime with limited disruption to the current bank. In many cases this is being created in a BaaS model where the application and operation support is outsourced, so the bank can focus on customers and not technology build out.

Banks can conduct these actions simultaneously in a staged manner rather than all at once (Figure 3). It allows banks to take advantage of multi-speed IT to manage existing "run the bank" tasks that support normal, day-to-day business operations—activities like delivering product roadmaps or clearing and settlement or order routing and fulfillment.

"Hollow out the core"		Stage 0	Stage 1	Stage 2	Stage 3
	User Interface (UI)	Vendor-hosted ASP Model	Custom UI	Custom UI & API Layer	Custom UI & API Layer
	Mid-Tier		Vendor-hosted API & Core Banking System of Record (SoR)	Vendor-hosted API & Core Banking SoR	In-house Core banking SoR or Modern Cloud-based Vendor-hosted Core Banking SoR
	Back End				

Re-wire the IT delivery organization toward multi-speed
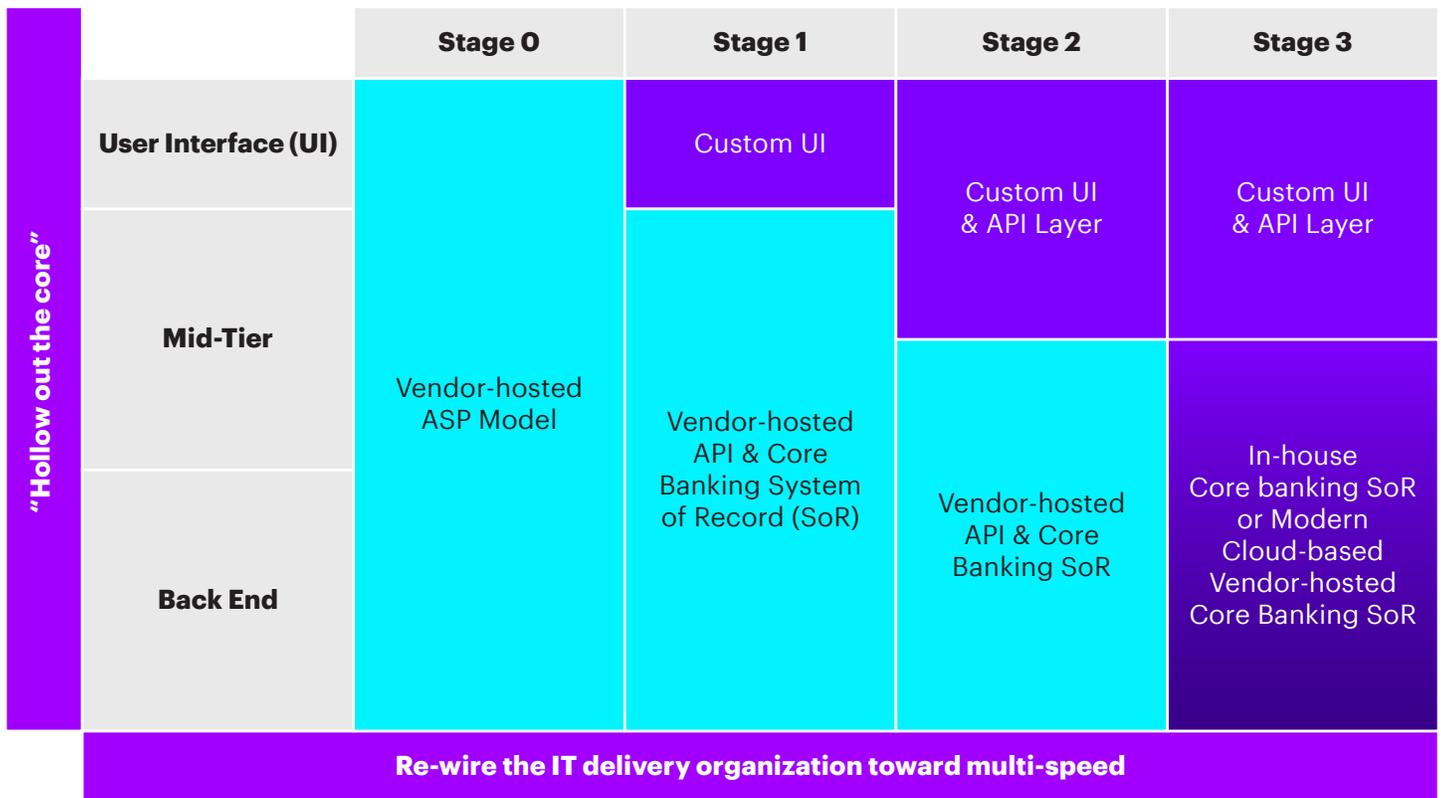
- Application Service Provider model vendor
- Best-of-breed technology vendor
- In-house

LOOKOUT AHEAD—
CORE BANKING BREAKING FREE

Digital-only banks inherently come to the table with multi-speed IT and core banking platforms as their Systems of Record. Some traditional banks are following suit, choosing to evolve their existing ASP model to be multi-speed and to plug-and-play best-of-breed technology solutions.

Here are a few examples:

GOLDMAN SACHS deployed Infosys Finacle technology as the lending platform for its new retail banking operation, Marcus by Goldman Sachs. On a private Goldman cloud, the solution powers management of the complete consumer loan-servicing life cycle on the backend while the bank can plug in proliferating technologies on the front end.[10]

ITALY'S BANCA SELLA is using its API-based open-source banking gateway to offer financial and non-financial solutions via the banks' system. Targeting banks and non-bank businesses, Banca Sella will provide ready-to-use toolkits and modular building blocks that enable a wide array of business models—from marketplaces to crowdfunding platforms.[11]

CAPITAL ONE is using API layers to engage trusted interactions with consumers beyond banking. In one initiative, the bank is among the first in the U.S. to explore tapping into their know-your-customer data through APIs to offer a user identity service to businesses and enable consumers to sign into provider websites through their banks. It would mean fewer log-in credentials for consumers to remember and minimal need to share sensitive personal information.[12]

JPMORGAN CHASE has a data sharing agreement with Intuit that employs APIs to share customer data more safely and easily. Chase customers authorize the bank to share their data electronically with Intuit's apps, which include Mint.com, QuickBooks and TurboTax Online—helping customers achieve better financial management.[13]

GET CORE BANKING READY FOR THE FUTURE. NOW.

With the pace of business change and customer expectations only increasing, banks must find ways to remain relevant—even on their way to true digital banking. IT plays a significant and foundational role in whether banks will succeed. Adopting multi-speed IT while hollowing out the core is one way that banks can get fit—strategically freeing themselves from the ASP model, regaining their core banking strength, and readying for the future. Doing so will help banks grow cost-to-income ratio towards a healthier 40 percent and increase return on equity to around 15 percent. They can sharpen their focus both on delivering a hyper-relevant customer experience and managing the continuous IT innovation that powers that experience.

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