
Core demands in Swiss private banking

How should core systems enable the business?

Switzerland remains one of the worlds' most successful private banking markets. However, continued growth will be based on more than brand & service: key will be the ability to deliver on customer demands around product innovation, flexibility, time-to-market and investment return. Private banks have realized that these requirements must extend management focus beyond the front office and relationship manager to encompass the overall bank operation. For many, this is driving a renewed focus on the back office and core systems in particular – how should strategy here align with the overall business, and what is best practice?

Based on research with senior executives in the Swiss private banking sector, this brief examines the prevailing strategies, priorities and best practice in business and IT strategy as well as analysis the positioning of SunGard Apsys, a major private banking core systems provider, in this space.

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Through our proprietary databases and wealth of expertise, we provide clients with unbiased expert analysis and in-depth forecasts for six industry sectors: Automotive, Consumer Markets, Energy, Financial Services, Healthcare, Technology.

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DATAMONITOR VIEW

CATALYST

Switzerland remains one of the worlds' most successful private banking markets. However, continued growth will be based on more than brand & service: key will be the ability to deliver on customer demands around product innovation, flexibility, time-to-market and investment return. Private banks have realized that these requirements must extend management focus beyond the front office and relationship manager to encompass the overall bank operation. For many, this is driving a renewed focus on the back office and core systems in particular – how should strategy here align with the overall business, and what is best practice?

SUMMARY

Examining the results of a Datamonitor primary survey of the mid-tier Swiss private banking market in Q2 2007, Datamonitor has analyzed five key take-outs for this sector:

- Advisor support tools must integrate and work with back office systems to provide full understanding of the customer for all products / portfolios and drive the execution process in addition to supporting the planning and advice requirements;
- Rapid time-to-market and product innovation require both flexibility and transparency of business workflows;
- Business processes should be constructed around optimum workflows that provide speed and accuracy, improved customer service and enhanced operational efficiency. They should not be dictated or restricted by underlying IT systems;
- Reporting must enhance the customer relationship – flexibility and customization (e.g. for family office) is key, but the reporting process should be automated to focus analyst time on adding value, not data collection;
- IT needs to focus on supporting and aligning business strategy. This requires shifting the balance of IT spend from maintenance to development, with systems transformation and consolidation a vital step in this process.

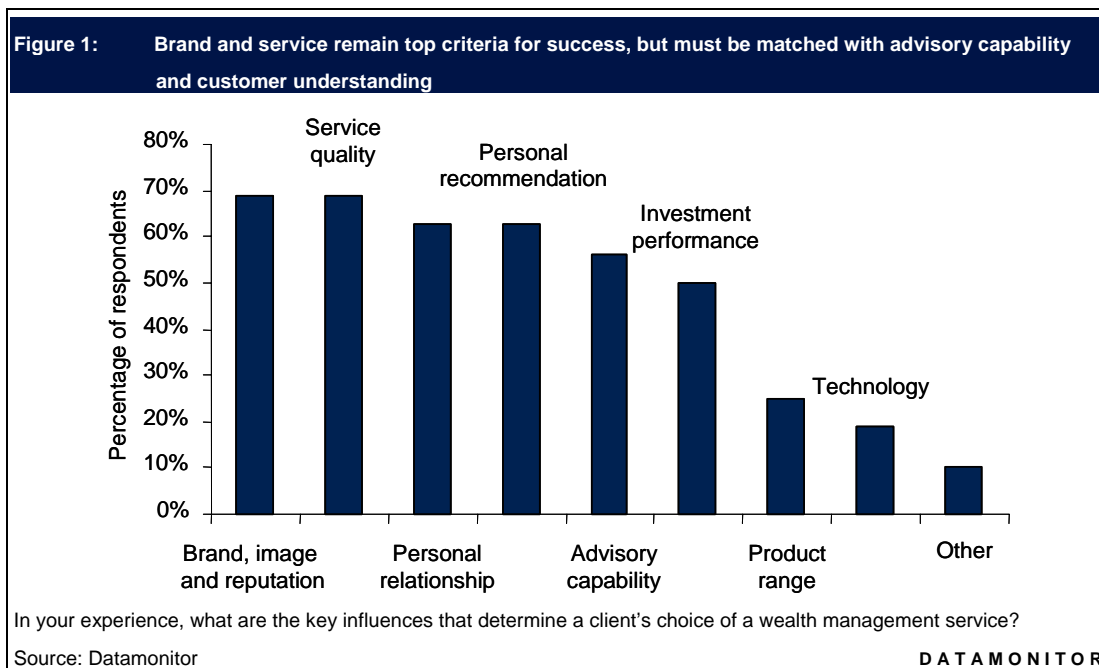
ANALYSIS

Introduction

While considered mature compared to many countries, the Swiss private banking market remains a dynamic environment. Overall market growth has been strong in recent years, and looks set to remain so – Datamonitor expects onshore liquid assets to expand from €311bn in 2005 to €460bn by 2010. However, this growth is likely to fluctuate across customer segments and, particularly for the mid-tier sector, competition from the large wealth managers, financial advisors and asset managers is set to remain as strong as ever. This is creating a set of demanding conditions for Swiss private banks. There is a requirement for increased product breadth (such as structured products, access to alternative investments or additional services such as inheritance planning and art evaluation), greater product and service innovation, as well as higher transparency around performance and the ability to show value. Within a market that is subject to increasing domestic and international regulatory scrutiny, the adaptability of institutions to respond to these issues is as important as ever.

To understand how Swiss private banks are tackling these issues, Datamonitor conducted a primary research study of 15 mid-tier (200-500 users) Swiss private banks during Q2 2007. This involved interviews with senior IT executives, who had understanding of both business and IT strategies and priorities across the bank, and focused on the business landscape and their business / IT strategies and best practice in response to this landscape. This brief examines the main take-outs from this study and best practice seen in the industry.

Advisor support tools must integrate and work with back office systems to provide full understanding of customers for all products / portfolios and drive the execution process in addition to planning and advice requirements

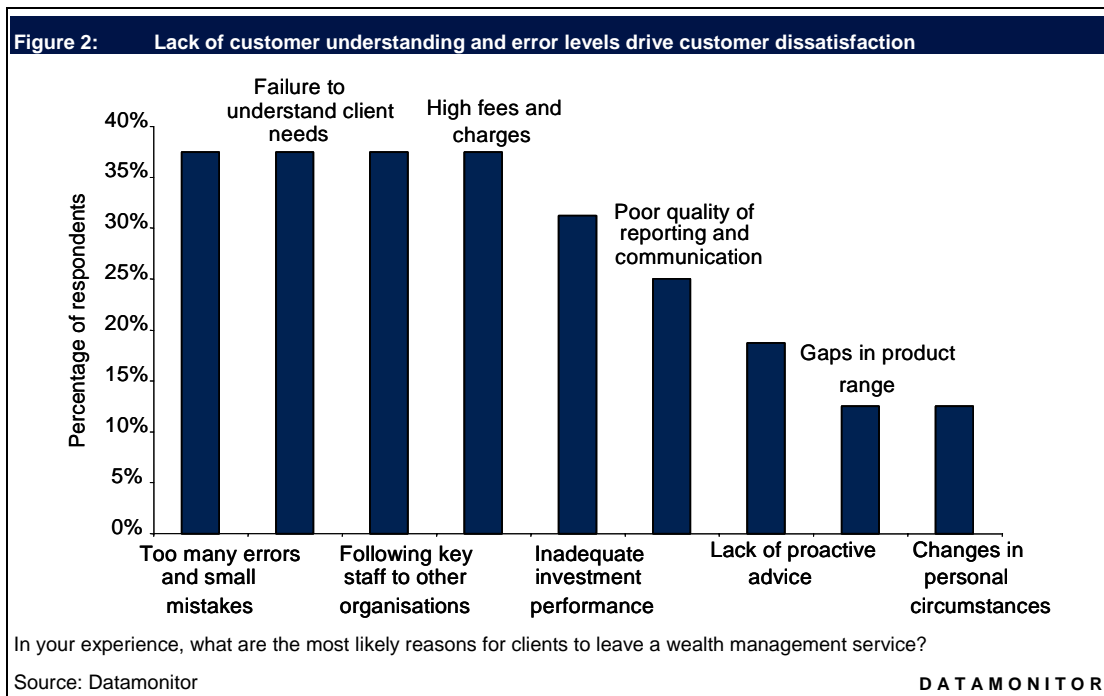


The relationship manager must combine the personal customer relationship with a complete financial understanding and advisory capability, able to act as the face across entire service range

From a business perspective, the top areas that are consistently seen by executives as essential to private banking revolve around brand, image and reputation, together with service quality. As figure one illustrates, these are seen as the main decision criteria for HNW clients in selecting a private bank. Unsurprisingly, most private banks are heavily focused on managing their brand and achieving service quality, with a particular focus on the front office experience and personal customer touch. These tie in to the other key area identified - the personal relationship the client has with their advisor, driving relationship management as a core requirement for success.

While this has driven a focus on hiring and retaining the best relationship managers across the industry, many of the major differences between the best and worst performing private banks lie at a deeper level within the firm. The personal relationship and front office service experience are essential for obtaining clients; however, overall service quality and client retention is determined by the ability of the relationship manager to provide a high level advisory service combined with an in-depth understanding of client requirements.

As shown in figure two, failure to understand client needs and shortcomings in service quality are seen as major drivers of customer churn (along with pricing and strength of personal relationships), illustrating the importance of these areas in private banking. From a best practice perspective, the capability and expertise of the relationship manager are important, but differentiation between institutions generally lies more in their respective abilities to support the advisor through complete, accurate and timely client and product data, decision support and planning capabilities. A core element around this is the ability to aggregate client data across the full product portfolio, to provide the advisor with a complete understanding of the client's position, as well full offering information to allow the advisor to originate and service the full range (rather than limited to areas of product familiarity known by advisor).



Advisor productivity is achieved through focusing activity on the client and using advisory tools, not in origination, reporting and form filling

The importance of the advisor in the personal relationship, as illustrated, has driven most private banks to focus on hiring and retaining high quality relationship managers; however, this alone is not sufficient for financial success. The challenge for private banking remains achieving profitability, scalability and adaptability with this relationship-centric model. With a considerable proportion of the cost base concentrated on front office advisors, profitable growth is highly dependent on the ability to achieve performance from these employees, while maintaining overall operational efficiency in delivering the high and personal service levels required. Consequently best practice private banks are those that not only obtain the best people, but achieve high level of productivity from these advisors.

Core to this is the ability to support the advisor to maximize their time on 'value-add' activities – client interaction, provision of advice and driving product origination, rather than in report generation, form filling, particularly of known client information, or other administrative tasks. To drive this, the front office has seen a strong investment by much of the private banking sector over the last five years both on advisor and client support tools. From an IT perspective this has included an array of systems such as activity management, financial planning and modeling, customer data portals, analytical and operational CRM, portfolio planning and report generation. However, best practice institutions are those who provide an integrated range of productivity and advisory support tools to the relationships manager, so that data is available and processes can be continued across services (e.g. from assessment to planning to origination to reporting) and systems.

Important in this is not just integration of tools within the front office, but real integration between front office and back office products and systems so there can be a true, real-time and complete view of customer data, and operations processes, such as origination or client requests, can seamlessly flow between functions. This increases both advisor productivity and the ability to provide higher understanding at the point of customer interaction, and should also reduce error rates and operational costs in the origination and execution process.

Rapid time-to-market and product innovation requires both flexibility and transparency of business workflows

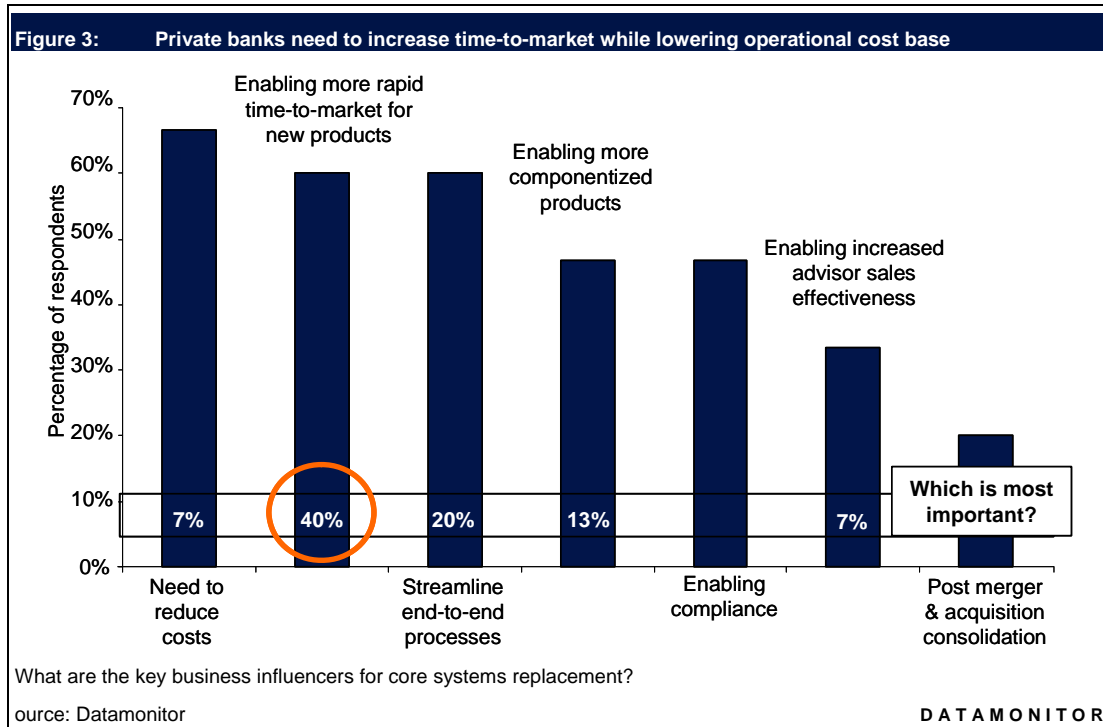
To achieve flexibility and efficiency new product types (structured products, access to alternative investments) require core systems that can deal with product breadth rather than isolated or bolt-on systems

Along with the personal relationship, service levels and advisory capability, one of the other critical areas for success in private banking is delivering investment performance. Within an environment where banks need to service multiple customer types (e.g. inheritors, expatriates, professionals, entrepreneurs) to be able to benefit from where the growth of liquid assets is occurring, this demands a combination of greater product depth, ability to offer innovative financial solutions and faster time-to-market for new products. This demand has stretched private banks to move beyond traditional investment products into more complex and structured products, as well as access to alternative investments (e.g. REITS, hedge funds, private equity).

For many mid-tier private banks, where the scale to spread the costs of managing and providing a wider portfolio is restricted compared to the large wealth managers, this combination of demands created challenges in managing the cost base. The need to provide products before, or at least in line, with the rest of the market often results in banks creating

isolated processes and systems for introducing these products, which in turn results in duplication of costs and increases the maintenance burden over time. This is particularly acute for many institutions running older supporting back office systems, which are not sufficiently flexible or adaptable to cope with new products in a timely manner.

This is clearly illustrated in the following figure, where a key driver for core replacement is the need to enable faster time-to-market for new products, with overall operational costs being the key driver overall. However, time-to-market was identified as particularly important for 40% of bank interviewed, showing that this remains a critical issue for a high proportion of the Swiss private banking sector.



Product breadth and innovation demands will stretch the operational cost base unless processes are flexible, automated / IT enabled and controlled

The best practice in this area is having a supporting process and system infrastructure where new products and/or product types can be incorporated within the existing system, through flexible modification of process workflows and product specification; ideally, this is led by the product development function of the bank rather than being dependent on the IT function to implement (or on an IT vendor to provide the required functionality for some institutions). This results in faster-to-market, but also prevents build-up of maintenance costs from supporting isolated systems and allows banks to benefit from the scale of overall operations rather than having to resort to running a number of sub-scale manual processes. Benefits also accrue from an operational risk and cost of compliance perspective through having consolidated processes and systems, with consistent and unduplicated controls.

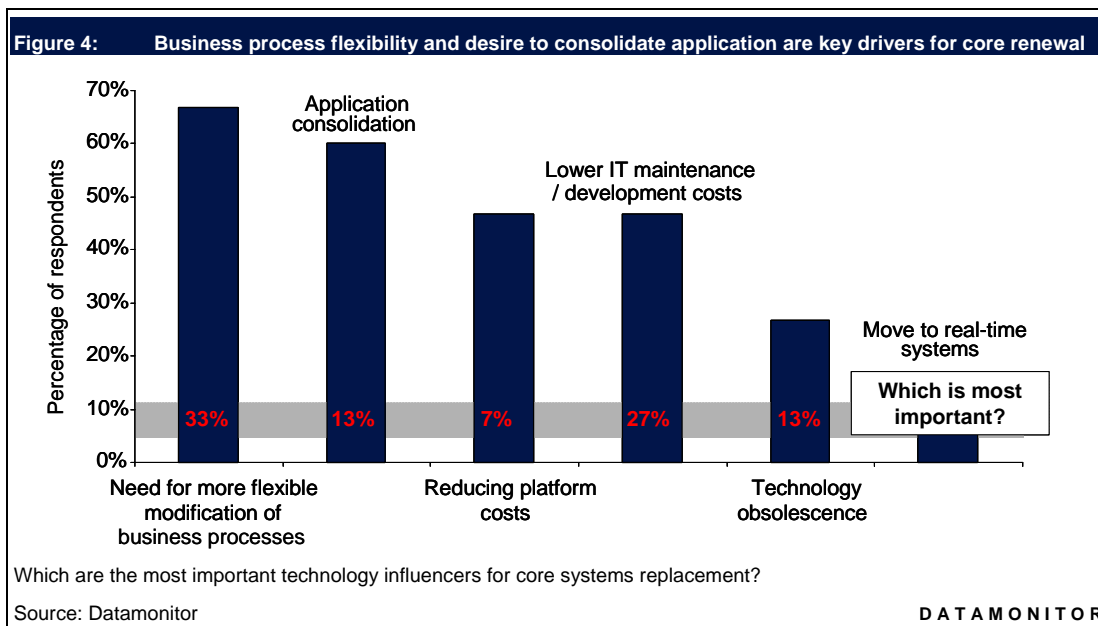
Business processes should be constructed around optimum workflows that provide both speed and accuracy, increase customer service and enhance operational efficiency. They should not be dictated or restricted by underlying IT systems

Enhanced customer service and operational efficiency can both be achieved through focusing on the speed of operational processes

As shown in figure three, the most consistent driver for core replacement is the need to reduce operating costs. With a high weighting of personnel and service costs in the front office (e.g. advisor and/or location costs), private banks need to have streamlined support functions and tightly manage the overall cost base to achieve a strong cost income ratio. To manage this, many institutions are focusing on enhancing the speed of operational processes. This has a couple of main benefits: firstly, it enhances customer service in providing services and information in a more timely manner; secondly, it can drive lower operational costs through forcing institutions to address bottlenecks in operational processes and increase the level of automation.

Process workflows should not be hard-coded into core, but modeled by the business, with IT providing automation and monitoring as well as workload optimization support

That said, the challenge for many institutions is that implementing optimal processes is often impeded, rather than enabled, by the underlying IT systems. Many private banks still rely on legacy core systems, with root technologies developed many decades ago. These typically have a large proportion of workflow built into and dictated by the system itself. Modification therefore requires significant IT effort with a lengthy testing process, creating both a costly and lengthy implementation time for driving change. In many cases, these issues can outweigh the benefits for process modifications, in turn causing banks to operate with inflexible and inefficient processes.

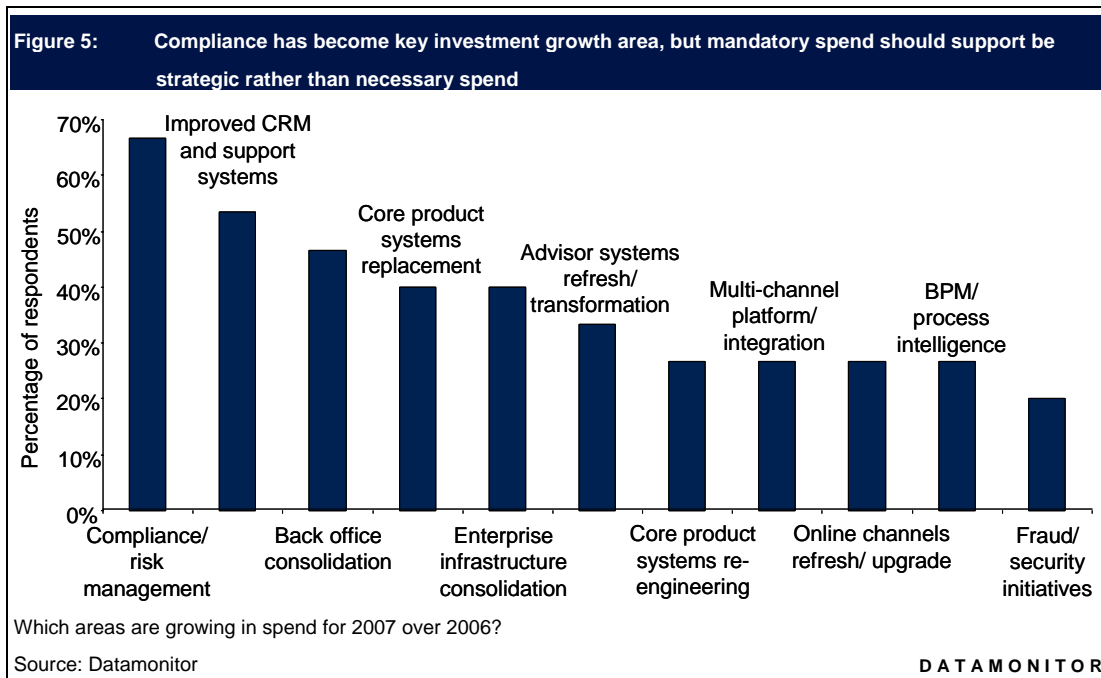


Looking at the technology drivers for core replacement (shown in figure four), this need for more flexible modification of business processes is a significant pain point for a majority of private banking institutions, and the dominant driver for

change, along with the high costs of supporting older, and in many cases multiple, core systems. Best practice in this area is the ability for processes to be controlled and modified by the business rather than hard coded into the systems. This requires core systems that are able to separate the process layer from the underlying IT and data functions.

Reporting must enhance the customer relationship – flexibility and customization (e.g. for family office) are key, but the reporting process should be automated to focus analyst time on adding value, not data collection

A major process area in private banking that often receives little management attention is that of reporting. For both client and regulatory purposes, reporting is seen by many private banks as a cost center, more of a necessary evil than a means to add client value or support business activities. However, while seemingly designated as unimportant, the actual cost of managing this and other compliance functions has increased steadily in recent years. Indeed, figure 5 shows that this area is the top area of IT spend growth for 2007, a trend that has been consistent in recent years.



Reporting for both regulators and customers needs to be an integrated, automated process to increase speed, reliability and adaptability

Mandatory IT spend on compliance, particularly around reporting, has therefore become a significant area of cost for private banks in its own right, and this is often duplicated on the business operations side. Banks that approach reporting on a piecemeal and/or heavily manual basis are becoming increasingly disadvantaged, in terms of growth of cost base, but also in the crowding-out impact this has on strategic investments. Consequently many institutions are now focusing heavily on how to deal more effectively with this issue. Best practice lies around a number of areas:

- evaluate reporting from a total requirement perspective, across both client and regulatory as well as management reporting – this allows banks to evaluate synergies in processes, data collection and developing a common supporting IT and process infrastructure;
- tackle data sources as well as focus on data aggregation – while aggregation across systems will always be required, application consolidation to increase data consistency as well as development of consistent interfaces and data standards will reduce data collection, reconciliation and mapping efforts and will facilitate automation;
- reporting should be an integral part of processes and IT systems – many private banks operate legacy systems which were not designed with reporting requirements (client or regulatory) in mind. Reporting needs to become a part of business process design, not a separate function outside of core operations;
- IT enablement of reporting is critical – tackling reporting on a piecemeal basis often weakens the business case for process automation; however, by focusing on overall reporting requirements, banks can justify the development of a common reporting infrastructure that allows the benefits of automation. This should be focused on creating a flexible framework for data collection and report generation rather than the pure automation of specific reporting processes.

The advantages of this best practice lie in a number of areas. Firstly, from an operational control and risk management perspective, this should increase the consistency, speed and accuracy of reporting. Secondly, the approach delivers greater adaptability for institutions to deal with changing regulatory demands in a timely and cost effective way. Thirdly, it should also enhance client reporting, both with regard to timeliness, but also in the ability to provide broader reports (e.g. to deal with family office), with manual resources focused on analysis and advice rather than data collection and report generation.

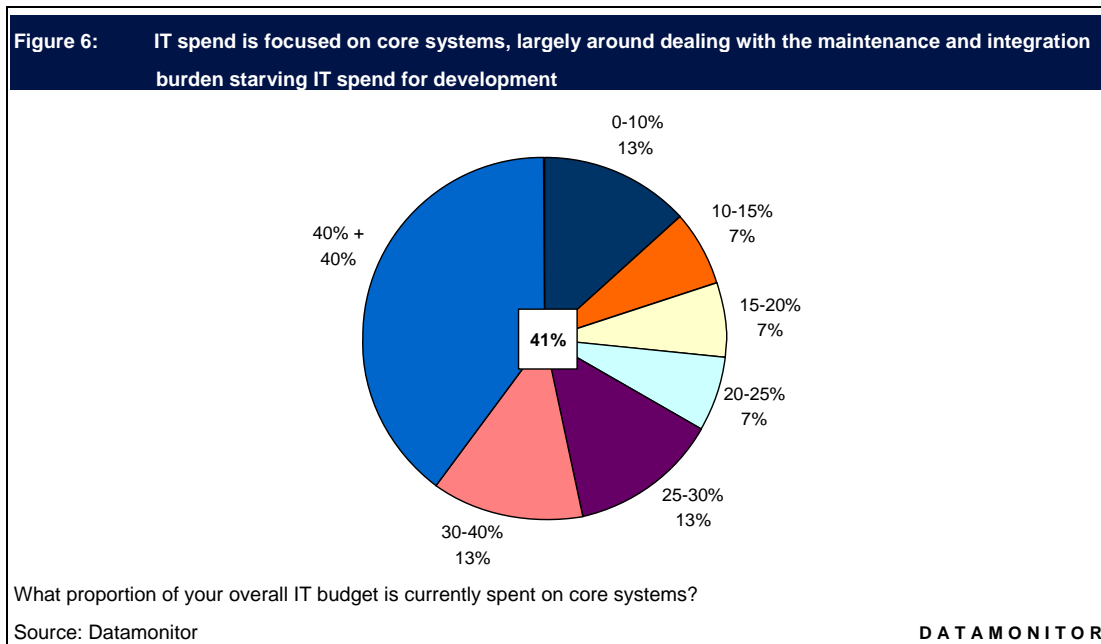
IT needs to focus on supporting and aligning business strategy. This requires shifting the balance of IT spend from maintenance to development, with systems transformation and consolidation a vital step in this process

Run-the-bank spend dominates IT budgets; however, best-in-class private banks are focused on development

Most private banks see IT as an essential enabler for dealing with business requirements around client service, advisor productivity and achieving operational efficiency and flexibility. The challenge for many private banks is that there is a misalignment of actual IT spend allocation against achieving these objectives. In particular, actual IT spend is often heavily weighted towards IT operations and maintenance, with the bulk of IT resources and management time focused on 'keeping the lights on' rather than supporting necessary change or supporting business growth objectives. From Datamonitor's CIO IT benchmarking study of private banking, these 'run-the-bank' (RTB) costs (infrastructure and application maintenance) typically account for between 70-80% of the IT budget, with in many cases mandatory spend additionally taking up 5-15% of the remaining development budget (although up to 35% of development spend for some institutions). In contrast, best practice institutions typically are able to allocate 40%+ of the IT spend to 'change-the-bank' (CTB), focused on application development, with maintenance costs typically a far lower proportion of overall spend.

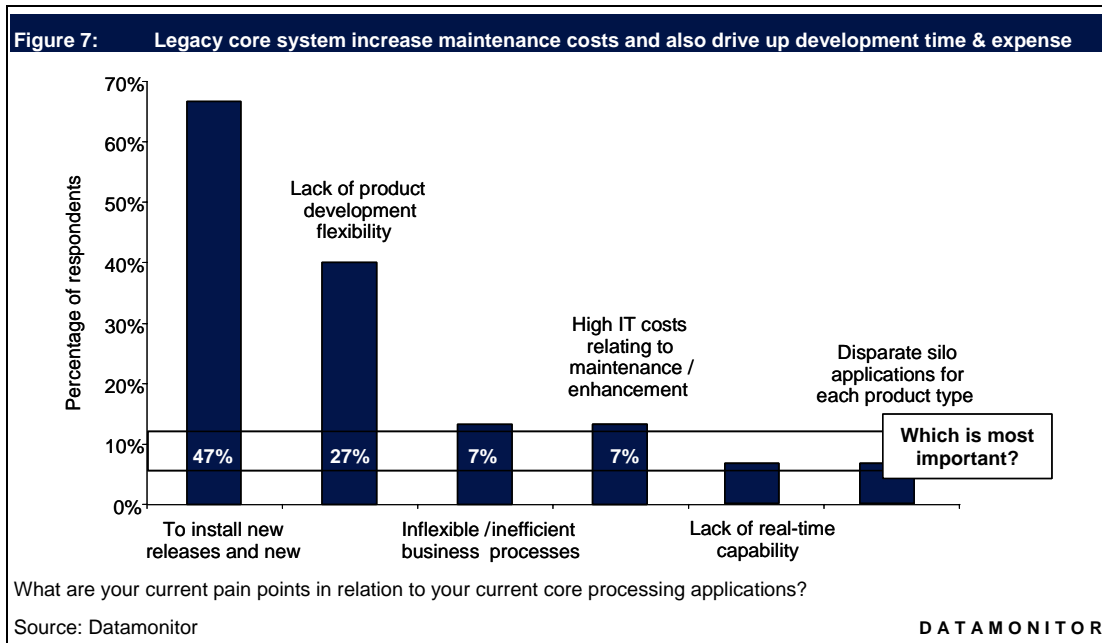
One of the main drivers for high RTB costs is application complexity, with institutions running multiple legacy core systems with an array of separate supporting systems (e.g. reporting, customer data integration, front office support) or separate product systems to support new areas. The major pain point is the resulting application maintenance burden, particularly around integration, support and testing costs. This application complexity also tends to drive higher infrastructure costs, although infrastructure costs overall are generally seen as a less significant IT issue (compared to maintenance costs) for most private banks.

While many institutions are looking at overall architecture and integration approaches to manage these costs, the root of this IT spend misalignment often lies with the core systems. As shown in figure six, spend on maintaining and developing core systems absorbs over 40% of the IT budget for many institutions, with this figure much higher in some cases. Given core systems lie at the 'heart' of an institution IT systems and processes, running older and/or multiple systems is also a major cause for the overall high integration costs and speed of change restrictions that many private banking suffer from. As figure four illustrates, these factors are major drivers for application consolidation and core replacement.



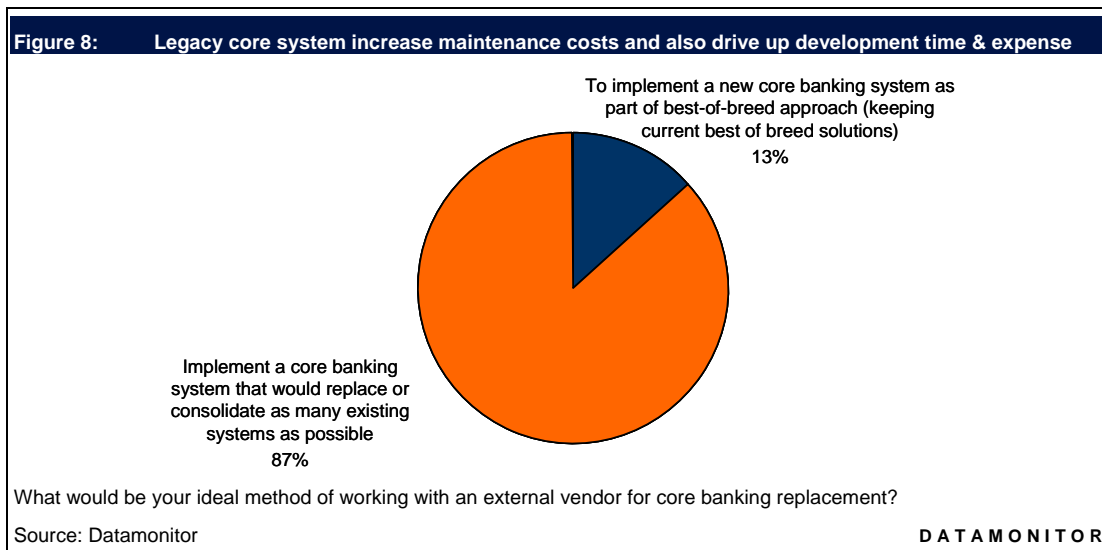
Development should be focused on business objectives, not IT integration and/or process modification

Maintaining a balance of IT spend that is focused on supporting the business is vital; however, just switching spend from RTB to CTB is not sufficient. The efficiency of development spend is also key. A number of private banks interviewed did allocate a higher level of spend to CTB, but the additional return and extra functionality delivered in many cases was severely restricted by the weighting of development resources to integration, process modification and testing rather than focused on creating the required functionality. Again this was often caused by underlying core systems, with older systems typically requiring far greater resources to install new releases and having substantial differences in time to implement against newer systems – a result of bespoke development on top of core, or the inflexible older systems themselves. As shown in figure seven, this is a dominant pain point for a significant proportion of the Swiss private banking sector, with these efforts and lack of product development flexibility actually seen as more significant than the overall IT cost burden.



Core transformation should bring the benefits of consolidation, driving both operational efficiency and business growth objectives

For banks that had, or were looking, to tackle these underlying issues driven by their core systems, the majority of private banks are seeking to consolidate their application portfolio, rather than look for best of breed applications for each product or functionality area. This is clearly illustrated in figure eight, where 87% of banks interviewed stated that consolidation would be their ideal approach to core system replacement. Application consolidation through core replacement allows private banks to obtain the benefits of maintenance cost reduction through reducing application complexity and also has the advantages of driving consistency and stronger integration of data and processes across the bank.



Key take outs

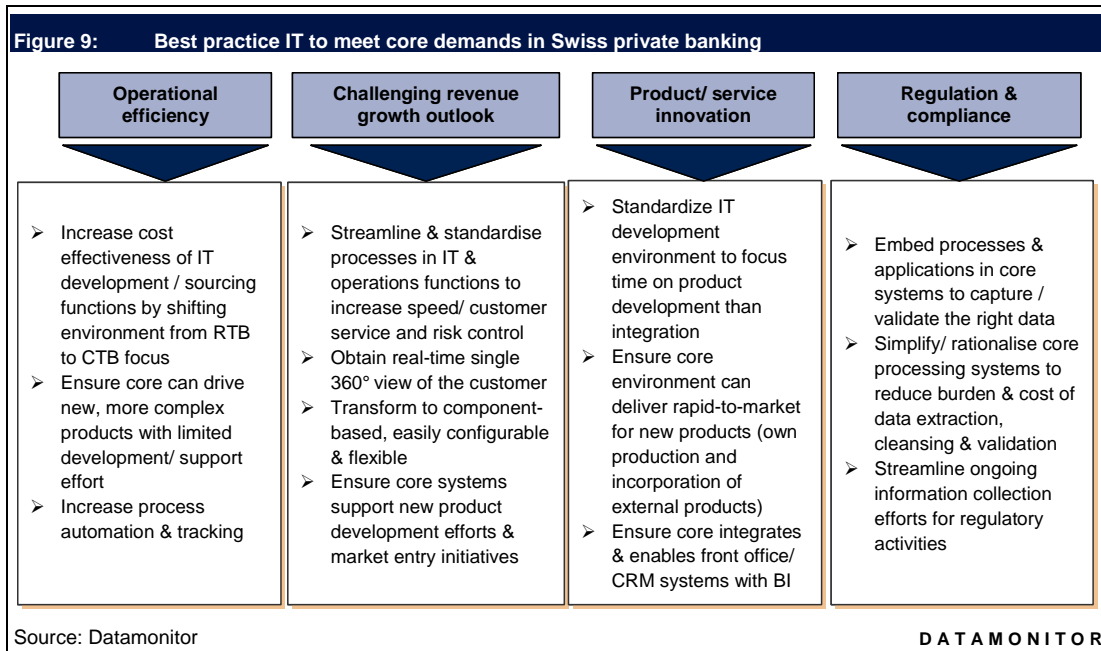
Business priorities

Looking at best practice across the Swiss private banking industry, key business priorities include:

- Advisor support tools must integrate and work with back office systems to provide a full understanding of the customer for all products / portfolios and drive the execution process, in addition to planning and advice requirements;
- Rapid time-to-market and product innovation require both flexibility and transparency of business workflows;
- Business processes should be constructed around optimum workflows that provide both speed and accuracy, increase customer service and enhance operational efficiency. They should not be dictated or restricted by underlying IT systems;
- Reporting must enhance the customer relationship – flexibility and customization (e.g. for family office) are key, but the reporting process should be automated to focus analyst time on adding value, not data collection;
- IT needs to focus on supporting and aligning business strategy. This requires shifting the balance of IT spend from maintenance to development, with systems transformation and consolidation a vital step in this process.

IT strategy priorities

From an IT perspective the following table summarizes how these should translate into IT initiatives and priorities to tackle the main business requirements.



SUNGARD APSYS ANALYSIS

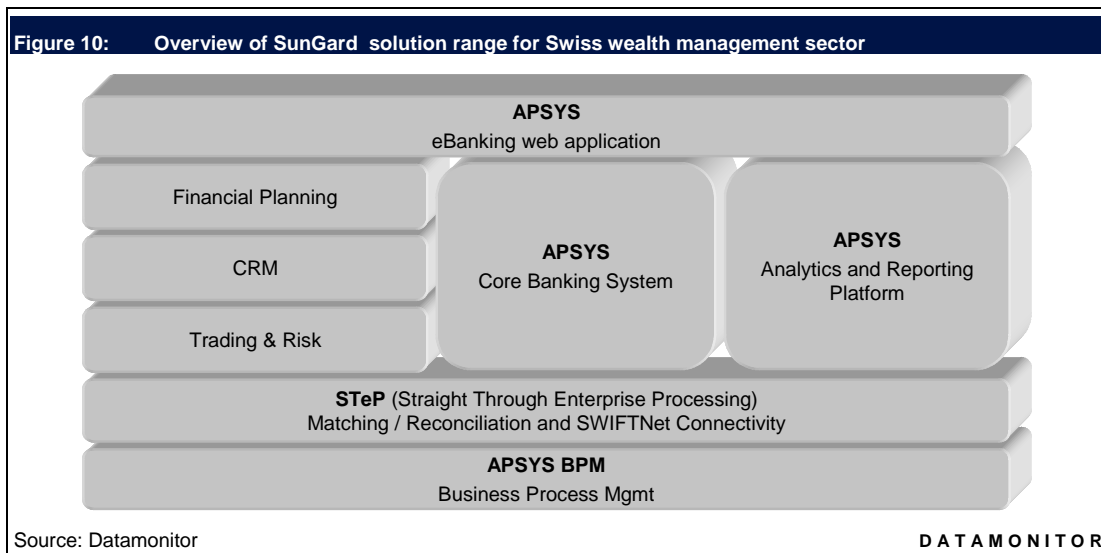
As discussed above, mid-tier Swiss private banks face a specific set of business challenges and pain points which are driving the need for IT initiatives to help them address these critical issues. However, only a handful of IT vendors focus on this unique market and are able to understand and cater for its specialized requirements. One such vendor is SunGard, which has developed its Apsys solution with this market and its specific challenges in mind. This section examines SunGard’s Apsys offering in the context of the strategic priorities demanded by the Swiss private banking market.

Swiss-centric private banking specialist inside global financial markets vendor

SunGard Apsys is the main European, private bank/ wealth management solution of SunGard Data Systems, a leading provider of IT software and processing to the financial markets industry. With over \$2bn in revenues from the financial sector in 2006, SunGard has a market leading position across both the US and European markets, having significantly expanded its presence in Europe over the last decade (its European headquarters is based in Geneva). SunGard provides a wide range of software to the financial markets sector, organized around its main customer segments in the industry, with Apsys the company’s primary solution for the international private banking sector.

SunGard took over the Apsys offering in 1995 and the division has maintained a particularly strong focus on the Swiss wealth management market despite becoming part of the more global SunGard operation. Its core customer base lies in the low to mid-tier Swiss private bank sector, although it also services independent advisors, family offices, brokers and service bureau providers for the wider wealth management sector. Apsys also has a good presence in the UK and Luxembourg markets, but has limited strategic focus or customer base outside these markets (other than supporting international operations of its Swiss/ UK clients).

The Apsys solution itself was initially focused as a core system to service primarily back office functions for the private banking sector. SunGard has significantly expanded this, both within the Apsys solution and through integrated offerings with other SunGard and partner products, to provide a fuller back to middle and front office offering (as shown in figure ten).



The initial focus of Apsys development by SunGard was on expanding the range of products supported, with the core system now a mature offering from a product coverage perspective. Development moved to a focus on portfolio management in the early-mid 2000s, with SunGard building integrated portfolio management into the main Apsys range to support centralized and, later, client-specific portfolio management strategies. More recent development has concentrated on extending this functionality to the front office, along with other advisor support tools, particularly around financial planning and CRM/ customer interaction tools, as well as an integrated online banking system.

With the front to back office map fairly complete, key investment in the new Apsys solution, targeted at 500 user banks, is focused around business process management (BPM) to allow private banks to manage entire front to back office process chains (across both SunGard and other systems), and business intelligence/ reporting capability, particularly for customer reporting and internal management purposes. This is being accompanied by an ongoing focus on scalability. Apsys is currently deployed in banks with up to 500 users, but plans to ensure this can scale up to 1000 users to cater for growth of mid-tier players. Its installed base has generally mapped this, with growth in recent years coming from the mid-tier segment - having started as a provider to the tier 4 and 5 banks in the late 1990s.

Technology has moved to modern architecture

When Apsys was brought into the SunGard family, the solution was given a major technology architecture revamp, which has brought it in line from an architecture perspective with current practice around use of open standards and services orientated architecture (SOA) in product design and architecture. The Apsys solution is currently deployed on a Unix platform, with Oracle the main supported database and with CORBA the standard used for the multi-tier client/ server architecture. While the use of modern platforms has cost and maintenance advantages compared to older MVS or proprietary based systems common in this market, the main advantage of this technology revamp is around product development and implementation capability. New functions can be added without significant change to the main core system or core database, which significantly reduces implementation risk and speeds development time. Consequently, incorporation of new financial products is relatively straightforward for Apsys and implementation of upgrades typically can take place over a couple of weeks (driven by testing requirements) rather than the several month timeframe typical for many of the older systems in the market.

Being part of the SunGard company, Apsys has followed the wider SunGard strategy around interface design/ protocols and Common Services Architecture (CSA), which facilitates greater synergy with other SunGard products (other than those like Front Arena, STeP & GP3 that are already closely aligned). This gives significant advantages for private banks, in being able to tap into the broad portfolio of SunGard while having the country and sector specificity of the Apsys division.

The other main design development has been expanded product design to deal with multi-entity deployment (along with support for multi-language, multi-currency, although this is generally a necessary requirement for Swiss market). This allows Apsys to be implemented across geographies, although services can be shared if required (e.g. common custody), or in a service bureau/ BPO type setting, where services can be offered to third-parties outside the main private bank (or as a pure play BPO offering). In both models, data and services can be shared or isolated as appropriate.

Strong alignment with Swiss private banking business requirements

With the development around business process management and business intelligence with the Apsys solution to 500 user banks, the offering now provides a good fit in dealing with key requirements of the Swiss private banking market.

Figure 11: Alignment of SunGard Apsys with industry business requirements

Main business requirements	SunGard Apsys
<i>Drive advisor productivity through decision support and full customer understanding</i>	<ul style="list-style-type: none"> • Integrated front to back office solution, with financial planning, client interaction and CRM tools integrated with main core system product • Portfolio management integrated to provide both a centralized/ common investment strategy or client specific portfolio management based on financial planning • Integration of customer preferences (e.g. risk profile/ investment preferences) from front office into portfolio mgmt
<i>Flexibility to deliver the fast time-to-market demanded for new and innovative products</i>	<ul style="list-style-type: none"> • Solution architecture allows Apsys to easily incorporate new financial products significantly reducing vendor dependency for new products • Main product library mature, with parameter driven configuration allowing business product development to drive product customization • Rapid upgrade implementation model reduces time-to-market lag
<i>Adaptable and controlled business processes</i>	<ul style="list-style-type: none"> • New Apsys BPM module allows control, management and monitoring of all business process across Apsys and ancillary IT systems • Allow all workflow processes to be monitored and visualised and, tasks defined and modified by business rather than coded into system
<i>Reporting to enhance customer relationship & create value</i>	<ul style="list-style-type: none"> • Business intelligence platform extends traditional portfolio performance capabilities to allow more complex reports/ benchmarking using data across bank systems and incorporation of external data • Ability to aggregate/ net reporting for family office • Provides for multi-dimensional reporting and tracking for management
<i>Lower "run the bank" costs</i>	<ul style="list-style-type: none"> • Built on industry standard, open platforms & data exchange standards reducing proprietary lock-in • Modular architecture allows rapid implementation of new functionality / products without significant impact on core and implementation cost • Maintenance cycle relatively painless due to implementation design

Source: Datamonitor DATAMONITOR

Apsys is a strong contender for the Swiss private banking core systems market

Overall, SunGard Apsys is a well-placed provider to the Swiss private banking market. It offers a couple of key advantages: a concentrated focus on the Swiss wealth management that has allowed solution design to closely map onto needs of this sector (as shown above), combined within the application development strength, and broad industry reach/ depth of SunGard Data Systems. With the incorporation of BPM and strong business intelligence capabilities, the Apsys product has shifted from a positioning as a traditional back office core system to a complete, full function front to back office solution for the Swiss private banking market. However, its modular design and architecture mean it can provide this without suffering from the monolithic approach of traditional 'integrated' solutions. A strong contender.

APPENDIX

Methodology

- Core research findings from Datamonitor primary research study of 15 mid-tier (200-500 users) Swiss private banks, through telephone-based interviews with senior IT executives.
- Additional data from Datamonitor's Wealth Management in Switzerland 2006 report, published Aug 2006.

Further reading

Wealth Management in Switzerland 2006 – DMFS1925

Wealth Management Technology – DMTC2192

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