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**Transforming  
banking and  
financial services:  
the SaaS revolution**

How cloud-based software-as-a-service can redefine the banking experience

# Executive summary

Technology companies are increasingly shaping and distributing financial services. If incumbents want to remain relevant and keep up with digital innovation, they must evolve – fast. But how?

**Cloud has already proved its benefits and revolutionised how banks think about their infrastructure. Today, most financial institutions have a presence in the cloud' and are realising the advantages of a more flexible, scalable, agile and secure approach to managing their IT systems.**

## **Migration to a cloud-based software-as-a-service (SaaS) model is now the new competitive necessity**

Cloud and SaaS together create an end-to-end digital infrastructure that brings huge gains in performance, provides always-on availability and improves overall service delivery. It promises to be transformative for banking and financial services as they strive to match the one-click speed, functionality, and engaging experience that customers now expect in all other areas of their daily online lives.

## **SaaS is the next generation of IT outsourcing**

It allows banks to harness the knowledge, skills and support of a software vendor to deliver and maintain an end-to-end solution that helps

banks answer the challenges they face and grasp the vital market share they need to survive.

In embracing SaaS, banks:

- No longer have the expense and constraints of maintaining and upgrading hardware and software using on-prem hosting
- Scalability and security are enhanced
- Regulatory compliance and ESG commitments are strengthened
- Payment processing and other core services are streamlined and refined

In addition, SaaS facilitates onboarding, AI, machine learning and other advanced technologies, which are helping to bring embedded finance and other new services swiftly to market.

This white paper explores the trends driving the SaaS model. We highlight how the approach taken by SaaS vendors like Temenos is helping boost productivity while reducing costs and creating new opportunities through composable banking. And we evidence it with examples of financial organisations that employ SaaS and have achieved significant gains in performance and customer experience.



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**Market overview:**  
towards a sustainable solution



**Every business today must respond to new market forces and changing customer behaviours and preferences. Banks are no exception.**

Thanks to digitalisation and open banking, financial services and consumer behaviour are very different from a generation ago. In the past, banking meant visiting a high-street branch, and high levels of human contact; now it involves interacting through digital channels. To succeed in the digital-first era, banks must follow the example of the big tech leaders, who use digital channels to understand and get closer to their customers, matching their needs with tailor-made services.

This means they need vast amounts of data to convert into descriptive, predictive and prescriptive analytics – just as Google, Apple, Facebook and Amazon (the GAFAs) do. SaaS excels at onboarding and supporting advanced analytics, AI and machine learning needed to process that data.

At Temenos, we see that banks with in-house managed legacy technology are unable to deliver timely innovation. They struggle to apply fintech solutions.



We're also aware that their carbon footprint is disproportionately large. Even if banks upgrade their legacy tech incrementally to address these issues, the pace of change is daunting and they will struggle to manage a cumbersome IT architecture in-house and deliver the processing power and analytical insights in the sustainable way that today's market requires.

This leaves banks exposed to fintech competition, unable to satisfy the demands of Millennials and Generation Z and vulnerable to regulatory and investor pressure.



**Technology specialists such as Temenos can help to bridge the gap between past and present, between old on-premise solutions and modern cloud developments, and provide a fully managed infrastructure for banks to transition efficiently, cost-effectively and sustainably with SaaS.**

### **How to capture the 'Netflix effect'**

The vast majority of banks have already replaced their data centres with the cloud. And, according to a recent survey<sup>2</sup>, sponsored by Temenos, 72 per cent of IT executives at banks are now in favour of a cloud strategy for products and services, too.

By using SaaS end-to-end, they can manufacture and distribute products and services with a high degree of personalisation, on demand, 24/7/365. In other words, working with a SaaS provider can achieve the 'Netflix effect' for banks.

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**Business  
drivers for  
SaaS adoption**

There are four main drivers of technological change in the banking industry:



## 1 Driver #1 New banking and payment services

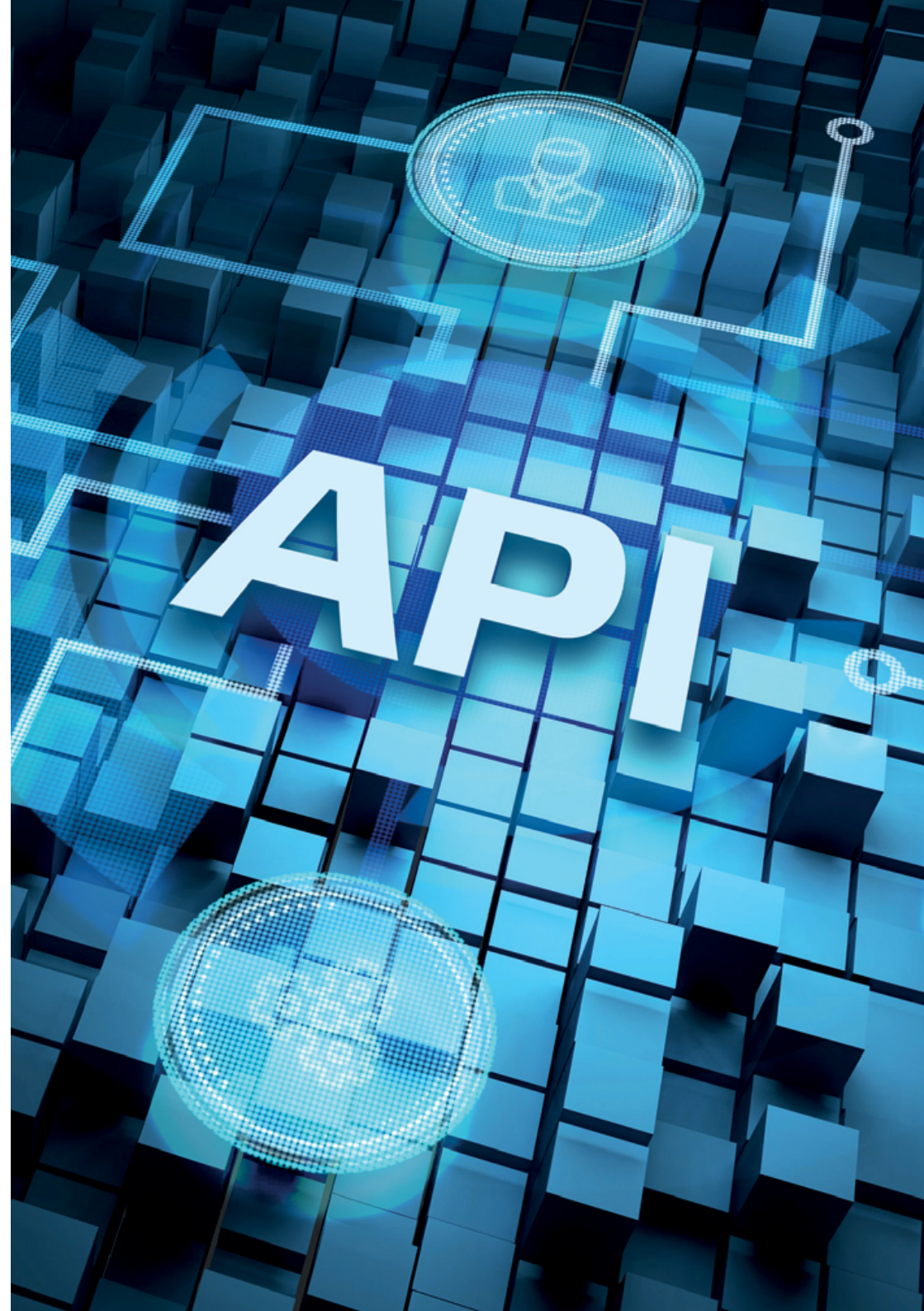
The ability to launch new banking and payment services is vital in a marketplace that is diversifying and where omnichannel business and innovative payment methods are becoming the norm. SaaS enables banks to provide the right products and services, tailored to individual needs, across any channel. Customers expect it and the rise of e-commerce and mobile commerce demands it.

With SaaS, not only can you deliver digital applications in any channel or format, while providing outstanding customer experiences, you can also significantly reduce time to market. It means that banks will always be on the front foot, able to respond to new needs and ensure that products and services are continually evolving with the latest trends. This is crucial in an age of open banking, embedded finance, open

finance, and new payment methods such as buy now, pay later (BNPL).

APIs and composable models are at the heart of the SaaS revolution. They make it easy to configure, extend and deploy modular banking services anywhere. Advanced platforms enable banks to use open APIs, low-code tooling and automated testing. As a result, they can rapidly provide banking services and build business models like open finance and embedded finance.

SaaS is a natural part of the API universe. For example, Temenos's Composable Banking Services support BNPL and retail lending, among other services. With composable technology, you can launch new products and services in days, and they can be scaled up or down automatically in response to demand. In addition, you can keep tight control over development costs.



## 2 Driver #2 Environmental, social & governance (ESG)

ESG responsibility is a growing imperative for banks. Carbon emissions from large IT infrastructures are under intense scrutiny as the debate on climate change becomes more urgent, and initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD) underline the need for banks to be more transparent about their activities and reduce their carbon footprints.

When banks build their technology on-premise, as opposed to in the cloud, it can lead to inefficiencies and waste. Cloud providers will concentrate on optimisation and provide flexible and scalable services that create a lighter carbon footprint. Enabled by SaaS and cloud technology, banks can reduce energy and emissions by more than 90 per cent compared with on-premise solutions. Temenos has been shown to improve sustainability across retail banking,

wealth management, and corporate and business banking, with clients achieving 92-98 per cent annual savings in MTCO2e emissions. *The Temenos Highwater Benchmark* Report highlights the overall gains in scalability and efficiency when using a single platform.

Not only do SaaS and cloud technology produce a lighter footprint, they can also help banks gain carbon insights, comply with changing regulations

globally, and track their progress toward sustainability targets, thereby providing a positive environmental impact beyond Scope 1 emissions to 2 and 3 and meeting key stakeholder objectives.



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### 3 Driver #3 Competition

The combination of new regulations and rapid digitalisation, together with changing customer expectations, has opened the way for fintechs and other challengers to compete with banks and win customers with alternative products and services. A prime example is Apple facilitating payments, transactions and credit via its wallet, ApplePay and card offerings – and with 1.8 billion devices globally, it certainly knows how to satisfy customers.

These new entrants share certain characteristics. They are highly consumer-focussed, agile and digitally sophisticated, and they use disruptive technologies to develop compelling propositions. Moving to a SaaS model is the only way for banks to keep up with the challenger banks and other newcomers who offer more competitive pricing, digital innovation, a better customer experience, and address underserved markets and unmet needs.

If traditional banks don't refocus and commit to SaaS solutions, competitors with better technology, and a better understanding of the changing marketplace, will be quick to step in and steal market share. The rise of SaaS-native banks like Flowe proves the point.

Flowe is a digital-only bank designed to appeal to younger customers and it reached 700,000 customer accounts in just 18 months after its launch in 2020.



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To succeed today, banks must build their businesses with modern technology and understand customers' needs and preferred channels. They must use advanced analytics to connect with their customers on a deeper level, creating customer lifetime value by developing products and services that are always in sync with what the market wants. From onboarding through all stages in the banking relationship, the customer journey depends on technology for speed, agility and precision.



## 4 Driver #4: Value

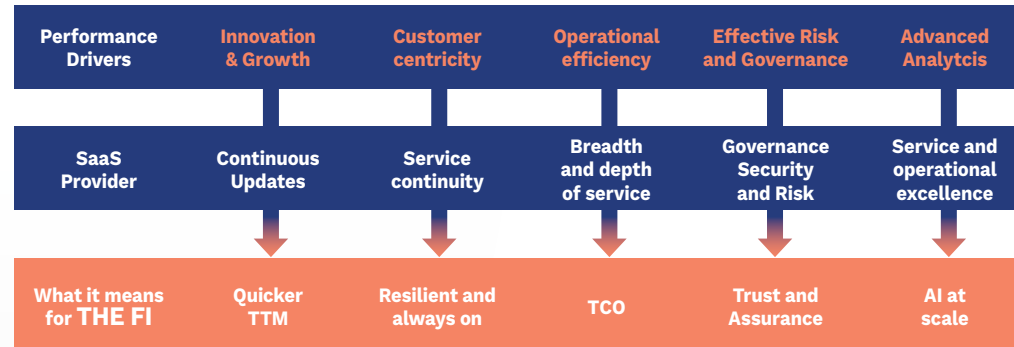
When we talk about value, we mean the overall operational, regulatory and customer-centric goals that banks must pursue to be effective in the digital economy and compete with the challengers. It means delivering value against all the criteria that matter most as business needs evolve, and it's where SaaS scores highly as a flexible, end-to-end solution.

### Performance drivers

**Innovation and growth:** Banks need the power and versatility of SaaS to develop products quickly and from a continually updated banking platform – which will ensure that customers have the latest banking services. SaaS enables them to provide new services, new features, and updates in an exceptionally short time, reinforced by explainable AI for the best possible customer experience. Open banking adds another dimension as banks need to connect quickly and seamlessly to ecosystem partners.

**Customer centricity:** As we have seen, challengers place customers at the heart of everything they do. Legacy FIs can use digital innovations to build a more meaningful relationship than the familiar transactional one. That requires better insights and a 360-degree view of customers, using analytics to understand what customers want and provide a personalised service.

### Delivering end-to-end value in the digital economy



Whether it is providing faster payments or financial management apps, being customer-centric is a strategic necessity for every bank, and recent research from The Economist Intelligence Unit reveals that banks will increasingly form customer-centric digital ecosystems and that technologies such as AI, cloud, and APIs will have a profound impact over the next few years.

Continuity is as important as quality because customers expect round-the-clock availability and on-demand service. Using the cloud and SaaS, backed by the right service-level agreement, banks can provide 24/7/365 availability.

**Operational efficiency:** Such on-demand resource provisioning offers another advantage to banks. Currently, core banking services reflect the overnight interest capitalisation process that banks typically run once a month. A large multiple core XEON machine, for example,

will run at a high utilisation rate to complete this task. The rest of the month it runs at around eight per cent utilisation. Moving to on-demand provisioning can both cut the infrastructure cost by a factor of 12 while also slashing processing time to just a few minutes. And both of those improvements significantly reduce the bank's carbon footprint.

Digitalisation promotes operational efficiency, and the SaaS model will increase productivity and reduce costs through the best use of technology. Legacy systems are the biggest barriers to efficiency. Banks that fail to modernise will be overtaken by rivals whose time to market is quicker and whose total cost of ownership is lower because they are building their businesses in the cloud and developing connected SaaS solutions.

Scalability and flexibility are two of the most significant drivers of operational efficiency. SaaS can scale up and down

as required, eliminating waste. Because the software is composable, you pay only for the functionality and services you need, and you have the flexibility to build for change and take the business in any direction you want – at speed. For instance, by composing banking services that create new revenue streams such as embedded finance.

**Effective risk & governance:** Security and compliance hurdles are often mentioned as the downside of a cloud strategy, but this is a misconception that undermines the value of migrating to a cloud environment.

Self-hosting banking solutions in the public cloud would mean that banks are responsible for security and compliance controls. However, SaaS banking specialists like Temenos can provide comprehensive SaaS certifications and accreditations and undertake proactive security monitoring, incident response and resolution, and financial crime mitigation. This ensures full regulatory compliance and the highest levels of security.

**Advanced analytics:** Analytics enable SaaS companies to track their data, gain insights, and make informed decisions. Given the vast amount of data that banks hold and process, analytics are a vital resource for digitally-enabled banks and provide a wide range of benefits.

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**SaaS in action**



## SaaS in action

These success stories highlight the benefits of SaaS and show how Temenos is helping banks and financial institutions transform their businesses in today's dynamic environment.

# alex.bank

Alex Bank is a 100 per cent digital challenger bank, committed to providing customers in Australia with faster, fairer, more flexible financial solutions. It serves individuals and small businesses across the country with a range of retail and commercial banking products.

## The challenge

Alex Bank recognised that one of the biggest pain points with customers was the slow service provided by legacy banks, with applications for savings accounts, loans, and mortgages often taking weeks to complete. It saw this as an opportunity to create a superior quality retail and commercial banking experience by removing friction from customer journeys.

To achieve this, Alex Bank needed the right technology stack, one that was compliant, highly automated and provided always-on digital services. And it needed a reliable long-term technology partner who could deliver the infrastructure.

## The solution

Alex Bank evaluated potential partners against several criteria, such as industry experience, level of support, and proven track record of successful deployments. Temenos met all the requirements to deliver a new core banking platform and

was chosen to deploy Temenos Transact on SaaS. This enabled Alex Bank to develop its core banking implementation while avoiding the significant capital and operating costs associated with an on-premise infrastructure.

## Key benefits

- A wholly managed service by Temenos
- lending decisions and onboarding within minutes
- Easy to scale (a big advantage for a challenger bank)
- Strong security and high availability
- Easy to tailor banking products
- Analytics for vital business insights



Having Temenos as our core banking partner is integral to delivering excellent customer experiences and staying ahead in a highly competitive industry. We're excited to build on what we've achieved with Temenos core banking on SaaS.

**Simon Beitz, CEO  
of Alex Bank**



# flowe

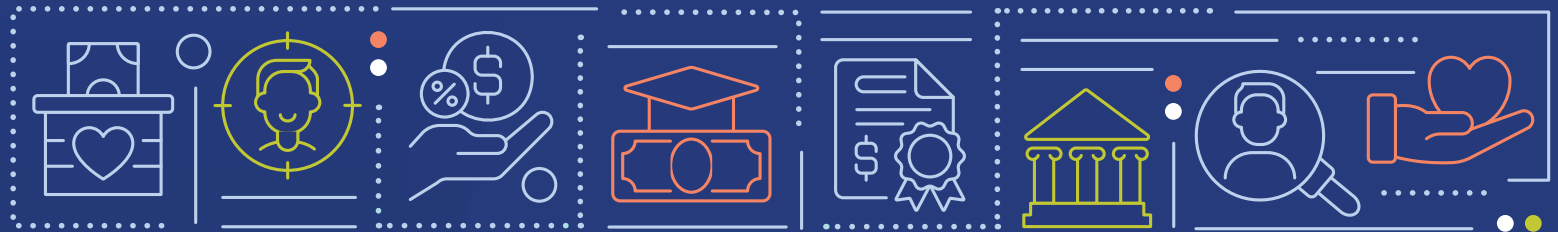
Flowe is an innovative bank founded on ethical principles, and it aims to help customers improve their finances and live happier and more sustainable lives. The target market is young people who need to manage their money effectively and are motivated by ethical causes.

## The challenge

To appeal to this demographic, Flowe wanted to launch a mobile banking app and help consumers participate in sustainability initiatives. The company planned to launch in the Italian market quickly, which meant building an entire banking infrastructure from scratch as fast as possible. The bank required a seamless user experience, including swift and secure onboarding, and an agile, hyper-efficient and scalable operating model.

## The solution

Flowe knew that a SaaS solution was the best approach. After reviewing potential technology partners, it selected Temenos and a combination of core banking, payments processing, and anti-fraud protection running on the Temenos Banking Cloud on Microsoft Azure.



# BANKING ETHICS



## Key benefits

- Fast delivery of a core banking environment
- Ability to handle huge transaction volumes
- Easy to develop innovative and environmentally friendly products
- Ability to support the entire payments lifecycle
- Versatile API connectivity to boost partnerships
- Frictionless transfers
- Crime mitigation support



With many service providers, setting up a core banking environment is a long, complex process. With Temenos, we were building demo environments in weeks.

**Cristina Toniazzo, Head of Happiness, Caring & Services Operations at Flowe**





Barko Financial Services is a microfinance institution (MFI) that helps low-income South Africans improve their circumstances and personal wellbeing through simple, ethical, affordable credit. It provides loans and insurance to more than 600,000 customers.

### The challenge

Barko wanted to evolve from an MFI into a mutual bank and offer a much wider range of digital services. It was managing loan repayments with a legacy system, which offered limited scope for expansion or innovation, and

onboarding and origination relied on time-consuming and labour-intensive paper-based manual workflows. To achieve its growth objectives, Barko needed a more advanced and scalable back-end platform, which would enable it to develop and launch new banking services quickly, and faster and more streamlined onboarding and origination processes.

### The solution

Barko assessed potential vendors and selected Temenos to deliver the modernisation programme. The first step involved replacing legacy technology and manual workflows with Temenos Transact on premise and Temenos Journey

Manager in the cloud. This supports thousands of transactions every day and can handle volume spikes with ease.

The second phase of the programme involved upgrading Barko's back- and front-end capabilities so that it could move into retail banking. Temenos Transact, Temenos Infinity, Temenos Data Hub, and Temenos Financial Crime Mitigation have been deployed to make the transition. The move to SaaS has ensured business continuity and kept critical banking systems available at all times.

### Key benefits

- Great scalability to support expansion
- Enhanced mobile and digital channels
- Faster and more seamless onboarding/origination
- Loans paid to new customers in just 15 minutes
- Accelerated product development
- Time to market cut by 40 per cent
- Now 80 per cent cashless in operations
- APIs enable seamless integration with third parties



Our collaboration with Temenos has made us a more competitive player in the microfinance sector in South Africa, and helped us fulfil our mission to empower low-income citizens. We have a great relationship with Temenos – they offer real expertise and excellent solutions, and we're confident that they will help us to flourish as we transition into a challenger bank.

**Tielman Walters, Chief Technology Officer at Barko Financial Services**



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## Conclusion

As the advantages of a cloud strategy become increasingly apparent, the financial industry will see a surge in SaaS adoption. To be competitive and maximise the benefits of digitalisation, incumbents and emerging players alike must make SaaS a fundamental part of their operations and collaborate with digital transformation experts such as Temenos.

### About Temenos

Temenos Banking Cloud helps banks utilise Temenos banking solutions and Temenos Exchange services through SaaS. Currently, Temenos supports more than 700 SaaS customers around the world, and SaaS enables them to rely on a fully supported service that underpins exceptional banking. Through Temenos Banking Cloud, we provide:

- Continuous updates and scale
- Service continuity
- Advanced computing power & modelling
- Governance security & risk
- Breadth & depth of service

Temenos is the world's leading open platform for composable banking, creating opportunities for more than 1.2 billion people around the world every day. It serves two-thirds of the world's top 1,000 banks and 70+ challenger banks in 150+ countries by helping them build new banking services and state-of-the-art customer experiences.

The Temenos open platform helps our top-performing clients achieve return on equity three times the industry average and cost-to-income ratios that are half the industry average.

For more information, visit [www.temenos.com](http://www.temenos.com)

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<sup>2</sup> The Economist Intelligence Unit/Temenos, 2021 <https://www.temenos.com/wp-content/uploads/2022/07/2022-07-19-Economist-Cloud-report-V1-logo-update-1.pdf>

