



# Financial Institutions Seek Lower Cost, More Flexibility In Replacing Legacy Payment Architectures With Proven Open Systems

By JOHANN DREYER, CEO, S1

More than two decades of experience in developing, installing, and maintaining financial services software will teach a person many lessons. Some of those lessons are learned the hard way: through dead ends, mistakes, missteps, and surprises. Some are learned through luck. Many are learned from the customers that buy your product.

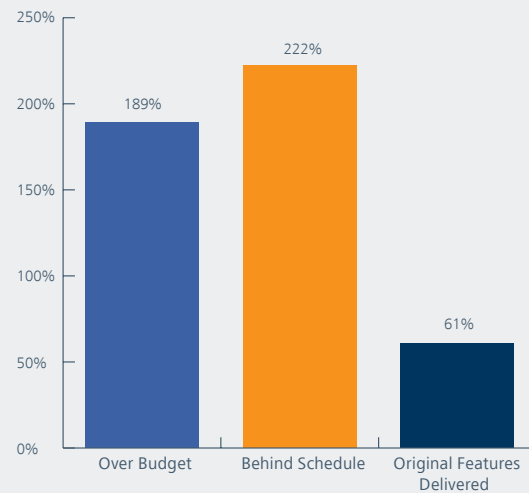
In 1994, a group of us decided to apply what we had learned from building custom software systems to the creation of a suite of payments software products. What we had learned—the hard way, through luck, and from listening to our customers—became the basis for the very strong philosophy that undergirds our product set.

Even back then, we believed that the future for payments systems—and software engineering as a whole—belonged to open-systems architecture. This was not a majority view at the time. However, today, across the financial services landscape, the sun is finally setting on legacy systems in favor of payment solutions built according to open-systems principles.

Legacy systems have fostered inefficiencies that organizations can no longer afford. Current economic conditions are highlighting this fact, but it has been known for many years. A Standish report<sup>1</sup>, published a year after my friends and I started our software company, alluded to these issues.

According to the study, annual expenditures on cancelled software projects in the United States at that time were approximately US\$81 billion, with another US\$59 billion being spent on budget overruns. During the year studied by Standish (1995), nearly one-third of all projects were cancelled outright, and over half were considered “challenged”. Of the challenged or cancelled projects, the average project ran 189% over budget, 222% behind schedule, and contained only 61% of the originally scheduled features.

Average Challenged/Cancelled Software Projects’ Run Rates



Source: Standish Group.

These statistics reflect a period of software development when many of the systems driving financial services were written in proprietary languages to run on specialized hardware platforms. Architectures were monolithic—silos of services based on islands of automation. Making changes to address customer needs was expensive and time-consuming, even within the silos. Rationalizing efficiencies across systems was more than a challenge. It was—in some cases—impossible.

When we started writing the code that became the S1 payments software product line, we were committed to finding ways to circumvent these complexities. Our goal was to deliver solutions that provided lower total cost of ownership, faster time to market, easier customization, and high availability. Now, 15 years in, we have demonstrated that it can be done, and other software companies are following our lead.

To achieve this goal, we had to ensure that nothing in the architecture would be limiting in terms of delivery channels, transaction types, or endpoints. We needed to do this in a way

<sup>1</sup> Standish Group. 1995. *Chaos*. Boston: The Standish Group.

that maximized the customization tools available in the open-systems environment. In addition to making our software more affordable, these key attributes have allowed our clients to respond to consumer needs in a marketplace that has become even more dynamic during a time of downturn, when innovative new players are entering the financial services industry.

Our software was built to allow financial institutions to deliver more services to the customer and to process transactions from an expanding set of environments. We also wrapped around our architecture a Software Development Kit (SDK) that allows organizations to deploy new services quickly, efficiently and cost effectively.

Recently, in a meeting with a large financial services provider who is contemplating a move from their legacy environment, we were told that they had more than 80 custom software modules that would require migration. Our initial estimates were that our core product architecture and SDK could cut that number by more than 60%. In terms of cost and time to market, this represents a major advantage for those who are facing this type of project.

Today, more than 300 customers in over 50 countries use the software we began developing in 1994. Our competitors are sunsetting their legacy systems, thus surrendering their leadership in that dying market. Instead, they are now seeking leadership in the market for open-systems solutions—one that we pioneered 16 years ago. For the end-user, this is good news: open-systems architecture delivers benefits that will improve their ability to control their top and bottom lines.

#### About Johann Dreyer

Johann Dreyer is the Chief Executive Officer and a Director of S1. Prior to his appointment as CEO in November 2006, Johann served as the President of S1's Community Financial, International Retail Banking, and Global ATM/POS businesses, and as the CEO of Mosaic Software, a company acquired by S1 in November 2004. Johann was one of the founders of Mosaic and served as the CEO of Mosaic and its predecessor companies from 1992.

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