



WHITEPAPER

Legacy Transformation by Modernizing your Core

What to do when Legacy core Systems hinder your
Digital Transformation Journey?

SunTec[®]



Abstract

The advent of new age technologies such as artificial intelligence (AI), Bots, machine learning and the internet of things (IoT) have seamlessly entered normal human (customers) life. Thanks to FAANG, customer demand for personalized interactions and offering from the bank is more natural, forcing the banking business models to change far more dynamically than ever. Banks saddled with rigid and core legacy application systems, are now realizing the importance of embracing digital strategy which are far more end to end than just the customer touch point channels, to deliver a superior customer experience, drive growth and keep themselves relevant in a dynamic disruptive market.

The challenge largely is to define the Digital strategy at the enterprise level and more end to end. Moving from siloed touch point solutions to a more enterprise omnichannel is where the digital investment are largely happening today. While this is a good starting point, this in itself is not a digital strategy that's truly going to be transformational and make the impact and outcome to the customer. The strategy to modernize

the back office and middle office to align with the new omnichannel is crucial to deliver true customer outcomes. However modernizing back office is not that straight forward or easy. Nearly 75% of core banking transformations fail, leaving only 25% of successful implementations - of which many come at a significant cost or time overrun. ^[1]Modernizing core IT systems is a complicated transformation process that demands huge investments in time, money and resources, slowing down banks during the transition period.

This paper explores an effective and low risk approach to holistic Digital Transformation by modernizing the legacy banking systems by leveraging a modular approach. Introducing a Digital core as a middle layer over the top of the legacy back office, is a viable and pragmatic alternative to completely overhauling the core. Such an approach can help create a model to progressively hollow out the core application of complex embedded business logic to the digital core layer and de risk the legacy back office modernization or decommissioning.

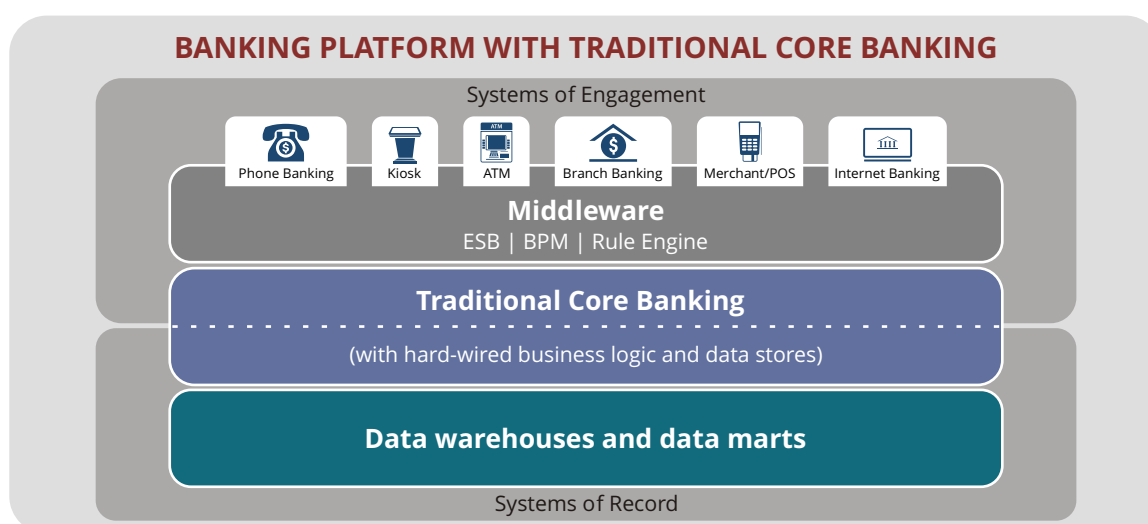
The case for modernizing legacy systems

Large banks and financial institutions continue to remain slow to respond or adopt to emerging technologies such as AI, ML and IoT in solving their day to day customer experience need more at the enterprise level. Standalone or tactical solution continue to happen in the new tech areas . To further compound the situation, nimble FinTechs and the BigTechs are threatening to consolidate market share by offering 24x7 customer connect and providing a range of innovative financial solutions.^[2]

To add to the conundrum, the banking industry is facing a serious talent crisis. It continues to be perceived as a traditionally run sector and struggles to entice young tech-savvy millennials. A large number of banking technology experts who have been managing these large monolithic complex legacy application today are nearing retirement, and there is little documentation to preserve or transfer their learnings and experience to the younger workforce. The result: a vicious cycle where on the one hand, banks' legacy core systems are ill-prepared to handle the new-age demands, while on the other, they lack the resources to digitally transform their core without risking serious failure or downtime. Legacy core are here to stay with reduced business processing complexities and the knowledge transfer to get new workforce to continue supporting the transformation is very crucial. While banks are embracing digital systems to redefine customer interactions in the face of evolving customer

The challenge largely is to define the Digital strategy at the enterprise level and making it more end to end, rather than the omnichannel layer only. Front-end layer is where the digital investments are happening today and many come at a significant cost and time overruns.

expectations, digitization has mostly been limited to front-end interfaces or touch point layers. The digital transformation strategy needs to look at each and every customer journey from end to end, to make sure the customer experience are more holistic and complete. To deliver this responsive experience, the data, life cycle processing and business logic have to be segregated. **Core has to be simplified to abstract the three layers and business logic has to be moved to the middle layer in every customer journey which impacts customer experience.** **The de-commissioning of the legacy is not an option, however progressive simplification of the legacy is the best way forward.**



Traditional Core banking Architecture



Roadblocks to legacy banking technology transformation

86% of banking executives believe that their banking technology is complicated and a hindrance to enabling innovation, experimentation and introducing true digital interactions with their customers.^[6] Here are four challenges that keep banks from embracing comprehensive technology overhaul, including their core infrastructure:

1. Significant investments in time and money

Changing core banking technology is an expensive investment in terms of cost, time and resources required. **These core technology transformations can take up to anywhere between 1 - 4yrs depending on the size, complexity and scale of the transformation. Additionally, there is the fear of core banking overhauls being risky and prone to failures due to lack of expertise, knowledge, delays, budget over-runs and so on.** Take the case of leading Co-operative Bank that reported a capital shortfall of £1.5 billion due to the failure of its core banking transformation project.^[3] As a result, banks add on modern applications on a piece-meal basis, even as their core legacy systems often end up dictating the nature of workflow processes, limiting the potential of digitization and innovation, and even hindering security. A leading Indian public bank suffered a fraud worth nearly USD 1.4 million, allegedly because certain insiders were able to game the SWIFT messaging system.^[4]

2. Risk mitigation and management

As the custodians of customers' confidential financial information, banks are subjected to stringent

Over 40% of banks and financial institutions (FIs) still lack the ability to provide contextual services or truly digitized offerings that customers demand.^[2]

regulatory restrictions and demanding customer expectations. Regulation like GDPR, PSD2 or Open banking are focused towards giving a better value, options and experience to customers. Factoring them into your transformation strategy becomes a mandate and brings with it a further level of complexity.

3. Lack of agility in change management

Traditionally banks, by the very nature of their operating model, are not agile when it comes to transforming their organizational mindset and embracing change. Implementing new technology inevitably slows down most large institutions, costing the bank precious customer transactions and impacting the bottom-line. Each technology update or installation needs to be custom fitted in specific areas to meet the requirements of the individual establishment, and typically requires complex internal stakeholder and management approval. Another huge limitation for banks is the need to map their technology to their organizational operational process flow. Training staff who work from remote branches and establishments, and encouraging them to adopt new technology and practices accurately is yet another challenge for banking institutions.

Operating model definition for both technology and business for the end state is challenging during the transition state and when both worlds co exist.

4. Security and cyber threats

Significant investments have been made in the last decade to ensure banking systems are protected from fraudulent cyber-attacks. Banks are often apprehensive that a new investment in core technology solutions can expose their institution to potential attacks, if security is not holistically addressed.

For most banking leaders, transformation of core banking is therefore akin to performing an open heart surgery. They need to overhaul the core while ensuring business as usual to prevent outages during the transformation and losing customers to the competition, making the whole process more complicated.

Adopting modular architecture: A three-step approach

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**Pilot Roll-outs of
New Customer
Journey Modules**

- Rollout new customer journeys to internal bank users/Selected customers
- Fine-tune any business/customer expectations
- Complete rollout to all in phased & agile manner
- Regular Feedbacks & Improvization
- Parallel rollouts of new customer journeys

02



**Identify what
should become part
of your Digital core**

- Identify the Business logics that needs to be shifted from Back Office
- Create a map of your new Digital Core - the Intelligent Middle Layer
- Define the steps for business logic hollowout based on bank priority
 - Risk impact
 - Revenue Impact
 - Customer Experience

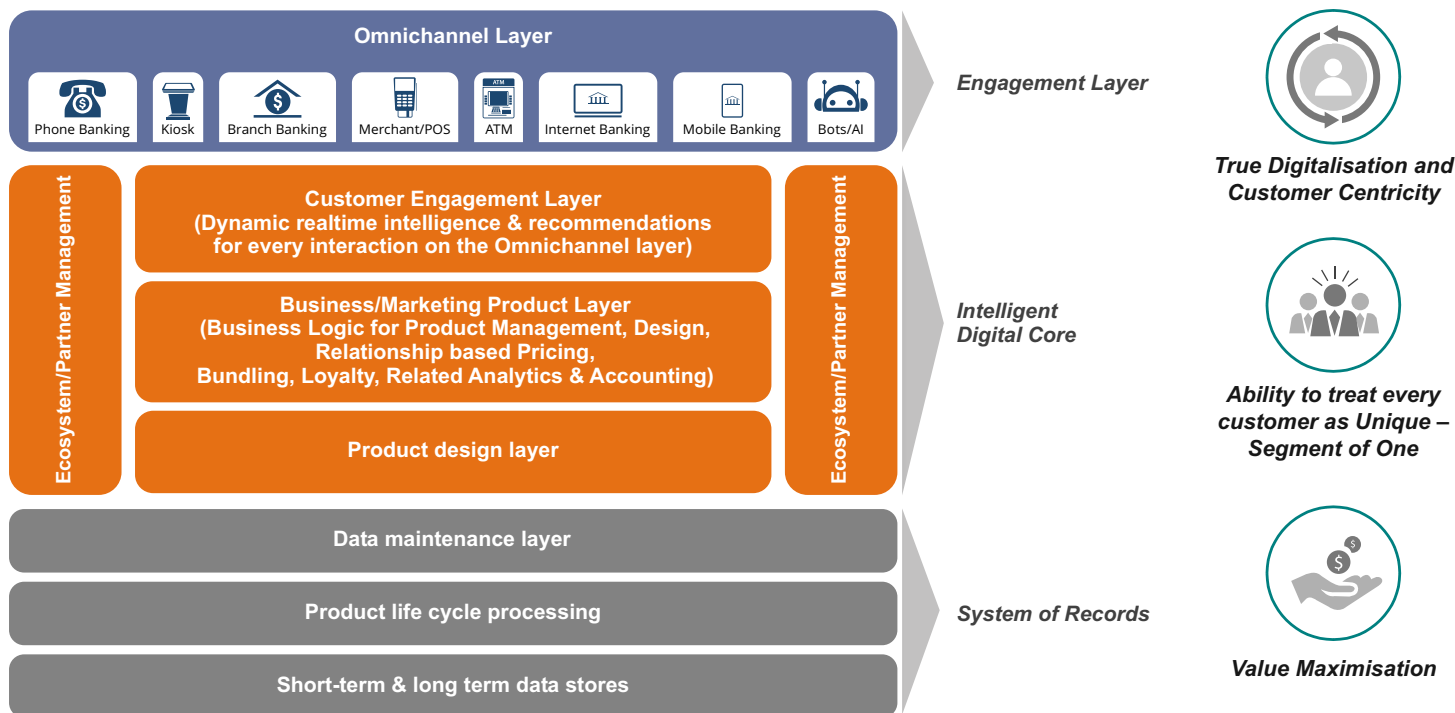
01



**Evaluate your
Customer Journeys**

- List out all Customer Journeys with high velocity and high impact Interactions
- Identify all impacting applications and organizations
- Evaluate the journey in terms of:
 - Value it delivers to the customer
 - Revenue it generates for the bank
 - Level of complexity within back& middle office
- Definite Scope based on Rating of Dimensions

In essence, a **modular approach lets banks execute the fundamental steps of core architecture modernization** in a seamless manner, without any unexpected surprises along the way. It uses an intermediary layer to provide the required connectivity, and scale successfully to integrate systems and applications across the enterprise using existing core platforms. The result, ability to simplify and modernize processes by enabling rapid, continuous change without impacting routine operations.



Banking Architecture with Intelligent Digital Core ^[8]

Benefits of modular architecture approach

1. Segmenting applications to drive personalization

Banks need deeper insights into the impact of various applications on different stakeholders in order to transform their core systems and become truly digital. An intermediary Digital Core layer can help banks segment applications customer journey wise by orchestrating the experience flow between new age omni channels and legacy applications. It helps integrate simplified core back office systems with customer interfaces and the external partner ecosystem. The result: centralized information on products, services, pricing offers across segments and business offerings within the new Digital Core. When coupled with real time analytical capabilities, the Digital Core enables banks to analyze every customer instantly by syncing historical customer data with current patterns to create truly personalized offerings.

2. Risk mitigation and change management

The middle layer allows banks to gradually replace the legacy core system in a phased manner, decoupling engagement channels from systems that store data and records. This keeps the data and key information secure and central, driving increased business agility, and reducing risks associated with core technology transformation.

3. Higher return on investment and faster TAT

Revamping core back office systems requires intelligence to interface with new-age front-end applications. The digital middle layer uses in-built intelligence to orchestrate business logic, workflows and processes across multiple systems to drive superior customer value. It helps phase out complexities of legacy core systems over a period to dynamically orchestrate complex business logic, workflows and processes across multiple systems.



Creating an agile and customer-centric bank for the digital age

Deploying a modular and flexible middle layer that acts as the digital core helps create a truly open ecosystem that fosters collaboration and innovation - without the cost or hassles of completely modernizing the core. The transformative intermediary layer can ensure that the core platform remains strong and resilient, while it handles the data, life cycle processing, connectivity and batch processing required of an intelligent and responsive organization.

The outcome: banks can easily transition from being a 'financial services provider' to truly customer owners for sustained growth and success.

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