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Coreless Banking Is the Future

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BANKING IS UNDERGOING A PROFOUND SHIFT AS BANKS MOVE AWAY FROM LEGACY TECH. BUT HOW DO YOU GO CORELESS?

For decades, banks have run core banking systems (CBS) that control a huge range of essential functions. But the era of sprawling, "maximalist" core systems that absorb everything from payee information to regulatory reporting has run its course. Banking technology is undergoing a profound transformation leading to an entirely different—'minimalist'—approach to CBS architecture.

A modern CBS bears virtually no resemblance to existing legacy systems. Where previous generations of CBS ran a huge range of functions, modern systems have stripped away all but the most fundamental, leaving a core comprising just accounts, transactions and product definitions. In today's "coreless" banking architecture, everything else sits outside this stripped-down set of functions, connecting to them via APIs.

The advantages of this architecture are significant. Because functions are separated out and linked via APIs, innovation in each area is set free. Banks can innovate faster and choose the best tools—proprietary or external—or each function. Without a conventional core, the coreless bank can accelerate innovation and transform the customer experience.

The journey from legacy tech to coreless banking

So goes the theory—and it has wide acceptance. In the 2022 Publicis Sapient Global Banking Benchmark Study, which surveyed 1,000 senior banking leaders, the top priority to achieve operational transformation—cited by 37 percent—was to transition to a modern, cloud-based CBS. Among leaders of the largest institutions (with assets of more than $1 trillion) 48 percent of respondents made this their number one goal.

But the theory of coreless banking begs a huge practical question: how should an organisation make the transition?

There are two main approaches to this problem.

Simplify, build, migrate
Under this model, the bank breaks down, or simplifies, its core operations into a series of processes, or domains, payments or regulatory reporting, for example. For each in turn it then builds a replacement API-enabled architecture and migrates the data to the new system.

Jump
This involves building a new system alongside the legacy CBS and then migrating to it. Jump resembles Simplify, Build, Migrate, but focuses less on "simplifying" the existing CBS in order to be able to transfer functions out of it incrementally. Instead, jump focuses on the build and migrate stages of the transition, creating a new, separate banking architecture and "jumping" over to it. This approach can work well when the bank moves into a new business line that is not supported by the legacy CBS and builds a separate system to run that product. This step could offer a route to begin a progressive migration of functions out of the legacy core.

Strengths and weaknesses

The simplify, build, migrate and jump approaches both offer important advantages along with weaknesses that make them better adapted to some situations than others.

Key considerations with the jump process include:

- It has the advantage of allowing a fresh start unencumbered by legacy systems. This brings an opportunity to rethink all the bank's processes from first principles and to incorporate modern tools such as cloud computing, and cognitive technologies.
- Against that, it commits the bank to the effort and expense of running two core systems in parallel for an extended period. This duplicates operations and increases complexity.

For simplify, build, migrate they include:

- Taking an incremental approach can allow the transformation team to concentrate first on those domains where migration will deliver the biggest strategic and operational benefits.
- This can produce tangible results earlier than with Jump, because individual processes are migrated one after another, rather than aiming for a more comprehensive migration.
- However, precisely because of its incremental approach, simplify, build, migrate can ultimately take longer to achieve transformation than jump. Indeed, many might argue that more than a decade of incremental modernization has so far failed to deliver the core systems that banks know they require.

With these strengths and caveats in mind, we believe banks need to take a portfolio approach to modernizing their CBS, choosing which approach to adopt depending on the problem they are addressing and the commercial environment they are operating in.

Factors that should influence the bank's approach to modernization

Risk appetite

We believe it is important for banks to consider radical options for transformation as well as incremental modernization. Radical approaches bring more risk, but banks that have an urgent need to achieve change must accept more risk.

Deliverability

Very long-term projects, such as simplify, build, migrate will require the organization to commit to a process that lasts years. Maintaining urgency for several years present major challenges, especially in organizations where the project is devolved to multiple CIOs with separate budgets. Project and budgetary governance become all-important. and budgetary governance become all-important.

Complexity

To some extent both the approaches we have discussed require banks to deal with increased complexity. They are likely to involve running multiple systems in parallel, possibly for several years. This will involve additional cost and a more complex set of operations.

Flexibility

There is no perfect end-state, rather a set of choices. There may be decades-old products that are effectively in run-off. In instances like this, maintaining elements of the legacy system represents a pragmatic choice.

The direction of travel in banking towards a "coreless" future is not in dispute. But the process of core modernization presents a range of challenges and opportunities that must be carefully balanced to reach an optimal balance of risk and return.

To achieve this, banks need to:

- Assess how they plan to combine the two central approaches to migration that we have identified, map them to the range of functions that must be migrated and decide which functions are to be removed from the existing core system first
- Focus on delivering "quick wins" that will provide tangible benefits early in the process and demonstrate to internal stakeholders the direction of travel
- Identify ways to achieve the project and budget governance structures that will best support their migration strategy
- Decide which parts of the coreless architecture are best built internally, and which should be sourced from external specialist providers

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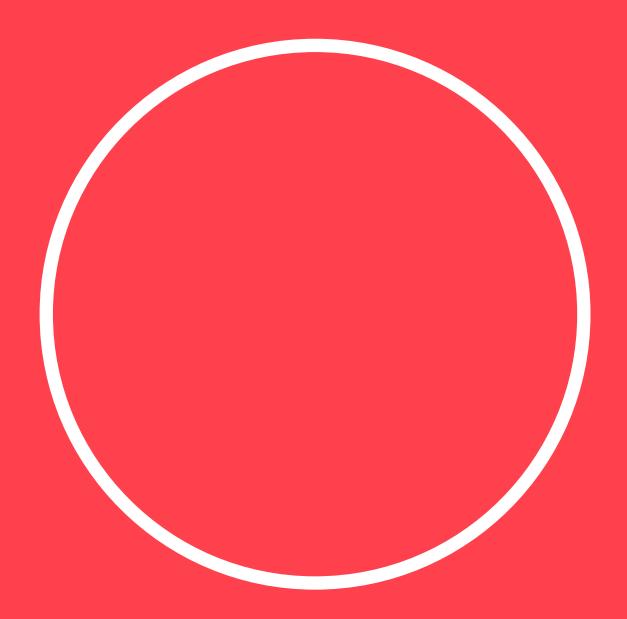Senior Consultant, Delivery and Strategy
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