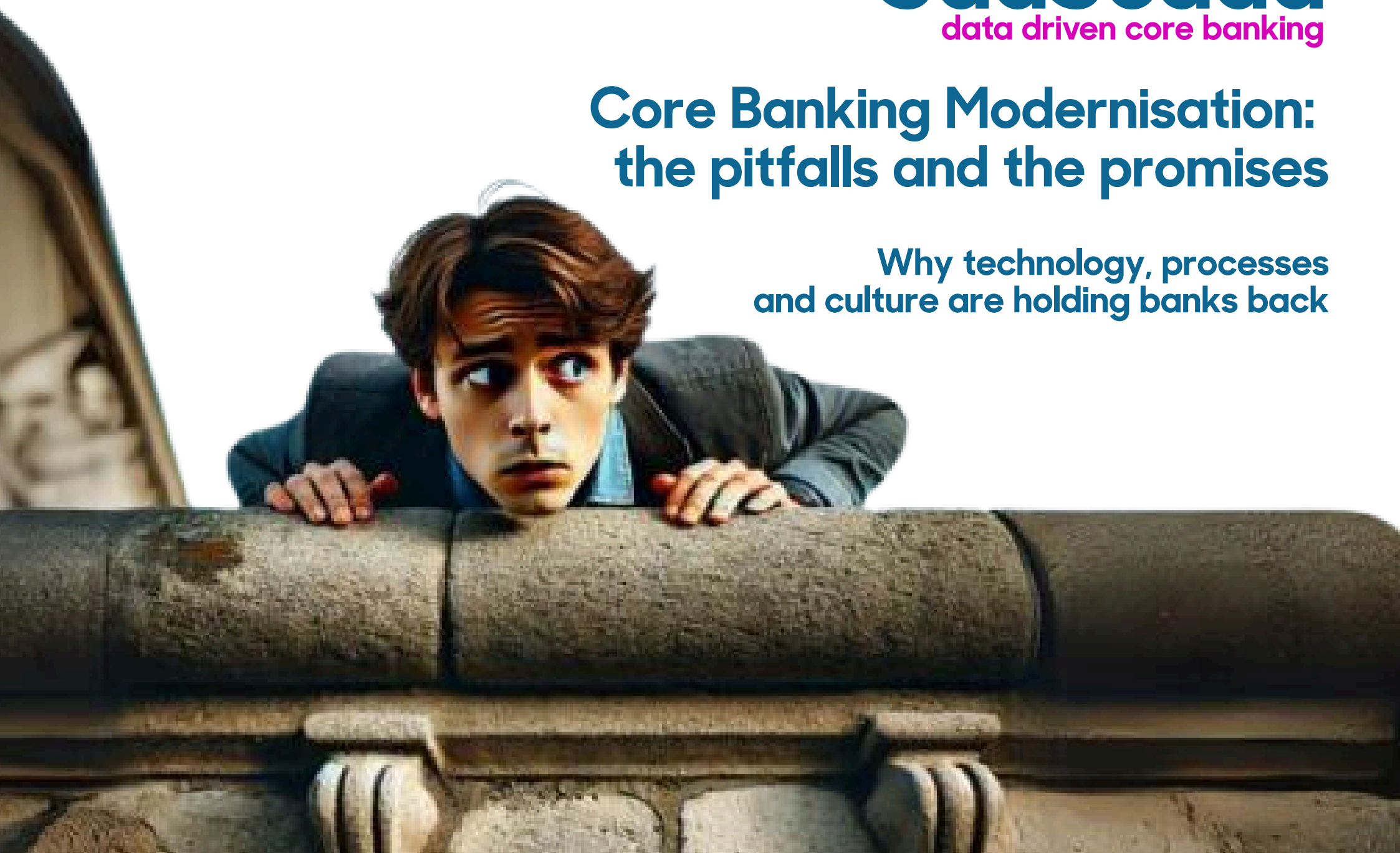
SaaScada

data driven core banking

Core Banking Modernisation: the pitfalls and the promises

Why technology, processes and culture are holding banks back



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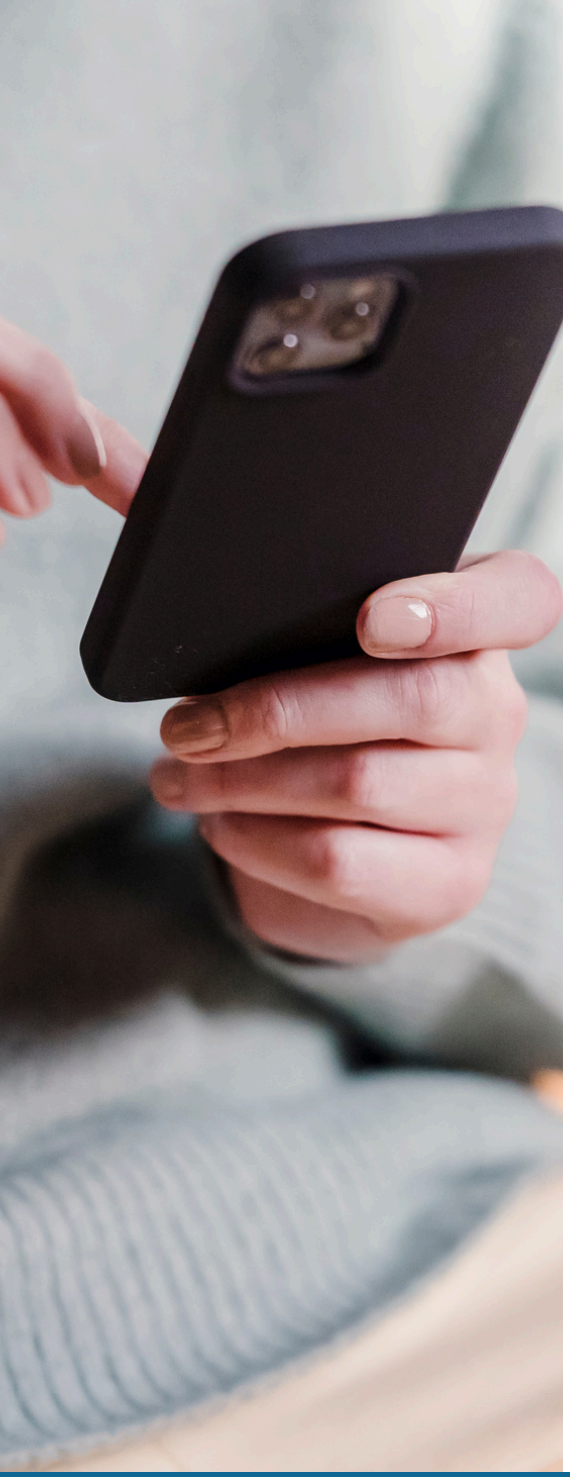


Executive Summary

Pressure on banks is mounting. The proliferation of fintech is fuelling greater competition as nimble challenger banks rise through the ranks. Today's customers demand the same fast, easy, personalised digital-first experiences they get in other areas of their lives.

Yet delivering such experiences is a huge challenge. Many banks were born in a pre-cloud – perhaps even pre-internet – age. They are still reliant on core banking infrastructure that simply wasn't designed for the demands of modern banking. Banks that persevere with legacy tech are forced to patch old systems, cobbling together digital services that are becoming increasingly fragile. Adding features, changes, and updates on older technology is cumbersome, costly, and time-consuming. And organisational silos make it increasingly difficult to harness the data needed to drive innovation, support compliance, and create seamless customer experiences.

For those institutions that have broken free of legacy tech to shift their core banking infrastructure into the cloud, the road to modernisation is still littered with hazards and cautionary tales. The ghosts of failures past loom large - from Unify's Financial Credit Union finding their new core banking provider couldn't help them move to the cloud afterall, to India's Bandhan Bank suffering several service outages post-migration in 2023. Not to mention the infamous TSB IT migration failure of 2018 (which resulted in almost two million customers being locked out of their accounts). Banks face many challenges, not least the choice of technology. Not all cloud technology is created equal, nor is it a magic panacea for fixing deeper cultural challenges.

In this report, we look at the experiences of banks on the path to modernising their core banking infrastructure – taking a 'warts and all' view of the promise and pitfalls of modernisation. Our study of 150 heads of innovation at UK banks found that:

- Cloud is the end goal. Nearly all banks recognise the need to migrate their core banking infrastructure to the cloud to reduce cost, increase agility, and improve access to vital data.
- But migrating to cloud-based core banking is no easy feat. While most want to migrate away from clunky on premises core banking systems, many are struggling to make the leap.
- Many "cloud-based" systems still rely on the same old legacy tech. Modernising core banking has delivered benefits, but many have struggled to unlock the full value, unwittingly opting for cloud-based systems that rely on outdated architecture simply moved to the cloud, instead of the truly cloud-native technology needed.
- Success depends on more than technology. Poor planning and implementation, combined with outdated processes, are hampering banks' modernisation efforts.
- Resistance to change is strangling innovation. Cultural problems start at the top, with boards and senior leadership unwilling to take transformation risks.

Executive Summary

The findings highlight why banks must take a holistic approach to migration. This starts right at the RFP stage, by not only asking what my customers need today, but what they will need in five years and beyond. By exploring the art of the possible, rather than simply replicating current processes. By questioning the status quo, adopting technologies specifically designed for cloud, banks can unlock the art of the possible and drive true transformation.

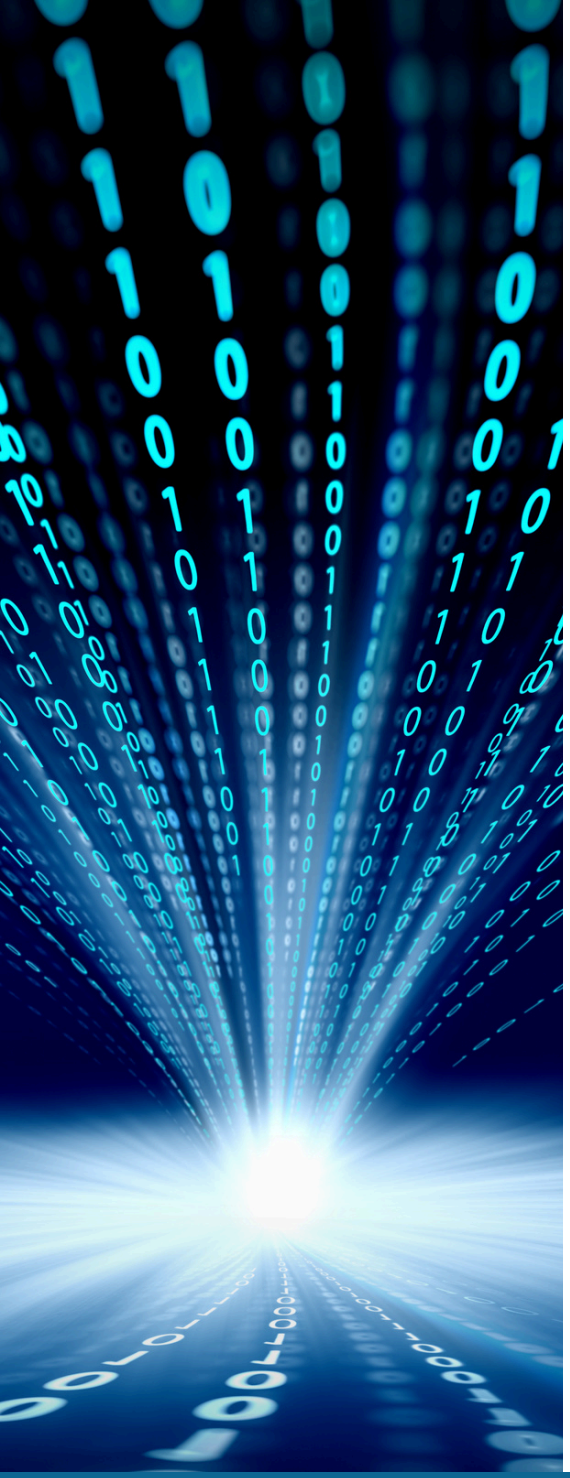
94% have – or are in the process of – migrating part or all of their core banking infrastructure to the cloud.

77% of innovation heads at UK banks feel that challenging the status quo puts careers at risk.

80% say the board understand the need to modernise, but don't want high-risk projects carried out on their watch.

65% who are in the process of, or have migrated their core banking to the cloud, say organisational policies are preventing them from making full use of the technology.

63% of respondents think most cloud-based core banking platforms are just the same legacy tech with a new lick of paint.



The great cloud migration - drivers, progress and approaches

Almost all respondents (94%) recognise the need to modernise core banking. Most banks have, or plan to have, at least part of their core banking infrastructure hosted in the cloud. And with good reason – the promise of cost reductions, efficiency gains and improved customer experiences are on the table (fig. 1).

Notably, motivation did vary between retail and business banking respondents. In some areas, such as accessing data, scalability, and capturing market share, respondents were equally aligned on importance. However, delivering a better customer experience and improving time to market were of greater importance to retail banks compared to business banks; business growth and easier integrations were higher priorities for business banks than retail.

Fig. 1: Summary of top three ranked goals for the implementation of a new cloud-based core banking system.

Top Three Goal	*Overall*	*Retail Banking*	*Business Banking*
Cost reduction	*43%*	*38%*	*49%*
Increased efficiency	*42%*	*45%*	*38%*
Delivering a better customer experience	*39%*	*45%*	*31%*
Improved access to data	*37%*	*37%*	*38%*
Business growth / expansion into new markets	*31%*	*26%*	*38%*
Driving faster innovation / time to market	*28%*	*31%*	*24%*
Easier integration with other technologies	*26%*	*20%*	*36%*
Capturing more market share	*19%*	*18%*	*20%*
Scalability	*17%*	*18%*	*16%*
Streamlined compliance reporting	*12%*	*15%*	*7%*

The great cloud migration – drivers, progress and approaches

However, relatively few banks have gone 'all in' with their migration. Most are still operating a 'one foot in / one foot out' hybrid model – particularly those in the business banking sector (fig. 2.)

Fig. 2: Current status of core banking infrastructure.

Current status	*Overall*	*Retail Banking*	*Business Banking*
Our core banking infrastructure is 100% cloud-based and always has been	*21%*	*23%*	*18%*
We previously had an on premises core banking platform but are now 100% cloud-based	*17%*	*22%*	*11%*
We have a hybrid model with part of our core banking systems running on premises and some in the cloud	*43%*	*32%*	*60%*
We have an on premises core banking platform but we are in the process of moving to a cloud-based core banking platform	*13%*	*16%*	*9%*
We have an on premises core banking platform and no plans to move to a cloud-based platform at present	*6%*	*8%*	*4%*

Of the 73% of banks who have migrated, or are in the process of migrating, at least some of their core banking infrastructure to the cloud, their approaches fell into three categories:

41% 'Permanent concurrent' – running, or plan to run multiple core banking systems in parallel for the foreseeable future.

30% 'Transitional co-existence' – running, or plan to run both systems in parallel, transferring legacy systems one at a time.

29% 'Switchover' – have or plan to migrate from the old system to the new at a specific point in time, turning off legacy systems once complete.

"It's madness that nearly a third opted for a straight switchover approach. It's like carrying out a heart transplant with the patient walking about."

"If something goes wrong, you face outages, disruption, fines, customer complaints, not to mention the cost and stress."

"At the same time, permanent concurrent approaches will continue to cost banks and limit the value of modern architecture."

"Co-existence offers a way for firms to modernise processes over time, while keeping systems running and avoiding the pain and risk of a straight swap."

Nelson Wootton, Co-founder and CEO, SaaScada

Success & challenges – not all cloud banking is created equal

Of the 60% of respondents who have migrated at least part of their core banking infrastructure to the cloud, many feel they have been successful - scoring themselves an eight or higher out of ten when evaluating their success against their intended top three goals (see fig. 3).

Yet success varied significantly between business and retail banking respondents. Business banking respondents reported greater success in areas such as streamlining compliance, delivering easier integrations, expanding market share, and improved customer experience and efficiency than their retail banking counterparts. Conversely, retail banking respondents reported greater success in reducing costs, scalability, access to data, and driving innovation.

Fig. 3: Cloud-based core banking system implementation – goals vs success

Top Three Goal	*Overall: % that scored 8/10 or higher*	*Retail banking: % that scored 8/10 or higher*	*Business banking: % that scored 8/10 or higher*
Easier integration with other technologies	*73%*	*64%*	*80%*
Streamlined compliance reporting	*67%*	*57%*	*100%*
Delivering a better customer experience	*66%*	*61%*	*75%*
Improved access to data	*64%*	*67%*	*60%*
Increased efficiency	*62%*	*57%*	*69%*
Cost reduction	*54%*	*61%*	*48%*
Driving faster innovation/time to market	*52%*	*60%*	*40%*
Capturing more market share	*47%*	*30%*	*71%*
Scalability	*47%*	*63%*	*29%*
Business growth/expansion into new markets	*46%*	*36%*	*57%*

While migrating to the cloud appears to be delivering significant benefits, a sizeable number of respondents do not believe they achieved their stated goals, suggesting there's more value to be gained.

51% who had migrated at least part of their core banking infrastructure to the cloud said they have not achieved their stated goals – a figure that rises to 63% for business banking respondents.

"The ugly truth is that not all cloud-based core banking systems are created equal."

"Taking existing infrastructure, virtualising it and sticking it in the cloud, will utterly fail to unlock the benefits of cloud computing. Banks shouldn't have to spend millions to learn this lesson."

"But how do you spot a core banking fraud? Banks need to quiz providers to make sure their core banking infrastructure was born in the cloud, utilising core cloud technologies, and not just legacy tech now hosted in the cloud. Fully utilising core cloud technologies will give them the flexibility, scalability, and insights needed to deliver best-in-class banking products."

"Being able to harness modern capabilities like event sourcing architecture will give banks the visibility they need, as hyper-personalisation and AI demand a single view of customer data."

Nelson Wootton,
Co-founder and CEO, SaaScada

Success & challenges – not all cloud banking is created equal

When looking at the challenges faced by respondents who have migrated at least part of their core banking infrastructure to the cloud, it's evident that migrating from on premises infrastructure can be a risky business if not managed and resourced properly.

57% of those moving to cloud-based core banking systems suffered service outages and disruptions during the migration process.

50% of those who have completed their migration have been unable or are struggling to decommission their legacy technologies – a figure that rises to 58% for business banking respondents.

51% accrued a lot of technical debt during migration, leaving a backlog of work to do in the future.

Post-migration, many banks have struggled to maximise the value they are getting from their new core banking system and are underwhelmed by its capabilities compared to their previous on premises solutions.

63% think most cloud-based core banking platforms are just the same legacy tech with a new lick of paint.

57% still can't implement changes or launch products at the speed they hoped for – a figure that rises to 63% for business banking respondents.

41% still can't access the data they need after cloud-based core banking implementations.

Lack of process, planning and purpose hampering progress

Success doesn't hinge on technology alone. On balance, respondents noted that the most common cause of core banking modernisation project failures is poor planning and implementation – including failure to identify and allocate the required internal resources. Something both retail and business banking respondents agree on.

Fig. 4: Most common causes of core banking modernisation project failures

Challenge	*% of overall respondents that ranked it no. 1*	*% of retail banking respondents that ranked it no. 1*	*% of business banking respondents that ranked it no. 1*
Poor planning and implementation – including failure to identify and allocate the required internal resources	*38%*	*39%*	*37%*
Lack of clarity on desired outcomes	*23%*	*18%*	*32%*
Technology vendors not delivering on their promises	*15%*	*15%*	*16%*
Cultural resistance to change	*12%*	*14%*	*9%*
Slow implementation	*11%*	*14%*	*7%*

Part of the problem noted by respondents is that banks are failing to adapt their processes to fit around the new technology, expecting the technology on its own to drive success. Of respondents who have migrated, or are in the process of migrating, at least part of their core banking infrastructure to the cloud, almost two-thirds (65%) say organisational policies prevent them from making full use of their core banking technology.

"What a lot of people don't realise is that core banking transformation is about much more than technology. If you are bringing in new technology that will allow you to do things in a different way, you need to change the culture accordingly to really get the benefit of a new core banking platform. If not, you drag across a lot of inefficiency and bottlenecks, and you won't get the full value from the technology."

Steve Round, Co-founder and President, SaaScada

Lack of process, planning and purpose hampering progress

Oversights at the planning stage also create challenges down the road. Projects are under-resourced and under-scoped, with customer needs and compliance being more of an afterthought. Of the 73% of respondents who have embarked on a core banking cloud migration – including those who are still in the process of migrating – most have encountered challenges that trace back to poor planning and processes:

61% lacked the skilled talent to implement the project.

58% have faced changes in scope during the project, leading to escalating timelines and costs during the migration process.

46% cited a lack of understanding, or focus on meeting customer needs.

25% noted a lack of compatibility with compliance requirements.

57% cited poor planning/project management.

Resistance to change – the albatross around the neck of innovation

Many core banking migrations fail to live up to their promise due to something all too human – a resistance to change. These issues can arise as early as the Request for Proposal (RFP) phase. To quote Leda Glyptis, industry expert and author of Bankers Like Us, RFPs are "about creating a process whereby, if things go wrong it is nobody's fault."

The overall goal of a project can get lost in the detail. Instead of challenging what banks already have and striking out to create something better, they just replicate the old model with a few modest upgrades. The risk averse culture within banks mean they are scared to break the mould and try something new.

77% think RFPs are too prescriptive and often focus on minute details, instead of the desired outcomes.

75% just use RFPs as a benchmarking exercise to measure the market.

73% believe rinse and repeat RFPs are far too common in banking.

67% think the RFP process is more often about risk-aversion and internal politics.

46% think RFPs are too focused on doing the same things faster and cheaper, rather than driving true innovation.

"We get a lot of RFPs, and they often don't address future issues, or are clearly just copied from previous requests. They focus on saying 'this is what we do, can you do it, and at what price?".

"Anyone who's interested in real innovation won't be caught recycling old proposals."

"To disrupt the market and retain customers, banks must create RFPs that are focused on the project objectives. This gives vendors the room to work with banks and innovate on how they meet customer needs."

"If banks can't act with a clear mission in mind, they are going to be left miles behind the competition and haemorrhage customers in the years to come."

Steve Round, Co-founder and President, SaaScada

Resistance to change

Overhauling banking transformation from the ground up must start with leadership. Most respondents (87%) agree effective change management starts from the top down, and that it's vital to get early buy-in from senior leadership across all departments i.e., the CSO, CPO, CRO.

A fear of failure means many leaders are holding off on making changes they know are needed, while others baulk at the prospect of having to alter how they operate. This means that at the highest level, banking leadership is blocking innovation. Without clear leadership, many teams struggle to communicate the value of a project to the wider team. This increases user friction.

80% say the board understands the need to modernise but don't want high-risk projects carried out on their watch.

67% say they are unable to throw out legacy tech because it was selected and implemented by decision makers still in the organisation, hampering innovation.

77% say banks need to modernise but challenging the status quo often puts careers at risk.

35% who have embarked on a core banking transformation project have faced resistance to change from end users, stopping them making the most of the new technology.

Conclusion: co-existence with cloud-native core banking

For the most part, banks already know what they must do.

81% say modernisation is about more than just copying and pasting what you were doing before – it should be about reimagining what is possible.

83% agree you are more likely to reach your goals if you create a concise RFP, focused on clear business objectives rather than technical specifications.

To give the best chance of banking transformation success, banks must ensure they have their customers' needs in mind when setting transformation goals, designing new operating models for their new banking technology, and ensuring that process updates and change management are top of mind.

From here, banks must rethink and re-architect how core banking services are delivered. This means taking an approach that utilises the latest technology while balancing the risks of migration and reducing the cost of transformation.

By deploying a truly cloud-native core banking engine, banks can leverage real-time data insights and flexible product configuration to accelerate development of new products and services, without immediately ripping out the legacy tech. This enables banks to:

- Reduce migration challenges with bitesize projects – banks can select smaller but high-impact systems to migrate one at a time, reducing the risk of disruption when separating from legacy systems while meeting customer needs.
- Give valuable breathing room for transformation – co-existence gives banks vital breathing space so they can focus on successful change management and planning their longer-term legacy migration.
- Increase data insights – banks can demonstrate how a cloud-native core banking engine can harness features like Command Query Response Segregation (CQRS) to give a real-time view of customer spending data, streamline reporting, and drive efficiency.
- Win over leadership with concrete evidence – smaller project successes give banks concrete evidence on how banking transformation increases efficiency and speed to market, and unlocks new revenue streams, all while reducing risk and cost.

"We know that replacing the engine behind banking services comes with risks. But in a world where customers expect highly personalised offerings, and new products are launched in months, not years, leadership must rip the plaster off and get behind banking transformation. The risk of standing still is an existential threat to banks – they will lose out to competitors, shrink their market share, and struggle to meet compliance demands.

"Banks must transform their culture, ensuring the bank is choosing the right technology from the outset, and putting clear and customer-focused objectives in place to ensure success. But this mentality shift requires buy-in from everyone who can influence change management, from the board level to procurement, and even the risk and compliance teams. Leadership needs to convince everyone that the dangers of doing nothing are higher than doing something."

Nelson Wootton, Co-founder and CEO, SaaScada

Methodology

The data was gathered in April 2024 from 150 UK-based business heads/C-Suite staff at retail and business banks who are responsible for product innovation (e.g., Heads of Digital Transformation/CTOs/Chief Innovation Officers/Heads of Innovation/CEO). The banks were mid-sized, with a balance sheet of £0.5Bn – £4Bn.

About SaaScada

SaaScada is a NextGen data-driven core banking engine built using cloud-native technology to deliver lightning-fast data speeds and flexibility. SaaScada's unified product hub makes it easier, cheaper & faster to build a range of feature-rich products to deliver great customer outcomes via open APIs to the partner ecosystem.

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SaaScada
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SaaScada is registered in England and Wales
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