Core Banking Systems

Module 4: Traditional Digital Finance — Lesson 38

Digital Finance

December 7, 2025

Learning Objectives

- Define core banking systems and their critical functions
- Contrast legacy mainframe architectures with modern cloud-native designs
- Identify major core banking vendors and their market positions
- Understand modernization strategies and migration challenges

What is Core Banking?

Definition: Centralized system managing accounts, transactions, and customer data

Core Functions

- Account management
- Transaction processing
- Interest calculation
- General ledger
- Customer information
- Product management

Key Characteristics

- Real-time processing
- Multi-currency support
- Regulatory compliance
- Audit trail
- High availability (99.99%+)
- Security and access control

Core Banking Ecosystem

Integration Points: Channels, payments, lending, risk, regulatory reporting

Upstream Systems

- Online banking
- Mobile apps
- ATM networks
- Branch systems
- Contact centers

Downstream Systems

- Payment rails (SWIFT, ACH)
- Card processing
- Loan origination
- Risk management
- Regulatory reporting

Middleware: Enterprise service bus (ESB), APIs, message queues

Legacy Mainframe Systems

Characteristics

- COBOL/PL/I languages
- Batch processing overnight
- Monolithic architecture
- Green-screen interfaces
- Decades-old codebase
- High operational cost

Challenges

- Talent shortage (COBOL)
- Inflexible product launch
- Integration complexity
- Vendor lock-in
- Maintenance burden
- Regulatory adaptation

Reality: 70% of global banks still run mainframes (2024), processing 80%+ transactions

Why Legacy Systems Persist

Strengths

- Proven reliability
- Transaction throughput
- Data consistency
- Security track record
- Regulatory compliance
- Sunk cost investment

Migration Risks

- Business disruption
- Data integrity issues
- Customer impact
- Regulatory approval
- Cost overruns (2-3x budget)
- Timeline delays (5-7 years)

Case Study: TSB migration disaster (2018), 1.9M customers affected, £330M cost

Modern Core Banking Architecture

Principles: Modularity, API-first, cloud-native, microservices

Design Patterns

- Microservices
- Event-driven architecture
- RESTful APIs
- Containerization (Docker/K8s)
- DevOps/CI-CD

Benefits

- Rapid product launch
- Scalability on demand
- Lower TCO (30-40%)
- Modern tech stack
- Agile development

Technology: Java/Python, PostgreSQL/MongoDB, Kafka, Kubernetes, AWS/Azure

Cloud-Native Core Banking

Cloud Deployment Models

- Public cloud (AWS, Azure, GCP)
- Private cloud
- Hybrid cloud
- Multi-cloud strategy

Cloud Advantages

- Elastic scalability
- Pay-per-use pricing
- Global availability
- Disaster recovery
- Continuous updates

Regulatory Considerations: EBA outsourcing guidelines, data residency, exit strategy

Major Core Banking Vendors

Legacy Leaders

- FIS (Systematics, Profile)
- Fiserv (DNA, Premier)
- Oracle (Flexcube)
- Temenos (T24 Transact)
- Infosys (Finacle)

Modern Challengers

- Mambu (SaaS)
- Thought Machine (Vault)
- nCino (Salesforce-based)
- 10x Banking
- Avaloq (wealth focus)

Market Size: $15B+ annually (2024), growing 8% CAGR

Temenos T24 / Transact

Market Leader: 3,000+ banks, 1.2B+ accounts, 150+ countries

Features

- Component-based architecture
- Multi-entity support
- Pre-built products
- Omnichannel integration
- Cloud-native (2020+)

Deployment Options

- On-premise
- Private cloud
- Temenos Cloud (AWS)
- SaaS model

Technology: Java, TAFC language, SQL/NoSQL, Kafka, Kubernetes

FIS and Fiserv

FIS Portfolio

- Profile: Large banks
- Systematics: Community banks
- IBS: Corporate banking
- Revenue: $15B (2023)
- 500+ bank clients

Fiserv Portfolio

- DNA: Digital-native
- Premier: Regional banks
- Signature: Community banks
- Revenue: $18B (2023)
- 12,000+ clients

Consolidation: FIS acquired Worldpay (2019, $43B), Fiserv acquired First Data (2019, $22B)

Mambu: Cloud-Native SaaS

Model: Pure SaaS, no on-premise deployment, API-first

Differentiators

- Composable architecture
- Rapid deployment (weeks)
- Modern tech stack
- No legacy constraints
- Usage-based pricing

Target: Greenfield banks, fintechs, embedded finance

Clients

- Neobanks (N26, OakNorth)
- Fintechs
- Digital banks
- 200+ clients globally
- $3B valuation (2021)

Thought Machine Vault

Positioning: Next-generation core, cloud-native from inception

Architecture

- Microservices
- Smart contracts for products
- Event sourcing
- Kubernetes-native
- Multi-cloud support

Clients

- Lloyds Banking Group
- Standard Chartered (Mox)
- JPMorgan Chase
- Curve
- SEB

Funding: $1B+ raised, $2.7B valuation (2022), backed by Nyca, Eurazeo

Core Banking Modernization Approaches

Big Bang Replacement

- Complete system swap
- Single cutover weekend
- High risk, high reward
- 12-36 months timeline
- Example: Metro Bank (2010)

Gradual Migration

- Product-by-product
- Run legacy in parallel
- Lower risk
- 5-7 years timeline
- Example: DBS Bank

Hybrid: New products on modern core, migrate legacy gradually

Strangler Fig Pattern

Strategy: Incrementally replace legacy by routing new functionality to modern system

Steps

1. API facade over legacy
2. Route new features to modern
3. Migrate data incrementally
4. Decommission legacy modules
5. Repeat until complete

Advantages

- Continuous business operation
- Lower risk profile
- Incremental investment
- Learning by doing
- Easier rollback

Duration: 3-5 years typical, allows parallel operation

Data Migration Challenges

Complexity: 30-40 years of customer data, multiple systems, format inconsistencies

Data Issues

- Schema mismatches
- Data quality problems
- Historical transactions
- Regulatory retention
- Customer consent

Migration Techniques

- ETL pipelines
- Data validation
- Reconciliation
- Parallel run testing
- Rollback procedures

Best Practice: Migrate 80% data, keep 20% in archive for queries

Regulatory and Compliance Considerations

Regulatory Approval

- Change management process
- Regulator notification
- Risk assessment
- Business continuity
- Data protection impact

Compliance Requirements

- Audit trail preservation
- Data residency
- Operational resilience
- Outsourcing guidelines
- Recovery time objectives

EBA Guidelines: Outsourcing to cloud (2019), ICT risk (2020), operational resilience (2021)

Embedded Banking and BaaS

Banking as a Service: Core banking capabilities exposed via APIs

BaaS Providers

- Solaris (Germany)
- Railsr (UK)
- Synapse (US)
- Cross River Bank
- Green Dot

Use Cases

- Embedded finance
- White-label banking
- Fintech enablement
- Corporate banking
- Marketplace lending

Market: $25B+ by 2026, driven by open banking and embedded finance

Composable Banking

Vision: Assemble banking from best-of-breed microservices

Components

- Core ledger (Vault)
- KYC/AML (Onfido)
- Payments (Stripe)
- Cards (Marqeta)
- Lending (Plaid)

Benefits

- Flexibility
- Faster innovation
- Avoid vendor lock-in
- Cost optimization
- Scalability

Challenge: Integration complexity, data consistency, vendor management

AI and Automation in Core Banking

AI Use Cases

- Fraud detection
- Credit decisioning
- Customer service (chatbots)
- AML transaction monitoring
- Personalized offers

Automation

- Robotic process automation
- Reconciliation
- Regulatory reporting
- Account opening
- Loan processing

Impact: 30% cost reduction potential, 50% faster processes

Summary

- Core banking systems are the backbone of bank operations
- Legacy mainframes persist due to reliability but hinder innovation
- Modern cloud-native systems offer agility and lower TCO
- Major vendors: Temenos, FIS, Fiserv (legacy); Mambu, Thought Machine (modern)
- Modernization strategies range from big bang to gradual migration
- Data migration and regulatory compliance are critical challenges
- Future trends: BaaS, composable banking, AI-driven automation

Further Reading

- Accenture (2021). *Banking Technology Vision*. Accenture.
- Gartner (2023). *Magic Quadrant for Global Retail Core Banking*. Gartner.
- McKinsey (2020). *Rewriting the Core: Modernizing the Heart of the Bank*. McKinsey.
- EBA Guidelines on Outsourcing to Cloud Service Providers (2019)
- Thought Machine White Paper: *The Case for Cloud-Native Core Banking* (2021)