

A woman with long dark hair, wearing a blue dress and headphones, is looking down at her smartphone. She is standing in what appears to be a subway station, with blurred train carriages visible in the background.

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Breaking ground without breaking the bank

Modernize your core with Converge™
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Converge™
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Banking is experiencing disruption like never before

Customer needs are evolving rapidly, digital challengers are emerging constantly, and the regulatory atmosphere is shifting quickly, both in the United States and globally. This disruption shows no signs of slowing. In this new digital era of banking, there's no end to strategic opportunities for banks to innovate from the core out, meet customers' demands, anticipate their needs, and continually gain an edge over competitors.

For the past several decades, traditional banks have been able to stay competitive with existing resilient core systems by applying patchwork solutions when gaps emerge. But those same traditional banks are running up against a key challenge: Competitors and disrupters in the market and evolving customer preferences mean patchwork solutions are no longer enough. Eventually, you have to get to the root of what's holding your organization back—and for banks in the digital era, that's likely their core platform and the operating model structures around it.

Most banks have avoided the problem for too long—and when they have, their investments have only affected the edges of their legacy technology stack, which are expensive and insufficient. What's worse, these patchwork investments add more technical debt and build barriers against future, more impactful changes. Now, many of these same banks are at a tipping point: invest wisely in the entire stack, or risk falling behind. While costs continue to rise, market pressures show no signs of abating—so to be competitive in the future, a bank needs to start now.

A modern core means investing in the latest technologies while applying cloud-native composite architectural principles that allow banks to pivot quickly and respond to market shifts and customer needs to remain agile in the face of disruption. Once just a "nice to have," core modernization for any bank that wants to compete in the digital era is now an imperative. Here's why—along with a few ideas on how to get started without breaking the bank.



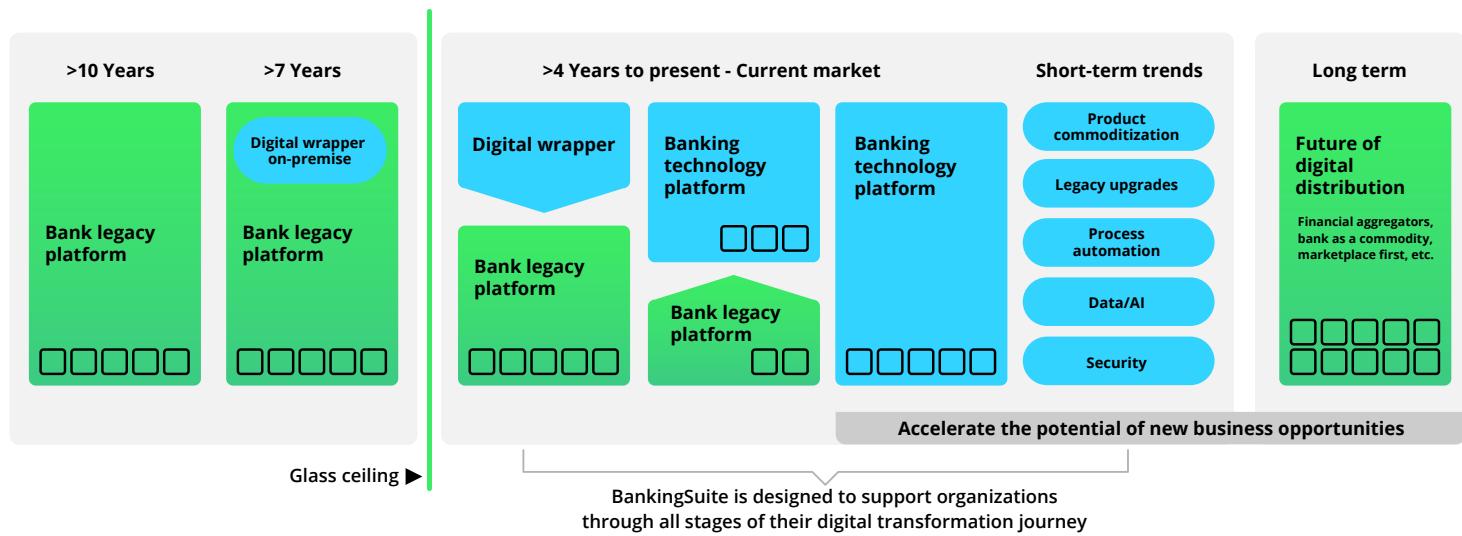
This is an inflection point

Welcome to the new digital era—but we've been here before. Any time new tools emerge, new solutions, new strategies, and new human behaviors follow, and banking is no different. The first mobile phone paved the way for the first mobile wallet, accelerating the adoption of digital banking interactions. Now, nearly everyone carries their bank and finances in their pocket. A recent survey showed that 78% of Americans prefer to bank digitally via web or mobile app.¹ An estimated 4.2 billion people around the world are using digital banking services²—and that number is only expected to grow.

In the face of this evolution, banks are working hard to keep up. But patches to existing legacy core banking systems can't keep up with customer needs and where competitors are heading. Consider that the global neo and challenger bank market is predicted to grow to \$280 billion by 2028.³

Figure 1: To seize the opportunity, consider moving now

As banks attempt to quickly modernize their business in a crowded marketplace, many are layering patchwork fixes on top of outdated legacy systems. This can leave organizations vulnerable to increased costs, while also limiting the ability to adapt quickly to changing compliance and customer needs. Do you want to deliver better customer experiences, strategic cost reduction, and new business opportunities? It may be time to rewrite your legacy.



Banks know they need to power up their core—but it can be daunting to figure out the first steps without thinking they must reinvent the wheel (figure 1). No organization needs to do that. The tools for banks to safely leverage next-generation cores for a competitive edge already exist. The key is to move fast and seize the opportunity.

Deloitte's modern core banking practice has worked with many clients to develop strategies to find opportunity, set tailored goals, and safely move fast to get their banking programs off the ground. The results are achievable, modernized cores and competitive edge for the future.

Why consider modernization now?

Many banks have faced challenges related to existing legacy core systems and have applied short-term solutions. But we're at a tipping point as disruption becomes the name of the game and competitors constantly find new ways to gain a competitive edge. Banks are aggressively investing to modernize their core and their entire technology stack. For banks that are on the fence about investing, here are some reasons they should consider acting now—or potentially risk missing out on new opportunities:

- **Legacy core banking systems can no longer keep up with consumer product innovation:** Products and features such as saving pockets, smart interest rate credit cards, real-time payment processing, real-time consumer spending analytics, real-time marketing offerings, and real-time fraud detection are all in focus for forward-thinking banks that want to provide business and customer experience benefits, plus the agility that advanced technologies and third-generation cores promise to deliver.
- **Legacy core operational challenges will further mandate modernization for banks:** Legacy core providers are spreading the word that they will no longer support first-generation mainframe solutions in the years to come. What's more, the older mainframe workforce is nearing retirement age, and younger engineers are more interested in learning modern coding languages versus supporting legacy systems. A modern core will require a tech investment and an evolution in talent. Organizations will need to determine if their current team meets the needs of a modern core—and whether they can fully invest in upskilling them or finding new workers to support the core.

The resiliency of legacy core tenants is also being challenged, from nightly batch cycles breaking frequently to higher volumes of exception processing. These are just small examples of what occurs daily to keep these solutions up and running and the human heroics required to maintain them, literally keeping many operational back offices up at night. (And don't forget the ever-evolving regulatory atmosphere that's growing more demanding, as well as investors who are asking questions and pushing for more.)

- **The investment required for digital innovation is high, but returns can be diminishing:** Many peripheral systems, such as online banking, customer onboarding, and contact center servicing, have already undergone modernization efforts toward cloud-native solutions. Business and application teams with these capabilities are now hungrier than ever for a cloud-native core that can keep up with innovation demands created when linking these solutions to a real-time core.

But investments at the edge of a stack are expensive and time-consuming, and they can stifle a bank's ability to evolve. This is a time when quick fixes won't make the cut. Integrating these new systems with legacy mainframe cores is challenging. It requires high investment and can create diminishing returns when considering the opportunity cost of using modern cores and cloud-native architectural principles. That means a roadmap for organizations' individual challenges and needs is vital to the future success.



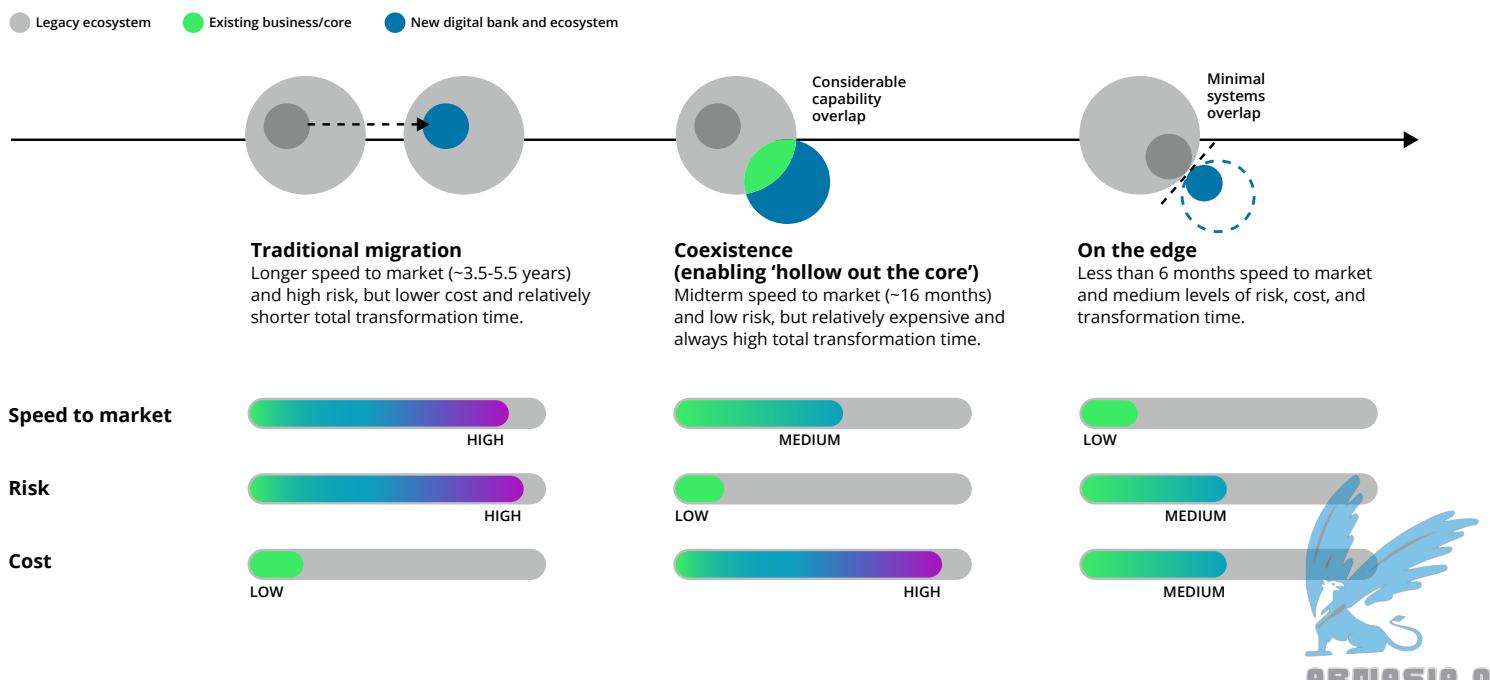
Choosing your path toward modernization

Banks are increasingly getting comfortable with implementing new technologies at scale. But how? Two key ideas: vendor maturity and a carefully designed implementation strategy that addresses executional and operational concerns across the institution. Acknowledging the need for a modern core—or at least to move forward from the legacy core—is not the central challenge for banks. Instead, a bank must decide how to move forward and implement a new core that's curated and designed for its goals, helps achieve business outcomes, and solves organizational challenges. When designing a solution, banks should think about how to address these issues:

- **Legacy powered vs. greenfield powered:** Whether legacy or modern peripheral capabilities will support the core.
- **The world your customers live in during transition:** How to handle legacy customers and legacy products.
- **The financial sense of it all:** Prioritization of revenue generation and cost optimization across the IT and business landscape.
- **The people impact:** Appetite for business operating model change.
- **Organizational appetite for change:** Moving fast or slower depending on the bank's risk appetite.
- **Regulatory posture resulting from the legacy core:** Prioritization of outcomes needed to improve the bank's ability to address challenges.

We've seen three popular emerging paths: a traditional migration, a dual-core coexistence, and an "on the edge" banking transformation. The path a bank chooses can help enable pragmatic, lasting modernization for front- and back-office experiences and solve near-term systems integration and infrastructure challenges. There's a rationale for each path—but the choice depends on an organization's goals.

Figure 2: Banks are adopting various transformative approaches to realize their goals.



Core modernization is a big undertaking with a myriad of opportunities and challenges to consider, and navigating different programs and choices can be a windy road if a bank lacks a clear view of cost, organizational benefits, and time to realize those benefits. Converge™ by Deloitte BankingSuite, our modern, composable banking platform, integrates the ecosystem with our own cutting-edge software and fills the gaps between what is out there and what you need to succeed. Supported by the power and historical knowledge of Deloitte, our BankingSuite teams have helped solve for the gaps and challenges that can arise at banks while instituting new technologies, giving our clients better assurance that the investments they make will work for the future. Here are some of the ways we're helping clients and accelerating time to value during early-phase core modernization strategy and planning.

- **Rapid core strategy definition:** Deloitte's proprietary DVF framework has helped clients of all sizes rapidly develop a fully integrated core strategy across the lenses of product and innovation desirability; financial, operational, and regulatory viability; and technology architecture feasibility.
- **Modern core proof of concepting and vendor selection:** Converge by Deloitte's BankingSuite provides our clients with an immediately deployable full-stack digital banking environment with multiple next-gen cores integrated to quickly assess and provide proofs of concept for various product journeys to reimagine the vendor selection and architectural blueprinting process.
- **Digital banking blueprinting:** Banks have endless choices when it comes to architecting the future state. Deloitte's digital banking architecture blueprints provide a starting point to the build of your unique fintech ecosystem and supporting tech capabilities. This includes Deloitte's extensive library of coexistence architecture patterns and proprietary coexistence infrastructure that is fully integrated into BankingSuite, reducing the complexity of obtaining enterprise architecture consensus on how to integrate modern core banking solutions with legacy cores.



The potential benefits

As we move into a new digital era, one thing is certain: Banks that capitalize on these next-gen core opportunities can potentially see huge benefits in customer share and profitability, internal skill sets, ability, agility, and long-term plans.

- Innovative products and real-time capabilities in market to delight customers
- 20% to 40% increase in five-year revenue potential
- Up to 75% lower innovation costs for new product launches
- 40% to 60% reduction in operating costs across categories because of next-gen core
- 30% increase in future digital banking feature and product releases each year
- Highly efficient and scalable core systems to bolster growth and transformation operating costs
- Leaner and agile delivery models to deliver faster propositions to market, resulting in new bank products in less than six months
- High connectivity to support third-party partnerships
- 20% to 30% increase in IT and business operational efficiency from real-time transaction processing
- Up to 65% increase in staff efficiency, shifting focus to value-add work and placing employee experience at the center of a future-forward strategy



Time to get moving

These potential benefits are all within reach of any bank—but gaining a competitive edge depends on what banks can modernize quickly and get to a customer first. This is a new frontier for banking, and a modern core can help banks move toward the horizon with agility, power, and the confidence to take on any disruption. This modernization requires stakeholder alignment, a commitment to a digital future, and a strategic roadmap built for the organization. For the bank that is willing to invest, the opportunity is vast. And it all can be done without breaking the bank.

[Click here](#) to learn more about each path and how to modernize your core.

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2. Juniper Research, "[Over half of global population to use digital banking in 2026; driven by banking digital transformation](#)," press release, July 19, 2021.
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