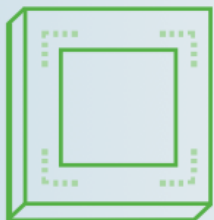


Wait & See

Sit back and wait for the market to settle, the dust to clear. There is a working core banking system - why fix it if it isn't broken?

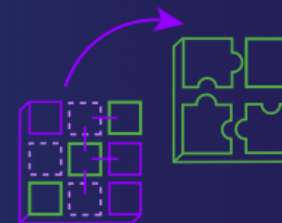


Buy

Search the market for challengers performing well and purchase the business in order to jumpstart a move into digital banking.

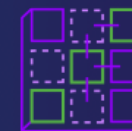
Replace

The conventional starting point is replacing old technology through a long, expensive and risky implementation.



Evolve or Augment

Build new to replace the old or progressively change systems instead of going big bang.



Option 1: Wait and see what competitors are doing.

Similar to the approach that Kodak took in the mid-2000s. They could have pushed innovation and pursued digital photography. Kodak developed the first digital camera, but did not believe digital photography would dominate the market nor did they leverage the opportunities their discovery offered. They chose to focus on film, not innovation, and fell after a century in business. It could have led them to new customers and products to secure their place in the market, but they chose not to evolve their focus. The same applies to financial institutions. They cannot keep moving in the same direction if they want to be seen as relevant.

Banks, which have had little competition for decades, find themselves threatened by the rise of fintechs and nimble new challengers. The new entrants bring innovative products, services and slick delivery using the latest technology. Enabled by regulators and fueled by venture capital, they take a lean approach which is beginning to earn significant revenue. **Wait and see can only ensure one thing, a slow road to ruin and irrelevance.**

Option 2: Buy a challenger.

Banks naturally could try to buy their way into evolution, but there are far fewer options to buy than there are banks and few of the best ones are for sale. However this is not really an option for many. It's akin to starting from scratch like all the challenger banks do. Banks like BBVA have followed by acquiring companies like Finland's Holvi and neobank Simple.

It is an expensive option complicated by having to find a company with the right fit for the business. There are also only few acquisitions to go around, and making old and new cultures and processes work, while retaining the top talent of the fintech is a challenge. **Depending on their own complexity, integration will always prove a challenge with the possibility of the acquisition becoming stuck in the same change cycles as the owner.**



Option 3: Rip and replace.

The conventional starting point is replacing old technology through a long, costly and painful implementation that only serves to build legacy technology of tomorrow: a vicious cycle of rip, replace and repeat. **These transformations mean building the legacy of the future and the risk of failure is a real threat to business.**

The traditional approach is all or nothing, building an end-to-end solution which relies on a single vendor that is responsible for the implementation, depends on an army of developers and consultants for integration, execution and customisation.

There are numerous horror stories of implementations gone wrong. The UK's Co-operative Bank attempted to replace its core banking systems, a programme that was cancelled in 2013 at a cost of almost £300 million.

More recently the UK's TSB bank was rocked by serious tech issues in April 2018 after attempting to move to a new IT system. It left thousands of customers locked out of their accounts and some reporting that they were able to access other people's details. The failure cost the bank £330m, while 80,000 customers switched their account to a competitor.

This failure prompted a parliamentary inquiry with the UK Treasury Committee issuing a report in October 2019 that looked 'under the bonnet' of the financial services sector to ask why IT failures were happening, and how the industry and the regulators could have prevented such incidents.

The UK Treasury Committee releases a report titled IT failures in the Financial Services Sector, which stated that amongst other factors:

“Many financial institutions face the challenge of aging, legacy infrastructure that is hard to maintain, yet expensive and risky to replace. We do not believe enough is being done by firms to mitigate the operational risks they face from their own legacy technology, such as by moving to newer technology.

“Firms are not doing enough to mitigate the operational risks that they face from their own legacy technology, which can often lead to IT incidents. When firms do embrace new technology, poor management of such change is one of the primary causes of IT failures.”

Of course, no-one ever sets out to fail. Both projects would have helped the banks leapfrog the competition, gaining an advantage through improved customer relationship management and quicker delivery of new products. Instead, **it cost them millions, thousands of customers and untold reputational damage.**

Option 4: Evolve and augment.

Build new to replace the old and progressively change systems instead of going big bang. Both mean embracing cloud and taking a composable approach with partners who specialise (instead of one-size-fits-all) which gives the business agility and control. A gradual transition where individual systems are targeted and changed in a surgical approach which allows a controlled change. A new technology stack is built for business units giving them enhanced functionality and interoperability with current systems and wit.

A part of the argument to augment is to create a spin-off by building new outside of the old and have an independent operation with a new identity, processes and banking charter. This provides the ability to test new markets, products as well as scale quickly.

This is the evolutionary approach.

Choosing to evolve lets banks run like tech companies which will dominate this century. Banks have to learn to run like them. This approach means new technology, people and processes.

The aim is to build and test a new bank to determine the best way forward, then migrate from old to new in less time, with low risk and easily configurable to changing market dynamics. This allows businesses to optimise for what matters: growth to some, profit margins to others, innovation for others.

Some institutions have implemented what can be seen as a shortcut to a full upgrade - wrapping systems in a more modern tech sticky tape wrapper. This might give developers access to APIs and tools to help them build, but it doesn't fundamentally solve the fact that they are working off legacy systems that are inflexible and incapable of seeing institutions through market changes. This approach doesn't fundamentally change business dynamics, unit economics or gives institutions the ability to create highly customised customer products.

The aim should be evolution - to invest in lean, flexible technology that will push innovation and help respond to customer demands quickly.

Banks are risk-averse, so why have so many continued to choose large-scale technology transformations that negatively impact customers, reputations and the bottom-line? There is a safe, controlled path that can be taken.

Contrary to how the industry has operated for decades, new technology allows institutions to mitigate risks, test models and strategies and implement in a controlled environment.

	Mambu cloud banking platform	Traditional core banking systems
Platform capabilities	As little as necessary. Keeping the core light and generic allows us to serve many use cases with little cost and deploy rapidly. It also forces us to put the capabilities for the ecosystem easily in the grasp of our customers through technical means.	As much as possible. Given they do few and expensive projects, the goal is to sell as much as possible (software and service) to cover as many use cases as possible and get as much value per customer as possible.
Platform experience	Seamless continuous improvements with no touch. Improve weekly and daily and leverage single product ecosystem and cloud to continuously change. Change should have no cost or impact on customer and high frequency reduces risk.	High touch project-based improvements. Change is complex to roll out and is done infrequently in exchange for services revenue for managing the change and reducing risk of failure.
Partner ecosystem	Strongly strategic. Interested in selling high-value consulting mindset on strategy while minimising low-value integration man-days.	Strongly transactional. Interested in maximising implementation man-days on projects which translate to dollars.
Service mindset	Our customer success is our success. Aligning all sales, implementation, product and customer success activity to ensure our customer is successful in what they're trying to achieve such that their business grows with us and allow us to grow into the account.	Our sales success is our success. Our implementation success is our partners' success. The focus here is on selling the solution and the customisation and the rest of it can be figured out in projects. Contracts signed closed matter most.
Commercial mindset	Value-based. Customers pay based on the value and services they get from us not necessarily who they are as a buyer and the funding available. Aligned to long-term success for both side and not for maximising revenue extraction.	Transactional. Customers pay based on how big they are and how much they can afford to pay to extract the maximum amount of revenue per customer through a combination of licenses, maintenance, and professional services.

Of the four options listed, one stands out due to the flexibility it offers: **evolve and augment**. Choosing to take this path ensures changes in the business model still keep the bank in control of infrastructure and resources.

- Centralising control of the balance sheet but decentralising deployment of services.
- The ability to continue using the old core for some functions like regulatory reporting compliance.
- Reviewing every system to determine what is needed and what should be replaced.
- Externalising all the business-driving and client, product or service related capabilities.
- Decentralised deployment by individual businesses instead of the whole organisation.
- A modular or componentised approach. Increased agility to innovate and deploy a myriad of services to address specific needs at lower risk and cost.

Build the new to replace the old.

By launching greenfield tech-enabled businesses to tap market opportunities and embark on a lower-risk technological evolution. Spin-offs draw on the resources and experience of the parent institution while operating independently, embracing the technology and culture of fintechs. They deliver significant results in a short period of time, free of organisational and technological legacy that holds back traditional organisations. Once the spin-offs has proven the business model, customers and business can be migrated to the scalable new platform, without the pressures associated with rip and replace transformations.

A move to cloud changes the banking dynamic – it enables agility.

A cloud core, also referred to as a cloud banking platform is flexible by its very nature – fast, capable of dynamic change and scalable.

While many businesses talk about being agile, only those able to quickly respond to evolving customer expectations and opportunities will make real progress.



Real agility matters for three reasons:

Speed to market – the barriers to entry are lower but the barriers to switching are lower too.

Speed in market – when banking technology is the front office, banks can release new products, services and features in weeks (instead of months or even years!).

The solution landscape is evolving fast – so delivering the best services means having the flexibility to use new services as new needs emerge.