Forbes
INSIGHTS

Banking At A Crossroads: The Threat Of Legacy Infrastructure

IN ASSOCIATION WITH

Thought Machine

Table Of Contents

Introduction

Becoming an industry leader requires more than simply outpacing peers. Companies also need to ensure their competitive edge has longevity.

In finance, this edge is found in inventive products and services designed to attract and retain customers. Here, satisfaction isn't measured in weeks or months, but in years and decades.

To fulfill this long-term vision, banking leaders must commit more than just ideologically. Those who devote significant resources to the latest technology will be best positioned to power innovation and compete indefinitely.

This isn't obvious to everyone. In mature industries like banking, many leaders find themselves saddled with outdated, underperforming legacy infrastructure. How is this affecting their ability to serve customers, and what can be done?

To learn more, Forbes partnered with banking software provider Thought Machine to survey 150 U.S.-based banking leaders. Here, we present a summary of four key findings based on our analysis of the survey data.

Legacy Infrastructure Poses A Competitive Threat

Most banking leaders (59%) put legacy infrastructure squarely at the top of their list of challenges.

In fact, legacy infrastructure is a greater hindrance to business than ineffective data strategies (47%), compliance challenges (39%), lack of digital experience (38%) and finding the right partners (44%).

This doesn't surprise Ninish Ukkan, chief technology officer at Arvest Bank.

"The complexity of legacy systems and the technical debt that traditionally comes with it bring a high risk of change, resulting in a significantly slower time to market," he says.

Legacy infrastructure is a particular drag on the front office. Two-thirds of respondents cite outdated back- and middle-office processes and technologies as their top challenge to front-office modernization efforts. When asked to explain, most (71%) identified a "spaghetti of legacy systems that are difficult to untangle and update."

"These banks are beholden to the core provider's roadmap," Ukkan explains. "You're held hostage by your monolithic core provider, and that impedes the ability to innovate and be competitive."

Solutions do exist in the market, and for Barry O'Connell, managing director at Thought Machine, the strongest ones are designed to return the ability to manufacture new products to the power of banks.

"Vault Core from Thought Machine liberates banks from the shackles of legacy technology," says O'Connell. "It provides complete independent control over its product set and the full benefits of cloud computing."

59%

of surveyed bankers consider legacy infrastructure a major business challenge.
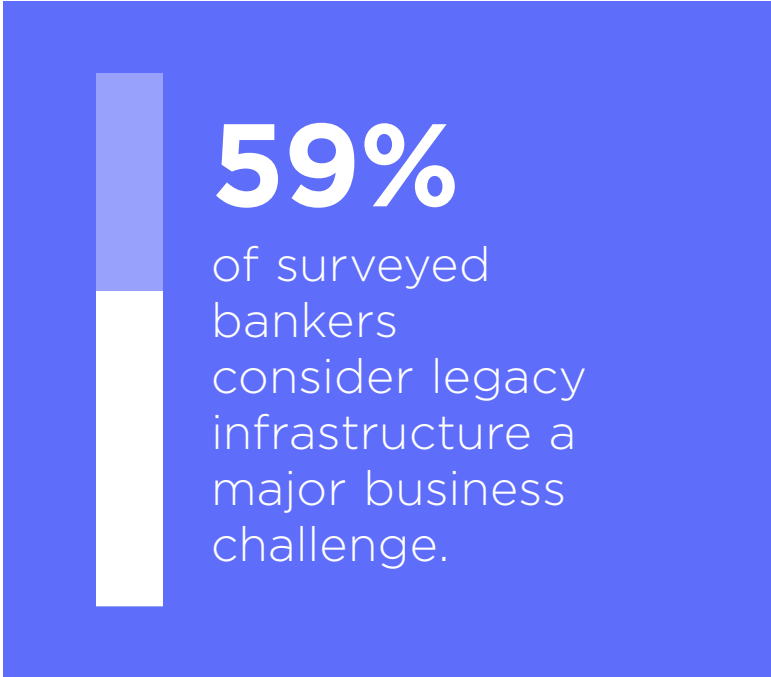
Outdated Data Structures Impede Innovation

Modern banks are more than just savings and loan institutions.

They're in the data business. Indeed, most banking leaders (63%) agree that having "vast caches of customer data" is a major competitive advantage.

Unfortunately, legacy banking systems were not designed to meet the needs of today's data-intensive workflows. This makes it impossible to leverage these vast caches of data for new products and services.
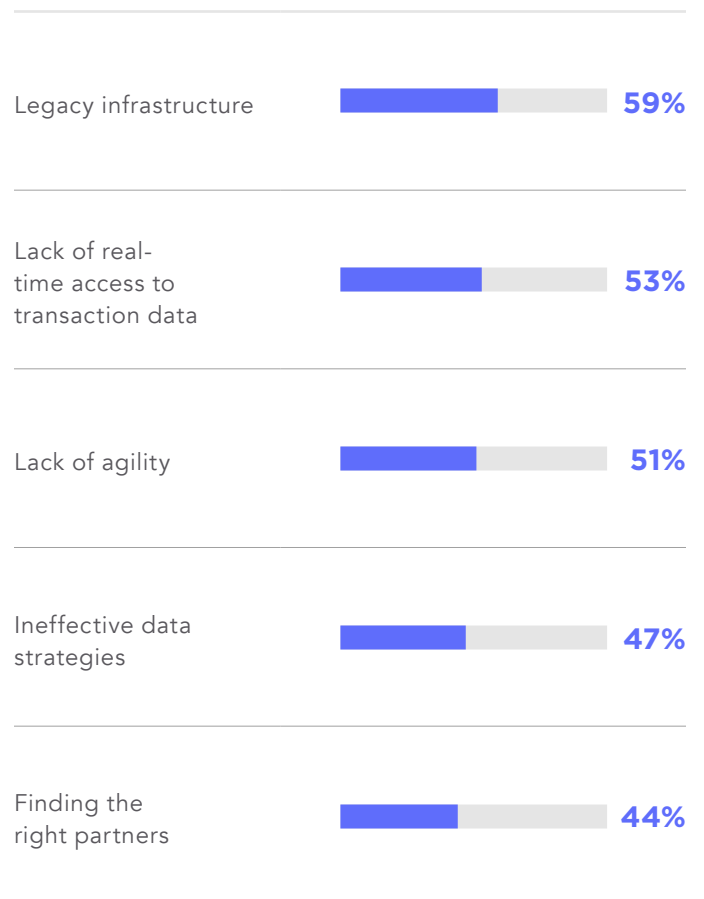
"Banks are collecting data on a daily basis, whether it's onboarding new customers or servicing existing customers," Ukkan says. "But how do you derive insights from all of this data? Data is useless without insights."

The survey confirms that ineffective data strategies are hampering efforts for banking leaders to pursue opportunities and address competitive threats (47%). Not having real-time access to transaction data is a particularly vexing issue for most respondents (53%).

"The legacy infrastructure … cannot support real-time use cases," Ukkan says. "Banks are unable to link their customer accounts across all of the channels, so it's hard to get a 360-degree view of a customer."

FIGURE 1.

What's holding banking leaders back?

Legacy infrastructure	**59%**
Lack of real-time access to transaction data	**53%**
Lack of agility	**51%**
Ineffective data strategies	**47%**
Finding the right partners	**44%**

*Percentages represent the portion of leaders who selected each challenge. The table shows the top five challenges selected by respondents.

"

Modern core banking systems built with streaming APIs offer banks the ability to process data in real time, enabling them to take advantage of AI and data analytics technologies and effectively respond to both customer and regulatory demands."

BRAD STEELE
GENERAL MANAGER, AMERICAS AND MANAGING DIRECTOR, GLOBAL PARTNERSHIPS, THOUGHT MACHINE

Exceptional Customer Experiences Are Out Of Reach

Consumers' increasing expectations are driven by brands leveraging cutting-edge technology to deliver same-day delivery, real-time status updates, self-service web portals and engaging, intuitive mobile apps.

Many banks, however—burdened with outdated, clunky IT platforms—find it difficult to meet digital consumers' expectations.

"Fintechs and neobanks have been successful because they haven't had the legacy overhead that other banks do," Ukkan says. "We're competing with them, and we must provide our customers the same kind of agility and nimbleness that fintechs offer."

What, specifically, is preventing banks from delivering a superior customer experience? For 30% of banking leaders, an inability to link customer accounts across all channels could be a barrier. Just 57% are integrating their customer experience across channels in real time. This lack of agility is preventing at least half of banking leaders (51%) from pursuing new opportunities and eliminating competitive threats.

"With a modern core, banks gain full ownership of their product roadmap by separating the financial product layer from the platform layer," says O'Connell. "As a result, banks can innovate with speed, gaining tremendous flexibility and agility as they respond to fast-evolving customer demands."

> "
> We're all used to real time in every other industry. Banks have to adapt to be where the customer is."
>
> **NINISH UKKAN**
> CHIEF TECHNOLOGY OFFICER, ARVEST BANK

The Future Of Banking Is In The Cloud

Now the good news: Most leaders are actively modernizing their banking systems.

Specifically, 75% have already begun to move at least some of their core functions to cloud-based networks and services.

For Ukkan, the advantages of migrating to the cloud are many. "We believe the shift to the cloud, if done right, is an enabler," he says. "It helps us get to market quickly with new financial products and drive innovation, and we can scale as the business and the volume grows."

Cloud-based systems are more agile. Modern core banking platforms, such as Thought Machine's Vault Core, are fully cloud-native. Because they're API-based and built on a microservices architecture, they put full control of product roadmaps into the client's hands. Customer and transaction data are available across all channels in real time.

"Transformation projects can be long," says Brad Steele, managing director of global partnerships at Thought Machine. "However, there are many banks that have done the core modernization with the multicore strategy that enables them to demonstrate short-term results with the end goal of complete migration."

Ukkan agrees that for well-established banks and financial institutions, modernizing core banking systems is a challenging endeavor—with rewards that more than justify the investment.

"Transformation is a journey that doesn't happen overnight," he says. But "we believe that modernizing will enable us to delight our customers."

JEFF KOYEN
Report Author

75%
of banking leaders are already migrating some of their core functions to cloud-based networks and services.

Methodology

Forbes Insights surveyed 150 U.S.-based banking leaders.

Forty-six percent of respondents were from global or national banks, 30% from regional or community banks, 13% from credit unions and 11% from challenger, neo or de novo banks. Respondent titles included CTO (21%), CIO (19%), COO (13%), head of core banking tech/IT (13%), digital transformation lead or chief digital officer (13%), strategy lead (13%) and LOB head (7%). All respondents came from organizations with at least $1 billion in assets under management, and one-third of respondents came from organizations with assets under management of over $100 billion.

Read the full report here.

Thought Machine has developed the foundations of modern banking with its cloud-native core banking and payments technology. Its cloud-native core banking platform, Vault Core, is trusted by leading banks and financial institutions worldwide, including Intesa Sanpaolo, ING Bank Śląski, Lloyds Banking Group, Standard Chartered, SEB, Lunar, Atom bank, Curve and more.

Vault Payments is a cloud-native payments processing platform comprising a Universal Payments Engine to support all card and account-to-account payment types.

Vault Core and Vault Payments have been written from scratch as an entirely cloud-native system and give banks full control to build any product required to flourish in a rapidly changing world.

Thought Machine is currently a team of 600 people spread across offices in London, New York, Singapore and Sydney and has raised more than $500 million in funding.

For more information, visit thoughtmachine.net.