Your Core Should Be the Growth Engine for Your Bank

The idea of a **"Core as a Service"** for banks and financial institutions requires one to ask what "core processing" really means - and this is a new way of thinking.

The core banking world is similar to a 1980s stereo with a built-in turntable, 8-track and hardwired speakers. When people asked what "listening to music" meant in the late 90s, it led to disruption and cannibalization of entire industries.   So, we have to ask ourselves today, "what is core processing" because under the covers, many core banking systems are actually based on 8-track era designs.

Delivering something "as a service" (as in Core as a Service), implies the disaggregation of that service across technologies and even across players and industries. The value to customers is that disaggregation permits rapid integration of best of breed capabilities, versus being locked into a mediocre silo. It is the difference between keeping contacts in iCloud versus needing your phone company to manually transfer your contacts each time you changed phones. And it is the difference between having to physically buy a twelve-song album and being able to instantaneously listen to any song (or watch any video), ever created for a fraction of the cost.

Core vendors want us to think that "core processing" is "just 1/5 of the entire stack". This is particularly true of core vendors who sell the other 'fifths' of the stack, and disaggregation of their stack leads to certain cannibalization.

Suggesting that "core processing" is just 1/5 of a bank's stack minimizes the value, and certainly the potential value of how that 1/5 impacts the other 4/5. There are five vital organs in the human body and the heart is therefore 1/5. Like "core processing", the heart cannot be diminished to being "just 1/5 of the body's vital functions". For anyone who has run a marathon, you know that a strong heart is the difference between finishing, failing, or worse. Of course, one does not value a strong heart if all one does is sit on the couch.

Core as a Service cannibalizes and disrupts legacy vendors who minimize the value of "core processing"

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Your core should drive excessive value through the entire stack

Core as a Service is an entirely different platform. Simply upgrading is like getting a new Blackberry

But what bank wants to be known for just sitting on the couch?

In 1906 the Italian economist Vilfredo Pareto published what led to the Pareto principle which generally states that 80% of the effects of something comes from 20% of its causes. This principle has been the driving force which separates leaders who accelerate, and those who lay comfortably on the couch.

Attributing "only" 20% of a bank's IT and customer experience to "core processing" implies the bank will not receive Pareto's value out of its core processing. A modern core should become the "growth engine" of a bank and not being able to drive excessive value from a core, is the very reason a bank should modernize its core. Of course, most core vendors want to attribute maximum value to the surrounding ancillary function, because they receive 80% of their revenues from these solutions. The core banking industry is a bit like the music industry was pre-Apple, not wanting to cannibalize the 80% of its revenues it gets from the non-core processing stack.

By upgrading to a core processing system with a truly modern native cloud design, delivered commercially and technically "as a service", the entire IT stack becomes more valuable. Of course, the modern core system will provide an order of magnitude cost savings relative to its 20%, but there will also be material cost savings for the other 80% of the stack. More importantly, the other 4/5s of the stack will benefit from easier/faster/cheaper integration. And finally, the technical and commercial extensibility of modern core processing will allow banks and their best of breed partners to exploit new capabilities not available to competitors with outdated cores.

For banks looking to drive excessive value from the 20% of their banking stack represented by their core, the objective must be more than just an "upgrade". An upgrade is like going from a flip phone to the Blackberry. The Blackberry works fine until you see the ever-increasing expansive capabilities of the iPhone. The iPhone is an entirely different platform in much the same way a modern Core as a Service offers banks more than "an upgrade of the old version - to a modern version".

One way to filter out the risk of being left with a shiny new Blackberry is to focus the vendor evaluation on the Three Pillars of Core Conversions and Upgrades. Since many vendors say the same glowy things, it is best to run a live "taste test" with a side-by side proof of concept or pilot program. The cost and time required to even setup a sandbox or pilot is itself a meaningful data point. This approach allows banks to drill below the veneer, deep into a vendor's platform, and evaluate the real criteria that will directly impact future readiness, efficiencies.
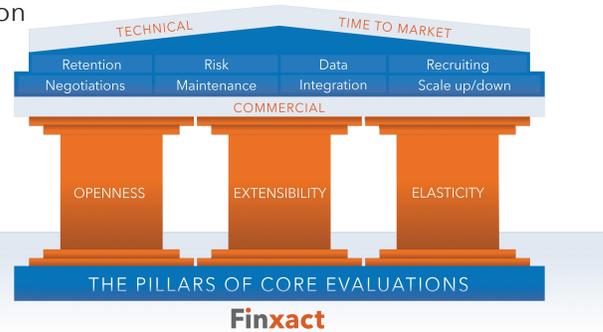
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The Pillars of Evaluating Core Upgrades and Conversions

The core should be the growth engine for your bank and therefore needs to be evaluated beyond the narrow lens of legacy criteria

The framework for this evaluation starts with the three pillars:

- **Openness,**
- **Extensibility**
- **Elasticity**
  (of function & scale)

Each of these three pillars should be evaluated from Three Dimensions: Technical, Commercial, and Time to Market.

The first angle is a Technical perspective, which includes time/cost/risk as it relates to data, integration, risk management, training, recruiting/retention, and maintenance.

The second angle is evaluating these pillars from a Commercial perspective meaning not just each pillar's Economic impact to the bank, but also the vendor's Commercial terms around each. For example; the economic impact includes the time to market and resource cost of needing to negotiate changes, data access, scaling up or down, and even hiring/retaining staff. The economic impact also needs to be evaluated as it relates to the processing efficiencies and integration costs of not just the core but the rest of the stack.

When evaluating the commercial terms, banks should look at a vendor's charges for more than just core processing and upgrades, but also the costs (and willingness) for complete data access and system modifications.

And finally, banks should assess each pillar with a Time to Market analysis, which includes the time, and cost to negotiate with vendors and a risk assessment of a vendor's ability and willingness to support a bank's need to add new functionality. While subjective, banks need to contemplate the economic and strategic impact to the bank as it relates to their long-term competitiveness when they either miss the competitive window or simply cannot meet their market's needs.

Of course, the Pillar evaluation does not supplant a bank's traditional diligence which includes criteria such as; risk, compliance, vision, reputation, etc.

Converting to a new platform, and new vendor, is daunting. But so is trying to make 80% of an IT stack stay current when just 20% of the stack is dragging everything else down. Your core should drive excessive value. A modern core is like a strong heart, it should become the growth engine of your bank.

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