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From legacy to legendary

The great core migration era has begun

Converge™
by Deloitte

On the horizon of great change

Several years ago, we started to see bold moves by banks that had begun to transform and modernize their technology landscape. Some institutions were able to create new brands and identities and launch full digital banking on the edge; others achieved technically challenging and complex advances in their architectures. Now, those same banks are reaping even more benefits for their bold thinking: They have a deeper understanding of how to operate in a digital-first atmosphere and how to leverage next-generation digital cores for better efficiencies, innovative products, and market share. They're meeting customers' needs and desires and maintaining traction in a market that's now more complex because of digital-first interrupters. They've advanced their way through a few horizons of change and are now looking toward the future with more confidence. The banks that acted with curiosity and confidence then may be more likely now to achieve more and win more customers.

Now, many banks are increasingly realizing that it's unlikely they can deliver promises for tomorrow with last decade's technology—nor can they compete with banks that got moving five years ago and are continuing to innovate and evolve their cores to meet business goals. These advancements are no longer scientific experimentations that only the biggest, best-capitalized banks can achieve. It's happening across the entire marketplace. Banks large, medium, and small are moving toward deeper and fuller migrations now, while banks that are stuck on their legacy cores may continue to be left behind—and wondering how they'll innovate to compete.

Because of these previous advancements in the marketplace, a transformed legacy core for any bank now is realistic, achievable, and necessary. One bank CIO we spoke to put it bluntly: "What do we need to have in place to still be a bank in 20 years?" Banks that don't work toward horizons of change now may not be able to keep their customers in the near term or decades from now. Future durability depends on innovation today—and the marketplace activity we've seen indicates that banks are moving toward that future durability at a greater clip, thanks to evolved technologies and mindsets. The question is no longer should we, but how do we. The great core migration era is upon us.

With that in mind, we've laid out the horizons of change we've seen banks successfully experience—along with actionable steps any institution, no matter its size or goals, can take to get started.

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> **- Bank CIO**

The migration landscape now

Actions in the marketplace and evolving consumer attitudes—and the inevitable advances in technology—are combining forces to increase the urgency for banks to migrate their core systems. Here's how:

Platforms and their surrounds have matured: Truly innovative next-gen platforms have matured beyond the point of introducing new products. They're now muscular offerings used globally that evolved into commercial and transacting capabilities. These platforms are stable, flexible, reliable investments—and organizations are seeing the return on those investments via efficiency, extensibility, improved product life cycles, and more.

Platforms powered by eMACH architectures and other advances: Other technologies such as cloud, microservices, and APIs have matured as well, making core modernization efforts more impactful. Organizations have seen the benefits and progress as those technologies have been adopted, which means that they're better able to take advantage of core modernization technologies that we offer.

Generative artificial intelligence (GenAI) is here: GenAI's virtually unparalleled ability to look at the entire legacy tech estate and uncover insights about what's in that estate can translate into a roadmap for confident, constructive transformation. So many of these programs were written 40 years ago, and most IT functions don't know what's in them, or how to fix or change them. GenAI's detective abilities can remove that barrier. GenAI and its capabilities, such as Zero Ops, are gaining traction in the banking technologies landscape and can accelerate innovation. For example, GenAI can enable code mining from mainframe, enabling transformation to a modern stack and speeding up a transformation.

Banks are facing market pressure: Banks are facing market pressure to become more resilient, more competitive, and more flexible. The business is pushing them to work faster, lower efficiency rates, and serve customers better, and their legacy core systems aren't set up to handle that demand. Midmarket banks are facing pressure from challenger and digital banks, but also from the largest banks that have now fully canvassed the US marketplace. If they don't build their operational speed, resiliency, and competitive edge, then they could be the next one to fail.

Customer expectations are increasing: No matter what a customer is trying to do, they expect a seamless digital experience. A new expectation model has taken hold among consumers that informs how they expect—and need—to interact with their bank. In turn, banks may consider positioning themselves with digital cores that could support any type or speed of innovation to meet customers' demands. Banks have many reasons why they believe they might not be able to achieve this sort of innovation, from the regulatory atmosphere to disclosures. But bank customers may grow fatigued by these reasons, seeing them as irrelevant hurdles that were successfully navigated by other industries and institutions.
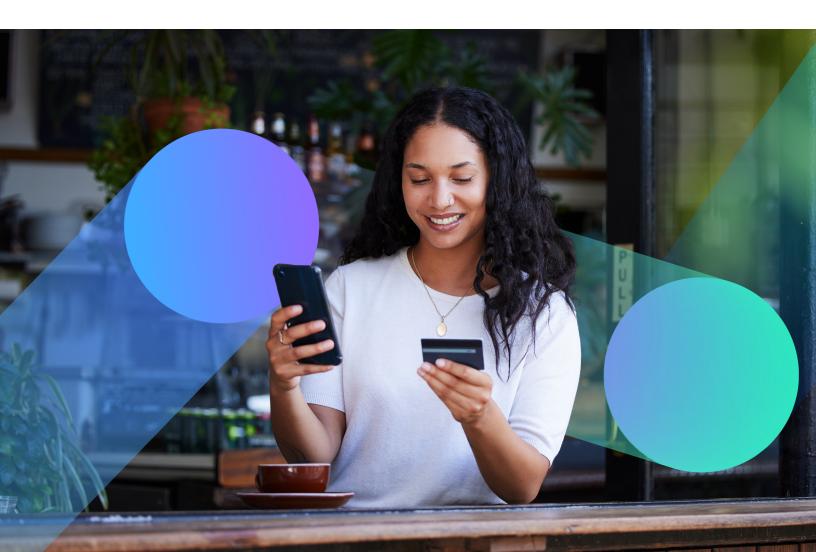
Business teams are leading higher expectations: IT-led migrations are still the norm, but the business, facing stakeholder and customer demands, is more often telling IT what it needs to be successful, instead of the other way around. Its expectations are higher—and that is leading to higher expectations from IT teams.

The horizons we see and the adoption curve

First horizon, the innovators: The institutions that got started five years ago are now able to innovate more deeply and move faster. Their cores are fully migrated and their legacy systems are retired. They were more technically ambitious and innovatively creative then and are now able to achieve edge-based initiatives and move fast to meet customer demands. Innovators' bold moves have made them leaders of the banking core revolution.

Second horizon, the late-early adopters: These institutions are moving quickly, extracting and migrating significant portions of their legacy core banking platforms onto the new core. Certain books of their consumer portfolio may be fully enabled, while other aspects may still live on legacy systems. Their goal is to manage the complexity while still moving quickly.

Third horizon, the late adopters or laggards: These institutions are still working through how to get going and have perhaps pivoted to understanding the need instead of resisting the change. That said, these banks may be in jeopardy of irrelevancy and may not be able to compete with new product propositions. They may even be acquired by larger institutions. Meanwhile, the innovators and even second horizon adopters have improved efficiency ratios and compete at a different level in the marketplace, and are exploring a wider range of distribution channels.

How to
get started

The banking core revolution is accessible for any institution that wants to modernize and to not only keep pace with the competition, but also find new competitive advantage. Here are the steps that should be considered for any bank that wants to join the revolution toward a new horizon:

First, do your due diligence.
Before beginning any migration, an organization should think about these considerations to help narrow down what they really need and what they want as well as what they can achieve. By tackling these concepts, an institution can build a business case for a migration to gain consensus and buy-in from leaders, including the CFO. Take the time now to take stock of:

- Your guiding principles for design, implementation, and launch.

- Your financial and nonfinancial goals.

- Your definition of success—and how your institution will measure it.

- Where your organization would like to play (This could be by geography, industry, product, or all of the above).

- Your competitive advantage.

- The functional, technical, and operational challenges of your current state.

Define your target state and your vision, and build a business case for it.
Moving into a modern architecture is a team effort that can affect the entire business, and a successful strategy should take that into account. When migrations fail, it's usually because of a lack of alignment and support from stakeholders. Taking these steps now can mitigate that. By defining your vision—the goals and aspirations for your target state and the services you want to provide your customers—you can gain clarity around a plan for change and the business case for it. What is the problem your organization needs to solve, and can you get sufficient support from stakeholders to solve it? Use those learnings to define your target state.

Then, design your implementation—and get ready to get your hands dirty.
With each choice comes a new consideration: How will this tactic stand up to your products, technologies, and operations? No matter which path an institution chooses, it should try an implementation in its own environment to see what works best for it. While each institution's vision will be different, here's how we've seen our clients choose to begin their journeys. The goal: start with innovation.

- **Proof of concept to proof of value:** A smaller technical implication, a proof of concept, to support a new project or product as a way of testing the waters. In doing so, institutions can build a proof of concept that can then be used as a proof of value for a great migration. Or try using different technologies in an environment to test and narrow down what you want and need, and what you don't.

- **Hybrid designs:** Integrating new technologies with current landscapes to address a particular business need or use case, or to enable additional features and capabilities.

Finally, get it done—but really, it's just the beginning.
The implementation of an institution's migration isn't a sprint—it's a marathon. After you've defined your target state, the real journey begins. A full migration might include:

- Establishing new vendor relationships and processes.

- Implementing new technologies to support target architecture.

- Building out talent with necessary skill sets.

- Establishing systems and processes for all areas of the business impacted by the new core.

The revolution is here. Are you in?

At Deloitte, we understand how to demonstrate what's possible for an institution: how to navigate a complicated journey with the right choices for a bank and its model; how to be authentic within those choices and balance the wins with the trade-offs; and how to create new value for its customers. Our practical client experience and investments in our own teams allow us to tailor a bank's technical priorities to its own particular needs and business goals—and the future it wants to see. Through our deep insights and knowledge developed through experience and research, we have a deep understanding of new products and digital banking, and what works and doesn't work. The banking core revolution has begun, and it's up to each bank to decide how it wants to innovate and build resiliency for the future. We have a few ideas.

Let's talk.

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