

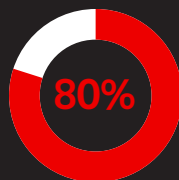
How Financial Services are Accelerating Core Modernization

Driven by costs, integration, and executive support, with cloud playing a key role

FOR ORGANIZATIONS in a variety of industries, digital transformation means modernizing core systems. It's certainly true for financial services firms.

A large majority of companies in the industry (80%) have begun core modernization efforts, according to an online survey of 100 IT and business executives at US-based financial services firms conducted in September 2021 by IDG.

FIGURE 1. US Financial Services Firms Undergoing Core Modernization Efforts



Source: IDG

The number-one reason firms are modernizing core systems is that the cost of ongoing ownership is getting too high. Firms are prioritizing which core systems should be extended, renewed with modern independent software vendor solutions, or reinvented entirely to address emerging and ongoing digital transformation.

While it's not surprising that many financial services firms are modernizing core systems, the timeframe in which they are accomplishing this is noteworthy. Organizations surveyed said they will modernize incrementally, with each incremental change to a given core system expected to take 18 months on average.

Drivers for modernization

Skyrocketing expense are one reason for this rapid time frame relative to core system efforts of the past. When asked to list the top five drivers for modernizing their core systems, survey respondents put the rising cost of ownership at number one.

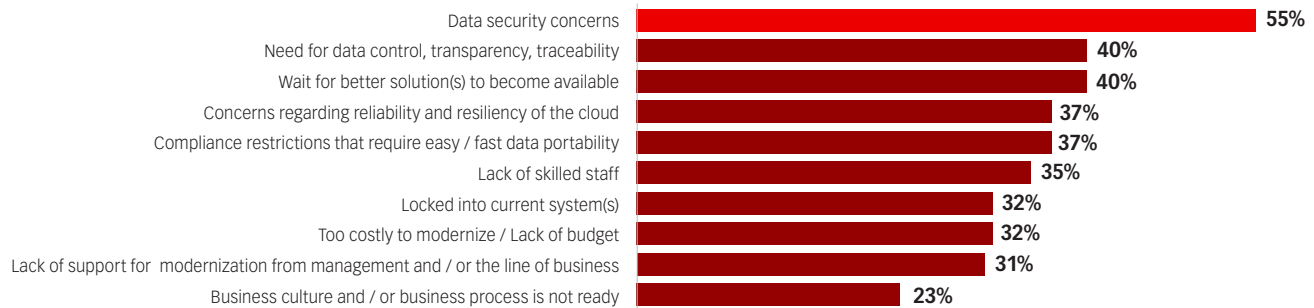
Other drivers for modernization include the fact that systems need to be integrated more quickly and securely with digital native financial services, and the emergence of business process changes that impact the core system that supports those business processes. For example, changes to tax requirements, evolving governance mandates, or even the need to support remote workers can impact business processes and trigger a modernization initiative.

Also scoring high: the need to integrate with third-party partners such as retailer services; an executive in the specific business line is championing the initiative; and the existing core system is not responsive enough to meet business or customer needs.

More than half of the firms surveyed—54%—reported that executive support is one of the key drivers for modernization.

IT executives including the CIO, CTO, or other top technology leaders are the most likely champions of core modernization efforts at financial services firms, cited by 69% of the respondents. They are followed by executive management (44%) and chief data officers (44%).

FIGURE 2. Top 10 Obstacles Slowing or Preventing Modernization of Core Systems



Source: IDG

Challenges to modernizing

Firms are facing a number of challenges in their efforts to modernize core systems, and they will need to address these in order to ensure success.

When asked to identify which obstacles are slowing or preventing the modernization of core systems, over half of respondents (55%) cited concerns about data security. That's not surprising, given that cybersecurity threats are a constant worry in an industry that's a frequent target for attack (FIGURE 2).

Also cited was a need for data control, transparency, and traceability (40%), and "waiting for a better solution to become available" (40%). Other challenges include concerns regarding compliance restrictions that require easy and fast data portability (37%).

APIs and cloud-native approaches

As part of the effort to modernize systems, financial services firms are extending services via application programming interfaces (APIs), renewing services by gradually replacing them with modern solution versions, or reinventing services by gradually building cloud-native, microservices-based versions.

Extension (88%) and renewal (76%) are the most common modernization approaches. More than half of the firms (57%) are reinventing or planning to reinvent core systems altogether. It will be interesting to see how this trend changes over the next few years, and how financial services firms will adjust their distribution across the three approaches.

Many firms see the extension of existing systems through APIs as an initial step in their modernization efforts, as some of these core engines are viewed as mission-critical.

Three core systems—credit processing, mortgage, and underwriting—are the most likely services to be initially extended via APIs. These services will also be the last to be modernized by renewal, according to the survey. But they are more likely to be reinvented in their next increment of modernization. Payment systems are most often targeted for reinvention, according to the research.

Conclusion—Time to modernize is now

The research findings clearly indicate that modernization of core systems is a priority for financial services firms. That means in order to remain competitive in the sector, all firms need to consider a strategy for upgrading systems.

Red Hat helps you run your business better and can help strengthen core banking modernization efforts with its open-source cloud platform and tooling. This helps firms control their technology stack with secure technology that automates and extends digital capabilities so that they have greater reach across each stage of the financial services modernization journey.

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