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Cloud Core Acceleration: Why More Banks Are Prioritizing Core Banking Modernization

Digital and cloud-native cores are on the rise. Here's why.
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Digital has become essential

We've witnessed "digital transformation" go from being perceived as merely a catchy buzzword to what it is today: an absolute imperative. With customers now demanding seamless digital experiences, and upstart fintechs disrupting the old ways of thinking about banking, banks are now fully aware that it is essential to prioritize the modernization of their core banking systems. At the heart of this modernization movement are cloud-native technologies, which are revolutionizing the landscape of core banking products.

The old way is no longer the only way

Until recently, it was the norm for a bank's core banking system to be located on-premises. However, these legacy systems are notoriously complicated to maintain, tricky to scale, and clunky when it comes to adapting to customers' evolving needs. In fact, a recent survey found that more than 60% of businesses believe their banks don't truly understand their needs — and analysts believe the same holds true for consumers.[1] Now, cloud-native providers, or digital core banking providers as they are popularly known, are offering a new way of thinking about an old problem — by giving banks the ability to use cloud infrastructure as the backbone for their core banking systems.

The differences between traditional cores and digital cores are both stark and plentiful. For example, gone are the days of needing to use outdated programming languages, such as COBOL, to make system changes — digital cores use modern coding languages and processes, and open-source technologies, so banks can make changes easier and create new products faster. In fact, authorized users can make changes to digital cores without even knowing how to code—a capability available through specific configuration and requiring new process disciplines. Also, in traditional systems, data is often stored on large monolithic infrastructure, requiring replication to communicate across systems; next-gen systems provide single sources of truth, in distributed database systems, enabling a more seamless and less risky integration. And while the old-school approach relies on processing transactions in large batches that can lead to system slowdowns, the new-school approach enables processing in real-time, scaling horizontally across a network of distributed infrastructure.
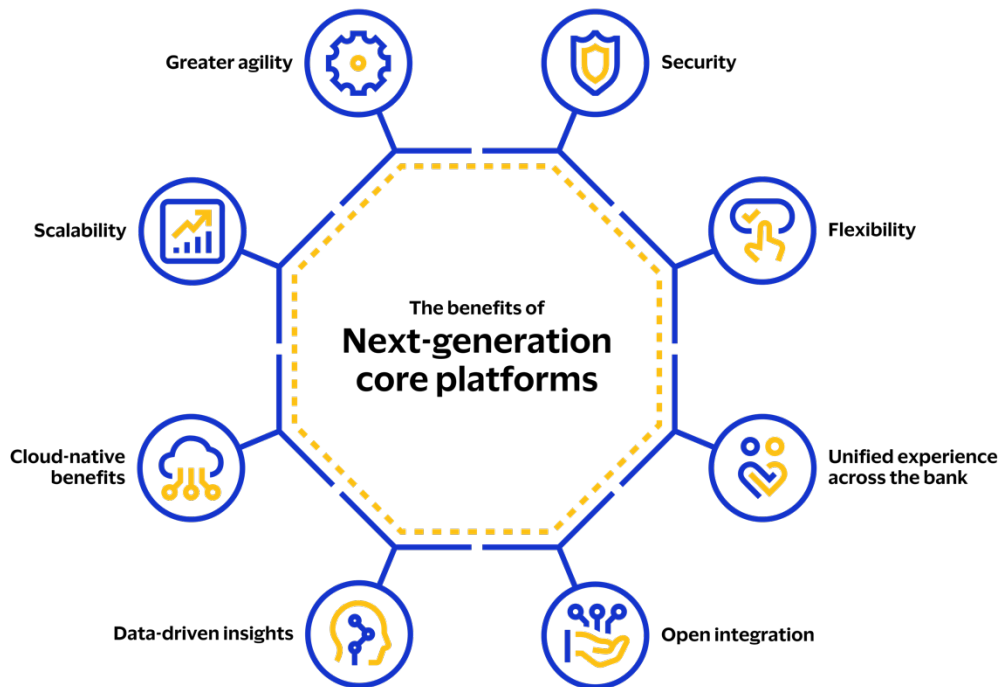
Cloud-native providers come in many shapes and sizes

Rather than being a "one-size-fits-all" type of solution, the cloud-native provider that a bank chooses for their core banking products will depend entirely on their specific needs. Public cloud providers — which include highly recognizable names like Amazon Web Services, Microsoft Azure, and Google Cloud Platform, — provide an array of tools that can be utilized to construct and deploy core banking applications. Alternatively, there are cloud-native banking platform providers, which have been built from the ground up to cater to the banking industry. There are also banking as a service (BaaS) providers who deliver complete banking solutions that can be set up in the cloud. While BaaS providers will usually include core banking functionality as one of their key solutions, it's common for other services — such as lending and payments — to be included as well.

Searching for reasons to modernize? The cloud is full of them

Here are just a few of the most compelling reasons that more and more banks are accelerating their journey to the cloud:

- **Pay only for what you use.** Wouldn't it be nice to only pay for the resources you use? That's the promise of a cloud-native banking system. There's no need to spend a lot of money up front, which can translate to big savings overall — potentially between 30% and 40%.[2] It's important to note that this holds true for the majority of financial institutions but not for all. An example being large, tier 1 banks that can gain greater cost efficiencies through acquiring private data centers.

- **The need for speed.** With increasing demand for effective real-time payments schemes, cloud-native banking systems offer the advantage of processing payments at higher speeds.
- **Works well with others.** Cloud-native banking systems are designed to mesh more easily with the fintech ecosystem thanks to pre-built integrations with third-party services — so banks can more fluidly integrate new solutions into their core banking systems.
- **Stand out from the crowd.** With advanced tools like AI and machine learning, banks that go cloud-native can push the envelope and create innovative offerings that they otherwise wouldn't have been able to consider.
- **Flexible and scalable is desirable.** As discussed earlier, the legacy systems that banks use are challenging to maintain and stubborn when it comes to integrating with third-party services. Cloud-native providers are bulldozing those obstacles, clearing the way for the flexibility and scalability that banks need.
- **Customers, customers, customers.** Cloud-native technologies can provide the convenience and accessibility that customers crave — whether they're getting swifter access to their funds, or having bespoke experiences as a result of banks having the powerful tools they need in order to analyze customer data.

The benefits of
Next-generation core platforms

- Greater agility
- Security
- Flexibility
- Unified experience across the bank
- Open integration
- Data-driven insights
- Cloud-native benefits
- Scalability

The five keys to core modernization success

Transforming your core has its challenges — but these tips can help:

- **Chart the approach that best suits you.** Whether you opt for a rip-and-replace or a progressive transformation, make sure your approach aligns with your revenue and customer impact goals.
- **Minimize disruption and maximize customer impact.** Changing your core system is mission-critical, and for banks with large customer bases, it can be like changing planes mid-air. To pull it off successfully, we recommend mapping your banking functionality to the available digital core functionality and choosing the best fit.
- **Build for the future.** Your move to a digital core should be seen as a strategic enabler of growth, not just another IT project. It is crucial to involve cross-functional teams in the building process, as this technology is going to be a fundamental differentiator for your financial institution.

- **An open ecosystem is a healthier ecosystem.** Your digital core is an opportunity to build an open ecosystem where you can quickly leverage innovation, select and deploy solutions, and grow your digital core. Look at your vendor as a partner in building your ecosystem.
- **Redesign around your customers.** Any core banking change, whether it's traditional or digital, is an opportunity to design processes around the customer's needs rather than a product-out approach. Think of using your digital core as a generational opportunity to accomplish this feat.

We're with you on your journey to the cloud

It has become increasingly obvious that embracing cloud-native technologies is a must for banks who want to remain competitive and adaptable. We are committed to offering banks the tools and services they need to unlock the full potential of the cloud — and we're excited to play a vital role in the ecosystem as cloud-based technologies continue to evolve.

The views expressed in this article are my own and do not necessarily reflect the views of Visa.

[1] Aite, "Bank Challenges Require Next-Generation Core Platforms," May 2021.
[2] Aite, "Bank Challenges Require Next-Generation Core Platforms," May 2021.