



How banks can
beat legacy inertia
with 'Emerging Core'

A new banking ecosystem is evolving, thanks to the fintech boom. Quantum leaps in technology like robotics, artificial intelligence, cognitive technology, machine learning, natural language processing, Big Data driven real time analytical capabilities, mainstreaming of API and microservices, Cloud, cryptocurrencies, Blockchain, etc., are bridging the gap between an ambitious idea and a realistic and game changing value proposition. Financial institutions are adopting various strategies including mimicking (creating an internal fintech organization), collaboration, and even acquisitions to stay relevant.

Customer behavior and demand for ease and cost-effective ways to consume banking are also forcing banking and finance services players to re-jig their offerings. Focus on customer journey, high degree of mobility – anytime/anywhere access, consistent cross channel experience and enabling ‘Do-it-Yourself’ are high on the radar for most institutions. Regulatory bodies on their part are also pushing the needle with new directives and regulations to protect customers, and ensure safety and security amidst the market commotion.

Evolving market dynamics open up a plethora of new ways to offer and consume financial services in the most convenient, secure and cost-effective manner. Business models in banking are being redesigned to respond to the disruptions in the industry.

Digitally robust open banking

Almost all players – traditional banks, hybrid digital banks and digital-only financial institutions are attempting to offer experience-based value propositions to their customers. A new ecosystem based on specialization is emerging. Banking is being broken down into modular functions offered by entities specializing in that function. Need for interoperability between different entities has become paramount in this redefined ecosystem. Moving towards digitally robust open banking is

a key approach by the industry towards interoperability and collaborative value delivery.

While such business model disruptions are widely observed across the sector – their adoption, especially by large incumbents, is hindered by humongous baggage across business and technology. Legacy core, once the strong engines that offered differentiations like reliability and scalability, have now become burdens for large banks and inhibit them from delivering on the digital age demands.

Two speed banking powered by Emerging Core

‘Two-Speed Banking’ – enabled by a new ‘Emerging Core’ – holds the key for traditional banks to overcome their legacy inertia. Two-speed banking or bi-modal banking enables banks to operate with digital efficiency and speed while warding off major impact to their legacy cores.

A lightweight, robust, responsive and agile middle office in the form of a new and emerging core effectively bridges ‘high speed’ digital and open banking requirements with ‘slow speed’ legacy core system capabilities – by leveraging next generation messaging and storage capabilities including API, microservices, Cloud, etc. (See Figure 1)

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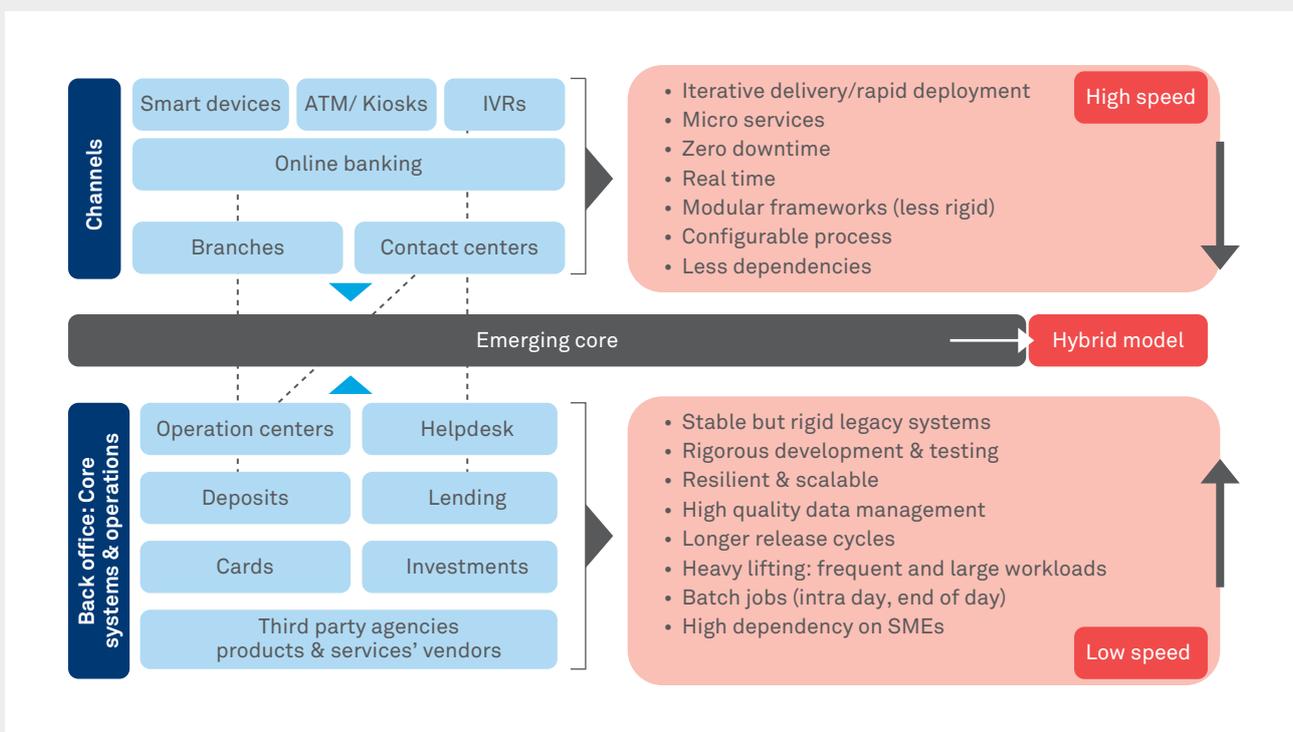


Figure 1: Two-speed banking

Emerging core sets the stage for ‘modular banking’ by enabling breaking up of core banking functions onto a middle office layer. API-driven ‘as-a-Service’ offerings in the middle office, as individual components or as clusters will be available for the larger ecosystem to consume under B2B or B2C scenarios. Suitable third party players will consume and morph these services to create new value propositions for customers. Some of the middle office components Emerging

Core offers are Content as-a-Service, KYC as-a-Service, Spend Analytics as-a-Service, Rewards Management as-a-Service, Reconciliation as-a-Service, Insights as-a-Service, and Collections as-a-Service. The target architecture model of a bank adopting the new Emerging Core approach will move towards a lighter core. Agile middle office will host orchestration, data and intelligence to offer robust digital services.

The result of hollowing the core approach leads to a reimagined core that records just the monetary and non-monetary transactions and nothing more. Functionalities that a typical legacy core carries, for example, customer information, product & pricing information, reporting content, etc., will be removed and made available as part of the 'new middle office'. The new ecosystem consists of bank's

own applications, third party applications and other white labeled products and services. They interact with the middle office by pressing the orchestration layer of APIs, microservices and broker services. Service requests that are broken down are catered to by relevant service components that are part of the middle office, resulting in faster response and agility (See Figure 2).

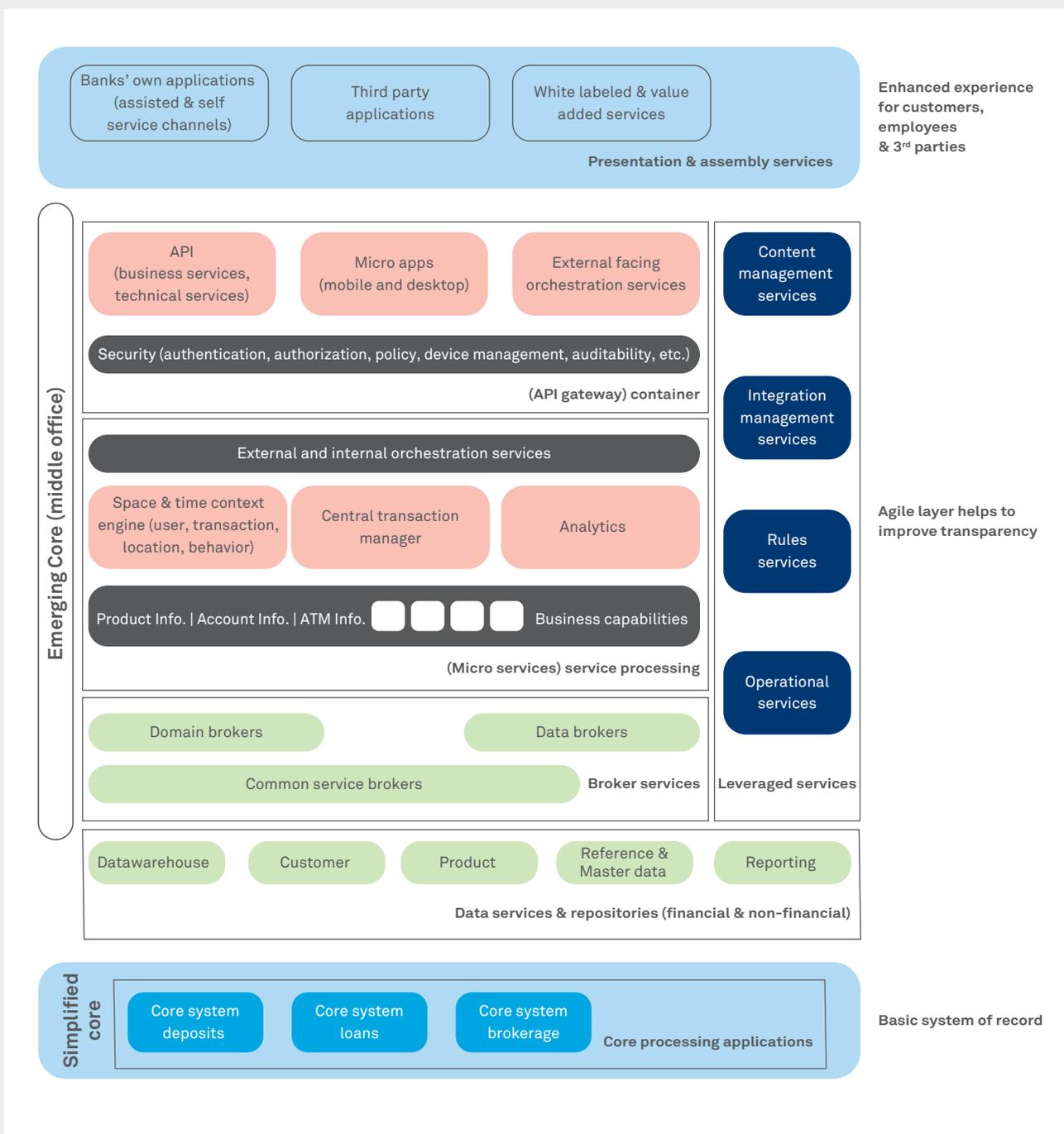


Figure 2: Indicative target architecture of Emerging Core

Traditional banks have a great opportunity to take bold steps to re-architect their current back office system landscape. There is a need for business and technology architects along with core banking SMEs to collaborate and develop the future proof architecture and components for the agile middle office layer. A detailed due diligence is recommended to study the existing IT and business landscape prior to deriving a suitable middle office strategy.

The new Emerging Core addresses the high-speed digital needs not just by breaking up the bank at a modular level, but also by being digitally conducive to suitable next gen delivery options. Capability to deliver on Emerging Core value proposition is augmented by a host of accelerators like robotics (RPA, CPA, AI), process re-engineering, BPM capabilities, etc. Banks weighed down by legacy inertia need to adopt Emerging Core as a path to their digital future.

About the author

Aravamudan Rajagopalan (Ara)
Practice Partner, Domain Consulting,
Banking & Financial Services, Wipro

Ara is the Practice Partner for 'Emerging Core' and 'Credit Services' practices at Wipro. In a career spanning over 19 years, he has been passionately involved in banking and financial services operations

and technology across multiple consumer banking domains like mortgages, cards, payments, and retail lending for over 14 years.



Wipro Limited

Doddakannelli, Sarjapur Road,
Bangalore-560 035,
India

Tel: +91 (80) 2844 0011

Fax: +91 (80) 2844 0256

wipro.com

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please write to us at
info@wipro.com

