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Simplifying your core migration to help achieve a successful digital transformation

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Future-looking banks have embarked on or are planning to transition to a cloud-native core. Deciding which cloud provider to move to, then defining and launching the digital greenfield bank or new product can represent important first steps. However, after these, another key question for banks to consider is how to move or migrate their existing products and customers over to the new core. This transition requires careful thought and analysis, but that is not to say it needs to be a barrier.

Increasing numbers of banks have achieved 'transition state one', where they begin to utilise a new digital core to support discrete product development. In many cases, banks have gone to the market, selected their preferred core, built a loosely coupled microservices-focused architecture and gone live. No small feat, and a pattern that has been repeated over the last 10 years globally.

With the new digital bank or product complete, the wider transformation challenge — including multiple core and non-core migrations — comes into focus.

All banks are working on or least thinking about a wider transformation of their existing estate. This is not a new conversation but one that many executives have previously deferred for their successor. Unfortunately, as has been well documented, that road has now run out. Subject matter experts that have been working with legacy systems are exiting the workforce, and necessary core hardware can be increasingly difficult to find in the market as well. These changes are all set against the context of a core transformation programme taking time, along with the associated costs.

This timeframe to complete any material transformation is a tough pill to swallow at board level; especially where leadership targets are bound to twelve months and executive life cycles are becoming shorter and shorter. There is a need for quicker wins.

A traditional approach to compressing a delivery timeline historically has been to simplify the migration. It's what the industry commonly refers to as a 'big bang' migration. Nowadays, however, migrating a whole bank in a single migration event is usually reserved solely for the smallest and simplest banks. We do not recommend larger banks follow this approach.

Understandably wary of the 'big bang' migration, executives wanting to transform look to other well-established migration approaches — parallel run and phased migration being the next two most common examples. While on the surface, the de-risking benefits these approaches deliver look tempting, the coexistence complexities and costs around routing of requests and consolidation of cross-core reporting can worry leadership.

Before exploring the available options further, it is important to define coexistence. In this context, we use the term coexistence to mean two or more core banking systems operating simultaneously for an extended period of time, with a proportion of the total product and/ or customer portfolio being split across both. Together, they provide the total view of the bank.

The world's largest banks have to face this coexistence complexity. Fortunately, these banks have strong internal capabilities to manage through various phases of coexistence and the associated parallel runs sometimes used to de-risk the transformation. This process is also necessary given they are too globally significant and therefore subject to strict regulatory oversight, and so cannot afford for anything to go wrong. Slow and steady, embracing coexistence over an extended period, is often the only way for these banks.

Outside the world's very largest banks though, the technical and migration capabilities are not readily available. Therefore a set of left or right decisions start to come into focus to simplify, but not remove, the challenges of coexistence. These decisions broadly support an aim to reduce programme costs too.

Each of these options offers an opportunity to simplify your programme given the limitations listed above, and may deliver benefits sooner than a traditional migration.

Onboarding and offboarding simple products

Wallets, current accounts and savings accounts — all relatively simple products, with the provision of transaction history perhaps posing the greatest challenge. Most banks by default think they need to migrate all or a large proportion of transaction history to service future ad-hoc needs. However, is that really necessary? Instead, can you incentivise the customer (for example, with higher interest) to close their existing account and open a new one on the target platform, all under the same bank brand?

The benefits of doing this include:

- A simpler migration for likely the largest volume product(s) in the a traditional bank
- Removes the need to handle 'in-flight' interest accrual and other mid-period scenarios over migration
- Faster completion of a large phase of your migration programme, therefore delivering earlier benefits (financial and non-financial).

Being realistic and minimising your migrating customer and product base

Product owners and their executives want to report the maximum possible number of customers that hold their product(s). However, it is important to look a little deeper to understand how customers are actually using your products, if at all.

You will often find there are a large number of non-active customers. Perhaps the customer account has had a zero balance in their savings account and has done so for the last six to nine months, or their credit limit has not been used in over twelve months.

Additionally, there may be a small proportion of customers in unique scenarios. For example, there could be a set of non-retail customers sitting in the retail credit book, or a number of customers with very low values in persistent delinquency that have simply been forgotten about. These could both be carefully managed and closed off.

Performing a strong analysis of your current customer and product set and making the necessary leadership decisions can deliver a number of migration benefits, including:

- Avoiding having to undertake a disproportionate amount of technical effort to handle ‘edge case’ or small volume migration scenarios
- Materially reducing your product or customer migration numbers, placing lower non-functional requirements on each component in the migration pipeline and wider estate
- Removing certain customer / product combinations and limiting the number of unique tranches that need migration if you phase your migration by customer (all customers with the same product portfolio in one tranche).

Run-off on source

Extended programme timelines, which can span several years, provide an opportunity to assess whether it is worth migrating a product based on the term length remaining. Banks do not need to migrate shorter life cycle products (for example, bridging loans). The product can be offered on the new core platform and simply run-off on the old.

Going further, a sweet spot can be determined against your longer running products (such as mortgages). Major drop off points where the numbers on the book materially reduce would allow for a much smaller migration to be initiated.

Harmonise and consolidate products

Banks that have existed for many years are likely to have many subtly different versions of the same product. Trying to decipher and exactly re-model the repayment hierarchy of fifty different types of mortgages can quickly amount to a complex piece of work, often keeping quantitative analysts busy for months. The key objective of this is to ensure no customer detriment during migration. Banks can achieve this without going through the laborious process by moving all customers on to a smaller set of mortgages prior to migration. Normally, banks look to consolidate customers on to the products that have the highest number of existing customers.

This comes with its own challenges. Changing terms and conditions of products will likely require customer engagement, and depending on the local market, formal customer opt-in. This certainly does not mean it cannot be done, and it can be comparatively simpler than replicating each flavour of the mortgage product across cores. It is worth noting that to undertake this type of activity you will usually need regulatory support, which we explore below.

Finally, and more broadly, this transformation programme is a major undertaking and it is important to not simply recreate what you have for the sake of it. If products are not proving popular or profitable, executive product strategy decisions can, and should, be made to move out of that market.

A word on regulators...

The options proposed above can have material customer impact and are not simple decisions to make. While we cannot speak for any particular regulator's appetite or approach, we recommend you engage your internal regulatory affairs team and potentially the regulator themselves.

Regulators want to ensure stability within banks, and increasingly this also means utilising the latest proven technologies. They know that banks running on outdated technology are not part of a future-proof strategy.

Banks opening a dialogue with their regulators about the complexities of the programme ahead of them can draw a sympathetic ear, potentially enabling options for more alternative approaches outlined above.

The options we have outlined have their own nuances and potential challenges, and will need executive approval. But the braver and more aligned you are at the executive level in the planning stage, the easier your migration can become. A data migration is rarely simply a technical exercise left to IT.

Summing up

None of the four options proposed above when looked at in isolation appear entirely straightforward. However, when compared to the technical effort to migrate every customer and account as-is, they offer strong and proven strategies to simplify your transformation.

To accelerate your coexistence migration by adopting one or all of the strategies above, banks need to:

1. **Be brave**
   Gather leadership support and buy-in for taking such approaches.

2. **Digest your data**
   Implementing all of the above requires a good handle on customer and product sets in your existing system. Don't make assumptions, start extracting and analysing the data to make more informed decisions.

3. **Engage your regulator early**
   The sooner they are engaged, the sooner you can start the process.

To transform the world's largest banks, Thought Machine offers a product proposition that actively supports and de-risks your migration. Alongside our partners, like Ikigai Digital, we deploy client architects and migration specialists to support the execution of your core migration, leveraging our collective industry best practice, tools and experience. Find out more about our partnership and how we can support your migration on our website.

About Thought Machine

Thought Machine has developed the foundations of modern banking with its cloud-native core banking and payments technology. Its cloud-native core banking platform, Vault Core, is trusted by leading banks and financial institutions worldwide, including Intesa Sanpaolo, ING Bank Śląski, Lloyds Banking Group, Standard Chartered, SEB, Lunar, Atom bank, Curve, and more. Vault Payments is a cloud-native payments processing platform – launching first with card processing on the Mastercard network, with full coverage available from 2023.

The Vault platform has been written from scratch as an entirely cloud-native system and gives banks full control to build any product required to flourish in a rapidly changing world.

For more information, visit thoughtmachine.net

About Ikigai

We are a team of senior technologists who have collectively delivered many digital banks and know how to help execute your strategy. Ikigai establishes the foundations required to build your next generation digital bank.

We provide set up services that will ultimately achieve two goals:

i) get your great customer proposition to market sooner

ii) ensure resilience, security and scalability of your business

Having a blank canvas and creating something entirely new is a difficult challenge as there are not many people around who know how to go about it – at Ikigai; we do. We know what a modern banking stack looks like, what works, what doesn't. We also know how to build teams starting with a strong leadership team at the top and then fostering a culture based on strong foundations of trust/ engagement/ commitment/ accountability and attention to results.

For more information, visit ikigaidigital.io

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