



The foundational elements of core modernization for banks

Empowering banks to be future-ready

Tomorrow's marketplace will be a competitive chess board where any company—not just banks—with the technical ability to grow, manage, and move consumer money, will be competing for market share. And many of those competitors are not weighed down with the same business and technical debt as banks.

However, banks have a great opportunity to respond to this challenge by modernizing their core infrastructure and thrive as a future-ready, customer-centric bank.



Customer-centric digitalization

Customers want the same level of excellent customer experience in every interaction and over any channel they use to connect with their bank. Consequently, they actively follow those who are furthest ahead in their digital journey.

There is a divide between service provider banks that are investing in infrastructure to develop multiple services for the future, and banks that aim to differentiate themselves by expanding a single revenue stream. In the last 18 months, that has already meant a move away from mid-market regional banks—with their almost 30 percent market share¹—toward big banks and hyper-local community banks.



Fortifying the foundation

Modernizing an entire bank may seem overwhelming. However, those that begin with the foundational elements can realize the greatest return on investment. Core modernization is a method to unlock things such as product innovation, speed to delivery, and real-time processing.

Core modernization is more than just updated technology; it impacts the entire enterprise—from strategy, to people, to culture. It includes everything from the business model down to the operating model. To efficiently unite front, middle, and back office and deliver consistent experiences, you must establish the foundation of a modern core.



An ecosystem is an imperative

Planning a core modernization initiative is incredibly complex. And, like all large transformations, it requires field-tested partners. These include third parties experienced with the platforms and technologies being implemented. For example, the number one driver for core modernization efforts is a bank's desire to be more agile. The key architectural principle of a technology ecosystem that enables agility, is "composability." That means each service component is as automatic as possible so that it can function on its own with a given input. For a core system, that means getting the most out of interoperability standards and separating operations like pricing away from debits and credits.

¹"Will Regional Banks Survive in the Digital Future?" April 1, 2021, Thefinancialbrand.com

The architecture is only one part of being nimble—and it's the easier part. The more difficult challenge is having a horizontally integrated team. Rather than a daisy chain of work done in series—for example, design to development, to test, to security, to ops, etc.—agility requires a one-team approach with a single automation tool that allows end-to-end integration covering security, compliance, policies, and controls. This approach is the opposite of traditional silos that align teams by function.



Don't get left behind

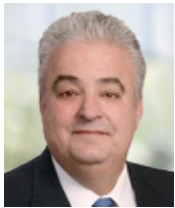
All banks are facing massive, multiple core modernization and digital transformation efforts. While an army of fintech start-ups, box stores, and

alternative lenders raise competition by scaling up and moving steadily into the banking space, a modern core infrastructure is what will allow banks to survive—and thrive—despite these disruptive threats. Failure is costly. Every day that you don't start modernization efforts is a commitment to your past, not your future.

The roadmap for successful core modernization has been established—how to scale and how to prioritize for impact are known, and the common pitfalls identified. Wherever you are on your transformation journey, you can invest wisely and accelerate your journey to modernize your core by building on the lessons learned from modernization pioneers.

For more on how to be the future-ready bank your customers want, listen to the [companion podcast](#), and learn more at [Visit.kpmg.us/connectedbanking](https://www.kpmg.us/connectedbanking).

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