Your bank isn’t digital, unless it’s digital at its core

Thys Bruwer
Director
ENS
Deloitte

Karoly Kramli
Associate Director
ENS
Deloitte

Heidi Custers
Senior Manager
ENS
Deloitte

Dustan Daniel
Manager
ENS
Deloitte
Many banks are showcasing their digital capabilities through immersive apps and chatbots, but their core banking systems are still antiquated, slowing down fulfilment and forcing customers through complicated processes. In a world where nimble FinTechs, empowered customers, and Open Banking regulation is becoming the norm, having a digital front-end is simply not enough.
In his book, The Fourth Industrial Revolution, World Economic Forum founder Klaus Schwab said, “There has never been a time of greater promise, or greater peril.” This statement, more than any other, describes the pressure banks currently find themselves under. While rapid advancements in technology have provided the platform for banks to “go digital” quicker and cheaper than ever before, massive regulatory shifts like PSD2 (Revised Payment Service Directive) and GDPR (General Data Protection Regulation) are forcing banks to transfer their power—and sometimes their competitive advantage—to their customers.

It is this “Promise versus Peril” that often causes inertia. Many incumbent banks do not know where to start, so their investment is piecemeal and unfocused. The harsh reality is they need to start at the core to truly call themselves “digital.” Too many core banking systems, even the ones claiming to be digital, are monolithic and product-focused; they are simply not nimble enough to allow banks to compete with the plethora of FinTechs that are transforming the marketplace. If your bank is implementing Agile, upgrading interfaces, and striving toward integration, but still relying on a traditional core banking system to do so, digital transformation is going to be a lengthy and costly exercise filled with compromises on what matters most: the customer experience.

Financial providers that will win in this disruptive market are able to make customers feel like their journey is unique and that their bank knows what they want before they need to ask. To make this real, the core needs to be adaptable and open, and scale at will without increasing cost-to-income ratios.

Enter The Single Store of Value. This next generation core banking architecture is completely componentized and leverages artificial intelligence and big data, thereby allowing the bank to “plug in or plug out” functionality at the most granular level with minimal disruption to the status quo, using a mesh of dynamic Application Programming Interfaces (APIs). Your bank can provide a single account to which all of its products are linked. Intelligent rules and process engines are used to provide unique customer configurations, so that the business can offer an infinite number of different products without significantly increasing its infrastructure or cost base. This is known as the “Product of One” principle.

APIs designed as microservices provide more than just a great banking experience. The Single Store of Value lays the foundations for a bank to evolve into a Platform-as-a-Service business. In fact, The Single Store of Value is a microcosm of the Platform-as-a-Service, forming one of the main pillars of the self-same platform. By monetizing APIs and partnering with complementary market players, one could create an entire financial ecosystem that is interoperable and infinitely scalable. Providing the platform for FinTechs to plug into converts them from competitors to partners, and creates a wealth of insights across the value chain, enabling intelligent business growth through diversified revenue streams.
Financial Platform as a Service

Digital banks and FPaaS can co-exist in the same business and leverage the strengths of one another to create a financial solution for customers that meets all their requirements:

It is this “Promise versus Peril” that often causes inertia. Many incumbent banks do not know where to start, so their investment is piecemeal and unfocused.
To convert the traditional core architecture, your bank needs to adopt an agile strategy, governed by a set of sound, interconnected digital principles. Some examples are:

**Product of one**

Through the assembly and intersection of key digital technologies such as analytics, automation, and rules-driven orchestration, customers are able to define the financial products they need by stipulating the features and attributes of those products backed by a common infrastructure.

**System of insights**

Everything in the ecosystem needs to be treated as a potential source of data that can be used to derive value, glean insights, and inform decision-making, and in so doing leverage high quality data.

**Intelligent autonomy**

The platform needs to ensure that the core business and technology processes are automated and digitized wherever possible through the use of process automation, orchestration, and workflows.

**Componentization**

Technological platforms need to be componentized to provide the agility required to quickly adopt technical and functional capabilities of new technologies with minimal disruption to the status quo.

**Deployment flexibility**

Leveraging the latest cloud infrastructure and approaches creates a foundational platform that lowers the cost to serve. Deployment flexibility is key to establishing white labeling, and multi-tenancy capabilities allow for a shared base to be established, resold, rented, reused, or provided to support different use cases.

**Adaptive security**

Building in security features and establishing an adaptive security architecture along with analytical solutions enables financial institutions to comply with regulations such as Basel 2, Sarbanes Oxley, AML, IBAN, and KYC.

**Leveraged artificial intelligence**

Applying cognitive capabilities with high quality data is a critical component of the digital ecosystem. Banks will be transformed by the use of AI and its ability to drive limitless scale and contextual experiences, and augment bank employees to provide superior customer experiences.

**Open API-enabled**

Establish a service repository of open APIs that provides interoperability and access to services that are faster, highly secure, standards-based, and reusable.

**Fit for purpose**

Acknowledging the incumbent technical debt resident in software today and focus on establishing a digital financial platform that achieves low-cost fulfilment to cater for financial inclusion of all without passing the cost on to the customer. Select technologies that are designed with a specific set of non-overlapping responsibilities and avoid technical debt.
**Digital platform services model**

The platform services model is a representation of technical stack layers and services that are required to realize the multi-tenant capable financial platform:

<table>
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<tr>
<th><strong>Infrastructure services</strong></th>
<th><strong>Interaction services</strong></th>
<th><strong>Process services</strong></th>
<th><strong>Business and enterprise app services</strong></th>
<th><strong>Partner services</strong></th>
<th><strong>Autonomic services</strong></th>
<th><strong>Security services</strong></th>
<th><strong>Development services (Dev)</strong></th>
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<tbody>
<tr>
<td>Provisioning, hosting,</td>
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<td>Orchestrate and</td>
<td>Robust, secure, stable, and scalable</td>
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<td>Cognitive capabilities,</td>
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<td>Integrated development</td>
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The Single Store of Value concept is so compelling it is rumored that even the large core banking technology providers are reconfiguring their systems to component-based architecture.

The digital core is a scalable, resilient platform that allows for the development of financial products and services to be exposed within and across the ecosystem. The Single Store of Value brings third-party developers, FinTechs, partners, and financial institutions together to create innovative applications that will enhance financial services and change the way we all manage our money.

The Platform as a Service model, using the underlying concept of The Single Store of Value is already making waves worldwide. “YONO” (You Only Need One) is an integrated digital financial platform offered by State Bank of India (SBI) that enables users to access a variety of services such as banking, investments, taxi bookings, online shopping, or medical bill payments. Even more alarming for traditional financial service providers is MTN, Africa’s largest mobile network operator. MTN is on its way to fulfilling its vision to be the largest bank on the continent through, among other avenues, a retail and payments Platform as a Service called jamia. Additionally, retail juggernaut Amazon is leveraging its platform-style architecture and digital core and could potentially become the largest bank on earth overnight.

The Single Store of Value concept is so compelling it is rumored that even the large core banking technology providers are reconfiguring their systems to component-based architecture. Whether they will actually license that functionality on an individual basis remains to be seen. For now, banks will have to forge their own path, and we predict that the first organization to successfully implement The Single Store of Value and monetize it on a Platform as a Service will begin a wave of disruption and platform consolidation that could transform the entire industry.

For all the technological wonders that enable this renewal in financial services, it is still important to recognize that banks are businesses with people. To undergo a successful digital transformation, the organization needs to transform its culture from a fear-based to one that fails fast and embraces experimentation. It needs to prepare and train its people for new ways of working. To truly thrive in the digital world, it needs to transform its entire business model with the understanding that even its revenue model changes when data becomes its primary product, and that in becoming a platform business, the range of its clients change to include even banking competitors. It is therefore critical to undertake a holistic approach when implementing digital transformation.
Conclusion:

- Rampant disruption, technological advancements, and shifting regulation in financial services is putting traditional banking models in extreme peril.
- Monolithic core-banking systems are holding organizations back from truly realizing their digital potential, resulting in poor customer experience and costly technical debt.
- The Single Store of Value concept allows banks to become truly “Digital at the Core” through a mesh of dynamic APIs, enabling them to evolve into Platform-as-a-Service businesses that are nimble enough to seize opportunities and own the financial ecosystem.
- The Single Store of Value is underpinned by a set of robust, interconnected principles that govern technology and business design decisions.
- Adjacent players such as retailers and mobile network operators are using their digital platforms to expand their services and aggressively enter the world previously dominated by banks.
- The financial services industry is on the precipice of complete transformation, driven by artificial intelligence and big data, and enabled by APIs. The first financial services leader to create a truly digital-at-the-core platform will have a massive impact on the market.