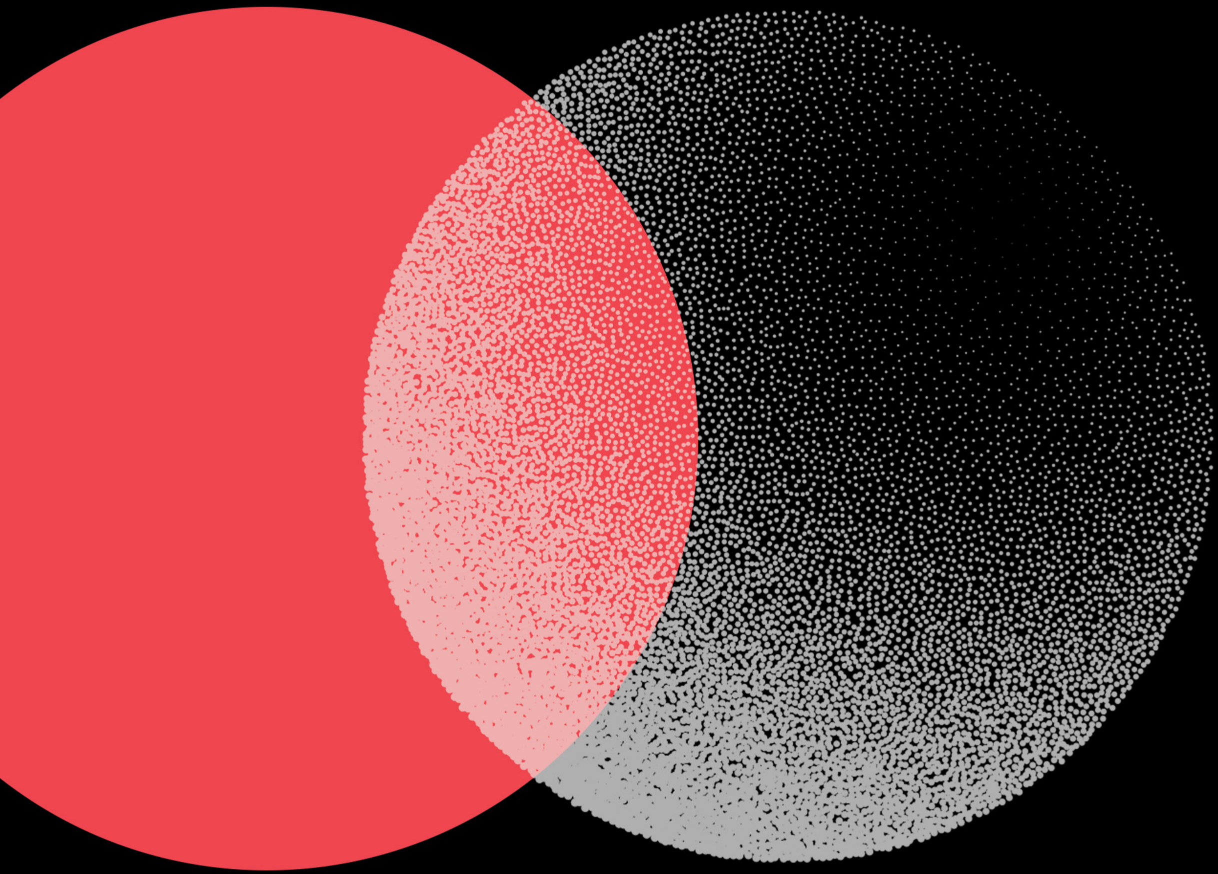

Core Modernization Playbook

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How to effectively and
securely modernize your bank.

The core banking conundrum

There are two statements upon which almost every bank leadership team will agree.

First, their current core technology stack is struggling to keep up with the rapid shift to the digital-first, seamless interactions their customers, colleagues and partners expect.

And second, that replacing these technologies is risky, complex and expensive.

But the shift to modern core technologies is inevitable. Every year, banks are investing more and more time and money just to maintain the status quo.

New regulations, rising digital expectations and open banking are pushing legacy systems to the limit.

Workarounds have made change riskier and more expensive. And with increasing digital transactions and the rising customer expectation for personalized interactions and connected offerings, these challenges will get harder and harder to overcome.

THE FORCES OF CHANGE

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The #1 priority for banks is to replace their core banking systems as they fail to meet business needs

External: *Align to Customer Expectations*	**Internal:** *Fracturing Siloes*
'Digital-first' engagement	Slow & fragmented systems
Connected offerings	Manual and costly operations
1:1 personalization	Lack of scalability
Rapidly evolving needs	Slow change and go-to-market

THE CORE BANKING MOMENTUM

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48%

of banks identify moving to a modern cloud-based banking system as their top priority.[1]

37%

of banks are expecting to transform their operations with a new cloud-based banking system.[1]

1 in 10

banking systems are estimated to be running entirely on the cloud in 2023.[2]

12%

The predicted increase in core modernization projects over the next year.[2]

40%

of APAC banks will undertake a coreless modernization program in the next 3 years.[3]

51%

of U.S. banks believe that a lack of agility is their greatest competitive threat.[4]

[1] Publicis Sapient Global Banking Benchmark Study 2022

[2] Gartner Magic Quadrant for Global Retail Core Banking (February 2022)

[3] Thought Machine IDC InfoBrief - A Clear Path Ahead: Migrating to Digital Core (March 2022)

[4] FORBES INSIGHTS: Banking At A Crossroads: The State Of Banking Modernization 2022

THE CASE FOR CORE MODERNIZATION

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Replacing core systems is no easy task. In the past, the easiest way for a CEO or CIO to lose their job was to propose a core system transformation and then fail to deliver it.

The success stories are far outnumbered by the failures: programs that overran, overspent and, ultimately, failed to achieve real value.

But times have changed.

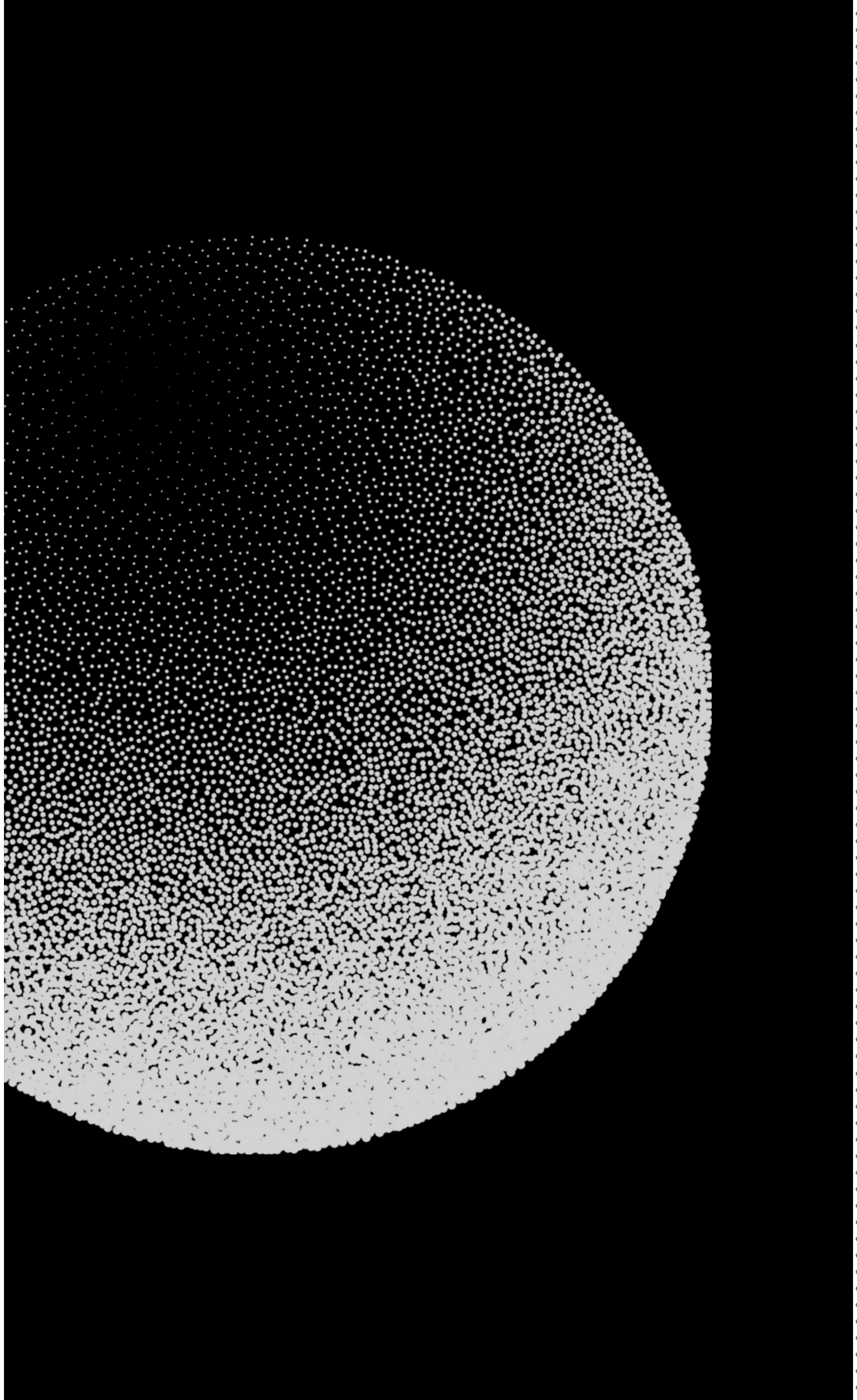
New technologies – from cloud to new core banking solutions, to the surrounding eco-system of SaaS solutions – have matured, been proven and enable differentiated services. More progressive, iterative approaches to core modernization can significantly mitigate the transformation risks.

Put simply, the time to transform is now.

THE CASE FOR CORE MODERNIZATION

Benefits from core modernization

- Enhanced customer and colleague experiences
- Freedom to create new and differentiated offerings
- Faster launch and iteration of new products and services
- Enhanced efficiency through 'digital-first' approaches
- Improve risk management through compliance-as-code
- Adapt to changing regulatory requirements
- Reduced time and cost of change
- Greater resiliency and adaptability
- Improved management information and intelligence
- More scalable and sustainable technologies
- Happier and more productive colleagues



KEY SUCCESS FACTORS FOR ANY MODERNIZATION PROGRAM

Maximize the benefits by taking a holistic perspective on how new core capabilities can transform your bank

Re-orient your architecture to put data and people rather than core systems and products at the center of your bank

Leverage new techniques and technologies to progressively shift from old to new platforms and de-risk the transition

Drive new ways of working to accelerate the pace of change while managing critical risks

BANKS CAN UNLOCK SIGNIFICANT VALUE FROM MODERNIZING THEIR CORE SYSTEMS

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Cases for change	*Example Benefits*
Growth Accelerator Differentiated products and services which can be rapidly re-configured and scaled	New sources of growth Enhanced personalization to increase customer lifetime value Ability to respond quickly to changing market **or regulatory** conditions
Organizational Efficiency Efficient "digital-first" services which enable greater organizational agility	Automated and more efficient services More effective colleague collaboration and satisfaction Enhanced intelligence and decision making **through data**
Technology resiliency Reduced infrastructure, change and run costs, with improved resiliency and control	Moving off aging, costly and risky legacy technologies Reduced reliance on on-premise infrastructure Significant improvement in technology run & change costs

Often come together

Unlocking these benefits requires a step-change in performance and support from the full organization, not just the technology teams.

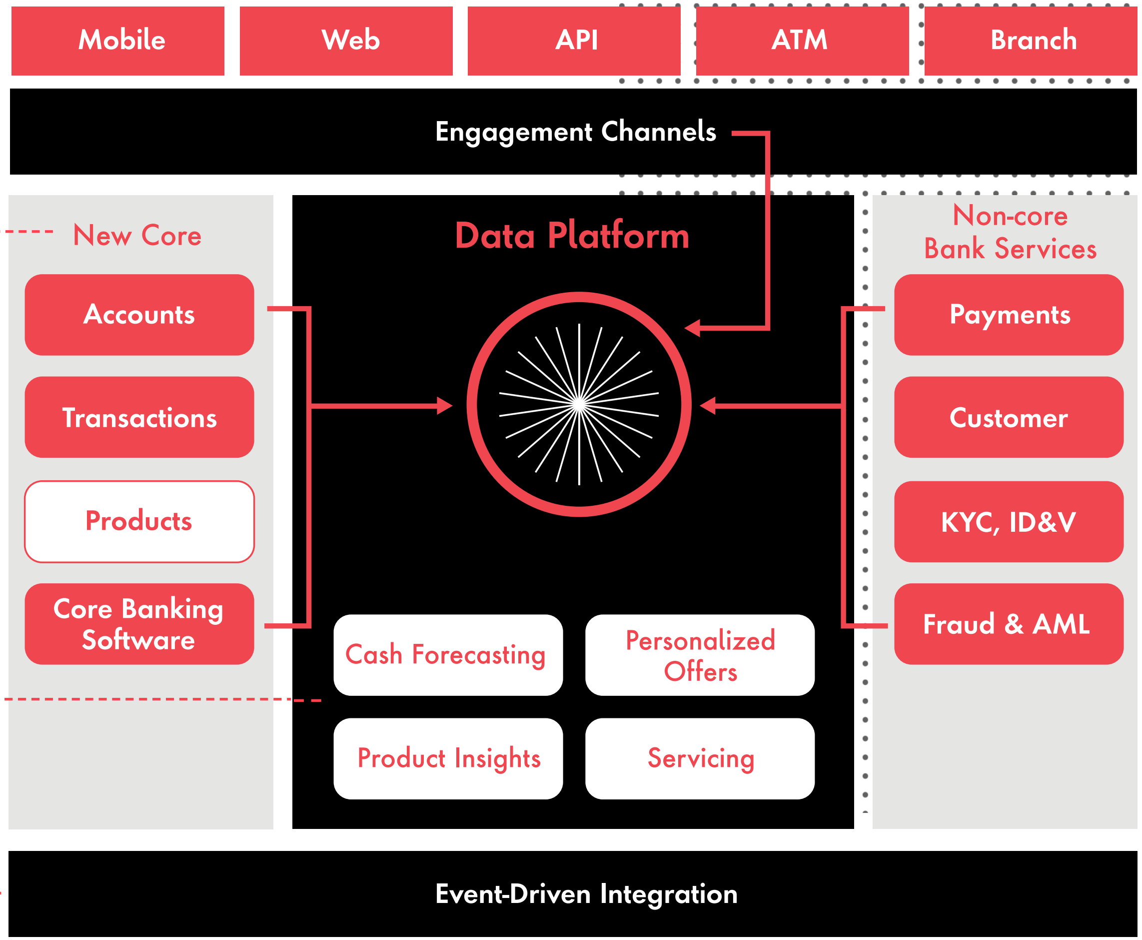
Example:
PS has partnered with a regional bank to unlock a 1:1 ratio of five-year investments: benefits by transforming all aspects of how the bank operates.

The bank of the future puts data at the center, releasing it from the confinement of siloed systems and applications

A modern core banking system does one thing and does it well: product, ledger and transaction management

The bank's data is available in one place, releasing it from the core for insights, AI and servicing

An event-driven architecture enables better products & propositions by composing best in class capabilities along with the core

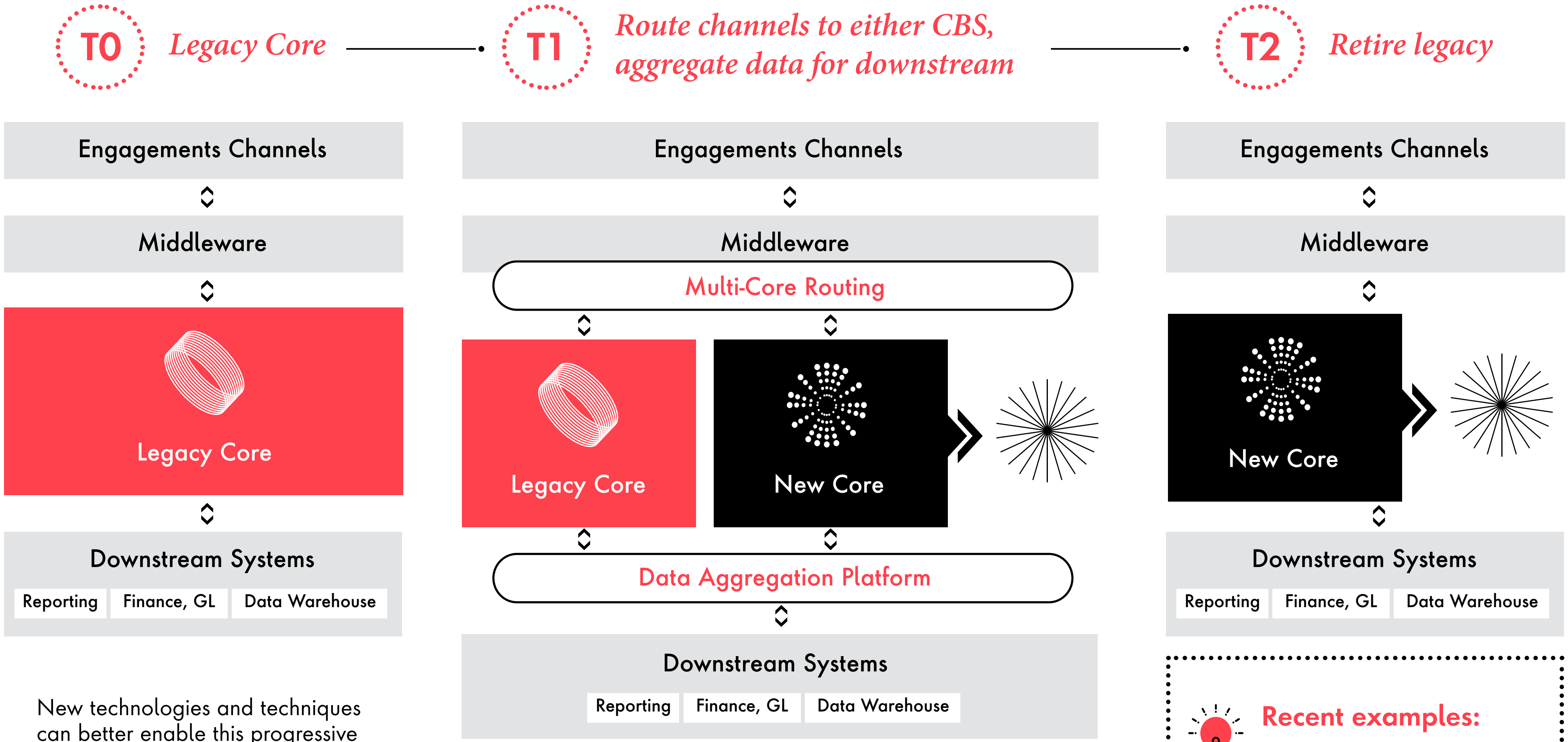


This architecture allows for long-term, strategic differentiation leveraging the latest technologies.

Recent examples:
This is the architecture powering leading challenger banks and incumbents successfully moving onto new modern platforms. With the right understanding. For example, the fastest growing digital-only commercial bank in MENA.

New progressive modernization approaches can de-risk the transition from old onto new platforms

Key: Legacy Solutions | Strategic Solutions



New technologies and techniques can better enable this progressive transition from old to new platforms. Such approaches significantly de-risk the transition while also enabling earlier value unlocks from the new strategic platforms.

Recent examples:

This pattern is being deployed by leading incumbent banks globally including the largest banks in the UK/EMEA and APAC.

Core modernization is complex in nature and involves risk, which can be proactively managed and mitigated

Typical Modernization Risks

Technology Risks

- Risk of business disruption when changing multiple core systems at the same time
- Risk of **data security** being compromised
- Migration risks, e.g., risks of losing data, single event migration and brand impact
- Migration risks, e.g., risks of losing data, single event migration and brand impact
- Risk of the solution architecture being misaligned to the business and tech needs

Business risks

- Risk of gaps in board sponsorship of modernization
- Risk of limited capacity for concurrent change
- Risk of market shifts requiring a scope revamp
- Risk of costs increasing significantly, threatening completion
- Risk of business and IT operating in silos due to misaligned priorities

People risks

- Risk of a capacity constraint from running two operating models simultaneously and across simplification, modernization and BAU
- Risk of losing talent and their knowledge

Regulatory risks

- Risk of non-compliance to regulatory requirements due to thesystem changes

Driving the adoption of new agile ways of working can both accelerate the delivery of the new platform while also mitigating these risks through data-enabled oversight.

Learn more:

Navigating Risk

A PROVEN APPROACH FOR CORE MODERNIZATION

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STEP 1
Case for Change

Confirm the **urgency for modernization** and ensure **leadership commitment to address the most critical challenges**

STEP 2
Foundations & Proof-points

Establish **no-regret foundational elements** while validating key elements of the new modern platform

STEP 3
Iterative Releases

Build and expand the new platform with internal and public releases to mitigate delivery risks and accelerate benefits

STEP 4
Scale & Sustain

Scale and sustain the new platform by progressively transitioning capabilities from legacy onto new solutions

STEP 1
CASE FOR CHANGE

Confirm the urgency for modernization and ensure leadership commitment to address the most critical challenges

Core modernization efforts fail when the ambitions are poorly defined or misdirected.

Avoid making these critical mistakes:

- An unclear 'case for change' that fails to unlock the full potential of the change and/or drive commitment from the full leadership team.
- Failing to understand the major success factors, including lessons learned from similar transformations

YOUR STEP-BY-STEP GUIDE

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STEP 1
Case for change

Shape the case for change:

- Define how modernization can enable the bank's north star vision
- Confirm the urgency for modernizing now
- Bring to life how modernization will transform the bank's customer and colleague services
- Evaluate the return on investment

Confirm the changes required:

- Identify the major services which modern capabilities will enhance
- Confirm the delta between the current and target state technology & data architectures
- Understand the organizational impact of more modern approaches
- Identify the factors required to successfully deliver the changes required, including how to mitigate critical risks

Secure leadership commitment:

- Ensure senior leadership buy-in
- Recruit and/or select the appropriate leaders
- Get sign-off for the investment required to mobilize the program

Checklist:

- [ ] Compelling case for change
- [ ] Buy-in from the full senior leadership team
- [ ] Understanding of the major shifts required
- [ ] Alignment on how to address critical success factors, including avoiding mistakes from similar transformations
- [ ] Investment to initiate the program
- [ ] Confirmed delivery leadership team

STEP 2
FOUNDATIONS & PROOF-POINTS

Establish no regret foundational elements while validating key elements of the new modern capabilities

Without the right preparation, modernization programs cannot succeed.

Watch out for these common preparation pitfalls:

- A delivery roadmap that results in a large early investment with limited early value release.
- Reproducing the legacy core rather than embracing the possibilities of a modern architecture.
- Delaying or missing foundational, no-regret elements like cloud and strategic data capabilities.

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STEP 2
Foundations & Proof-points

Mobilize the program team

- Confirm accountable leadership
- Establish governance forums
- Ensure broader organizational engagement
- Onboard delivery partners

Detail the product roadmap:

- Detail target customer, partner and/or colleague services
- Align requirements with data, technology and operational needs
- Outline launch sequence and technical milestones
- Confirm delivery pod structure and align on appropriate agile delivery methodology
- Tie critical milestones to the investment case and benefits

Confirm the architecture:

- Agree best-practice architecture principles
- Select top priority vendors for critical components
- Map existing capabilities to core domains
- Plan integrations and migration to mitigate risk

Fast-track critical enablers:

- Build no-regret enablers e.g., cloud and data foundations, DevSecOp tooling
- Validate elements of the technical solution (e.g. combinations of target solutions)

Checklist:

- ☐ Program team established
- ☐ Foundational enablers in place
- ☐ Roadmap confirmed
- ☐ Critical milestones in place and linked to benefits case / OKRs
- ☐ Teams established with strong momentum towards initial launches

STEP 3
ITERATIVE RELEASES

Build and prove the foundation with internal and public releases to mitigate delivery risks and accelerate benefits

The first release is pivotal to proving the modernization program and learning for subsequent releases.

Watch out for these common preparation pitfalls:

Failing to launch, usually from a combination of incorrect delivery model, missing 'go-live' requirements, or taking on too much too soon.

Not reducing the migration and integration complexity. There are often non-technical solutions such as product rationalization that can significantly mitigate risks.

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STEP 3
Iterative releases

Accelerate delivery:

- Mobilize cross-functional teams focused on outcomes
- Adopt enterprise agile methodologies
- Onboard prioritized solution providers
- Build a 'steal thread' to prove end-to-end the core technologies required to enable the new capability
- Implement training and capability building
- Establish robust communication plans and governance
- Confirm the iterative release plan

Launch an initial release:

- Detail and validate the new service design, including major value unlocks / KPIs to deliver
- Deliver the major requirements via cross-functional teams
- Establish a model office for business and readiness testing
- Integrate legacy capabilities and establish coexistence
- Automate reconciliation and ensure data quality
- Finalize operating model requirements, considering coexistence needs
- Address risk, control, and regulatory requirements
- Successfully launch internally and then publicly

Expand the platform through iterative releases:

- Conduct retrospective to refine future iterations
- Adjust post-MVP delivery roadmap for scalability
- Continue to optimize tactical operational workarounds
- Detail progressive migration strategy and risk mitigation
- Manage coexistence of old and new environments
- Monitor key metrics to prioritize further platform enhancements required
- Ensure continued exploration of new elements to incorporate (e.g. based on changing market conditions)

Checklist:

- [ ] Iterative release approach confirmed and proven through initial launches
- [ ] Mechanisms in place to transform the existing operations as the new platform expands
- [ ] Progressive migration patterns and oversight established
- [ ] Value assurance mechanisms in place to track achieved vs. target outcomes
- [ ] Sign-off for continued investment

STEP 4
PROGRESSIVE SCALING

Scale the solution by progressively transitioning capabilities from legacy to new solutions

Ensuring the safe shift from legacy to modern platforms is a real challenge. It's critical to prepare appropriately and ensure a full spectrum of levers are used to mitigate risks.

Watch out for these additional pitfalls:

- Sequencing the migration appropriately, migrating in tranches and minimizing risk and disruption for customers and colleagues.
- Failure to maintain and build organizational understanding and support

YOUR STEP-BY-STEP GUIDE

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STEP 4
Progressive Scaling

Expand the new platform

- Prioritize new features based on value, speed and quality
- Accelerate release pace with continuous feedback loops
- Continuously explore new opportunities for competitive advantage
- Maintain momentum with transparent communication

Scale the progressive modernization 'factory'

- Establish the guiding principles for transitioning from old to new platforms
- Confirm the migration approach, including technical patterns and risk mitigations
- Establish a modernization factory to manage the transition from old to new platforms
- Limit the 'dual run' period by systematically optimizing operational processes as the platform matures
- Ensure an approach for de-commissioning the old solutions as the new platform expands

Sustain the change

- Transition from modernization as a 'program' to modernization as 'BAU'
- Develop the capabilities for continuous improvement
- Implement modernization metrics as standard management tools

Checklist:

- [ ] Progressive modernization mechanisms established to de-risk migration
- [ ] The majority of the bank's services now operate on the new platform
- [ ] Modernization has achieved the target ambitions
- [ ] The bank is now able to sustain the change – and especially is now significantly more adaptable to changing market circumstances.

PUBLICIS SAPIENT IS HERE TO HELP

Embarking on core modernization for your bank can be daunting. But with proper planning and partnerships, success is within reach.

Challenges are inevitable, but maintaining focus and team enthusiasm will see you through.

Choosing the right partner, who is experienced in modern core banking solutions, is critical. They can help you define your goals and help you to accelerate your journey and avoid major pitfalls from similar programs.

Success in modernization requires clear strategy, compelling customer experiences and agile delivery leveraging modern technology. Embracing digital transformation unlocks innovation, automation and personalized services.

Publicis Sapient is here to help you explore the possibilities of core modernization. With our expertise, stress-tested methodologies and **unique SPEED capabilities**, we ensure customer-centric banking products and provide support to navigate challenges, accelerate delivery and realize value.

Whether you are starting out on your journey or struggling to achieve your modernization ambitions, we are here to help.

S **Strategy:**
Confirming the value potential and the shifts required to unlock

P **Product:**
Evolve propositions at services at pace and scale

E **Experience:**
Create differentiated services for customers and colleagues

E **Engineering:**
Build modern solutions to achieve your ambitions

D **Data:**
Put 'data-at-the-center' of how your bank operates

GET IN TOUCH

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Publicis Sapient is a digital transformation company. We partner with global organizations to help them create and sustain a competitive advantage in a world that is increasingly digital.

We operate through our expert SPEED capabilities: Strategy and Consulting, Product, Experience, Engineering and Data, which combined with our culture of curiosity and deep industry knowledge, enables us to deliver meaningful impact to our clients' businesses through reimagining the products and experiences their customers
truly value.

Our agile, data-driven approach equips our clients' businesses for change, making digital the core of how they think and what they do. Publicis Sapient is the digital business transformation hub of Publicis Groupe with 20,000 people and over 50 offices worldwide.

For more information visit www.publicissapient.com.

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