Research Index: Core Banking Systems Must Evolve to Enable Digital Business

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Initiatives: Financial Services Technology Modernization and Transformation

The digital business mandate to rapidly adapt and change is compelling banks to rethink the role and critical characteristics of core banking systems. Bank CIOs supporting digital bank transformation can use this research as a directional guide to core banking frameworks, vendors and future trends.

Analysis

“Fit for purpose” means something is good enough for its intended job. That phrasing maps nicely with the well-worn role of past core banking systems, but good enough is not good enough anymore.

The banking industry is undergoing a wave of digital business transformation. The promise of new digital business models — enabled by open banking and banking as a service — is within reach, but hinges on bank CIOs’ capacity to deliver enabling technologies (see Figure 1).
Saddled with the reality of unadaptive core systems, CIOs are exploring paths of modernization that range from initial isolation — or abstraction from the core — to comprehensive replacement. In either extreme, exposing and orchestrating core components that fuel banks’ API engines are a clear mandate, and all-in-one-designed core systems are struggling to maintain relevance.

Where new digital revenues are the rallying cries of the business, any core system that can’t break the bonds of waterfall development methodology — or “fast” waterfall, for that matter — is destined for obsolescence. But it goes far beyond the constraints of waterfall. It’s the demand of unpredictable semistructured and unstructured data flows — unpredictable in both volume and timing — that challenges conventional cores.

Gartner is delivering core banking and related research supporting bank CIOs in search of:
Frameworks — Process-based decision frameworks and insights to assist in vendor selection

Vendor and product assessments — Vendor and product guidelines and assessments

Future trends — Emerging and future strategies, complementary technologies and evolving technology trends

Research Highlights

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Bank CIOs should use this index as a resource to support core modernization. The primary categories are organized around frameworks, vendor and product assessments, and future trends.

Frameworks

Frameworks provide a process- or milestone-based approach, ranging from board of directors’ presentation preparation through vendor selection for core banking programs. Gartner clients have used these frameworks to secure millions of dollars in funding for critical core banking initiatives:

- **Early signs** — Many bank CIOs realize too late that their core banking systems are a major barrier to executing digital business strategy. Gartner provides preliminary signs, triggers and drivers that alert CIOs that core banking renewal is integral to their banks’ digital business objectives (see Core Banking Renewal Is Pivotal to Your Digital Business Success — Be Ready).

- **Business case** — The board and executive management team are in lockstep that core system renewal is necessary for digital transformation — but will this investment deliver value? Gartner provides insight and actionable advice for bank CIOs to more effectively position and set stakeholder expectations (see Building the Digital Business Case for Core Banking Renewal).

- **Bank readiness** — Most banks unknowingly place their core banking renewal programs at risk of failure following board approval. Bank CIOs need to slow down and assess their project readiness before proceeding further, or risk extensive time and cost overruns (see Use This Readiness Maturity Model to Avoid Core Banking Program Failure).

- **Bank readiness Toolkit** — This companion Toolkit to the research above provides a polling framework with a corresponding spider chart. Conducting a core banking program requires extensive planning and flawless execution, but most banks bypass the critical question of whether they are ready. Gartner provides CIOs with a Toolkit to assess bank readiness and expose risks prior to program initiation (see Toolkit: How to Assess Core Banking Program Readiness).

- **Core banking modernization survey** — Core banking system modernization is accelerating, but bank CIOs typically get only one shot to get it right. Gartner provides quantitative insight for bank CIOs to choose and support the best approach for their banks (see Core Banking Legacy Modernization to Enable Digital Business — What Works and What Doesn’t).
Vendor and Product Assessments

Replacing a core system is a multi-million-dollar decision. Bank CIOs must do their due diligence, but they can save weeks of stakeholder staff hours by understanding the major providers and the capabilities they offer to the market:

- **Core banking modernization strategies** — Core modernization programs are complex, intimidating and fraught with risk, but necessary to enable digital business. CIOs can use this research to understand the characteristics and applicability of emergent core banking strategies for their bank’s digital pathway (see 4 Core Banking Modernization Strategies to Enable Digital Business).

- **Magic Quadrant** — The demand for core banking packages is expected to grow in 2021 as banks deliver on digitalization strategies, while facing the consequences from the COVID-19 pandemic. Bank CIOs should consider evaluating both long-standing and emerging vendors, especially when pursuing public cloud installations (see Magic Quadrant for Global Retail Core Banking).

- **Critical Capabilities** — Replacing a core banking system remains a risky and complex task. Bank CIOs can use Gartner’s framework of Critical Capabilities to determine which of the global retail core banking vendors is the best match for their banks, while customizing the weighting to create their own selection (see Critical Capabilities for Global Retail Core Banking).

- **Other core selection criteria** — Core banking selection cannot be decoupled from factors that include the vendor’s expertise with the country, bank tier and market segment where the project is being deployed. CIOs should factor in these complementary criteria to the Magic Quadrant when choosing core banking systems (see 4 Core Banking Selection Criteria to Complement the Magic Quadrant).

- **Negative interest rates** — Bank CIOs are preparing for negative interest rates on both loans and deposits as a consequence of dramatic changes and shifts in the business environment. Nonetheless, a recent Gartner survey reveals that core banking products are not yet ready for managing this unusual situation (see Can Your Core Banking Support Negative Interest Rates?).

The Magic Quadrant and Critical Capabilities reports are global in their coverage, so the following research extends core solution market movements and vendor and product coverage by specific geographies:

- **North America** — Core banking system renewals are increasing in North America, across all banking segments, driven primarily by digital bank transformation initiatives. This research offers bank CIOs a comprehensive evaluation of the capabilities — technical, business and regional — of the vendors in this market (see A Banker’s Guide to Core Banking Systems for North America).

- **Latin America** — Latin American banks have usually managed their core systems internally, but that’s changing. Today, almost all small banks are adopting packaged systems, and even CIOs of larger banks can begin following this trend, due to much broader choices of both regional and international providers (see A Banker’s Guide to Core Banking Systems for Latin America).
Wealth management (WM) is continuing to evolve as financial institutions consolidate and modernize technologies. The following research provides insights on reviewing the potential for wealth management support within core banking systems:

- **Western Europe** — The core banking replacement cycle has been reshaped by a focus on cloud adoption and emerging core vendors. Bank CIOs will continue to approach open-core banking as the primary digitalization enabler, shifting from a tactical use of fintechs toward building a holistic API ecosystem approach (see *A Banker’s Guide to Core Banking Solutions for Western Europe*).

- **Central and Eastern Europe** — Core banking systems in Central and Eastern Europe historically come from regional providers, but the market now includes international players. Bank CIOs today have broader choices to address critical requirements, including regional expertise and business functionalities and componentization (see *A Banker’s Guide to Core Banking Solutions for Central and Eastern Europe*).

- **The Middle East and Africa** — For core banking projects in the Middle East and Africa, banks rely on commercial off-the-shelf packages to drive their architecture and operations into the digital age. Bank CIOs embrace these projects mainly to optimize costs, enhance mobile channels and achieve greater banking inclusion (see *A Banker’s Guide to Core Banking Solutions for the Middle East and Africa*).

- **Mature Asia/Pacific** — Digitalization is the top business priority for banks in this region and the most powerful driver for core banking replacement. Bank CIOs aiming to have integrated front ends need to connect them to core systems that are open, API-integrated and fast enough to perform real-time connectivity (see *A Banker’s Guide to Core Banking Solutions for Mature Asia/Pacific*).

- **WM client-facing solutions** — Existing client-facing technologies are not meeting client expectations or supporting digital transformation. Bank CIOs must determine whether or not wealth capabilities are supported by their current core banking systems to meet line-of-business requirements and priorities (see *Banker’s Guide to Client-Facing Wealth Management Capabilities in Core Banking Systems*).

- **WM advisor-supporting capabilities embedded within core systems** — Financial services institutions are actively trying to consolidate platforms and eliminate redundant technologies. Bank CIOs need to determine if their current core banking systems support wealth capabilities and align with line-of-business requirements, or if they need to look elsewhere (see *Banker’s Guide to Advisor-Supporting Wealth Management Capabilities in Core Banking Systems*).

**Future Trends**

As business models shift to drive new revenue lines through digital business — such as open banking and banking as a service — the bank CIO is under increasing pressure to procure and align technologies that support just-in-time business support.

Although the trendline of core banking system decomposition isn’t new, the broader value proposition of application composability is on the rise (see *Future of Applications: Delivering the Composable*).
Enterprise). For example, large-tier-bank CIOs are shifting IT from a development-centric culture to an IT organization that leverages vendor-supplied packaged business capabilities (PBCs) to fast-track business results by months. Advanced vendor products offer microservice repositories with out-of-the-box logical linkages to APIs and, by extension, API products (PBCs). Dependent on PBC granularity, these components have the potential to enable new digital business revenue through BaaS:

- **Innovative vendors** — Banks use an increasing range of emerging technologies to provide innovative products and services, optimize costs, and scale digital banking. CIOs can benefit from research on market-moving technologies to address growing challenges, balancing cost optimization and new digital business investments (see Cool Vendors in Banking).

- **Digital roadmap** — Financial institutions looking to build a digital business technology platform must align technology investments with stakeholder requirements. With a roadmap, CIOs can coordinate and communicate their plans for bank-specific technologies, considering both immediate and future capabilities (see Bank CIOs: How to Create and Apply a Digital Business Technology Roadmap).

- **Strategic approaches to APIs** — APIs are instrumental to realizing future digital initiatives; however, bank CIOs are struggling to create a strategic vision for them. Bank CIOs need to build strategic pathways aligned to their future envisioned scenarios to enable faster adaptation to upcoming change (see Bank CIOs Must Create a Strategic API Pathway to Succeed With Their Future Digital Ambitions).

- **API standards** — Open banking regulations are spreading worldwide, but creating APIs only for compliance can lead to poor API uptake and developer dissatisfaction. Application leaders should create differentiating API products that go beyond regulatory compliance, including leveraging standards such as BIAN and FDX (see Beyond Compliance: Using Banking API Standards for Competitive Advantage).

- **Open banking and BaaS** — Open banking and BaaS are often used synonymously, but they’re not the same. As a result, bank CIOs often create technology strategies without fully understanding the differences, leading to misplaced investments and missed business outcomes (see What’s the Difference Between Open Banking and Banking as a Service and Why CIOs Should Care).

- **Future banking scenarios** — Banking and investment service CIOs agree with the business that the industry’s status quo is unsustainable. But they disagree on what value to create in the future and how to do it. Gartner’s four scenarios will help CIOs prepare for financial services operating models and business models through 2030 (see Use Banking Industry Scenarios to Generate New Value in the Digital Platform Age).

- **Ecosystem collaboration** — As financial services firms try to differentiate themselves (and grow revenue) with innovative, value-added services, they must also address traditional and emerging competitive threats (see Predicts 2021: Banking CIOs Must Digitally Enable Employees to Exceed Business Expectations).
CIO Survey — The 2021 Gartner CIO Survey indicates that banking surpasses other industries in digitalizing its processes and growing its digital revenues. But as banks reset after the immediate impact of the pandemic, CIOs have much to do in adapting to the new realities of customer demand and behavior (see 2021 CIO Agenda: A Banking Perspective).

Document Revision History

Research Index: Open Banking Is Rendering Many Core Banking Systems Irrelevant - 1 August 2019
The Pathway to Core Banking Program Success - 19 December 2016
The Pathway to Core Banking Program Success - 13 March 2015
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Recommended by the Author

Magic Quadrant for Global Retail Core Banking
Bank CIOs Must Create a Strategic API Pathway to Succeed With Their Future Digital Ambitions
What's the Difference Between Open Banking and Banking as a Service and Why CIOs Should Care
4 Core Banking Modernization Strategies to Enable Digital Business

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