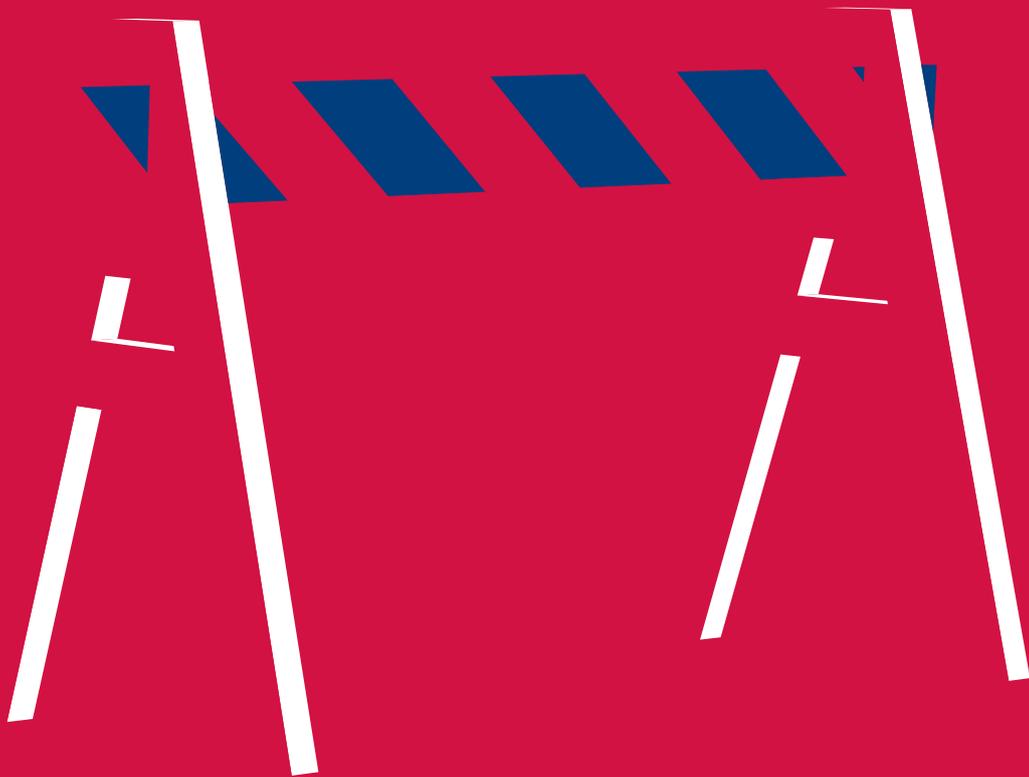# ESCAPING LEGACY

Why banks' core systems must be made fit for purpose

EXECUTIVE
SUMMARY
RESPONSE

It's two years since we published *'Time to Grasp the Nettle[1]'*, an Accenture point of view that turned the spotlight on a dangerous lack of resilience in banks' core systems. Designed and built for a bygone age of branch-based banking and overnight batch processing, these systems, we argued, had grown massively complex, unreliable, expensive to run and unwieldy. In other words, no longer fit for purpose in a digital world.

TRYING TO WAIT IT OUT

So what's changed since then? The short answer, not a lot. In fact, the situation's deteriorated. Post-Brexit, we're in an even more uncertain, unpredictable world than before. And at times like these, the inclination for most organisations is to hunker down, delay decisions and wait for stability to return. For banks, that means the problems they had with their legacy systems back in 2014 have only become more serious.

It's a situation that's borne out by a recent report *'Escaping Legacy[2]'*, published by the University of Surrey (with Accenture's sponsorship). Based on a 2016 survey of CIOs in leading financial, industrial, government and IT services organisations, the report has some stark findings. Up to 40-50 percent of all IT assets are in urgent need of modernisation. For the UK alone, that's a technology debt equivalent to the national pensions deficit.

AN IMMOVABLE OBJECT...

Crucially, monolithic legacy systems (often dating back to the seventies and eighties) stand in the way of digitalisation. As such, they're immovable objects meeting an unstoppable force. The explosion in digital technologies has transformed how organisations engage with their customers, along with the products and services they can bring to market. New digital competitors are emerging from leftfield. And, thanks to cloud proliferation, the pace of change is accelerating all the time.

Boards know this. But they view fundamental systems modernisation as overly complex, expensive and unacceptably risky. This 'legacy stasis' is deeply embedded. In many cases, it's a culture that permeates the enterprise. And it typically takes a cataclysmic event, like a full-blown outage, to make change a priority. By then, of course, irreparable damage may well have been done.

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[1] https://www.bba.org.uk/wp-content/uploads/2014/07/Core_Banking_Resilience-Time_to_grasp_the_nettle.pdf
[2] http://surreycode.org/wp-content/uploads/2016/10/Escaping-Legacy-Report-2016.pdf

STEPS TO SUCCESS

For banks wanting to avoid catastrophic systems meltdown, the message is clear: attempting to patch the problem (in effect, doing nothing) is no longer an option. So how to make change happen? Drawing on in-depth interviews with executives, the University of Surrey report includes some valuable pointers to a successful migration strategy:

- Adopt a business driven, step by step approach (not a revolutionary, 'big-bang' transformation)
- Converge business and IT operating models to create one integrated digital organization
- Tackle each layer of the IT stack with tools, platforms and services enabled by open cloud environments like Amazon's AWS and Microsoft's Azure

  Simplify data access and improve front/back-end integration using software packages and public cloud services to componentise heavily customised legacy core systems
- Inject innovation by replacing incumbents with new strategic IT partners

Every one of these recommendations resonates with our experience. Two years ago, we were advocating evolutionary transformation as a viable way approach (although we highlighted the need for a disciplined, consistent multi-year strategy – something that banks have struggled to implement in this area).

NO SUBSTITUTE FOR EXPERIENCE

But we believe there's an additional area demanding close attention in today's environment. Driven by a focus on cost take-out, most organisations have been investing in talent offshoring for years. Now it's time to draw breath. Many banks we encounter have cut too close to the bone. As a result, key IT professionals who really understood the legacy landscape – and could plot a route from the 'old' to the 'new' – are no longer around. It's vital to rebuild that capability – otherwise the journey ahead could be very bumpy indeed.

There are various ways of achieving that. Hiring is one. Partnering with experienced third-party providers is another. But whatever approach is selected, it's a critical foundation for any change programme. Another, thrown into relief by the University of Surrey's report, is the need for board buy-in. Right now, their research shows, most boards are failing to grasp both the importance of legacy replacement and the urgent requirement for it to take place.

THE CASE –
FOR ACTION

Accelerating awareness is key. That can be achieved through thorough assessments of the 'as is' environment against external and internal challenges facing the organisation, along with clearly articulated business cases that demonstrate the benefits of addressing legacy.

As of now, the University of Surrey's research reveals, just 20 percent of leading organisations have developed a comprehensive 'case for action' where legacy's concerned. It's a compelling finding. And one that should spur action in boardrooms throughout UK banks.
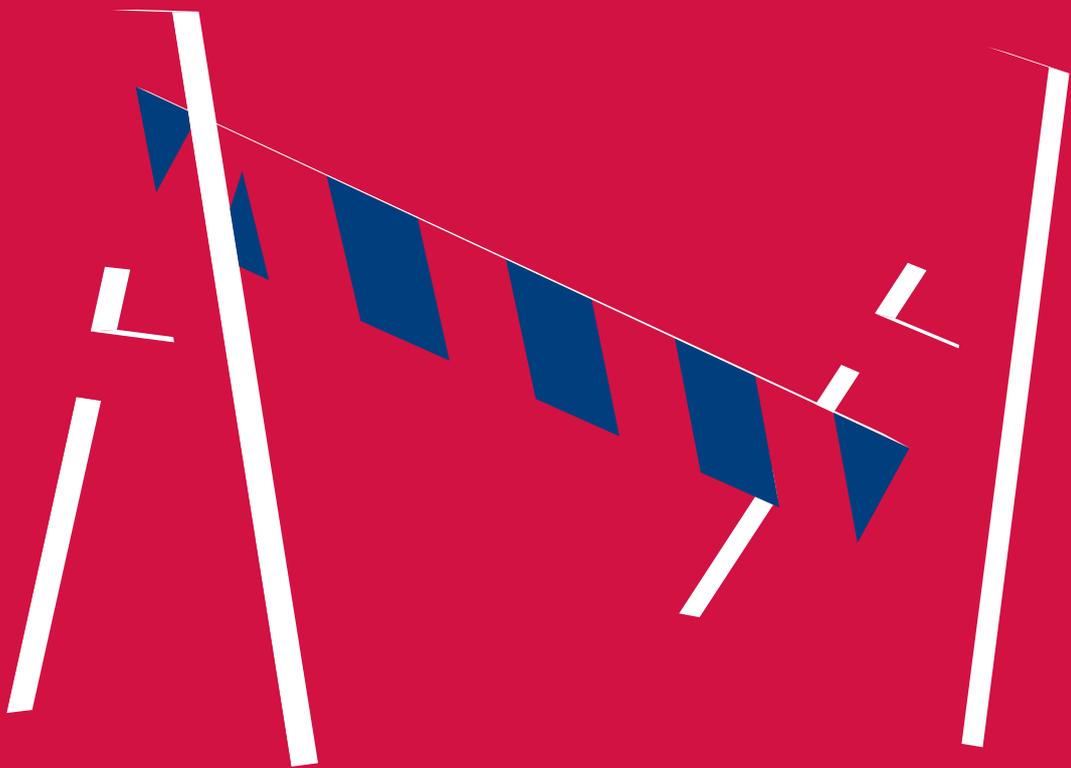
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