



A Platform-based Operating Model to Transform Financial Services

Continuous Simplification Enabled by an
As-a-Service Consumption Model

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Introduction

Over the years, financial institutions have transformed their operating models to keep up with the changing business landscape, including the need for portfolio expansion through mergers & acquisitions, introduction of new products, compliance with enhanced regulatory mandates, and evolving customer demands, and preferences. Today, financial institutions view technology as the key lever to enable business transformation and embed technology initiatives into their core strategies to support their run and change mandates.

Simultaneously, technology budgets have increased steadily due to investments in IT modernization and digital transformation. These initiatives typically take several years to complete and, on completion, force financial institutions to deal with extremely complex IT estates, which are a culmination of their continuous modernization journeys. Mature financial institutions – which were early adopters of this modernization approach – are now grappling with the increased complexities of their IT estates and higher spend on integration, maintenance, and run costs. The complexity of IT estate compounds the complexity of business operations and mars customer experience. Over the last few decades, these continuous modernization initiatives have created a complex web of IT and business operations requiring a large run and operate spend, which has significantly slowed down the change initiatives, giving an upper hand to nimble FinTechs and technology giants.

Financial institutions are thus pivoting to a more effective transformation approach, characterized by a modular platform-based operating model, which aims at simplifying technology and processes to make them more agile in responding to market demands and technology evolution. The simplification of consumption, enabled by a platform-based operating model, facilitates the as-a-service model for Banking, Financial Services, and Insurance (BFSI) enterprises. This report describes the approach of continuous simplification, explains the best practices for adopting the approach, and outlines the potential benefits that financial institutions can realize from it.

Value drivers for the financial services industry

Everest Group take

Financial institutions are no longer perceived as physical structures restricted by organizational boundaries that offer financial services/products, but as an ambient fabric connecting people and businesses to financial products available across the ecosystem. Today, the challenges they face are immense, considering the competitive environment, rising cost pressures, and the need for quick responses to changing customer and market expectations. Thus, the financial services industry is redefining value levers by orchestrating end-to-end customer journeys and creating consumption models that extend beyond traditional organizational boundaries. Being agile and following a pragmatic approach to innovation, enveloped by digital trust within an ecosystem, will enable financial institutions to successfully orchestrate the relevant ecosystem and co-create value for consumers. Financial services firms will need a scalable and flexible IT architecture and a modern IT operating model to achieve this trifecta of speed, innovation, and trust – what we refer to as T-SPINT.

The pace at which customer preferences are evolving has made financial institutions focus on a customer-centric, rather than a product-focused, model. The industry is experiencing a sea of changes because of the ambient nature of technology and its scaled adoption across industries, spurring innovation in business models, products, and consumption patterns. The emergence of disruptive business models, such as asset-sharing, peer-to-peer, and pay-per-use, are reshaping consumer preferences across industries. Traditional industry boundaries are blurring with the formation of globally connected ecosystems driven by customer demand for a unified experience across multiple ecosystems and channels. Consumers also want a safe and secure environment, making digital trust a foundational element for these interactions.

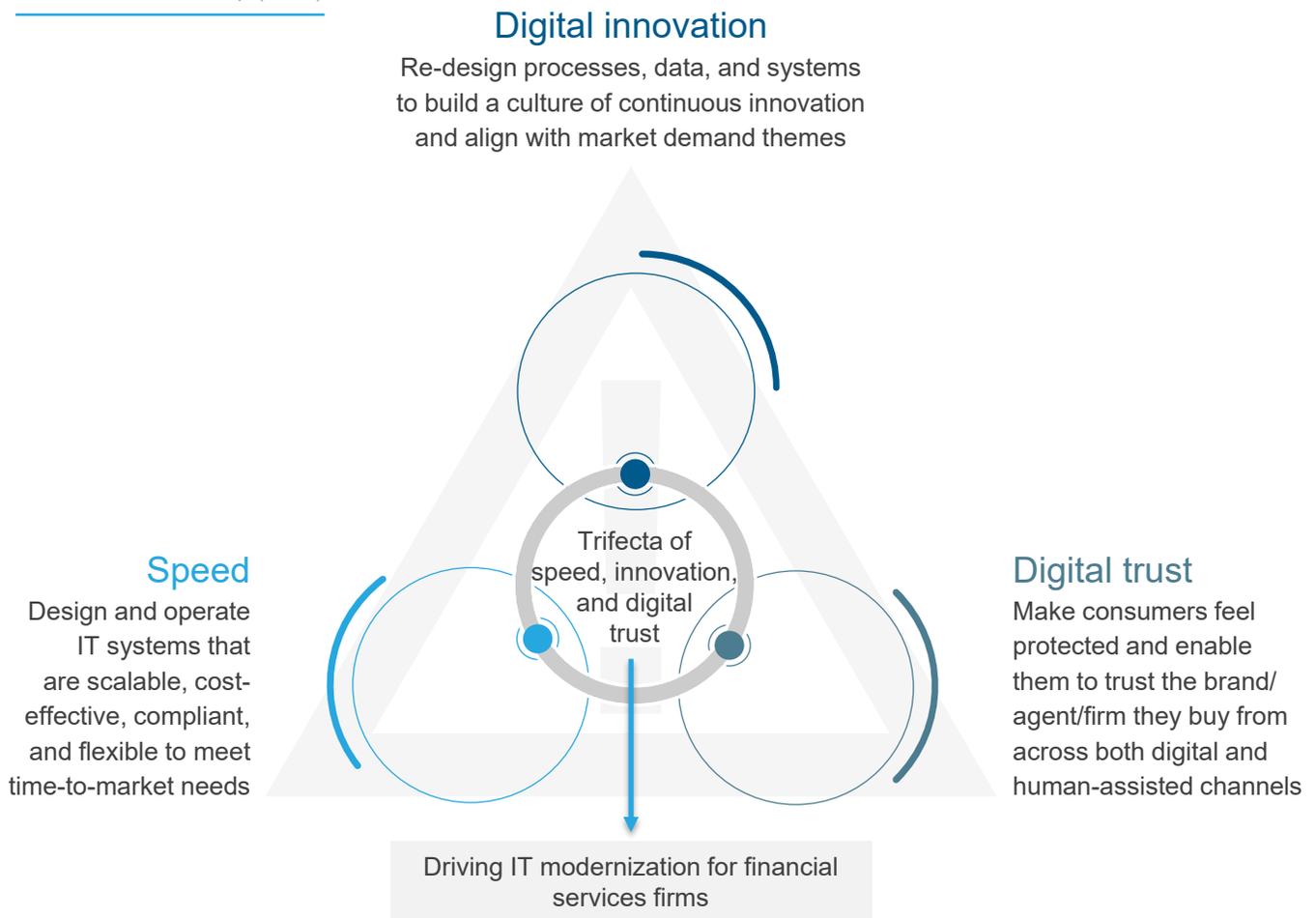
Financial institutions are looking beyond their own product offerings and moving to a co-creation model to combine, package, and offer products/services from the financial industry and allied businesses to orchestrate the end-to-end customer life cycle. This transition from a product-centric approach to a customer-centric model needs redesigning of the existing IT landscape and processes. The core itself is expected to evolve from transaction-processing systems to modern and intelligent systems centered on customer journeys. Enabling this modern IT architecture are new and emerging technologies such as Artificial Intelligence (AI), API-enabled open banking architecture, and the cloud.

Being agile and following a pragmatic approach to innovation, coupled with digital trust, will enable financial institutions to successfully orchestrate the desired ecosystem and co-create value for consumers. Financial services firms will need a scalable and flexible IT architecture and a modern IT operating model to achieve this trifecta of speed, innovation, and trust – what we refer to as T-SPINT, as shown in Exhibit 1.

EXHIBIT 1

The speed, innovation, and trust needs of financial services firms are driving IT modernization

Source: Everest Group (2021)



Delivering experiences at customer speed

Rapid changes in customer expectations are making it difficult for financial services firms to keep up and respond timely. They are at an important crossroads due to the emergence of new consumption models and are expected to hold personalized customer interactions through preferred channels and offer products/services aggregated across ecosystem players and contextualized to customer needs.

The COVID-19 pandemic accelerated this push by reducing face-to-face interactions and increasing the adoption of digital channels, such as mobile banking and customer support, through virtual agents and bots. Millennials, and now Gen-Z, who comprise a significant proportion of the total customer base, no longer know a world that primarily relied on physical interactions. However, financial services firms mention siloed data systems and processes as major roadblock on their journeys to accelerate the speed of delivering experiences and innovation to their customers.

An agile and iterative approach to building digital and customized experiences requires investments in modern IT infrastructure, data, talent, and technology for financial services firms. Such investments will help enterprises to rapidly adapt to market trends, as well as shape consumer demand themes. Organizational culture, which determines speed and agility, is a critical success factor, and it requires empowering people and creating multidisciplinary teams united by a common definition of success. In fact, the talent and people aspect of execution is the first step that leading financial services firms take.

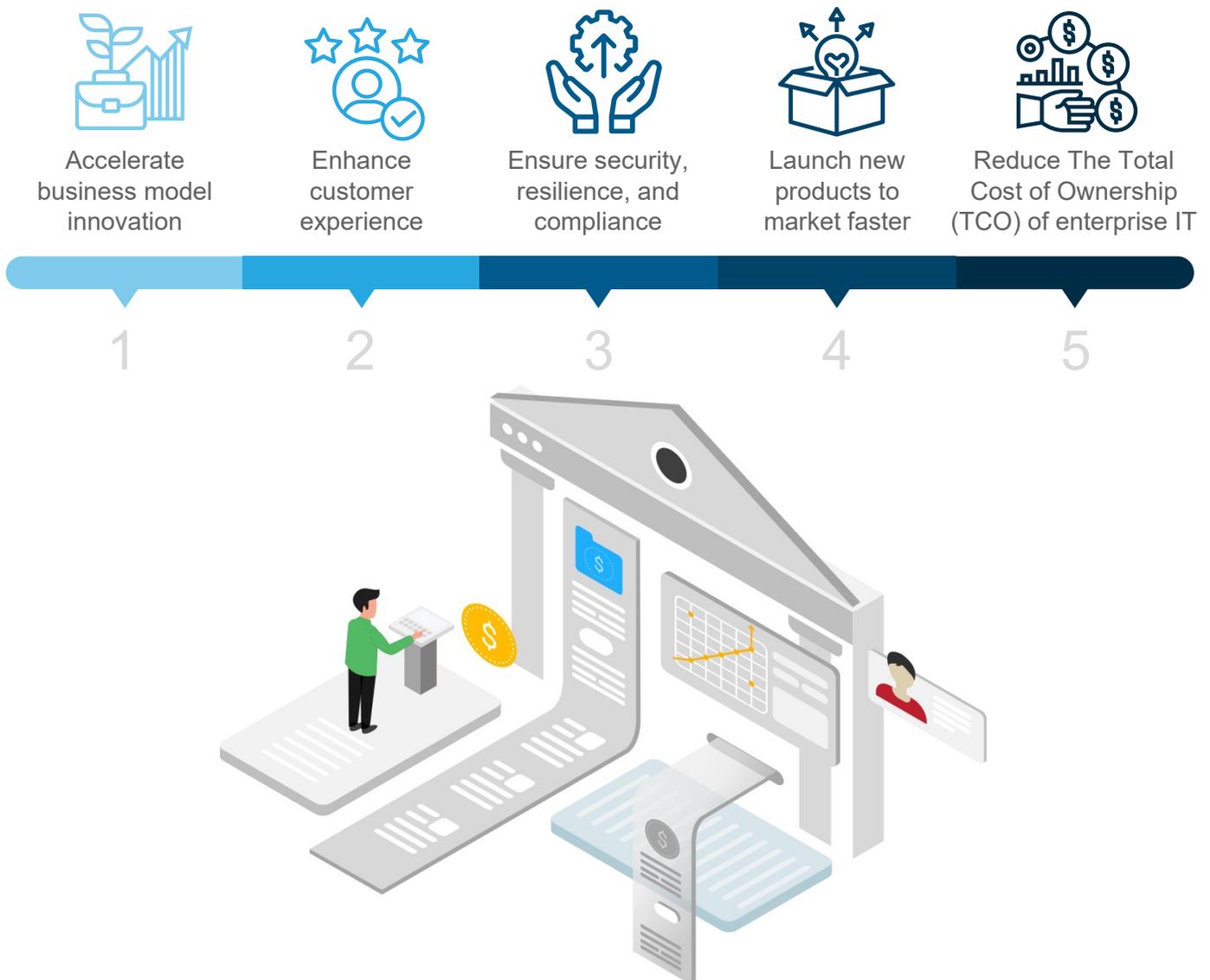
Innovation as a differentiator in the financial services industry

An Everest Group survey conducted among 100+ BFSI enterprises in September and October 2020 found that accelerating business model innovation was a key priority for 71% of BFSI companies. The exponential rise of non-traditional FinTech and InsurTech startups, BigTechs, and challenger banks/insurers are creating a competitive environment that favors technology-led business model innovation. The exhibit below highlights the top five strategic priorities for financial services firms.

EXHIBIT 2

Top five strategic priorities for financial services firms

Source: Everest Group (2021)



The above five strategic priorities are making way for new business models, which require firms to evolve from a financial services-as-a-product mindset to a financial services-as-a-lifestyle approach, which is defined by the principles of open finance. Product-centric enterprises are unable to differentiate effectively on their journeys to offer customers the experiences they desire.

Further, financial services firms want their innovation investments to drive enhanced operational efficiency, business resiliency, and sustainability, as well as build a lean and efficient risk and compliance function. For example, US-based global insurance organization AIG's enterprise-wide effort focused on achieving underwriting excellence, modernizing operating infrastructure, enhancing user and customer experience, and becoming a more unified company is enabled by its move to an as-a-service model. It allows AIG to deliver new digital experiences for customers and distribution partners, drive enhanced data insights to support underwriting excellence, and improve operational efficiencies.

The pivot to ecosystem orchestration and co-creation of value needs even more emphasis, especially to drive innovation in the compliance function, as financial services firms look to adapt regulations of the past to their digital operating models.

It is imperative for traditional firms to focus on re-designing processes, data, and systems to build a culture of continuous innovation across products and services, channels, experience management, business operations, and compliance. Financial services firms need an open architecture that allows them to expose and consume APIs to not only integrate their offerings with ecosystem partners, but also enrich their offerings by accessing innovative data, services, technology, and products offered by ecosystem partners. The open architecture that enables technology-led business model innovation will drive financial services firms to modernize their IT estate and build domain solutions on cloud-ready enterprise-grade technology to make IT and operations simple, efficient, effective, and aligned.

A case in point is First Horizon bank, which is using its VirtualBank brand as an innovation ground for long-term technology modernization by making it effectively compete with all participants in the BFS marketplace, while maintaining a focus on its existing client base. VirtualBank's conversion to a cloud-based core banking system is a crucial step in First Horizon's overall efforts to modernize infrastructure and product delivery. This helps it serve clients better by achieving a scalable platform to deliver a composable and extensible financial services model exposed as APIs.

Enabling digital trust to build Secure, Ubiquitous, Personalized, Easy, and Responsive (SUPER) banking experiences

A best-in-class SUPER banking experience is based on an environment that is secure for customers and extremely transparent in terms of fees, products, and inclusion/exclusion of services. Omnichannel services, personalization, seamlessness, and hyper-contextualized experiences follow next. A frictionless digital experience is important but within a framework that guards customer trust vis-à-vis financial services providers. Consumers today want to engage with their banks and insurers for not only products and transactions but as trusted partners supporting their financial wellness and protection needs.

Exhibit 3 showcases what banks and other financial institutions should do to build SUPER banking experiences.

EXHIBIT 3

Building SUPER banking experiences

Source: Everest Group (2021)

Secure	Ubiquitous	Personalized	Easy	Responsive
<ul style="list-style-type: none"> • Transparency in fees, products, and financials • Highly mature security features that do not impede customer experience 	<ul style="list-style-type: none"> • Access to financial services anytime, anywhere, and from any device • High digital channel availability 	<p>Customizable solutions relevant to not only present customer needs, but also future ones</p>	<ul style="list-style-type: none"> • Seamless user experience across channels and transactions • Financial solutions integrated with customer activities 	<ul style="list-style-type: none"> • Quick response to customer queries across customers' preferred channels • Context-aware responses in real-time

SUPER experiences in the next normal

<ul style="list-style-type: none"> • The pandemic accelerated the adoption of mobile and digital channels, which, in turn, increased cyberattacks on financial services firms • Security infrastructure should be strengthened, and security enhancement efforts need to be communicated to consumers to make them feel safe 	<ul style="list-style-type: none"> • As consumers wish to avoid contact with potential COVID-19 sources, they seek more help from self-service channels • There is an increased anxiety around one's personal finances and the economy's future, hence consumers need quick support through channel of their choice to address these concerns 	<ul style="list-style-type: none"> • In the post-COVID-19 landscape, customers will expect their financial service providers to prioritize their financial health and help their families return to the next normal • They will look for meaningful financial advice and services customized to their unique needs 	<p>Amid growing financial insecurity, it is likely that consumers will leave their existing financial services providers and choose new ones. To address this, financial institutions should focus on providing a seamless, omnichannel experience, and deliver an easily available ecosystem of financial and non-financial products</p>	<ul style="list-style-type: none"> • Quick responses are important to address consumer insecurities; maintaining the human touch is also critical • Financial institutions should know when to leverage human interactions • Irrespective of the channel of communication, it should be "human" in its treatment
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Following the pandemic, human-assisted support and services were replaced by digital and self-service channels, and, in some instances, these channels were enabled by fewer security controls. The need to feel safe and secure, both physically and financially, has made digital trust a basic customer expectation. In fact, customers show greater loyalty toward financial services brands that enable the feeling of trust through secured digital and human-assisted channels. Organizations need to adopt a zero-trust architecture when collaborating with the ecosystem to build platforms that offer privacy and security across the customer life cycle, as the transaction moves inside or outside organization boundaries. Building secured APIs and tightening network and infrastructure security is the first step in this direction.

Success in the digital world hinges on ensuring security in digital transactions and maintaining customer trust. Notably, cyber breaches and fraud are the biggest trials for banks' digital transformation journeys. Emerging technologies such as blockchain and confidential computing will further improve modern platforms that can encrypt and protect data during storage, transfer, and processing. The basic considerations for financial institutions to build digital trust are multi-factor authentication, mobile application security, secure transactions management across channels, and robust risk management.

Legacy technology – a roadblock to value discovery

Everest Group take

Business value realization from investments to achieve speed, innovation, and trust has slowed, as financial services firms wrestle with legacy systems, which lack agility, configurability, and architectural flexibility. Their siloed data, processes, and IT systems prevent smooth operations and hamper a seamless experience. Further, financial services firms looking to operate at the speed of their customers and the pace of technology advances find it harder and costlier to pivot their legacy systems to a modern and open IT architecture.

Compliance and risk management efforts, coupled with technology debt, exert immense pressure on financial services firms, as they execute their digital transformation strategies. This debt is the additional cost of future development or maintenance of software due to structural problems that remain or have been introduced in the systems over time. It results in excessive maintenance costs, process and decision-making friction, loss of agility, increased vulnerability to cybersecurity breaches, and long-term strategic risks.

The monolithic or Service Oriented Architecture (SOA) design of these systems is not suitable for an agile and evolving digital world because their applications are strongly bundled together as a single and central framework. Financial services firms dependent on such aging platforms often find it difficult to timely respond to market demands or adopt emerging technologies.

Thus, financial services firms should evaluate the various components of technical debt to assess their current state, as showcased below, and develop a modernization roadmap based on the extent of change required.

EXHIBIT 4

Components of technical debt that financial services firms should evaluate

Source: Everest Group (2021)



State of technology

Information and operational technologies that enable business processes, such as deposits/account management, underwriting, loan origination, payments, and CRM



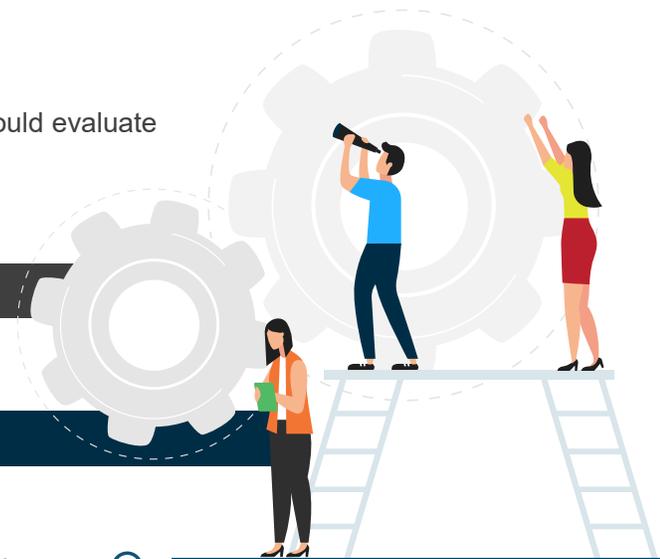
State of innovation

Adoption of modern themes, such as open architecture, SaaS, cloud, data analytics, and automation, which ensure competitiveness and innovation



State of competencies

Internal and external competencies, such as Agile, DevOps, talent, and interoperability, which enable change



Legacy systems pose many pressing challenges to financial services firms, including:**Poor digital customer experience**

- Legacy systems store data in silos and operate in a product-centric manner, which makes it difficult to have a 360-degree view of customers. This prevents traditional financial services firms from providing personalized experiences to customers over their preferred channels, which BigTechs and FinTechs can easily achieve due to their digital native systems
- API-based channel integrations are difficult to achieve with legacy systems, further impeding personalized customer experiences

Lack of flexibility and agility

- Monolithic architectures limit the ability to launch new products quickly based on demand themes
- Creating innovative products and services for the future requires connectivity to third parties, which is not possible with a complex, closed, and rigid legacy architecture
- Legacy systems pose integration challenges post M&As, hampering growth synergies and other operational benefits from consolidation
- Most of these systems still use programming languages such as COBOL, which were not designed for the internet and mobile banking era, impacting their ability to perform real-time operations. The complexity of legacy systems slows down further development and testing cycles as well

Talent shortage

- Poor documentation of legacy code, multiple interdependencies between fragmented elements, manual operational processes, and over dependence on subject matter experts are key challenges when maintaining legacy systems
- The talent and skills required to work with legacy systems are scarce and, hence, expensive, hindering financial institutions' ability to maintain an adequate and quality resource pool for maintaining legacy systems
- A majority of the current talent pool is aging and will lead to a bigger skill and knowledge gap when the workforce retires

High total cost of ownership

- Technical debt in legacy systems consumes a large proportion of IT spend
- Manual handling of operational processes, software development, and testing; high levels of complexity and fragmentation; and talent shortage keep the cost of maintenance even higher

Adoption of emerging technology and new asset classes

- The financial services industry has seen three major shifts in terms of the technology landscape – interaction with products and services moving to a mobile-first approach, the shift to virtualized and cloud-based systems, and the technical architecture's move to APIs, distributed systems, and microservices. Without a new and modernized approach to core systems building and functioning, financial institutions will not be able to fully leverage these new and emerging technologies
- Legacy systems also hold back financial services firms from adopting new asset classes such as cryptocurrency. Following cryptocurrency's sharp ascent and increased adoption among investors, corporates, and FinTechs, financial services firms will not want to be left behind

EXHIBIT 5**Technical and business challenges due to legacy systems**

Source: Everest Group (2021)

Business challenges attributed to legacy core systems

- Poor digital customer experience
- Low business agility to launch new products
- Lower agility to manage and adapt to evolving risk and compliance mandates
- Difficulty in platform integration post M&As
- Inability to compete with digital-native players such as BigTechs and FinTechs
- High cost of running legacy systems

**Technical challenges attributed to legacy systems**

- Lack of flexibility and agility to respond to changing customer and business needs
- Difficulty in integrating with third-party platforms and upgrade challenges due to custom code
- Issues with platform scalability to support business growth
- Shortage of talent and low skills readiness
- Limited flexibility to optimize the cost of IT infrastructure
- Siloed and fragmented data and core platform estate

Despite industry consensus about the challenges that outdated technology poses, many financial services institutions continue to work with a “if it is not broken, why fix it” philosophy. The systems are old but have functioned adequately over the years and hence are not replaced due to the fear that technology overhaul comes with high risk and an expensive capital outlay. What these firms fail to understand is that their digital competitors are better positioned to provide a satisfying customer experience and are equipped to dominate the marketplace.

Having said that, we believe that if incumbent financial institutions embrace modernization, they will continue to lead the financial services industry by virtue of their established customer base and the extensive regulatory scrutiny they can manage.

Continuous modernization resulting in IT and operations complexity

Everest Group take

Financial services firms have undertaken a series of modernization initiatives to address the challenges associated with legacy systems. These initiatives have taken place at different points in time in organizations' modernization journeys and impacted selected segments or technology components in each wave. Such siloed but continuous modernization initiatives have increased the complexity for business and IT operations, making every modernization activity riskier, more complex, and costlier than the previous one.

Modernization efforts are largely rolled out in silos to prioritize specific system modules or components in immediate need for modernization. Increasingly, enterprises are modernizing these components in a phased manner, with a series of sprints for each module. They follow this approach as it enables them to demonstrate value throughout the modernization journey, instead of at the end of the exercise.

For example, an enterprise may start with customer experience and a reimagined front-end, followed by additional functionalities for a line of business, and finally automation at scale to support internal business goals. A rip-and-replace strategy or a big-bang approach is challenging due to the high risk involved in migration, costs, and time required. Institutions with an urgency to replace core platforms because of obsolescence or regulatory requirements do choose to go for a complete replacement of the legacy core with a new technology stack. However, the accompanying risks are higher due to extensive data migration. Also, benefits take some time to show up – only after the final customer is migrated and legacy systems are completely decommissioned.

The need to manage and scale IT infrastructure for new and old technology estate increases IT costs and forces financial services firms to shift more resources to run and manage the IT estate instead of leveraging them for change efforts, such as new client experiences. The multiplicity and duplicity of IT systems causes IT operations issues and, in turn, poor employee experience.

The biggest impact of continuous modernization approaches is on business operations, which break down due to siloed data and technology systems and/or old legacy technologies. Screen-scraping or Robotic Process Automation (RPA) tools temporarily address these operational challenges, system-level friction, and silos. However, as IT applications go through continuous modernization, they disrupt the RPA bots and scripting tools themselves that were brought to eliminate operational efficiencies and manual efforts.

The siloed nature of continuous modernization initiatives also poses challenges such as compliance and data security incidents and increase in IT infrastructure support and maintenance costs. Business operations' breakdown and non-coherence of process data are driving up the spend on manual operations. The added complexity limits visibility into process workflows, impacting the experience for customers, agents, and employees.

A platform-based IT operating model – the shift to continuous simplification

Everest Group take

Enterprises can avoid the business and IT operations complexities associated with continuous modernization by adopting a platform-based IT operating model. This involves the construction of a target-state IT architecture that simplifies operations through a series of interventions by building composable microservices-based components on a flexible, scalable, and agile IT infrastructure. The creation of a componentized and composable Digital Capability Platform (DCP) for each business process will require the assembling of best-of-breed technology components, which are granular, connected, and interoperable. This plug-and-play IT architecture will also simplify IT operations by enabling consumption through as-a-service models that are focused on cost-effectiveness and stakeholder experience enhancement. Financial services firms will need to invest in building a data exchange that powers the platform.

We believe that a winning bank's vision in the next normal will be to anchor on simplification. A component-based approach, which involves breaking down legacy components into manageable and composable elements through a series of incremental steps, is a less risky and effective option. According to Everest Group estimates, the Banking, Financial Services, and Insurance (BFSI) industry spends US\$88 billion annually on third-party platform technologies and their implementation and maintenance services. This spend is growing at 8.6% annually, as the industry favors assembling best-of-breed solutions to accelerate the speed-to-market.

A practical approach to modernization involves eliminating elements that act as roadblocks to transformation or wrap them around best-of-breed modernized elements so that the core remains as the true system of records, while everything around it is carefully migrated to a cloud infrastructure that allows scalability in line with the operations volume. The focus should be on **first simplifying the existing estate and then adding new technologies**, in a phased manner.

For instance, Swiss Re Corporate Solutions has implemented a series of cloud-based solutions to create a platform that expedites the speed of innovating new products and experiences. This modernization will happen in an agile manner and will enable an as-a-service consumption model that eliminates the need for significant capital outlays and better manages the costs and risks of IT modernization programs.

Simplified operations will make financial institutions much more agile and scalable, enhance their ability to launch new products swiftly and compete better by serving growing market expectations in a trusted environment. Rapid iterations and experimentation with composable elements will help demonstrate quantifiable progress, realize early results, build a momentum of digital transformation, and help manage legacy complexity.

Financial institutions can choose to start with the most critical customer journeys or by identifying frequently used functionalities and rebuilding them as microservices. They can roll out the transformation in phases or by vertical domain/department, while all of it is carefully built on a platform-based architecture.

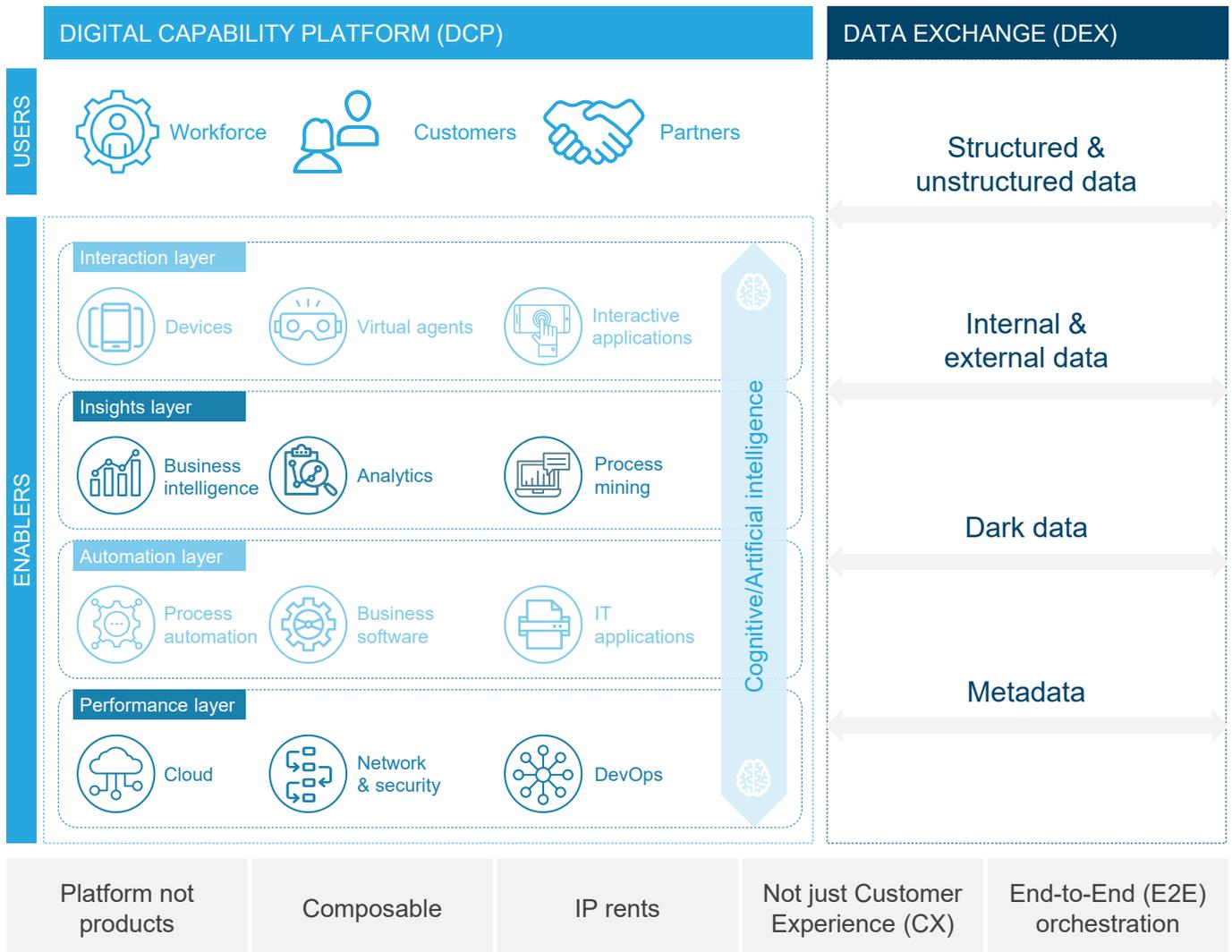
A platform-based IT operating model allows to orchestrate different technology elements to create business value by building and delivering experiences to each stakeholder and streamlining data and business decisions processes. The ability to build once and deploy multiple times for each hyper-segment allows businesses to reuse more components, while the granularity of each component due to the microservices-enabled architecture allows a higher degree of configurability. The platform’s success depends on the data infrastructure that powers it to configure and enable experiences for each hyper-segment.

There are several layers to this platform-based IT operating model, and each layer is increasingly becoming highly cohesive and loosely coupled via APIs and available in an as-a-service model via cloud-enabled IT infrastructure. The exhibit below explains the different layers, namely, interaction, insights, automation, and performance, which together form a Digital Capability Platform (DCP).

EXHIBIT 6

A DCP combined with a data exchange is the foundation of a modern IT operating model

Source: Everest Group (2021)



Let us take a closer look at the key characteristics of a platform-based IT operating model.

Characteristics of a platform-based IT operating model

Assembles best-of-breed technology from the ecosystem

- Financial services firms can take advantage of the rich APIs, data, and technology solutions available in the ecosystem to bring best-of-breed components together to build best-in-class experiences
- The rise of enterprise-grade technology hosted on the cloud and/or delivered in a SaaS model means that financial services firms do not need to build and/or maintain all the technology components
- The platform-based model will also encourage financial services firms to expose data and services via secured APIs, allowing partnerships with FinTechs and other technology vendors

Centered on stakeholder experience

- The modularity of the platform model allows financial services firms to deliver superior experiences, to not only customers, but also agents, employees, and partners
- A platform-led approach breaks down rigid silos in systems, as different components can effortlessly interact with each other via APIs
- There is increased focus on co-creating value for stakeholders and with the ecosystem by creating systems and infrastructure to integrate, manage, and govern this shared model

Uses data exchange to power the platform

- A digital capability model is successful with a strong foundational data infrastructure; hence, financial services firms need to reimagine the traditional data value chain with future-ready data exchanges providing deeper customer and channel insights
- A traditional linear-data supply chain, in which enterprise data is ingested into systems, stored, and transformed before analytics can be applied to it, is being replaced by a collapsed data supply chain in the form of data exchanges (DEX)
- The collapsed data supply chain includes data from multiple sources – unstructured data from social media feeds, customer data, market data, and traditional enterprise data stored in warehouses
- These data exchanges are of high value for enterprises and, along with the DCP, offer benefits such as real-time actionable insights, breakdown of silos using centralized data systems, opportunities to train Machine Learning (ML) algorithms to automate processes, the ability to leverage Artificial Intelligence (AI) solutions to deal with regulatory and compliance issues, and the capability to partner with the ecosystem for new product development

Extends customer relationship beyond financial products – the monetization model

- Financial services firms have an opportunity to increase the number of channels through which they access and serve customers
- To enable the multi-channel model and offer SUPER experiences across all channels, the DCP needs to act as an experience orchestrator across channels
- Banks are now able to not just sell mortgages, but help customers manage and enrich their entire home-buying experiences. This is also true for financial wellness or car buying or travel experiences and several other customer journeys

- Commercial banks can build a platform that helps the business better manage all its financial services needs and allied services, and then deploy it multiple times by configuring it for each industry. The platform-based operating model can enable verticalized banking experiences and, thus, help banks truly differentiate in the way they create value
- Insurance firms can partner with automobile manufacturers to take advantage of connected vehicles and use data with consumer permission and other simulations to better underwrite the risk and offer connected insurance, which is bundled at the point of purchase. This bundling of insurance sales from customer onboarding phase to claims processing offered through partner channels can be enabled via APIs exposed from the platforms

Unlocks the potential of digital technologies

- A robust API-based framework will support smoother integrations, simplify operations, and offer a secured and controlled method to connect with ecosystem partners. APIs have fueled the open finance revolution and will continue to be powerful components of the platform-based operating model
- The cloud eases the consumption model of the platform and its various components, thereby improving agility, flexibility, cost-effectiveness, scalability, and developer experience
- Data and analytics tools power decision-support and insight-generation for financial services firms. Analytics technologies will enable the vision to build data-driven operations, channels, and products, and such technologies can be easily embedded in the platform-based operating model
- Automation and cognitive technologies can drive productivity benefits and design new experiences for customers. The cognitive components can also drive efficiencies and improvements in each component of the platform, increasing its utility and value

Platform-based IT operating models driving tighter integration of IT and business operations

Technology in the financial services industry has today shifted from enabling business to becoming the core of the business. The scale and speed of digital transformation initiatives and the value realization empowering the innovation engine are becoming vital differentiators for financial services firms. The platform-based IT operating model takes digital transformation to the next level of value realization by designing systems aligned with business operations. These value levers across stakeholders such as customers and the extended ecosystem vary by line of business.

The retirements market is a prime example of an industry fraught with legacy technology and operational and regulatory complexity, requiring accelerated modernization of processes and experiences. The urgency to modernize, the increase in digital expectations from plan participants, the entry of new-age competitors which use digital and automated advisory tools, and the need to aggressively take out costs support the business case for moving toward a platform-based IT operating model. The benefits of technology components are realized and, in most cases, amplified when consumed together. The move to the cloud furthers eases the consumption of operating model components.

The platform-based IT operating model for retirements

Market context for the retirements industry	Imperatives for change
<ul style="list-style-type: none"> • Changing demographics and expectations of superior experience and better plans at lower costs • Increasing instances of home-grown, legacy, and mainframe-based core systems inhibiting scalability, hindering accelerated launch of new products, and increasing maintenance costs • Multiple disparate systems due to M&A-led inorganic growth • Low interest rates, rising competition, and the need for transparency driving fee compression and cost pressures • High maintenance costs due to operational inadequacies and increasing instances of manual processing in the record-keeping function, which is seen as a cost center 	<ul style="list-style-type: none"> • To shift from a product-led to consumer-first model of personalized service • Rationalize and integrate disparate parallel systems to create a meaningful unified view of the enterprise and consumer data for insights generation and better decision-making • Establish a digital front-end, including self-service functionalities with omnichannel support, to deliver a superior stakeholder experience • Achieve scalability and faster time-to-market to offer additional features and products (e.g., health savings accounts, student loan forgiveness) to drive revenue growth • Achieve efficiencies in plan administration and record-keeping to reduce TCO
Technology levers of the platform-based IT operating model	
<ul style="list-style-type: none">  Artificial Intelligence (AI) / Machine Learning (ML) to drive personalized and automated investment advisory  Automation to improve the processing speed of retirement applications, enhance the efficiency of managing participant transactions and reduce manual interventions  API-/microservice-based architecture to build modular applications, expedite development, achieve simplification and reusability, and establish communication with ecosystem partners  Analytics to forecast demand themes and customer needs, build competitive products, monitor plan effectiveness, and make personalized recommendations  Cloud adoption to reduce operational costs and achieve scale, agility, and flexibility in operations  Agile/DevOps for faster development, hence meeting participants' needs quickly; better and quicker compliance with regulations; cost savings through reusability  Data modernization to create a 360-degree view of consumers and processes; robo-advisors and self-service tools to address participant queries and allow participants to effectively manage investment allocations 	

For the mortgages industry, it is vital to be nimble and operationally efficient to cut down costs and operating time. From sales and distribution to origination and servicing, consumers expect a seamless and time-efficient experience that is designed for the channel and device of their choice.

Mortgage firms can win consumer trust by building effective, simple, and transparent communications and ensuring seamless operations throughout the customer journey and choice of channels (physical or digital). Legacy systems fail to address regulatory complexities or keep up with the need to make constant updates.

The platform-based IT operating model for mortgages

Market context for the mortgages industry	Imperatives for change
<ul style="list-style-type: none"> • Lenders struggling to manage capacity due to fluctuating origination volumes – rising unemployment and pay cuts due to the pandemic have hit consumer spending, while low interest rates are accelerating refinancing and new purchases • Operational inefficiencies and increasing origination cost per loan exerting pressure on profits • Extremely long and tedious process involving extensive physical documentation, unpredictable delays, and multiple agent reach-outs creating a substandard customer experience, especially for millennials, who now account for the largest share of homebuyers • Increasing competition from FinTech lenders that follow a digital-first approach, allowing them to deliver new products and a comprehensive home-buying experience, with reduced processing time • Changing regulatory landscape to make the lending process cleaner and safer; lenders too are tightening lending criteria to mitigate risks and minimize fines 	<ul style="list-style-type: none"> • As volumes fluctuate, efficient handling of document retrieval, storage, and tracking becomes imperative • Achieve operational efficiencies and integrate disparate systems to boost lenders margins and achieve faster time-to-market • Expedite and streamline processes (origination, client onboarding, document processing, underwriting, and servicing) by reducing manual interventions and using tools such as e-notes, e-closing, and e-signatures (paper-free mortgages) • Transform into a data- and insights-driven enterprise to understand consumer needs better and offer new mortgage products (e.g., of varying rates, duration, initial deposit required) • Use digital tools, provide a consistent omnichannel experience, reduce wait-times, balance in-person and virtual interactions to improve the home-buying journey • Use alternate measures of creditworthiness such as family wealth, job history, and educational qualifications; and detect fraudulent behavior early, to mitigate risks in real-time
Technology levers of the platform-based IT operating model	
<ul style="list-style-type: none">  Centralized customer data repository to avoid repeat requests and apply analytics over it to generate meaningful insights  Robotic Process Automation (RPA) and chatbots to drive down personnel costs and handle requests in real-time  Analytics-based dashboards to provide a unified view of customers, guide agents with the right products to cross-sell/upsell, and evaluate credit scores with newer metrics  AI-/ML-powered Optical Character Recognition (OCR) to reduce manual activities and automate data extraction from documents  Blockchain for process standardization and real-time document exchange, hence reducing cycle time and security  Automation to build self-service portals, send status updates to customers to avoid unpredictable delays  Cloud and microservices/APIs based architectures to drive agility, flexibility, cost optimization, scalability, and security 	

The rise of mass affluent, generational transfer of wealth, demand for alternative and sustainable asset classes, and the need for an advanced self-service model are changing the face of the wealth management industry. The data and technology needed to power these digital interactions and back-end operations require wealth management firms to shed legacy systems fast. Effective engagements with ecosystem partners to deliver seamless end-to-end advisory and investment support need modern platforms that can engage and interact beyond traditional organizational boundaries.

The cloud-powered platform-based IT operating model for wealth management firms will help them take advantage of the AI democratization offered by large technology vendors, access data from ecosystem partners, and quickly design more personalized experiences that consumers can trust and use as per their preference of human or human-assisted or completely self-service options.

The platform-based IT operating model for wealth management

Market context for wealth management	Imperatives for change
<ul style="list-style-type: none"> • Declining operating margins due to fee reduction owing to an accelerated shift to passive investing; growing competition from FinTechs/BigTechs; slower asset growth; low interest-rate environments; and COVID-19-induced uncertainty • Change in investor demographics: Millennials and Gen-Z demand personalized experiences, prefer hybrid advisory services, and value socially responsible investing • Complex systems due to siloed business operations and data stores leading to inconsistent decision-making • Evolving regulatory landscape increasing the compliance burden, leading to cost pressures and a shift in settlements and trade 	<ul style="list-style-type: none"> • Mitigate the impact of reduced fee income by faster client activation, broader range of asset classes / products / value-added services with cross-/up-sell capabilities • Enhance customer experience with a personalized approach to financial wellness and advisory with an intuitive digital front-end platform • Achieve product simplicity and transparency, with anytime, anywhere, any device access (human + digital approach) • Create synergies through ecosystem partnerships • Move from a siloed data and process approach to an integrated platform view for the entire trade life cycle • Streamline operations, strengthen cybersecurity, and ensure data privacy to meet regulatory compliances better

Technology levers of the platform-based IT operating model

	Distributed Ledger Technology (DLT) / blockchain for efficiency, security, and transparency across the trade life cycle and to develop smart contracts
	Cloud for lower costs, security, and growth/scale
	AI-/ML-driven analytics for portfolio assessment and suggestions, to support valuations and anticipate risks
	APIs for interoperability with partners and to drive efficiency, reusability, and speed within internal systems
	Centralized data management systems for a unified customer view, collateral view, and risk view
	Automation of tasks across mid- and back-offices to meet regulatory compliances cost-effectively
	Robo-advisors and digital channel interactions

Insurers should start reimagining the fundamentals of value creation – shifting from insuring risk to ensuring protection (act as guardians). They must balance near-term financial goals, while carefully building their long-term transformation roadmaps to become guardians for consumers protecting their life, health, and wealth. Near-term priorities for insurers are digitalizing operations to reduce costs and simplify existing systems/processes. These investments are resulting in intelligent claims operations, direct-to-consumer digital sales and distribution setups, and an expanding risk coverage. Industry leaders see underwriting excellence being the key to success in their journey to become guardians. The adoption of a cloud-native digital insurance platform fueled by data can power the transformation curve for carriers.

The platform-based IT operating model for insurance

Market context for the L&A insurance market	Imperatives for change
<ul style="list-style-type: none"> • Intense cost pressures in the L&A insurance industry due to slowing premium growth rates, declining profitability ratios, low interest-rate environments, and a complex regulatory landscape • Impact of the COVID-19 pandemic – shrunk investment portfolios; slackened sales for products such as group life (due to wage cuts and increased unemployment) and higher demand for ordinary life insurance • Productivity issues, as agents/brokers shift to a remote-selling process and are unable to meet customer-service SLAs 	<ul style="list-style-type: none"> • Improve efficiencies and experience to gain cost transformation • Offer value-added services for customer engagement (health tips, financial planning, etc.) • Improve risk monitoring and reporting • Streamline quotes, policy servicing, and claims processes • Equip brokers/distributors/advisors with digital solutions
Market context for the P&C insurance market	Imperatives for change
<ul style="list-style-type: none"> • Demand pressures due to slowing economic activity, rising income uncertainty, high combined ratios, and an uncertain macroeconomic outlook impacting the P&C insurance industry • Impact of the COVID-19 pandemic – lower sales of home and auto insurance; additional claims burden and business coverage lawsuits • Increased competition from InsurTech and BigTechs due to demand for enhanced customer experience and flexible, on-demand products at lower costs • Outdated underwriting, policy servicing, and claims processes/infrastructure – a complex and lengthy application process, challenges in handling sudden spikes in claims volume/inbound queries, difficulties in remote administration and policy servicing • Digital maturity and increasing reliance on sensor-based technologies making cyber risk a big threat 	<ul style="list-style-type: none"> • Provide need-based product recommendations, self-service tools, and an omnichannel portal experience for consumers • Accelerate customer acquisition by reimagining the sales/distribution and onboarding operations • Accelerate claims handling, underwriting, and servicing through self-service portals, chatbots, quick quotes, e-signature, digitized contracts, etc. • Innovate coverage (e.g., microinsurance, on-demand, for emerging risks), services (e.g., bundling, simple claims management), and pricing (e.g., usage, behavior, lifestyle-based) after understanding customer demand themes • Offer a 360-degree customer view to provide agents the next-best action for cross-selling/upselling • Ensure robust fraud management
Technology levers of the platform-based IT operating model	
	<p>AI and automatic data extraction to speed up underwriting, policy servicing, and claims workflows</p>
	<p>Sensor-based products; remote solutions for claims proof</p>
	<p>APIs/microservices to allow faster, simpler, and scalable product development and establish two-way communication with ecosystem partners</p>
	<p>Data modernization and analytics for real-time risk management, fraud detection, and insights generation</p>
	<p>Cloud-based infrastructure and security solutions to achieve speed, cost efficiency, agility, and flexibility</p>

Conclusion – getting started with the platform-first IT operating model

The business case for legacy modernization and getting past the traps of continuous modernization initiatives pave the way for rethinking modernization in light of advances brought in by modern engineering and IT architecture principles, developments in data and cognitive technologies, and the maturing of cloud technologies. BFSI firms traditionally addressed operational complexities via a series of interventions that involved point solutions or custom-built monolithic applications, which struggle to offer digital experiences. Further, the continuous modernization interventions were siloed across business units and points in time, compounding operational complexities.

As this research showcases, a platform-first IT operating model has the potential to generate sustainable value for financial services firms. It can future-proof business to mitigate the disruption from non-traditional competitors by embedding the principles of agility, scalability, and flexibility in the operating model, along with extensibility to tap into emerging technologies and the extended ecosystem.

Financial services firms need to take a structured approach to be successful in this journey.

They should:

- Build a target-state vision for each line of business that is underscored by market trends, competitor perspectives, growth appetite, and risk profile; this requires them to critically evaluate their business operations and create a forward-looking platform-based IT operating model
- Bring the design principles of consumer-first, ecosystem-powered, and compliant-by-design to move toward continuous simplification
- Build organization-wide process, applications, data, and infrastructure maps to understand the resiliency and sustainability of organizational systems:
 - Identify components of the existing landscape that are obsolete and ready to be retired
 - Identify modern systems in the ecosystem and/or design a roadmap to build them
 - Rank components that can be modularized and retained in the target-state vision
- Simplify the continuous modernization journey by bringing best-of-breed technology solutions to build a modular, micro services-enabled, multi-tenant, and utility-based platform architecture
- Adopt the cloud as the under-pinning technology for driving this change in the BFSI enterprise technology stack and enable the as-a-service consumption model
- Create a platform adoption strategy that focuses on building a compliant set of core offerings surrounded by value-add services; the value delivery measurement needs to have targeted metrics that cover not just standard growth or margin improvements, but also the efficiency of risk and compliance operations, security, data protection and, most importantly, the experiences of all stakeholders
- Manage challenges related to talent shortage, infrastructure scalability to work with ecosystem partners, adoption of emerging technologies, and shadow IT, which could disrupt value realization



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