MAMBU

How APAC banks can de-risk digital reinvention

Why big bang is out, and incremental core transformation is in

Demand for fintech innovation is moving downstream, making core modernisation a necessity for APAC's incumbent banks as they seek to combat churn and win growth in markets flooded with digital challengers.

This eBook looks at the risk of inertia as technical debt and the cost of change rises, as well as the pitfalls of taking a 'big bang' approach to transformation. Instead, it turns the spotlight on rapid incremental change, using dual and parallel core platforms to future-proof operations and leapfrog competition with less risk and lower cost.

Why core bank transformation is future critical

The digital banking era is reshaping expectations in APAC

While many long-standing financial institutions (FIs) in Asia Pacific (APAC) have been content with slow evolutionary change, COVID fall-out, combined with open banking and increased competition is forcing the pace to quicken.

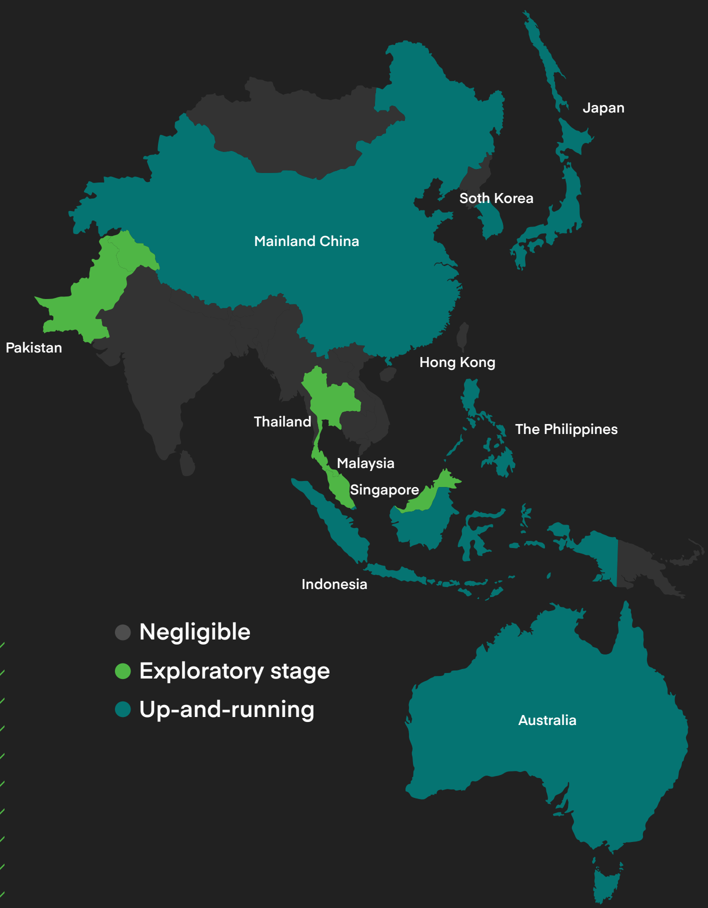
Although the majority of APAC banks are looking to drive digital transformation and have ongoing initiatives in place, a recent PwC survey indicates that over 80% have yet to achieve their digitalisation goals, despite over 70% indicating they have a clear digital strategy.

While they are at a sticking point, a growing divide is emerging, between legacy and digital-first banks. The outperformers are sprinting ahead with top decile performers delivering five times more value than their peers.

Competitive threat won't wait

Lack of transformation has left Incumbent banks at risk of 'death by a thousand cuts' as fintechs eat away at their traditional market share and value chain. As of 2023, over 40 digital-native banks had been launched in APAC. (See below). By 2025, a further 100 new challengers are predicted and incumbents can expect to be directly challenged by at least two digital banks in each local market.

Digital Banking Progress[1]
APAC



Competitive threat is highest in Southeast Asia, where consumers are hungry for innovation.

- **78%** in Thailand
- **77%** in Vietnam
- **69%** in Indonesia

would consider switching to a challenger neobank or fintech.

Competitive Landscape
APAC Digital Banks

Mainland China	WeBank 微众银行, XW 新网银行, SNB 苏宁银行, 网商银行, AiBank 百信银行, 亿联银行	Singapore	trust, GXS, GLDB, ANEXT BANK, MariBank
Japan	Rakuten 楽天銀行, Sony Bank, PayPay 銀行, Kyash, au Jibun Bank	Australia	judobank, XINJA*, VOLT*
South Korea	kakaobank, K bank, toss	Indonesia	Jenius, Aladin, digibank by DBS, motion banking, TMRW, Jago
Hong Kong	mox, ANT BANK, PAObank	The Philippines	Overseas Filipino Bank, tonik, GOtyme bank, maya BANK, uno digital bank, UnionDigital

‘Keeping the lights on’ is no longer enough

Banks traditionally allocate 15-20% of operating expenses to technology. But as customers flock to digital channels and services, 83.2% of APAC banks plan to increase their technology budgets in 2023, (14.8% by 20% or more).

However, to prevent churn and initiate growth, legacy tech investment must do more than maintain uptime, it must also bring digital maturity, deeper product agility, data driven personalization and a better end-to-end financial experience. And that means changing the core.

Transformation is key to future-proofing the business

Failure to transform their legacy core puts APAC incumbents at risk of a domino effect of cost and risk that can adversely impact their short-term performance and long-term viability.

Domino effect of change inertia

Mounting Tech. Debt

Technical budget is increasingly burdened with maintenance activity directed towards highly customized legacy technology stacks

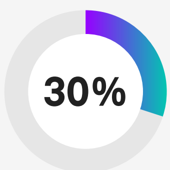
Higher cost of change

Cost of change increases for bloated technology stacks and leaves less room for innovating at pace to meet evolving market needs

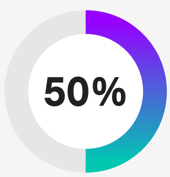
Reduced competitiveness

New and existing competitors capture market share at an accelerated pace, compounding the effect of increasing technical debt

By our assessment, overcoming this domino effect can lead to 30% outperformance in revenue growth at up to 50% lower technology cost to serve every incremental dollar of revenue.



Outperformance in revenue growth



Up to 50% lower technology cost

Choosing the right approach

Financial institutions are highly functional organisations, filled with operational complexities and well-thought-out mechanisms such as account ledgers and identity security measures.

One of the most important factors for legacy banks when navigating digital transformation is maintaining stability, minimising downtime and managing operational risks of migration.

What APAC banks should avoid

1 A band-aid approach

Cobbling together disparate systems and applications on ageing IT fails to deliver the digital first experiences APAC customers now expect.

2 Doing everything in house

According to IDC APAC banks that have focused on in-house investment and in-sourcing have failed to achieve the desired ROI, growth, retention, and digital-first customer centricity, despite spending $100 billion in technology.

3 Big bang heavy legacy replacement

Performing a monolithic system upgrade and using a long-term architecture roadmap to rip and replace core components can ensure core banking systems stay robust at the ledger. However, it can create weaknesses in other areas like CRM, channel and payments. These may require separate transformations of their own. All of this can lead to massive budget overruns, functional silos and in some cases, operational failures.

Five reasons big bang transformations fail

- Core changes can take years – from business case to design to implementation
- Heavy customisation requires hard to source tech-expertise in house
- Core changes are risky, often with irreversible repercussions
- They are expensive and heavy on resources with costs taking years to recoup
- They may not deliver the intended UX outcome with services outdated before they go live

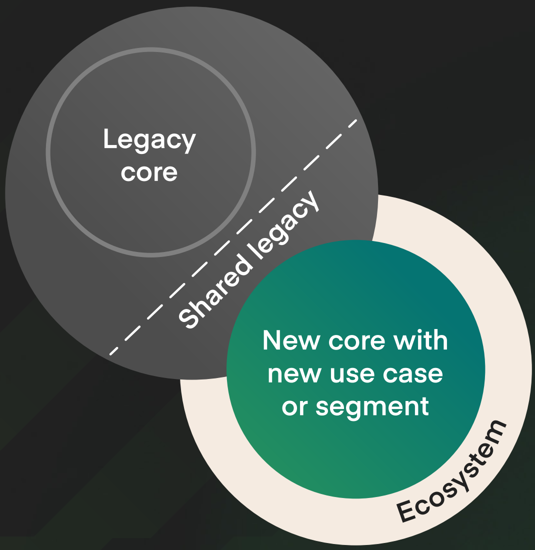
Incremental transformation, offers a low-risk, lower cost alternative

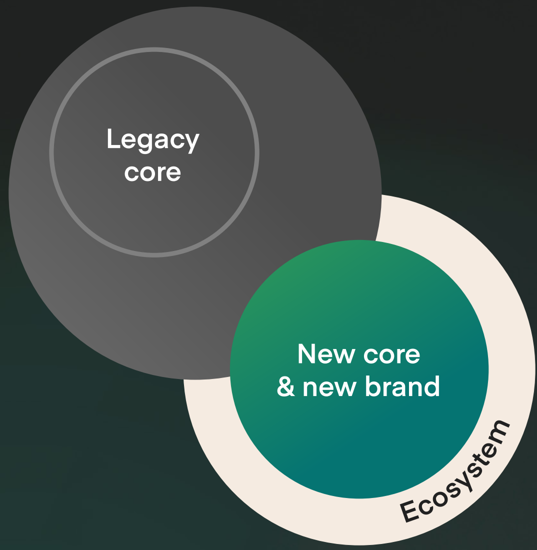
Today, five-year transformation plans are useless as they fail to keep pace with the market's accelerated rate of change. Instead, banks need to be planning only a few months ahead – 18 months maximum.

This means that APAC incumbents should avoid multi-year transformation programmes designed to bring them slowly into the digital age, replacing legacy only once it becomes obsolete.

In their place, they should look to deliver continuous incremental change, bringing in all the advantages of cloud core without delay. In practice, this means adopting a series of progressive core renovation projects and migrations – either via a shared dual core approach or by building a parallel new core on the edge.

Agile APAC practitioners are embracing shared legacy and on the edge models to drive incremental transformation





Shared legacy (dual core)

- Dual core strategy with progressive migration of customers based on key lifecycle events such as new products, product rollover.
- Leverages existing digital capabilities such as CRM, customer channels, financial and nonfinancial (AML, compliance) risk management.

On the edge (parallel)

- New customer proposition and experience launched (with two separate client experience layers); focus on customer acquisition with product innovation
- Builds „best in class" competitive offering and aggressively migrates existing customers (cancel & re-enroll, recreate accounts).
- Parallel run technology stacks serve different business units hence cost is attributed to additional revenue.

How dual and parallel core strategies work

Shared legacy and on the edge, approaches allow banks to utilise modern, low-cost API-driven, SaaS capabilities to create a clear cloud-based enterprise architecture that guides continuous incremental transformation.

Both allow APAC banks to move into the digital age while avoiding expensive, disruptive and expensive multi-year transformation programmes. By building shared platforms or new core solutions, one step or product at a time, banks can de-risk transformation, allowing new capabilities to go live in months, rather than years and without disrupting critical legacy systems.

Four advantages of incremental transformation

1

Faster time to market

Compete with challengers head on by launching new products faster – reducing time-to-market by up to 80%

2

Reduced cost of change

Extend existing digital capabilities with APIs to meet evolving demands

3

Easy to set up new ecosystems

Future-proof the tech-stack with the ability to quickly and seamlessly integrate with different ecosystems

4

Quick migration

Migrate core-based banking systems to the cloud in months, not years

Smooth the path to incremental change with Mambu

Transforming the legacy core can seem overwhelming. By adopting incremental transformation utilising either a dual shared or parallel on the edge digital core, Mambu has shown it need not cost millions, be adversely slow or incur excessive risk.

Organisations that have been burnt by heavy transformations have seen the benefits of Mambu's platform which utilises an API-based cloud ecosystem, SaaS platform and composable approach to provide timely benefits at a low cost and low risk.

Mambu is already proven as a high-performing digital transformation solution for APAC FIs of all sizes to improve the customer experience, drive competitive advantage and support growth.

BANK INA

Bank Ina in Indonesia

With Mambu we have selected the best-performing and most reliable cloud-native banking platform on the market, and we feel very confident that we have made the right decision.

– President Director, Bank Ina

BANK ISLAM

Bank Islam in Malaysia

Mambu's cost-effective cloud-native banking platform offers the flexibility we need and the ability to collaborate with the broader fintech ecosystem

– Group Chief Digital Officer, Bank Islam

TNEX

TNEX in Vietnam

Mambu is a veteran in a young market, and offered a robust, cloud-native solution that operates seamlessly removing all pain points.

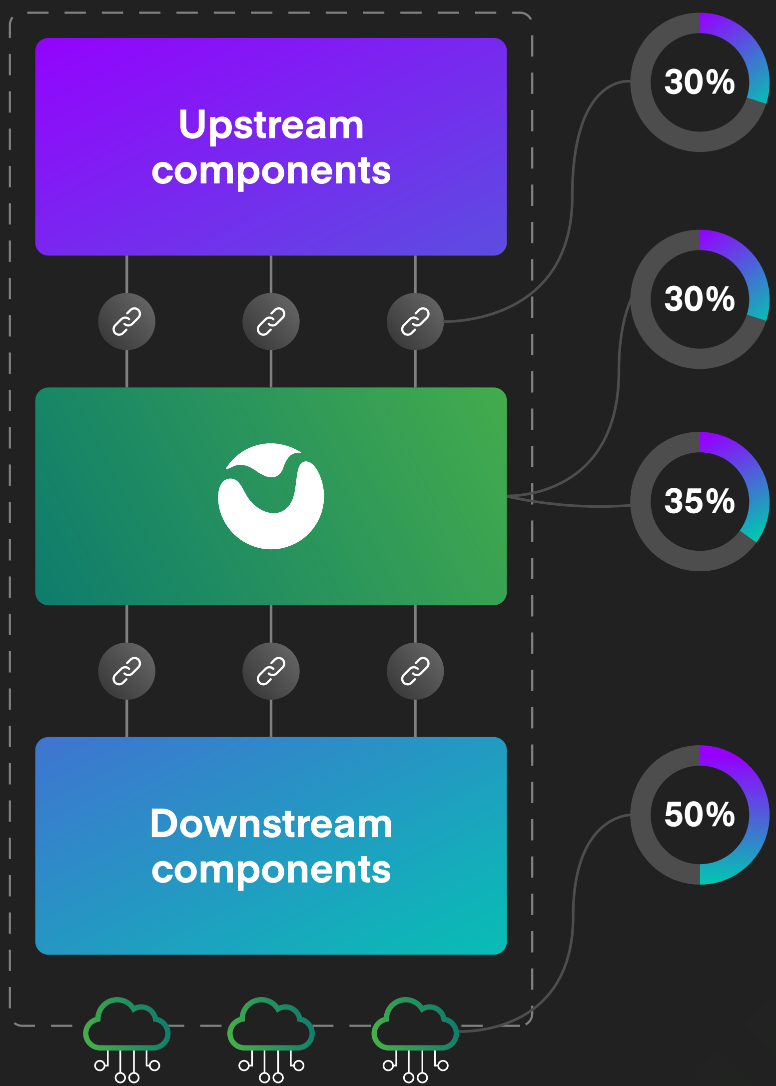
– CEO, TNEX

Why Mambu works for APAC banks

With Mambu, banks can transform at speed without having to do big-bang replacement. Instead, we enable a test-and-learn approach that helps clients arrive at value whether they choose a dual or parallel route to change – allowing them to compete with digital challengers head on.

Our single SaaS offering is a strategic differentiator that all banks can leverage, allowing for better commercial alignment during a transition, while our partner network supports clients through orchestration and further innovative build. Utilising a composable fit for purpose stack, Mambu ensures core architecture and services to drive true service innovations that are more relevant for today's digital customer needs.

It also helps APAC banks focus on outcome accountability and provides benefits that end-to-end stacks do not. In addition, our UI first approach eliminates specialisation and helps customers build products rapidly, improving performance.



Savings on integrations

- Lower cost on 3rd party integrations with Mambu API capabilities, making maintenance easier

Savings on platform upgrades

- No initial sandbox costs
- No platform upgrade costs

Savings on product customizations and changes (CRs)

- No additional costs to stay regulatory compliant
- Lower cost changes, made via a UI enabled configuration approach

Savings on physical infrastructure and maintenance

- Cost avoidance on managed infrastructure (DR and backups)
- Lower cost on capacity scaling (memory, compute, storage auto-scale), provisioning and maintenance

4 ways Mambu helps APAC banks reduce tech debt and reclaim tech equity

Through a modern digital core offering, Mambu provides banks with stable yet fast incremental transformation paths to allow them to upgrade their legacy at a fraction of the cost of rip and replace.

1 Overcome tech debt

Up to 20% of product innovation budgets are now dedicated to resolving technical debt issues.

Increased focus on innovation, and up to 60-90% lower cost of core bank system related change[2] with Mambu.

2 Optimise Resources

Up to 33% of engineer resource time is spent managing tech. debt in their day to day activities, reducing productivity.

50% lower resource requirements[3] on maintenance with Mambu.

3 Reduce Timescales

Up to 40% of IT balance sheets are formed by tech. debt 'principle' which requires significant effort to refactor, resulting in deferred transformations.

Faster execution and time to market, resulting in 50-60% improvement in project deployment timelines[4] with Mambu.

4 Lower cost burden

Up to 60% of CIOs believe that tech. debt has increased perceptibly in the last three years, hampering their ability to change.

Lower overall cost burden, reflected in a 35-50% lower core and tech stack TCO[5] with Mambu.

4 ways Mambu helps APAC banks reduce tech debt and reclaim tech equity

Through a modern digital core offering, Mambu provides banks with stable yet fast incremental transformation paths to allow them to upgrade their legacy at a fraction of the cost of rip and replace.

Once they drop the tech burden and debt of their legacy cores, APAC banks will experience greater agility, innovation and efficiency.

Sources:

McKinsey perspective; Tech debt: Reclaiming tech equity, Mambu CVT research

Notes:

1) Quinlan & Associates Limited, https://www.quinlanandassociates.com/wp-content/uploads/2023/05/Quinlan-Associates-APAC-Digital-Bank-Landscape_c.pdf
2) Based on McKinsey research on legacy and next-generation CBS and Mambu platform results. Refer to next slide for more details;
3) Based on select client results before and after transition;
4) Based on Mambu's client delivery results across global implementations vs. market average deployment timelines;
5) Based on select client technology spend analysis pre and post Mambu implementation and Mambu TCO analysis.

Looking to transform?

Find out how Mambu can ease
your path to change.

mambu.com

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