

CORE BANKING TECHNOLOGY AND ITS TOP 6 IMPLEMENTATION CHALLENGES

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ABSTRACT

Did you know that in the pre-internet era, the turnaround time for any transaction between two or more branches of the same bank was one day or more? And the primary reason that it has now become an infrequent phenomenon is Core banking Technology. Modern IT infrastructure has changed the face of the banking sector. Equally significant factors prompting banking to evolve incessantly are intensifying the market competition. Also, the increased market footing of FinTech companies and the declining affinity of the customers towards old-school banking adds to the challenges. Laggards who do not catch up with the turbulent banking environment or do not stay relevant with innovative tools shall lose out on the market. The heart of such a modern banking system is Core banking technology. It is the reason customers can quickly manage their money at their convenience. Also, the bank's core banking system's efficiency influences customers' perspective towards the bank. In this article, you will learn about the Core banking technology, its features, functions, and implementation challenges.

Core Banking Technology

Acronym “Core” represents the Centralized Online Real-time Exchange.

It is an operating system or software that processes financial transactions between different branches of a bank. It is a cost and time-efficient mode of banking that enables customers to perform basic banking operations without having to stop by the bank. Simply put, it is, in its true sense, the core of the banking software ecosystem on which other subsidiary systems rest.

Functions of Core Banking Technology

Core banking technology is the chief archive of a mammoth database -customers’ account balance details, deposits, loan accounts, financial transactions, interest, etc. Plus, it is in sync with mobile banking applications, internet banking, branches, ATMs, etc. In other words, banking functionalities stalls and banks’ worst nightmare comes to reality on the failure of Core banking technology.

Key Functions

- Opening new accounts
- Transaction processing and bookkeeping
- Loan processing
- Processing cash deposits and withdrawals
- Clearing cheques

- Interest rate arbitration
- New products and tools innovation
- Customer relations
- Statistical reporting

Challenges of Core Banking Technology

One can't deny that the core banking system has come a long way. It had to. The Core banking systems are expected to perform without any major interruptions. And those who fail to do so may succumb to great financial losses, customer skepticism, and investigation by regulatory authorities.

All the same, traditional core banking systems have proved their mantle in terms of reliability. But with the growing Internet of Things, banks are under great obligation to shift to modern Core banking software and outperform themselves.

Nonetheless, it must be mentioned without mincing words that implementation of the new breed of Core banking software is no cakewalk.

Following are the underlying challenges of modern Core banking technology implementation.

1. Time And Cost

Core banking software implementation projects have longer time spans and hence are usually prone to project extensions. This also implies that such projects run the risk of ascending project costs. Thus, banks aspiring to transform their core banking system must be equipped with a sound project management framework that closely monitors project progress and manages risks.

2. Longer Pay-off Periods

Because of the lengthy pay-off period and enormous investments, banks might feel a pressing need to evaluate Return on investment (ROI) with the help of turnover ratios, process improvement approach, and effective strategic management.

3. Stakeholder Management

Core banking software implementation triggers a massive organizational restructuring. In which case, people having a stake in the project outcome can pose considerable risk to the implementation process. For an instance, these stakeholders may pressure the implementation to meet their requirements and may further raise the project complexity. Hence, it is of utmost importance to have an agreement and long-term commitment of all the internal stakeholders for the core banking system to deliver its maximum value.

4. Difficult Assimilation Into Existing Channels

A new core banking system implementation requires its seamless integration with the other components of banking architecture and channels like CRM and other middleware. This is because these channels are difficult to replace completely to suit new core banking technology considering the bank's sizeable investment in them. On the other hand, their integration into the newer core banking system is also no less than a herculean task and entails high risk and equally high investment.

5. Resource Availability

Successful Core banking software implementation calls for efficient business process re-engineering and abundant resources. Hence, banks must have a logical strategy to review their objectives and map out strategies for transition into a new core banking system based on the financial resources and workforce at their disposal.

6. Adaptability Issues

Nobody likes change. Like any other organizational change, core banking software implementation also faces a difficult change management process. Resistance to adopt new ways, lack of clear communication to the impacted individuals or departments about the transformation, and staff training are some of the complexities that a bank may face while transforming its core banking software.

Conclusion

A relevant modern core banking technology helps banks scale new heights, augment efficiency, provide improved customer experience, and gain customer loyalty. Ultimately, this surpasses the challenges presented by the Core banking technology.

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