Overcoming the legacy challenge in financial services

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Like all industries, the financial services industry started simply. But today, it's an incredibly complicated industry. We work with complex financial instruments. We have sophisticated risk management systems. Significant regulatory and compliance scrutiny is applied on top of that. And all of this is instrument-specific or, at the very least, instrument-class-specific.

This means it's now difficult to find a single person in a financial services institution who can fully understand all of the different information flows and technology systems that support this very complicated business state.

This complexity is a problem because every technology has a shelf life. For example, programming languages age and are replaced by more powerful and efficient languages. System architectures also age. Our industry has been debating for several years about when and where it's appropriate to replace older monolithic architectures with more modern microservices.

Today's cutting-edge solution becomes tomorrow's technology problem and overhead. This isn't just a question of having an IT wish-list and wanting to play with the latest and greatest technology. This is something which has a significant impact on cost, time-to-market, revenue and operational risk.

The impact of legacy technology drag

Traditionally, we think about legacy technology estates causing a drag on the business in terms of cost and time-to-market. All major banks have implemented cost programs in recent years. However, in the vast majority of cases, cost-to-income ratios have either remained stagnant or have actually worsened. Most legacy technology estate programs have failed to achieve the results that the business expects.

It's important to remember that even with this focus on cost, there are revenue impacts here as well. Banks that have either already addressed their legacy technology estate or were launched from the beginning as digital-native, have a much better ratio of operating expenses to assets under management. This means that for every dollar of cost they can manage more assets and, by implication, generate more revenue.

So legacy technology estates are having a significant negative impact on the ability of financial institutions to maximize revenue.

How the pandemic gave
legacy a temporary reprieve

Why has the industry been so slow in addressing these legacy estates? One reason is that these projects tend to get shelved during boom times. In such times, the focus shifts to taking advantage of the current market situation, so the funding and legacy technology problems get deprioritized.

After initial uncertainty, the COVID-19 pandemic has proved to be a boom time for the financial services industry. For example, we saw an increase in market volatility which increased trading revenues as people responded to the COVID impact. According to the results of our survey at the 2021 RegTech Summit, technology professionals have witnessed a decrease in funding for legacy remediation during this boom.

So the pandemic has provided a temporary relief to the industry, but that's now fading fast. Financial services organizations that have managed to maintain focus on reducing legacy drag on their businesses will be best positioned to tackle the challenges ahead.

Approaches to the legacy challenge

As we have discussed, legacy technology estates are typically thought of in terms of cost and time-to-market, causing organizations to take a set of typical approaches. These include moving platform operations offshore and applying DevOps and CI/CD to existing legacy technology estates wherever possible.

But we can't think of legacy technology only as a cost and time-to-market problem. It's also a revenue issue and an operational risk. Therefore, we need consolidated approaches that simplify the entire stack.

Success factors for legacy transition

We need to transition the workforce to a new way of working. There are three success factors for getting this right and organizations that focus on these factors tend to be more successful in modernizing and digitizing their legacy estates.

1. Incremental planning

Incremental planning allows change to be accelerated or decelerated, based on market pressures and internal prioritizations.

2. Partners and platforms

This is crucial to help select the desired end-state and ensure you have the right teams in place to help you get there.

3. Rearchitecting for cloud

This means not just migrating legacy systems to the cloud, but considering designs that allow delivery of the full cloud benefits.

When organizations follow these three principles, they maximize the benefits of removing legacy estates.

Take the next step to
address your legacy technology

To find out more about transitioning from your legacy technology estate to a scalable cloud-ready architecture, get in touch with us to continue the discussion.

Get in touch with us

About **the author**

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Nathan leads Technology Offerings globally for Luxoft. The department is responsible for delivering technology expertise to our clients across data, architecture, UX, Agile and other domains. Nathan has a background in leading technology programs and departments in sell-side financial institutions.

About Luxoft

Luxoft is the design, data and development arm of DXC Technology, providing bespoke, end-to-end technology solutions for mission-critical systems, products and services. We help create data-fueled organizations, solving complex operational, technological and strategic challenges. Our passion is building resilient businesses, while generating new business channels and revenue streams, exceptional user experiences and modernized operations at scale.

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