

Traditional SA banking fraught with dated technology, dated thinking: can the cloud and AI help?

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Traditional South African banks, and their associated dated computer systems, were not designed for the breadth of operations required in modern banking and are rapidly falling off the pace of current banking demands.



Source: [Pexels](#)

Each advance in services offering, such as when customers started to use ATMs, demanded a wider range of features. And for each of these features banks had to add another layer of code onto the existing systems to ensure that these features worked.

Forty years later there are millions of lines of code. These adaptations have led to a complicated, multi-layered, and outdated technological infrastructure.

Currently, new product launches under such systems can take 12 to 18 months to deploy, which is simply too slow for the fast-paced digital world. Furthermore, this complexity introduces a high risk of failure, is tied to expensive on-premises hardware and has a high dependence on manual back-end processes. These come at a cost to support, are a hindrance to agility and impact the ability to respond to customer needs.

More modern on-premises solutions - often referred to as 'Generation 2 systems' - offer some reprieve but still have a long way to go. These are modern banking systems that have been developed to address the limitations of legacy systems in traditional banks. They are often provided by third-party vendors and are typically installed on company-owned servers.

Modern infrastructure for faster product launches

Generation 2 systems are designed to offer a more modern infrastructure that supports the diverse operations required in today's banking landscape. They aim to enable faster product launches, simplify the client experience, and provide greater agility compared to the outdated legacy systems.

While the specific characteristics of Generation 2 systems may vary depending on the vendor or solution, they generally involve substantial configuration to adapt to client specific needs. They have superior technological capabilities and are able to keep up with the fast-paced digital world, taking products to market faster.

However, they require substantial upfront capital investments and require substantial ongoing license and running costs. The significant investment and protracted timelines discourage traditional banks from embarking on a complete transformation.

“ ‘Should our approach to fraud and corruption change?’ Chantelle Morrison, EY Africa Director of Forensic & Integrity Services shared her view on 20 July at the Institute of Commercial Forensic Practitioners Financial Crime Conference in Johannesburg. pic.twitter.com/SbnWWMLT6E— EY Africa (@EY_Africa) [July 21, 2023](#) ”

In response, we have seen the emergence of new next generation banks and fintech companies.

These next generation banks, built on cloud-based technology solutions, are radically transforming the South African banking landscape.

Their agility, innovation, and customer-centric approach, combined with a subscription-based model, are setting a new standard in banking. These technologies allow new banks to be launched in months, new product offerings to be launched in a matter of days, and updates and enhancements to be rolled out continuously.

They also increasingly use advanced technologies such as artificial intelligence (AI) to enable a superior customer experience.

Transformative power of AI in banking

With AI, banks can provide personalised recommendations and offers based on customer preferences and financial behaviour. AI-powered chatbots and virtual assistants can assist customers in real-time, answering queries and providing support. AI algorithms can also analyse large volumes of data to detect fraud and enhance security measures. Additionally, AI can automate manual processes, reducing errors and improving efficiency in areas like loan approvals and risk assessment.

And while many of these next-generation banks are yet to reach profitability, they are responding to customer demand faster and cheaper than the incumbents. This, coupled with potential changes to the payments entry criteria in South Africa, making the barriers to entry lower, is placing a real threat to organisations hamstrung by legacy banking systems.

So how do traditional banks respond to the challenges posed by new digital and cloud-first solutions?

Embracing agility and customer-centricity

At the core of it, they should invest in upgrading their legacy systems to be more agile and customer-centric. The good

news is that with the advancement of technology, and the rise of digital and cloud-first solutions, the cost and time to market of banking systems has reduced significantly.

Newer banking solutions can be deployed in months and the shift to a subscription-based model allows a more cost-effective manner to operate compared to those maintaining expensive on-premises hardware and legacy systems. Not only does this reduce the barriers to entry, but it enables immediate value offerings that legacy banks will struggle to compete with.

Additionally, traditional banks can also adopt AI technologies to enhance customer experiences and streamline internal processes.

They may also form partnerships or collaborate with fintech companies to leverage their innovative solutions.

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