Winning at all costs – a competitive imperative

How migrating to a next-generation digital banking core empowers Latin America's banks to launch new products with greater speed – and slash costs.

Money is racing into the Latin American fintech sector.

In the first half of 2021, VC firms had injected $6.45 billion into the region's startups, up 57% from the entire year of 2020, a major portion of which went into fintechs.[1] According to Latin American Venture Capital Association (LAVCA), there were 23 VC-backed tech private companies in the region that have reached unicorn status, most of which were fintechs or from similar technology fields (i.e., ecommerce, crypto, cybersecurity).[2] Valuations, meanwhile, are in the billions.

Fintechs such as Mambu clients Ualá and Global66 offer outstanding digital services and have been successful in capturing and retaining clients with new products by staying **nimble** and **lean**.

Nimbleness is often best measured by the time it takes to launch new products. Shorter launch times allow firms to better respond to market changes, react to real-world events more quickly and then rapidly deploy the lessons learned into even newer products and services. To be **lean**, a firm must slash any cost that does not produce value for end customers and seek that the costs that remain scale in line with the business. This avoids making large upfront investments that may not be profitable, for example buying hardware vs a cloud offering.

Successful Fintechs and Banks get this. They either evolve and prosper or lose market share and see customer satisfaction and earnings deteriorate as a result. Choosing the right Core Banking System (CBS) is a key component of staying both **nimble** and **lean**.

1 https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/vc-investments-in-latam-shoot-for-10b-in-2021-already-outpacing-fy-2020-66553406

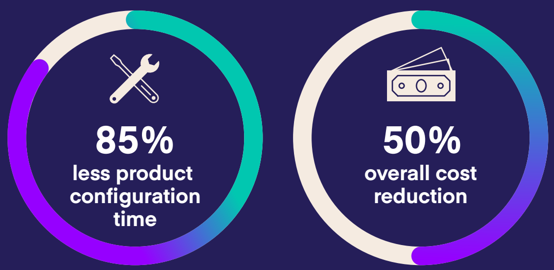
2 https://lavca.org/latin-america-unicorn-leaderboard/

A CBS can help or hinder nimbleness, as the CBS is where products are configured before they are launched. They're important to stay lean, because they account for 30% of a bank's total IT expenditures.

One of the key steps of launching a new financial product quickly involves the effective configuration of it in a bank's internal IT systems, of which the CBS is the core.

In the case of a legacy CBS, configuring a new product often takes many hours of writing code, which extends the time of launching new products by weeks or even months and increases the risk of IT failures.

With Mambu's next-gen, SaaS CBS core, new products are launched via configuring as opposed to coding. This difference cuts product configuration times by 85%, and helps drive an overall reduction of CBS-related costs by as much as 50%.



These savings stem from an elimination of protracted upgrade cycles (e.g., 35% reduction in IT headcount or outsourced professional services), nimbler new-product launches (e.g., the aforementioned 85% reduction in configuration times) and simplification of infrastructure and application landscapes through modern architectures and leveraging the cloud, among other benefits. All this means that payback times for a CBS replacement are around 12 months compared with "last-generation" platforms, where payback times can exceed four years.[3]

Mambu analyzed data of Latin America's leading banks and found that annual IT budgets account for an average of 0.31% of assets. From that total, 16-30% is spent on developing and maintaining core-banking platforms. That number has room to fall. Replacing the core banking platform with a "last-generation" solution can cut IT costs by 9%, according to CapGemini research.[4] For an average Top 50 LATAM bank, this translates into savings of USD$3 million to USD$5 million **per year**.

Banks can save more. Mambu's next-generation, single-coded platform enables financial institutions to focus more on their business and less on IT, given that Mambu handles infrastructure needs and upgrades. All this translates into the cost-reduction figure of 50% mentioned earlier.[5]

3 https://www.capgemini.com/wp-content/uploads/2017/07/core_banking_transformation_measuring_the_value_1.pdf

4 https://www.capgemini.com/consulting/wp-content/uploads/sites/30/2017/07/backing_up_the_digital_front26_11_0.pdf

5 Aggregated and anonymised client data from H2 2020; cohort of clients (retail and small business offering both lending and savings) with 36 month minimum operation pre-migration to Mambu.

When applying these savings to leading banks we find that savings here range between USD$15 million and USD$30 million **per year** for an average Latam Top-50 bank. For a Top-10 bank in Latin America the estimated savings go up to between USD$50 million and USD$95 million **per year**.

To conclude, banks don't need to copy fintechs, but they do need capabilities that enable them to keep up with the pace of innovation. They must deliver second-to-none experiences (which will only continue to be more digital) while operating efficiently in an industry where fintechs prioritize growth and market share over profitability. In other words, banks need to be more **nimble** and **lean** than ever.