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NOVEMBER 2025

Incremental Innovation Strategy in Banks

Current Trend

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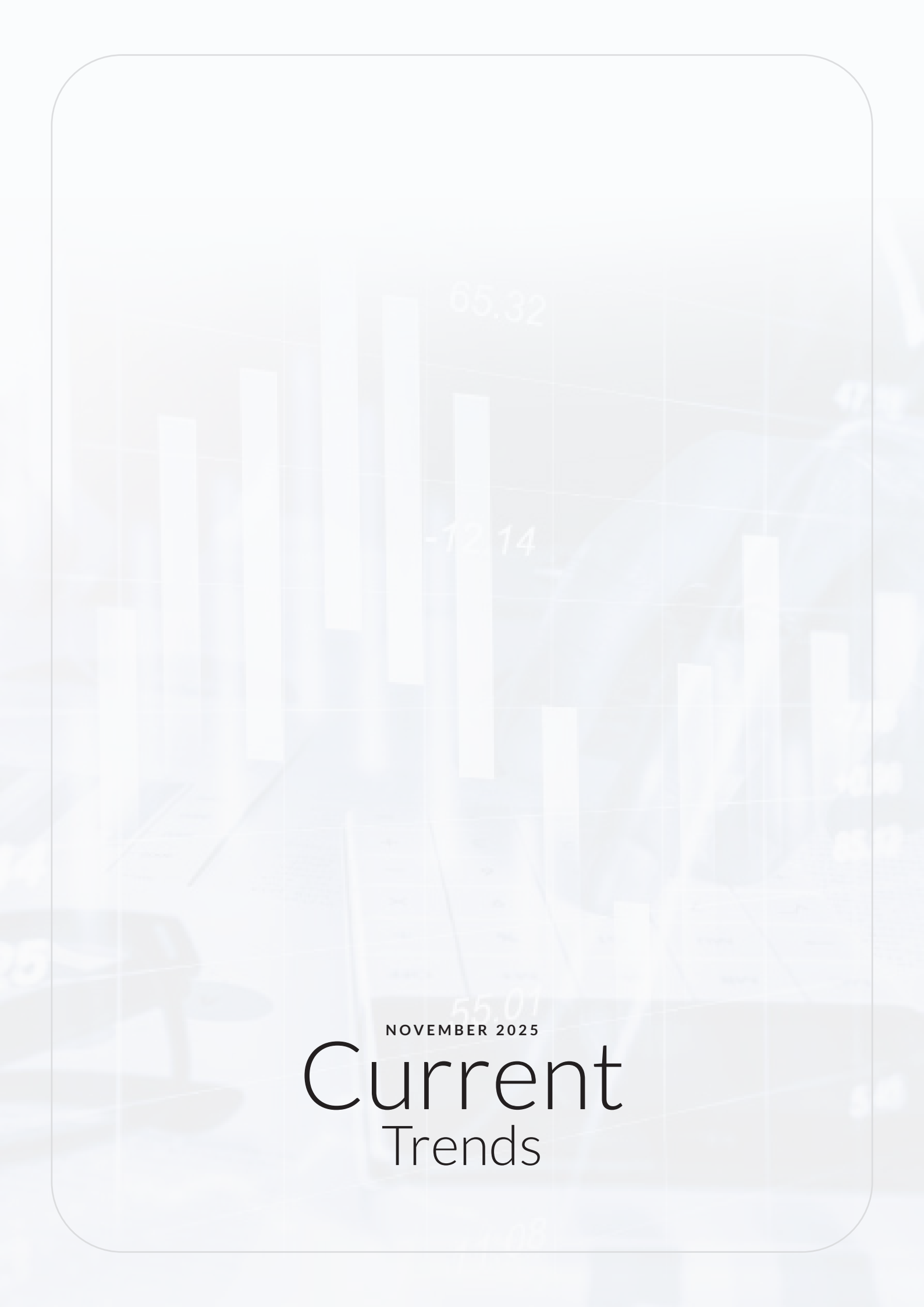

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Definition

Incremental Innovation is a strategic approach that involves making small, continuous, step-by-step enhancements to existing systems, products, services, or internal processes over time, rather than pursuing a single, large-scale transformation. It is an iterative process that builds upon the foundations already in place, refining functionality, efficiency, and overall quality.

Incremental development process can be split its two parts:

- **Incremental:** An incremental approach breaks the development process down into small, manageable portions known as increments. Each increment builds on the previous version so that improvements are made step by step.
- **Iterative:** An iterative model means development activities are systematically repeated in cycles known as iterations. A new version is produced after each iteration until the optimal product is achieved.

Background

Innovation in finance is fundamentally incremental, not radical. This is primarily due to the firmly regulated environment, requiring caution and compliance at every step and the risky nature of handling client assets and core operational systems. This model has focused on continuous improvement and is closely associated with agile methodologies.

Incremental product development is often used in industries where technology and customer preferences are rapidly changing, as it allows for continuous adaptation and improvement. It is also often used in situations where there is a high degree of uncertainty, as it allows for more flexibility and reduces the risk of failure.

For banks, when boarding on system core modernization, they generally choose between two broad strategies: an incremental (phased) strategy or a full system replacement. In practice, many large institutions lean toward incremental strategies to mitigate risk and maintain customer services level. An incremental approach means modernizing the core in stages rather than all at once. Banks preserve the existing core system initially and gradually replace or upgrade components and add new layers around it. The key is a phased transition where old and new co-exist until the new system fully takes over.

Importance and Advantages

The measured nature of incremental innovation provides critical advantages that are particularly valuable in the financial services sector as follows:

- **Risk Mitigation:**

Incremental innovation lowers the risks by spreading potential failure across multiple, manageable segments. This minimizes the likelihood of system-wide disruptions and financial loss associated with radical renovations.

- **Compliance and Trust:**

Incremental progress allows institutions to embed regulatory/compliance requirements as a core element of development as a forethought, not an afterthought. This measured approach builds market and client trust.

- **Improved Product Quality:**

Incremental progress enables businesses to prioritize quality at every process stage. By continuously fine-tuning their products and systems, organizations can address issues or limitations more swiftly, creating a higher-quality end-product.

- **Speed and Adaptability**

Focusing on smaller, modular objectives reduces production times, allowing banks to achieve faster time-to-market with new features and respond rapidly to competitive pressures and changing customer feedback.

- **Cost Effectiveness:**

It optimizes the use of existing resources and technology investments, avoiding the massive financial burden and resource drain of immediate, full-scale system replacements.

- **Customer-Centricity:**

Iterative development ensures the product is refined based on real-time user feedback. Continuous dialogue addresses specific customer pain points, enhancing satisfaction and strengthening retention.

- **Fail-fast capability:**

In case of banks' core modernization, applying incremental process helps systems to remain operational throughout the process, maintaining customer service levels. Banks can isolate issues and fix them quickly without impacting the entire system.

Key Challenges

While incremental progress is the safe and practical path, banks must address significant challenges to ensure these efforts translate into sustainable, transformational change:

- **Longer project duration:** Incremental modernization can extend over several years, increasing exposure to evolving technology risks and shifting business priorities.
- **Temporary complexity:** Operating old and new systems in parallel can introduce architectural complexity, integration challenges, and duplicated processes.
- **The Incremental Trap (Complexity):** The biggest drawback is the temporary complexity introduced by operating dual-system architectures (legacy and modern) in parallel. This creates integration challenges, duplicated processes, and higher maintenance costs over the extended duration of the transformation.
- **Talent and Mindset Constraint:** Banks struggle to find professionals skilled in bridging the old and the new systems (e.g., professionals proficient in both legacy mainframes and modern solutions).

Practices

A group of cloud-native core banking platforms has emerged, driving the future of core modernization for banking by enabling financial institutions to replace or augment their legacy core systems with scalable, flexible driven solutions like:

- **Temenos:** specialized in core banking modernization, offers cloud-deployed core platforms that support co-existence strategies, helping banks reduce risk during their core system modernization journey.
- **Finxact:** Delivers an API-first, real-time core platform designed for modernizing core systems incrementally. Its architecture supports parallel deployment, enabling banks to launch new digital banking products while migrating from their existing system.
- **Mambu:** provides a SaaS-based "composable banking" platform that leverages open APIs to accelerate product innovation. It supports banks seeking to enhance operational efficiency and customer-centric services through banking modernization.
- **Thought Machine's Vault platform:** is a fully cloud-native, next-generation core system that offers flexible product configuration via smart contracts. Major banks like JPMorgan Chase are adopting Vault to drive core banking transformation, improve real-time processing, and support embedded finance initiatives.

Zions Bancorporation Case

The bank was committed to a full renovation, migrating from siloed based legacy systems to a single new international core platform. The project was broken down into three major risk-controlled incremental phases over 11 years: 1. Consumer Loans (completed 2017), 2. Commercial Loans (2019), and 3. Deposit System (2023). To mitigate risk, Zions employed a dual-run co-existence strategy, running the old and new systems in parallel and migrating branch by branch. This slow, deliberate pace caused the project to take three times longer than expected but ensured system stability. An extra year was dedicated to integrating a new API layer before the final deposit conversion, ensuring the new core could support modern digital services. By mid-2024, Zions was able to fully retire multiple legacy cores, achieving real-time access to data and improved time-to-market.

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