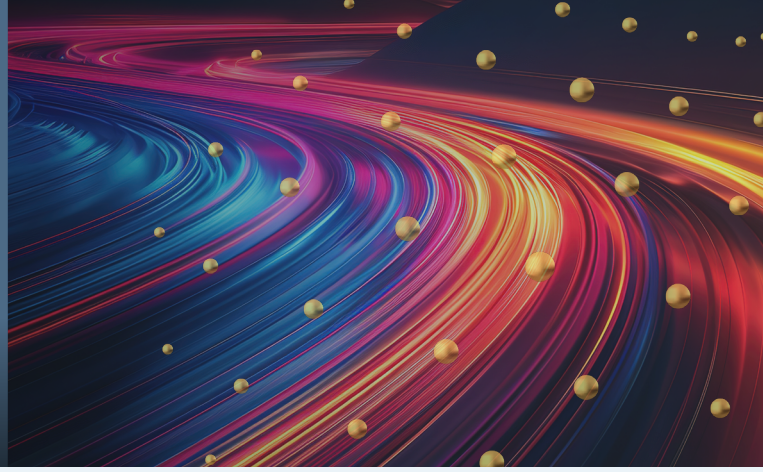
FINANCIAL SERVICES INDUSTRY GROUP

Rewiring Finance:
Intelligence, Connectivity, and Velocity in the Age of Transformation



Migrating from Systems of Record (SoR) to Systems of Intelligence (SoI) (Part 3)

Financial institutions do not have a core banking problem. They have a decisioning problem.

For decades, banks optimized Systems of Record (SoR) to post transactions with precision and maintain regulatory integrity. That battle has largely been won. What now differentiates institutions is not how accurately they book activity, but how intelligently and quickly they make decisions.

Executive Summary

The competitive edge has shifted from ledger precision to decision velocity.

This series argues for a clear and pragmatic shift: preserve the core as the authoritative book of record and build a System of Intelligence (SoI) around it. Posting remains in the SoR. Decisioning, orchestration, and insight move to a governed intelligence layer. This is not a rip-and-replace strategy. It is a layered evolution that protects stability while accelerating value at the edge.

Part 1 established the pivot from compliance-first stacks to architectures that reason in real time. **Part 2** demonstrated that interoperability, via open APIs, canonical data models, and event-driven flows, is the force multiplier that turns isolated AI pilots into scalable enterprise capabilities. **Part 3** makes it executable.

The practical blueprint is straightforward:

- Instrument the core with domain events and change data capture to create a real-time signal layer
- Introduce a thin canonical data model across priority domains to prevent semantic fragmentation
- Wrap the core with APIs and route activity through an orchestration layer using a controlled strangler approach
- Stand up shared intelligence capabilities: real-time decisioning, process intelligence, and a governed Customer 360
- Prove value through high-ROI "wedge" use cases before scaling

Done correctly, this approach can deliver measurable impact within 12–24 months in priority domains, including:

- **Reduced exception handling operating costs**
- **Meaningful fraud loss and false-positive reduction**
- **Faster cycle times and higher straight-through processing**
- **Improved cross-sell precision and reduced operational leakage**

The greatest risk is not model failure; it is architectural sprawl. Many institutions are investing in data lakes and AI pilots without an orchestration backbone or decision governance, creating a new generation of silos. Intelligence without control does not scale under regulatory scrutiny.

Governance, not algorithms, is the differentiator. Model risk management, explainability, drift monitoring, entitlements, and automated controls are what convert analytics into safe, closed-loop automation. Without them, AI remains advisory. With them, it becomes operational.

The maturity path is progressive: Observe → Recommend → Assist → Automate → Optimize. Most institutions should target "assist" or controlled "automate" in priority value streams within 12–24 months rather than attempting enterprise-wide reinvention.

The end state is a thinner, more durable SoR surrounded by an intelligence layer that reasons in real time, orchestrates across channels and compounds value through interoperability. Institutions that are easy to connect to, and easy to trust, are positioned to outperform those still optimizing static cores.

The future of finance will not be defined by who keeps the best books. It will be defined by who turns their books into action fastest.

From Thesis to Results: What Actually Changes

1. Lock the Core. Move the Decisions.

Modernization does not start with replacing the core. It starts with separating **posting from decisioning.**

The SoR continues to book transactions, maintain balances, and protect regulatory integrity. That stability is non-negotiable.

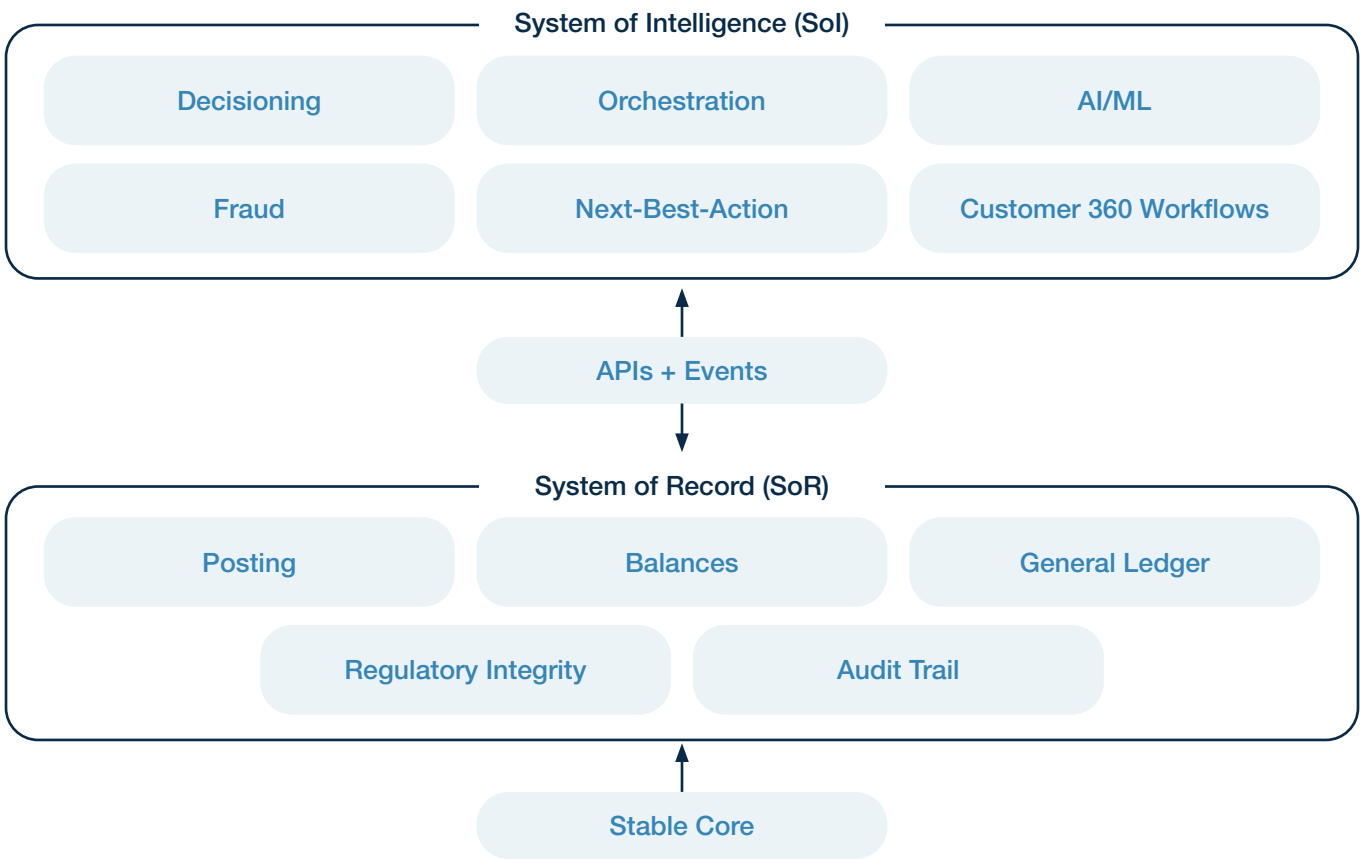
The SoI sits around it and owns:

- Fraud and AML prioritization
- Credit and pricing decisions
- Exception routing
- Next-best-action and servicing automation

The rule is simple: **the core posts; the intelligence layer decides.**

This separation allows innovation without risking the balance sheet. More importantly, it moves focus to where the economics actually sit: in decisions, not ledgers.

Two-Layer Operating Model: System of Record + System of Intelligence



2. Build a Real-Time Signal Layer

Most banks operate on yesterday's data. Intelligence requires today's signals.

Expose operational events (payments initiated, limits breached, cases opened) so decisions reflect what is happening, not what has already settled overnight.

You do not need perfect enterprise data to begin. You need timely signals in a handful of priority domains (customer, account, transaction, payment, risk). Start thin. Expand as use cases prove value.

Speed of signal matters more than perfection of schema.

3. Redirect a Few High-Impact Flows First

These domains combine high operational cost, regulatory sensitivity, and large volumes of manual decisioning, making them ideal starting points for a SoI.

When decisioning is moved from static rules embedded in core systems to a governed intelligence layer, institutions typically see meaningful operational and economic improvements within a focused domain before broader scaling.

Typical impact in a priority domain can include:[1]

20–25%	30–40%	10%	15–20%
reduction in bank operations cost base	increase in select banking product conversion rates	reduction in credit risk costs	improvement in first-contact resolution rates

For a Tier 1 bank payments or retail lending function, this can translate to tens of millions in annual operating leverage before broader scaling.

Wedge use cases help fund the platform. They also expose weaknesses quickly, which is exactly what you want.

Prioritization Matrix: Systems of Intelligence Initiatives

High Impact/ROI

Quick Wins	Strategic Bets
▪ Fraud Decisioning ▪ Payments Repair ▪ KYC Refresh	▪ Customer 360 (Full) ▪ Personalization ▪ Liquidity Forecasting
Low Priority	**Avoid/High-Risk**
▪ Channel Widgets	▪ Full Core Rewrite

Low Effort/Core Dependency →

[1] Swamy, Mamatha Adinarayana. "AI in Financial Services: Revolutionizing Personalized Banking and Customer Experience." Journal of Computer Science and Technology Studies, June 4, 2025. Available at: https://www.researchgate.net/publication/392416087_AI_in_Financial_Services_Revolutionizing_Personalized_Banking_and_Customer_Experience.

4. Stand Up Reusable Decision Capabilities

The intelligence layer should not be a collection of AI pilots. It should deliver three reusable capabilities:

1 Real-Time Decisioning

Rules + models that prioritize risk, automate policy decisions, and reduce false positives.

2 Process Intelligence

Visibility into how work actually flows: where handoffs fail, where queues build, and where exceptions repeat. This drives improvements in straight-through processing.

3 Governed Customer Context

A unified, compliant customer view that supports cross-product insight without regulatory exposure.

The economic lever is not the model itself. It is the ability to reuse decision infrastructure across multiple value streams.

5. Governance Converts Insight into Automation

The limiting factor in most banks is not AI capability: it is risk tolerance.

Closed-loop automation requires:

- Model validation and monitoring
- Explainability
- Defined decision ownership
- Automated guardrails (thresholds, dual approvals, kill switches)

Without governance, AI stays in "recommend" mode. With governance, it moves to "assist" and "automate," where real cost and loss reduction occur.

Organizations that industrialize fraud automation, for example, can consistently reduce both customer churn and operational overhead. Automation reduces cost-to-serve while improving customer trust: a rare dual benefit.

6. Sequence the Maturity Path

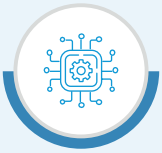
Automation should progress deliberately:

Most institutions should target "assist" or controlled "automate" in 1–2 high-value domains within 12–24 months. That is sufficient to demonstrate material operating impact without destabilizing the enterprise.

7. What Fails

Three recurring failure modes:

Treating the migration to Systems of Intelligence as a data lake or reporting initiative



Launching isolated AI pilots without decision governance

Waiting for core replacement before modernizing decisioning

The economics sit in reducing friction, losses, and leakage in real time, not in perfecting the ledger.

8. The Practical End State

A stable core surrounded by a decision layer that:

- Reduces exceptions
- Accelerates settlement
- Lowers fraud and operational losses
- Increases revenue precision
- Frees operating capacity
- Improves regulatory defensibility

Institutions that master this separation, core stability + decision velocity, are positioned to compound advantage over time. Those that continue optimizing static cores may struggle to close the gap.

Rewiring Finance: In Summary

Rewiring Finance outlines a clear shift in competitive advantage for financial institutions.

Part 1 establishes the pivot: the edge no longer lies in ledger precision, but in decision velocity. Institutions must layer intelligence around stable cores to act on data in real time, without destabilizing posting or regulatory integrity.

Part 2 identifies interoperability as the multiplier. Shared data semantics, APIs, and event-driven workflows replace manual handoffs, turning isolated AI efforts into scalable enterprise capabilities and accelerating time to value.

Part 3 converts strategy into execution. A two-layer model keeps the core focused on posting while an intelligence layer drives decisioning and automation. The result: fewer exceptions, faster cycle times, reduced losses, and stronger control, without core replacement risk.

The thesis is simple:

Stability at the core. Intelligence at the edge. Measurable operational leverage across the enterprise.

Institutions that can decide faster, and connect more easily, are positioned to outperform those still optimizing static infrastructure.

Alvarez & Marsal helps institutions move from architectural intent to operational reality; layering intelligence around cores, designing interoperable data and event backbones, and instituting governance that converts insight into action with confidence. We specialize in building bank-grade SoIs that unify data across silos, enable real-time decisioning, and deliver measurable ROI alongside existing infrastructure.

About A&M

Alvarez & Marsal's Financial Services Financial Markets Infrastructure practice delivers operational and technology-driven solutions to address the evolving needs of financial markets participants. We specialize in optimizing business models, driving digital transformation, and navigating complex regulatory landscapes to enhance performance and enable growth. Our core services include:

Technology Enablement

Modernize operations with AI, blockchain, and digital platforms to enhance efficiency, transparency, and customer service through tailored digital transformation.

AI and Advanced Analytics

Leverage AI and advanced analytics to improve decision-making, operational performance, and unlock new revenue opportunities.

Digital Assets and DLT

Adopt blockchain and digital assets to streamline operations, with expertise in regulatory and operational stand-up, tokenization, DeFi strategies, and regulatory compliance.

Regulatory Compliance

Provide tailored compliance frameworks and solutions to meet evolving global and regional regulatory standards.

Risk Management

Assess and mitigate risks across credit, market, liquidity, and operations with strategies to enhance resilience and performance.

Target Operating Model Design and Execution

Develop and implement scalable operating models to optimize performance and align with strategic goals.

M&A Support and Inorganic Growth Strategies

Support mergers, acquisitions, and partnerships with diligence, integration, and value creation planning to drive growth.

Customer Experience and Service Enhancement

Redesign customer journeys and enhance service delivery with digital tools to improve satisfaction and retention.

Revenue Generation and Go-to-Market

Identify growth opportunities and execute go-to-market strategies to drive revenue and long-term success.

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ABOUT ALVAREZ & MARSAL

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