

# CASE STUDY

An illustration on the left side of the page shows several silhouettes of business professionals in a futuristic, digital environment. One person stands on a high platform, while others are on a path that curves upwards, suggesting growth and progress. The background is filled with abstract shapes and lines, creating a sense of movement and technology.

## Hatton National Bank (HNB)

HNB Partners with Infosys on Core Banking for Growth, Centralization, Efficiency and Streamlined Service

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The Finacle logo features a red square with a white diagonal line, followed by the word 'Finacle' in a bold, sans-serif font.

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## Hatton National Bank (HNB)

### PROJECT SUMMARY

- Project scope: Finacle core banking, e-banking, trade finance, and treasury
- Key vendor selection criteria: Proven deployment cases in Sri Lanka, strong alignment with functional requirements, low projected TCO
- RoI: 58% in five quarters
- Rollout completion in 11 months

### HIGHLIGHTS

- 58% RoI in 16 months since rollout completion taking only most quantifiable benefits into account

Hatton National Bank (HNB) Plc is one of the largest and one of the oldest private sector banks in Sri Lanka. The bank traces its roots to the Hatton Bank founded in 1888. HNB offers personal banking, corporate banking, development banking and international banking services. The bank also offers treasury services, mortgage financing, financial advisory and stock broking and insurance services through its subsidiaries. The company operates primarily in Sri Lanka, where it is headquartered in Colombo. The bank's employee strength is 4,357.

The Finacle implementation project at HNB is remarkable for more than one reason. The entire implementation project, from the pilot phase to full rollout was executed in about eleven months. The project was also remarkable because the challenges faced by the bank prior to vendor selection was no less complex than what banks typically face with legacy banking platforms.

HNB had two core banking systems. One of the core banking solutions was from a third-party and the other platform was an in-house developed and importantly, a decentralized solution.

The bank had used a middleware platform to connect the core banking systems. At one point the bank was providing anywhere banking services using three different systems. A number of workarounds had to be implemented and maintained to continue providing anywhere banking services without disruption to customer service.

The third party solution worked on a legacy database platform. HNB faced a number of problems arising from the complex and legacy architecture. End-of-day reconciliation was a major problem with the ATM network going offline for 45 minutes every night. Instances of transaction dropping were common.

The in-house developed core banking solution was not centrally hosted necessitating IT support staff at every branch. That the bank had to migrate to a common core banking solution was an idea that had enjoyed consensus for long. For ten years, the bank had been working on expanding the scope of the solution to every branch, without much success.

Finally, in 2007 HNB made a decision to migrate every branch and all core operations to a single new core banking system.

# The HNB core banking selection challenge: A solution that met most of the requirements out-of-the-box

The mandate driving the selection process was clear. The bank had to engage with a vendor with successful deployment cases in Sri Lanka. Also, the bank made a decision to select a system with a very high level of alignment with requirements.

The DGM Operations and Systems believed (and this is a view Ovum agrees with) that extensive customization typically has the effect of diminishing the strengths of packaged software, apart from being a very expensive and high risk affair. Therefore, the focus was on drafting up a detailed RFP, selecting a solution with out-of-the-box features that came closest to the RFP, and incorporating minimum customizations in the RFP.

The most important part of the plan was to stick to the customizations stated in the RFP and not let the well known problem of scope creep takeover. Also, the task of limiting the customization effort required that the bank's processes had to adapt to the software. Naturally for a project as transformational as core banking replacement such discipline would have required buy-in from all sections of the business, and from the business unit leaders to branch office and back office employees at every level. While this is certainly known in theory, such a level of project management discipline is rarely achieved anywhere.

HNB accomplished this rare feat for a number of reasons. At HNB, the DGM is also the head of operations. The DGM spent considerable time securing buy-in from individuals heading various units within the bank, such as loans and deposits and treasury operations.

Getting back to the selection phase, three finalists were short listed for the RFP stage. The five year Total Cost of Ownership (TCO) projection was the other major decision factor apart from the RFP. The bank selected Finacle because the solution's out-of-box features offered the closest alignment with requirements specified in the RFP. Infosys' TCO projection was also the lowest. Also, Infosys had Finacle implementation sites in Sri Lanka.

After reference site visits in Sri Lanka and India the contract was signed up and the project began with a model branch. Before this case study moves to the project execution phase it would be relevant to mention that 60-70 customization requirements were part of the RFP as was the integration requirements spanning development of around 14 interfaces. The bank largely stuck to this plan.

## KEY SELECTION CRITERIA

- Successful deployment cases in Sri Lanka
- Alignment of out-of-the-box features with requirements
- Demonstrated ability to execute large scale projects with considerable professional services component
- Strategic commitment to core banking and other banking solutions
- Low TCO projections

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*“We selected Finacle because the solution came closest to meeting our requirements. Also, Infosys' five year TCO projection was the lowest”*

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**Damitha Cooke**  
Deputy General Manager  
Operations and Systems  
Hatton National Bank

# The entire rollout was completed in 11 months... With very few surprises

The major pre-rollout phases, spanning the pilot phase, customization, data migration, testing, and User Acceptance Testing (UAT) spanned nine months. In terms of staffing, the project (across the phases mentioned above) involved 25-30 Infosys employees on site, 20 developers and testers from the bank, 25 employees from the bank's IT infrastructure team, and 10-15 employees from Infosys' offshore team.

The 'model branch' phase involved the bank's employees assessing the pilot Finacle implementation for alignment with the specifications drafted in the RFP. The project started with (and the bank credits part of the project's success to this phase) a three month long comprehensive training program in Bangalore. The training program involved between 25 and 50 bank's employees representing different units such as loans and deposits, treasury, trade finance, and Forex operations. This phase helped the gap analysis process. While on gap analysis, the initial months also involved Infosys' employees conducting a gap analysis on site.

Data migration tasks were executed by the bank's in-house IT team in parallel with Infosys driven custom development and interface development projects. The bank deployed Finacle in High Availability (HA) configuration and also implemented a new disaster recovery infrastructure. As with most projects of such scale, the bank used the opportunity to migrate from legacy technology and a dated architecture for the

company's IT infrastructure, and the disaster recovery system now leverages online replication.

After nine months of gap analysis, process definition, customization, data migration, and testing, the bank focused on user education (which spanned three months), UAT, simulation rollout, and a pilot five branch rollout in the tenth month. Rollout across the remaining 180 branches was accomplished in 11 months. The rollout phase was executed largely by the bank's in-house IT team and only two Infosys employee were retained on site. The in-house system was not centrally hosted and therefore each branch had a separate instance and rollout had to happen separately. A number of branches were going live on the new system every weekend.

The rollout process was aided by 40 employees from the bank (in addition to the 20 non-IT employees staffed full time on the end-to-end project). These employees assisted the branches with the rollout process spending 1-2 days at individual branches. The need for adapting to the software (as opposed to customizing the software extensively) was the message the team of 40 carried to all employees across the bank's organizational hierarchy. The bank believes that this was a crucial part of the change management process. About training, every user went through a one week long training process two weeks ahead of the rollout and also received training post rollout.

## SOLUTION COMPONENTS

### Software

- Finacle core banking solution
- Finacle trade finance solution
- Finacle e-banking solution
- Finacle treasury solution
- Oracle Database 10.2.4
- Veritas Netbackup Backup Software
- Resin
- Jatau
- Websphere

### Infrastructure includes

- Storage - SUN ST 9985, SUN STK 6140
- Load Balancers: Cisco 11501 Content Switch
- Servers - Sun E2900, Sun Fire V890, T2000, X4100, V445
- Switches (Cisco Catalyst 6509E, 3560, 3750, 2960) and routers (Cisco 7201, 1841)

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The key to sticking to the project plan was to convince every stakeholder that change was necessary  
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### Damitha Cooke

Deputy General Manager  
Operations and Systems  
Hatton National Bank

# The governance structure and other critical success factors

For a project as transformational as core banking migration, the importance of the right governance structure cannot be overemphasized.

A steering committee reporting to the CEO, monitored project progress and consulted the CEO for major policy decisions. The entire deployment project was divided into 12 milestones, namely user education training, functional and technical assessment, hardware and networking requirement assessment and procurement, data migration readiness assessment, system readiness assessment, business definition, customization, user acceptance testing, systems integration testing, simulation, go-live training, and finally the rollout. After each milestone the steering committee reported the state of affairs back to the CEO. On an average the steering committee met every month.

HNB states that disruptions in customer service, such as ATM interruptions and data migration efforts, during the rollout phase were minimal. By all accounts, the project, from the 'model branch' phase initiation in September 2008 to rollout completion in August 2009, was successful.

To summarize, HNB's success can be attributed in great measure to strong 'hands on' leadership driving the project from start to finish, innovative organizational elements that executed change management plans at every branch, common leadership across the bank's core operations and IT, and early stage consensus building on limiting scope and leveraging the out-of-the-box features of Finacle to the fullest extent.

The challenges associated with scope creep and the importance of senior management sponsorship has been known for a long time. However, in Ovum's experience such well known principles are rarely adhered to in practice. The HNB core banking transformation project was one such case and Ovum believes that the critical success factors listed here could serve as templates for any IT project of similar scale.

## KEY FACTORS DRIVING PROJECT SUCCESS

- Strong senior management sponsorship
- A governance structure comprising key stakeholders
- Strong IT business alignment with common leadership across IT and operations
- Strong hands on leadership driving requirements definition, selection, implementation, and vendor management
- Reaching consensus early on about to need to limit the scope of customization
- Organizational mechanisms to build consensus across employees at all levels
- Change management executed by employees from the business at every branch
- Extensive early stage training and gap analysis

“Expansion would have involved significant headcount addition if it weren't for the new platform”

**Damitha Cooke**  
Deputy General Manager  
Operations and Systems  
Hatton National Bank

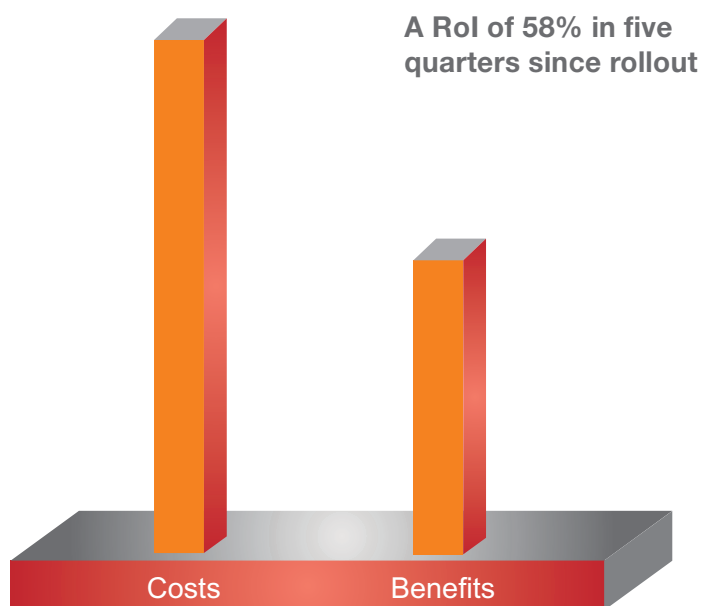
# Core banking transformation benefits: the bank has recovered over 50 percent of investments in five quarters since rollout

The bank has recovered over half of its investments in the five quarters since rollout.

Benefits accruing from staff cost avoidance has covered over half of the investments made in the implementation project (and software licenses) and ongoing hardware investments made in the five quarters since rollout. As stated earlier in the report, the bank increased the number of customer centers by over 10%, from 186 in 2009 to 205 by December 2010 with only nominal increase in headcount. Hatton National Bank reports that if operations were not supported by the new core banking system the

expansion would have involved a near linear increase in number of employees. HNB started realizing benefits as the bank started rolling out Finacle across the 87 branches in early 2009 with hardware and software cost avoidance and the benefits realization process gained momentum later with staff cost avoidance associated with branch expansion in 2009 and 2010. It is important to mention that the RoI calculations have been made using only the most tangible and easiest to quantify benefits. A comprehensive list of operational benefits has been listed later in this report.

## Project inception to Dec 2010 - HNB core banking project RoI estimate and costs and benefits:



## KEY ROI DRIVERS: THE MOST QUANTIFIABLE BENEFITS

- Hardware and software cost avoidance at 87 branches that were on a decentralized banking system
- The number of customer centers increased from 186 in 2009 to 205 in December 2010 with a nominal increase in headcount.

# Quantifying the core banking solution investment (Inception to Dec 2010)

**Software licenses:** Software licenses, accounting for approximately 25% of investments from inception to December 2010 cover all Infosys software, including core banking, treasury, consumer e-banking, and all infrastructure software except database platform licenses.

**Implementation costs:** Accounts for 26% of total project costs and includes all professional services from Infosys. It would be important to mention in this context that the bank has gone live with Finacle e-banking as well.

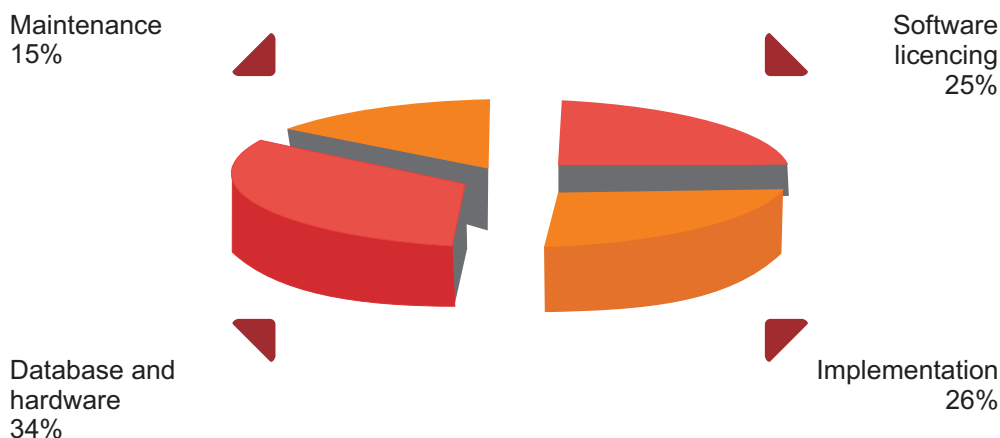
**Hardware and Oracle database:** Hardware investments (accounting for approximately 34% of total investments) include SUN servers, Storage Area Networks (SAN) switches and SAN Routers from

Brocade, Load Balancers from Cisco, and external tape drives from Sun, among others. The bank made substantial investments in the Disaster Recovery (DR) infrastructure and on upgrading the network infrastructure.

Software maintenance and supports costs account for approximately 15% of the total investments made as of December 2010.

HNB reports that the bank has largely adhered to the TCO projections and hardware requirements estimated in the early days of the project. The bank is confident that current projections would hold true over the next few years.

## Quantifying core banking transformation investment (Project inception to December 2010)



## KEY IMPLEMENTATION COST ELEMENTS

- 20 development and testing personnel from the bank's IT organization
- 25-30 Infosys employees on site
- 10-15 employees from Infosys' offshore operations
- 25 employees from the bank's IT infrastructure team
- 20 non-IT employees from the bank

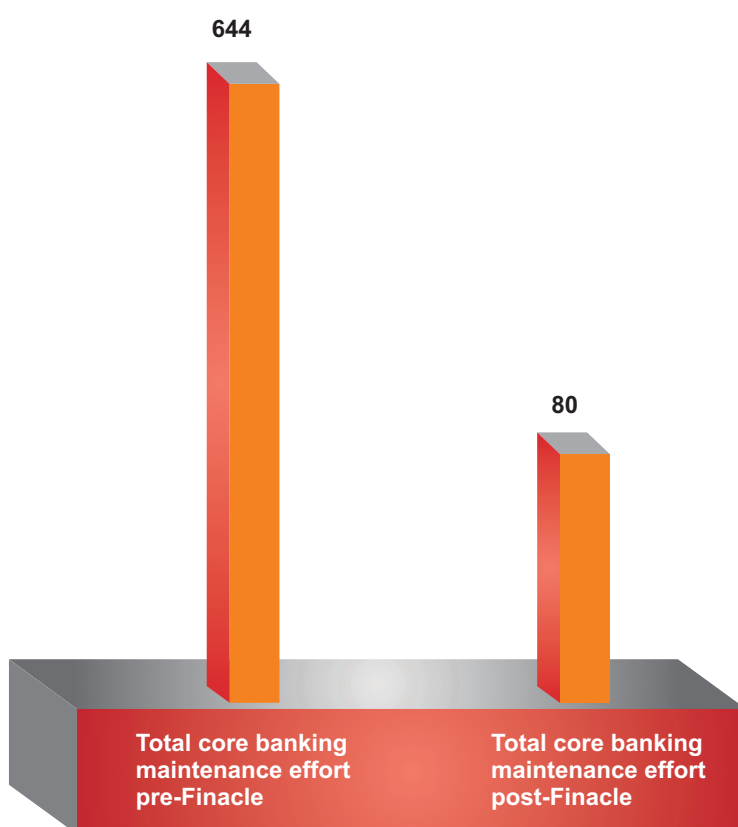
# Detailing the many operational benefits

## Reduced core banking maintenance effort

The biggest challenge in the pre-Finacle environment was maintaining the decentralized core banking solution (known as CoBas) which necessitated IT support staff at every branch and naturally all IT tasks had to be duplicated across all the 87 branches that were on Cobas.

The Finacle implementation project led to an order of magnitude reduction in the IT maintenance effort related to the core banking infrastructure, from over 640 man hours a day to 80 man hours a day, an 87.5% decrease.

### An 87.5% reduction in core banking maintenance effort measured in man hours per day



## KEY STRATEGIC AND OPERATIONAL BENEFITS

- A single unified and centralized core banking system.
- A single consolidated view of the customer is now available
- The reconciliation problem has now been eliminated
- Reduced time to market for new product variants
- Customer service can now be standardized across branches
- Client facing personnel now have more time to cross sell

This case study is by Ovum, a part of the Datamonitor group, and is based entirely on their independent research in the relevant field

# Detailing the many operational benefits

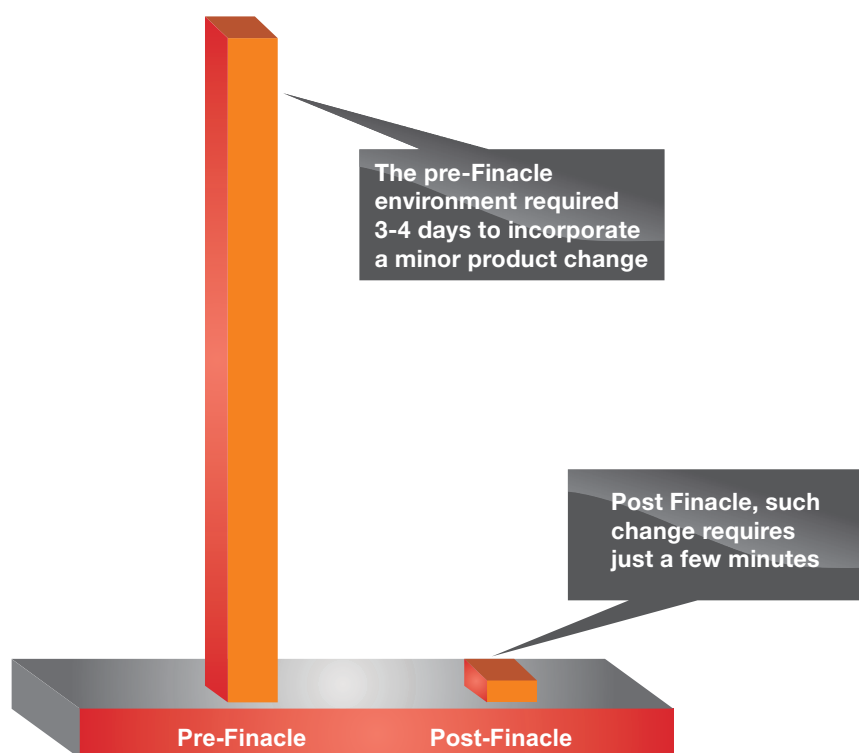
IT staff has been redeployed on innovative and transformational projects taking advantage of a more streamlined environment that requires fewer resources for routine maintenance the bank is working on a number of strategic projects without adding to the IT headcount. Developers maintaining (part of the time) the in-house developed system are now staffed on new implementation and extension projects such as e-banking, Business Intelligence (BI), anti-money laundering, asset liability, Basel II, and risk management, among others.

The transition from a decentralized system to a centralized system also implied that the bank no longer had to install and maintain hardware (servers,

UPS, storage media etc) and software systems at every branch. The bank also reports considerable reduction in power costs and IT staff costs.

In the pre-Finacle days, every minor change (such as a change in the fees charged) had to be implemented by 87 staff members across all the decentralized branches and every branch had to independently go through the process of being notified, authorizing the change, and implementing the change. Even the most minor change required 3-4 days. The product configuration capabilities of Finacle have now reduced the time taken for change incorporation to a few minutes.

## An order of magnitude reduction in time to taken to incorporate a minor product change



## KEY IT/ FACILITIES MANAGEMENT BENEFITS

- Avoidance of software and IT hardware replacement (and ongoing maintenance) at branches on the decentralized system
- Considerable reduction in power costs
- Reduced maintenance costs
- IT staff has been made available for strategic projects

# Detailing the many operational benefits

Process centralization, efficiency gains, and redeployment have enabled significant expansion without headcount addition

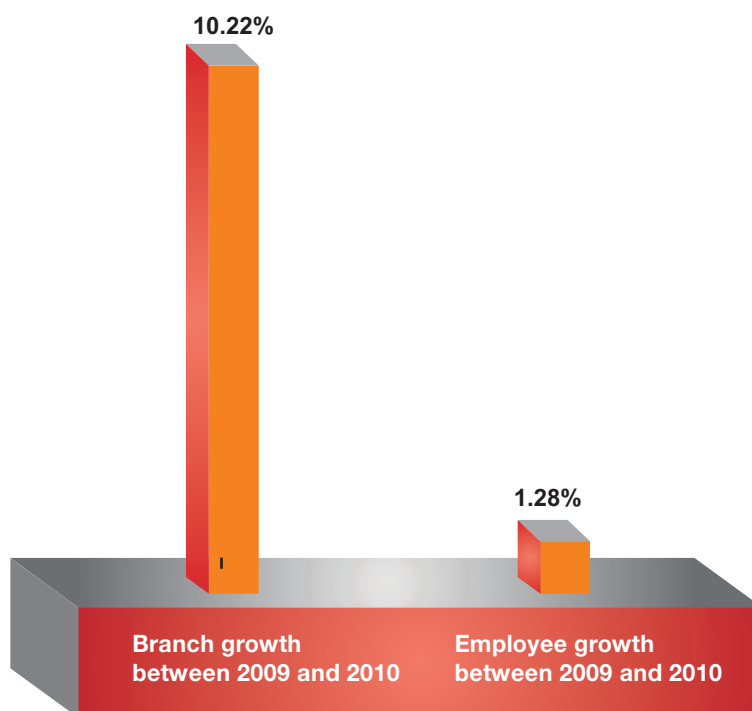
The bank has taken advantage of the new technology infrastructure by transitioning a number of processes from branches to centralized operations.

The list of processes partly or fully migrated includes but is not limited to account opening, clearing, manual posting to profit and account, month-end

provisioning, and outsourcing storage of mandates. The bank is now considering centralizing Fixed deposit renewal, standing orders, and loan creation.

The efficiency gains, redeployment, and centralization have enabled the bank to grow from 186 customer centers in 2009 to 205 by end of 2010 and number of accounts by 2.2% in the first nine months since rollout completion in August 2009 while increasing headcount only nominally.

## Growth in employees, and branches (2009-2010)



## KEY PROCESSES CENTRALIZED AND TO BE CENTRALIZED

### Centralized

- Account opening
- Clearing
- Manual posting to Profit and Account
- Month-end provisioning
- Outsourcing of ATM cash loading
- Outsourcing storage of mandates

### To be centralized

- Fixed deposits
- Standing orders
- Loan creation

## SUMMARIZING THE BENEFITS

Ovum believes that it would be no exaggeration to say that the Finacle implementation project at Hatton National Bank was a tremendous success.

For a bank with legacy technology, two core banking systems, a middleware system, and over 177 customer centers (as of 2008, before the Finacle rollout completion) and over 4,000 employees, to complete the entire rollout in eleven months and recover over 50 percent of the costs in five quarters since rollout is truly remarkable.

Ovum believes that the success can be attributed in great measure to the bank's leadership, which ensured that employees across all levels and across the bank's units reached consensus early on about the need to adapt and tightly define scope.

Lastly, it is important to list the many operational benefits that are hard to quantify but collectively underpin the bank's operations. The biggest self reported benefit is that the bank now runs on a single core banking solution and that a single and consolidated view of the customer is

available. The Customer Information File (CIF) is consolidated. A single CIF has led to improved regulatory reporting and the bank expects the cross sell ratio to improve with time. Also, customer service across locations is now easier to standardize. The quality of customer service has gone up. The time to market for new products and product variants has improved due to Finacle's configurability. Also, a number of built-in validations control the kind of variations that are allowed for a product. In addition, tasks from the customer centers, such as a data entry for account opening, can be partly offloaded to the center which reduces the time the customer has to spend at the branch and also increases staff productivity.

HNB reports that employees in customer facing roles can now spend more time on cross selling and serving customers. Reconciliation problems are now gone. Finacle's interfaces enforce richer data capture and HNB's reporting systems now yield more insightful reports. Overall, a perfectly executed project and as stated earlier in the report, the bank is working on a number of initiatives and the value derived from the new technology environment can only increase.

## Finacle - Universal Banking Solution

Finacle from Infosys partners with banks to power-up their innovation agenda, enabling them to differentiate their products and service, enhance customer experience and achieve greater operational efficiency. Finacle solutions address the core banking, wealth management, CRM, Islamic banking and treasury requirements of retail, corporate and universal banks worldwide and provide online marketing tools like Finacle finanz tools. Finacle solutions also empower banks with multiple sales, service and marketing channels including e-banking, mobile banking and call centers. These offerings make Finacle a strong innovation-facilitator enabling banks to accelerate growth, while maximizing value from their large scale business transformation.

## Infosys. The Organization behind Finacle.

Infosys Technologies Ltd. (NASDAQ: INFY) defines, designs and delivers IT enabled business solutions. Infosys' offerings span business and technology consulting, application services, systems integration, product engineering, custom software development, maintenance, re-engineering, independent testing and validation services, IT infrastructure services and business process outsourcing. Infosys today has more than a third of its business coming from the banking and financial services industry and has a strategic focus on this segment.



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