

P E R S P E C T I V E

Phase I of the Core Transformation Journey: Starting Out



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The expected benefits of core systems modernization – agility, integration, efficiency and reduced maintenance costs – should make it an easy sell. But in reality, executive leadership is often caught up in an intractable analysis of risk versus reward. How can operational teams present a convincing case for core systems transformation that will justify both its considerable cost and risk? And having secured approval, how can they bring all key stakeholders, in whom the responsibility of implementation actually vests, on board?

Admittedly, this is not an easy task. To be compelling, the core systems proposition must address the major concerns of the bank's top management in the following ways:

- Show that it is supportive of long term strategy
- Justify the cost through ROI analysis
- Create a framework to assess impact on stakeholders and business value
- Present a fair assessment of risk and mitigation
- Craft the implementation strategy to suit risk appetite and desired timelines
- Have a plan for managing organizational change

Show that it is Supportive of Long Term Strategy

The fact that core transformation strengthens the bank's foundation and hence enables it to achieve long term objectives must be highlighted at the outset. It is more convincing to talk in specific terms - detailing intermediate milestones and ways to get there, for instance - than make sweeping statements. Hence, the business case must be broken down into smaller projects each of which improve operational performance, fulfil strategic objectives or create value for stakeholders.

Justify the Cost through ROI Analysis

Primarily, top management wants to know how much the investment in core banking transformation will yield by way of returns, and how long it will take to do so. Hence, the business case must employ realistic and relevant illustrations to address these questions upfront. For instance, how much of system maintenance

costs will core transformation save? By how much will it bring down time to market for new products? Will faster and better processes bring down error incidence and manpower costs?

Besides the above, transformation yields several benefits that are not easily quantified, but are nonetheless very important, for instance, regulatory compliance. An attempt must be made to attach monetary value to such benefits by breaking them down into their lowest denominators so that their financial impact becomes more visible.

The case for core transformation becomes even stronger if it can be demonstrated that the renewed systems will help the bank overcome its biggest pain points. For example, a bank struggling to expand its international footprint riding on an outdated system will be very interested in a modern alternative that can be easily extended to new geographies.

It is equally important to present the downside fairly. Typically, replacing a mainframe with a Unix-based system calls for additional skills and investment. Transformation also carries a certain amount of risk. The business case is not complete without an analysis of these aspects.

Create a Framework to Assess Impact on Stakeholders and Business-value

Most transformation fears arise from the uncertainty surrounding the nature and magnitude of its impact. Much of this can be alleviated by having a mechanism to quantify the impact of transformation on the organization. When transformation risks and rewards are reduced to a number, it makes it easier for top management to weigh and indeed, come to a decision.

The impact assessment framework must be aligned with the organization's principal objectives – for instance, if shareholder value is paramount, the framework should assess whether transformation is earnings accretive or attritive. Similarly, it must describe how changes in processes or organization structure might affect stakeholders.

Present a Fair Assessment of Risk and Mitigation

All transformation carries risk, and all top managements know that. The chances of getting their approval improve with a business case that tells it like it is, with an unbiased assessment of risks, their likelihood, potential impact and mitigation.

Craft the Implementation Strategy to Suit Risk Appetite and Desired Timelines

Banking transformation extends way beyond systems replacement to bring into play outsourcing, restructuring, change management and rightsizing. What to do and how much depends upon the banks' individual situation. A small bank might go for a big-bang execution and immediate switch over; a large one is unlikely to take that risk, and will probably insist on phased implementation.

But in general, since information on the payback from long transformation programs is not easily available, senior managements tend to be wary of projects with front-ended expenses and back-ended results. Hence, it is important to second-guess the management's patience level, desired timelines and accordingly present a plan that accelerates value realization by securing quick wins and reducing the time to go-live. Showing top management that it is possible to mitigate transformation risk through phased execution also improves the probability of getting them on board.

Have a Plan for Managing Organizational Change

Managing organizational change is one of the critical success factors of transformation. Often, it is not accorded the priority it deserves, with disastrous consequences. The plan for managing and communicating change – including its impact on people, processes, resources, policies etc. – must form part of the initial presentation to top management. Banks have been known to keep transformation plans under wraps, fearing organization backlash as a reaction to change. Having a clearly defined roadmap for change management will give them the confidence to

make the decision public and get all key stakeholders involved from an early stage. This could make the difference between success and failure.

People issues are the biggest barriers to acceptance of the need for core banking modernization. The bank must overcome the following challenges in order to secure the buy-in of all stakeholders:

Identify all stakeholders: Transformation has wide-ranging impact, affecting all functions including, but not limited to, IT, Business, Operations, Sales and Service, Risk Management and Finance. It is important to identify and notify all those who will be affected well in advance.

Drive different stages of transformation through the right stakeholders: Contrary to popular perception, core systems transformation is not the exclusive preserve of the IT department, although they have an important role to play. The involvement of key stakeholders changes along the journey. IT may play a large part during initiation, but once the project has the approval of senior management, business users must take centre-stage. Every phase of the transformation life cycle calls for participation from one or several teams; it is vital that the right people are involved at the right time to the right extent.

Involve stakeholders early: Obviously, if the bank expects all key stakeholders to participate in the transformation process, it must get them on board early in the day. This means seeking their contribution at every step, starting with building the business case. Stakeholders must also be involved in key decisions, to the extent necessary. Having approved the project, senior management must lend its efforts to securing the acceptance of people down the organization.

Once all stakeholders are recruited, they must be assigned clear roles and responsibilities. For instance, many people will be entrusted with execution, others with facilitation and only some with decision making – it is critical that everybody understands what is expected from them.

Assess impact fairly and correctly: Transformation impacts many, if not all people within the banking organization and not always to their advantage. While it is important to assess both risk and upside across the organization, caution must be exercised while making these known. Invariably, transformation leads to hard measures like cutbacks, retrenchment, redeployment and outsourcing; if the messaging surrounding these actions is not delivered with sensitivity and discretion, the project might even be stonewalled. It is equally important to articulate the expected benefits of transformation from the audience's perspective, in a language they understand. For instance, a risk manager is more likely to give the nod if he understands that transformation will reduce non-compliance by 90%, whereas the call centre head cares more about customer service levels.

Handle the change well: Involving the organization's change management team from the outset is the key, because they know best how to handle large - scale transition. If the bank does not have such a function, it must put one in place prior to start-up.

Recognize and respect organizational boundaries: Any transgression of organizational policies, ethics, budgets or guidelines must be communicated clearly in advance. The bank must not mistakenly assume that a departure from status quo will always be well received. There should be a separate plan for tackling any negative repercussions of overstepping such limits.

Communicate effectively: Since communication is the key to securing the buy-in of various stakeholders, it must come into play from the beginning and endure over the life of the transformation journey. While only senior executives may be privy to transformation plans in the initial stages, the lower levels of the organization must be progressively brought into the loop. While it is important for individuals or members of a unit to understand how transformation will affect them personally, they must also see the bigger picture, which is, what

transformation will bring to the organization as a whole.

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