

Managing Risks In Core Banking Replacements

Survival of the Transformed

I arrived at the symposium half expecting last year's critical themes again. Why would I expect a change—after all, the world of core banking technology had not changed all that much in the last 18 months - or had it? A couple of years ago, at the same symposium, all I heard was that core banking solution replacement was an idea whose time had NOT come. The risks were just too great, said experts. Others opined that the costs of such a dramatic change in the technology infrastructure were just too high to justify undertaking the risk. And as I considered these views very objectively, I realized that they were all correct. The risks were indeed very high, costs potentially bordering on the prohibitive and in-house systems had indeed served the purpose. However, what I had heard at this year's session was refreshingly different. There was still widespread cognisance of the risks and costs, but there was something else in the air, an acknowledgement of the fact that banks, irrespective of size and geography, face the dual challenge of cutting costs and increasing internal efficiencies, with the ultimate aim of improving margins, which are clearly under strain. There are visible signs of large global and regional banks willing to take the plunge. While some openly stated their intentions to consider a core banking solutions replacement, there were some others who had already taken the first steps towards this brave move. More than one global bank is considering a new application –if not in their home market to start off with, then at least elsewhere.

This is a significant step and I strongly believe that all it requires is a couple of successful migrations before this develops into something like a wave.

What then are the risks that banks should take cognisance of, before embarking on what is clearly going to be the single biggest technology initiative within the bank?

Vendor or partner risk

Analysts rate this as the single biggest risk while evaluating enterprise applications. After all, if a core banking systems replacement is going to be the single biggest initiative, the solution provider should be a partner rather than a vendor. There are various questions to be considered while evaluating a vendor's credentials.

Some of these are:

Is the vendor financially strong?

It is imperative that the vendor is financially very strong, and capable of tiding over the bad times so as to be able to capitalise during the good times.

Is the vendor committed to the business?

It is vital for a vendor to have a long-term view of the banking business just as a bank would have. They should understand the business, make regular investments to track and understand the business, and above all, give it the focus that it deserves.

Does the vendor conform to quality standards?

For a software vendor, adherence to various quality standards is of paramount importance.

What do others have to say?

The different accolades received pertaining to corporate governance, the quality of management and their vision, and so on are positive indicators. Vendors of core banking solutions are more than just developers of another piece of software and banks are recognising this.

Solution risk

At the end of the day, a solution is what the bank buys. And therefore, evaluation of the solution itself is very important. For example, it is expected that the vendor would invest in benchmarking the solution features against best practices as its geographic footprint grows. Critical evaluation of solutions by research analysts and consultants also can provide banks with key insights into the solution. Banks should also look at the vendor's strategy in future-proofing the solution for emerging requirements.

Technology risk

It is a must that a bank's partner is at the cutting edge of technology. For example, a few years ago, the adoption of web technologies was considered necessary—and solutions, which had adopted these technologies early and web-enabled their systems, were clearly the more progressive ones. In today's environment, experts are talking of Web Services and a Services Oriented Architecture (SOA), so solutions that conform to this are obviously more than a step ahead. There are other factors to be considered too, such as:

Is the solution scalable?

Banks should closely look at vendors who have performed scalability benchmarks. However, the (real) proof of the pudding is in the number of 'live' sites say 500 branches, or where transactions volumes per day are more than 5 million..

Is it based on open and inter-operable standards?

The core banking solutions will co-exist with other internal and external applications. It is important that interfacing and integration capabilities are proven beyond doubt.

Implementation & support risk

The banking world has seen many projects fail. It is often said that selecting a vendor is the easier part. The more difficult and challenging part is, of course, carrying the project through to a successful implementation. An experienced vendor with impeccable implementation credentials is one who has managed all challenges well. Some of the key questions that banks should be asking while evaluating this risk are the following:

- How Does the product require large-scale customisation? How will this be managed as part of the implementation plan?
- Will the vendor make many changes to source code on-site?
- What is the implementation methodology that the vendor adopts? Is it comprehensive and does it incorporate aspects that are critical to the bank itself?
- What is the vendor's track record with implementations? A clean track record here is a significant plus, as there are not too many vendors who can claim to not have even a single failed implementation.
- Does the vendor have experience with different types of implementations—in different geographies, big bang migration as well as phased roll-outs, etc. A related but an equally important issue is the post implementation support that vendors provide.

Positive pointers that banks should be looking at are:

- What is the vendor's strategy for post implementation support?How many levels of support does the vendor provide?
- Is the vendor equipped to handle support in different parts of the world?
- How do upgrades and enhancements come to the bank after implementation has been completed?
- What do long standing customers have to say about post implementation support?

Concluding remarks

It is important that banks take a holistic view while considering the replacement of their core banking platform. While the benefits of implementing packaged solutions built on modern technology are all too obvious, one cannot deny that such an exercise is fraught with risks. The risks can be mitigated and managed—a good starting point would be for the bank to recognise the different risks and consider strategies to mitigate them. As I said at the outset, the perspective at this year's symposium was refreshingly different. I am confident that next year, the mood will be a lot more optimistic as it will be built on the plank of successful implementations by the few courageous banks which have taken the first steps. And these banks would be those which would have evaluated and managed the different risks successfully.

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