

## Key Challenges in Core Banking Replacement

## Survival of the Transformed

Core banking replacement has, for long, been considered a strict no-no by banks. Established comfort level with existing technologies and processes, relatively comfortable margins that provided the luxury of overlooking operational inefficiencies, and finally, the fear of the unknown, have all ensured that banks steered clear of this subject. But the current competitive environment with increasingly demanding customers is forcing banks to take a reality check on their technology environment and ensure that their IT strategy is aligned to their business objectives. And core banking replacement is often the only solution to their problems. However, replacement of core banking solutions be it for large or small banks, global or regional is akin to a heart transplant. This can be one of the greatest challenge for any institution, which can either result in the bank leapfrogging to a high degree of differentiation and an enriched customer value proposition, or it can create considerable risks for the bank if the transition is not managed properly.

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### Key Challenges

Banks need to focus on key factors, which make the core banking transformation a successful experience. Broadly speaking, the key challenges in core banking transformation are:

1. Vendor capabilities and credentials
2. Dependence on legacy/vendor applications and impact on envisioned technology architecture
3. Bank's business goals and alignment to leverage the new technology

### Vendor Capabilities and Credentials

Transforming a bank's core systems is a strategic decision that has far-reaching implications on the bank's future business strategies and success. The various aspects that need to be considered include:

#### Financial stability

Financial strength and business continuity are the

most important attributes for evaluating any vendor. Typically, payback for most core banking replacements could take anywhere around four-five years, even for rapidly growing institutions. Transforming core banking systems bring with them associated changes to operating processes, surround systems, interfaces, hardware and network configurations, coupled with the re-skilling and re-deployment of people. The Total Cost of Ownership (TCO), keeping in mind all these factors, would be quite significant, even for small institutions. Hence, a core banking solution, once implemented, should be robust, scalable and future-proof and serve the business interest for at least 10 years. This is why the long-term viability of the vendor assumes critical significance.

#### Vendor's commitment to the business

Apart from financial viability, the vendor's commitment to the financial solutions business is crucial. Banks must gauge the vendor's ability and intent to commit finance, resourcing and infrastructure to continuously enrich their solution offering to meet contemporary banking requirements. Some of the criteria could be the number of customer sites across the globe, profile of client banks, contribution of the financial solutions business to vendor revenues, track record, as well as vendor's investment in the core banking space.

#### Vendor's domain and technology competence

Continuing with legacy technology and outdated banking practices and processes will sound the death-knell for most solution providers and, in turn, severely impact the client bank's capability to survive and flourish in an increasingly dynamic business environment. A few factors that merit attention are:

- Is the deployed technology future proof?
- Does the vendor have a good understanding of banking business practices across the globe?
- Is the solution based on open standards to facilitate seamless working with surrounding systems and delivery channels, straight-through processing capability and offers real time information to its stakeholders and customers?
- Is the technology stable and user-friendly? Typically, minor modifications should be handled with minimal vendor intervention, and without

compromising on the solution architecture. Further, the solution should be scalable enough to handle projected business volumes without compromising on response times or consuming substantial resources.

- Does the vendor have a clear roadmap for ongoing research, development, upgrade and support?
- Does the vendor have the requisite quality and number of trained, experienced personnel to work on the technology platform to ensure business continuity as well as business transformation?

### Vendor's deployment capabilities

For a vendor, developing and marketing the solution to banks is only part of the job. The critical aspect is ensuring a smooth transition to the new system and empowering the bank to leverage its capabilities. The vendor should provide a robust delivery and support platform to manage ongoing business requirements and crisis, within acceptable response times. The main areas that require focus are:

- Does the vendor have a proven and properly documented implementation methodology?
- Is the implementation methodology designed to ensure proper training, documentation and user empowerment to enable the bank's personnel to deploy the solution across their businesses with minimal recourse to the vendor?
- Has the vendor implemented the solution in the bank's geography and for banks of a similar profile? Also, what is the implementation track record in terms of success rates, adherence to budgets, timelines and delivery commitments?
- Does the vendor have a well-thought through, multi-layered support strategy (both person-based and interactive i.e. web-based with a rich data bank and global best practices) to adhere to stipulated SLAs and ensure best-in-class customer service standards?

### Dependence on Legacy/Vendor Applications

Often, the biggest impediment to a smooth implementation is the migration path from the old to the new. This is further compounded in case of migration from a legacy third party application as compared to that from a manual or proprietary solution. This is because of the dependence on the legacy solution provider to enable proper migration of data. The process also exposes the interfaces deployed and requires changing workflows and procedures to best leverage the new solution's capabilities. The key challenges to be understood and overcome are:

#### Data migration

This is an extremely critical and at times a painful phase during the implementation process. It entails a complete understanding of the data structures in the existing system, a one-to-one mapping with the relevant fields in the new system, identifying gaps in the data, enriching the same (remember, a core banking solution can only process what is fed into it—garbage in is garbage out!) and finally, migrating the complete data to the new system. This has considerable dependencies on the existing IT teams in the bank as well as the incumbent and new vendor to ensure a smooth cutover.

#### Understanding the prevalent systems and interfaces deployed

Proper analysis is required to understand which of these would continue to exist in the revised architecture and, if so, the linkages with the new core banking system.

#### Understanding the functioning of the legacy environment

This is required to enable modification and streamlining processes and workflows to achieve desired business objectives with greater operational efficiencies.

#### Configuring the new architecture

The new architecture needs to be configured with the objective of eliminating functional redundancies and achieving STP. It should provide banks the flexibility to quickly devise new products and services, ranging from plain vanilla to exotic high-end structured products, tailored to individual markets and segments.

## Bank's Business Goals

This is probably the single most important factor that will determine the success of the implementation and the extent to which the bank leverages the new technology to achieve its stated imperatives. The critical considerations are:

### Expectations management

Stakeholders at different levels usually have differing expectations from the solution. A Chief Information Officer (CIO) will expect a well integrated operating environment and a low TCO, a marketing manager the flexibility to design and roll out new products, whereas a Chief Operation Officer (COO) would be more concerned with streamlined, straight through processes and minimal operating risk. It is critical to have complete clarity on the desired outcomes from the transformation. Knowledge and understanding of local practices, regulations, cultural and lingual issues is also important.

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### Finalization of the scope and the timelines

This should be driven purely by business imperatives and the bank's ability to commit resources (people, finance, infrastructure) to the project. Based on this, the bank can opt for a variety of approaches like:

- 'Big Bang' approach: All branches and lines of business going live simultaneously.
- 'Phased Pilot' approach: The solution is first implemented at few pre-selected, pilot locations and finally rolled out across the bank.
- 'Line of Business (LOB)'-based approach: The bank identifies one/multiple lines of business (e.g. treasury, loans etc.) where the solution is first implemented in the chosen line of business.

Each of these approaches has its own advantages and drawbacks. The Big Bang approach will result in faster implementation cycles, greater visibility and stakeholder interest levels. On the other side, it calls for considerably higher resourcing on the part of the bank as well as the vendor, and much lower error tolerance levels—there are no second chances. A 'Phased Pilot' approach enables the bank to get a first-hand feel of the solution in a smaller space and affords the opportunity to identify lacunae, incorporate learnings, and ensure a better fit to business requirements, enhancing the probability of a successful implementation. This is usually the preferred approach for large, complex deployments. The major downside would be longer implementation cycles, resulting in a longer payback, and, at times, a re-negotiation of the scope of the project. The LOB approach allows the bank the flexibility of migrating solutions as per the maturity and readiness levels of the individual businesses with little impact on other business units. However, this may again create siloed structures with disparate customer information, different workflows and inhibit the bank from deriving the complete benefit of the new technology. banking implementation, resulting in reprioritization, budget and time overruns, and quite often, a high degree of disillusionment and a feeling of being let down by the new technology. There should be sufficient empowerment at the core and operating team level to enable them to champion the transformation across all stakeholders in the bank.

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### Change management and ownership issues

This occurs primarily due to a 'top-down' approach in identifying the business objectives as well as inadequate and improper communication of the change drivers and resultant business benefits. It is important to ensure complete buy-in across all stakeholders and address concerns that the bank's personnel may face, on account of re-organization, reskilling needs, change in operating practices and fear of redundancy. Clear, timely and relevant communication across all levels is essential.

### Midway changes through the project

This is one of the biggest risks in any core banking implementation, resulting in reprioritization, budget and time overruns, and quite often, a high degree of disillusionment and a feeling of being let down by the new technology.

### Resource availability

Timely availability of adequate skilled resources and infrastructure such as hardware and network is required. This goes a long way in ensuring a smooth transition within the timelines targeted by the bank.

### Finally...

While the advent of state-of-the-art technologies and global best practices undoubtedly offer improved agility, efficiency, CRM capability and faster implementation cycles, banks need to be mindful of the challenges associated with core banking deployments. These challenges, once understood and mitigated properly, are perfectly manageable. All the same, banks must appreciate that technology is an enabler and not a panacea. As history indicates, successful banks are those that have understood the potential of new technologies and aligned themselves to fully leverage its power. These are banks that have focused on the adaptive change that made the technology transformation process successful.



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