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DIGITAL BANKING FUNDAMENTALS SERIES

Change Management: Effectively Implementing Core-banking Systems

Why financial institutions want or need to change their core-banking systems (CBS)?

In the last 15 years core-banking technology system landscape has changed dramatically. Old-fashioned systems that are still used by number of institutions, from smaller financial institutions (FIs) in the microfinance market to tier 1, 2 or 3 banks, are becoming a burden due to a number of reasons (proprietary architecture, lack of integration capabilities, large maintenance cost, etc.).

This means such institutions have issues with supporting growth of the company by increasing scalability, flexibility, and prioritising customers' needs by offering innovative products and services. To improve their situation FIs are looking into changing their CBS to more open and flexible ones that support their growth and the needs of their customers.

The change of a CBS is a very complex process. It requires time and money but done right can save you from future troubles and enable you to grow and develop as you see fit. To do that you need to fully commit to the project of implementing CBS.

Core banking systems: To change or not?

A set of basic questions can help banking leaders determine whether they need to invest in a new core banking system. Affirmative answers to more than two questions indicate the potential need for a new system.

Functionality and flexibility	Technical characteristics	Risks ¹	Financial characteristics
<p>Is some of the core business logic re-usable?</p> <p>Can the core system interface with other systems using modern communication methods such as APIs?</p>	<p>Is the core banking system becoming a bottleneck to change? Does it take more than 3 to 4 months to schedule a change in the core system?</p> <p>Is the code excessively monolithic or the architecture closed? Is a code change required for relatively simple business-user tasks like changing a product interest rate or changing a simple product feature?</p> <p>Is stability becoming an issue? Have there been more than 2 severe outages in the last year?</p>	<p>Does the bulk of system knowledge reside in less than 10-15 individuals? Is that number expected to decrease due to retirements or attrition?</p> <p>Do you get less than 3 good applications per advertised vacancy for a core banking system engineer?</p> <p>Has the core system been customized beyond recognition over the years? Does the original vendor still feel confident supporting the current system?</p> <p>Has the vendor given any indication of discontinuing support for the product?</p>	<p>Is the core banking system inefficient? Does supporting the system take up more than 5% of annual IT expense?</p>

¹ Includes talent and vendor risks.
Source: McKinsey analysis

Figure 1 – A matrix of questions developed by McKinsey & Company in their article Core systems strategy for banks¹

¹ McKinsey & Company - Core systems strategy for banks - <https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/core-systems-strategy-for-banks>

The Project

In the early stages of getting the project off the ground it is important to look at:

- the risks
- key set-up decisions (including project methodology)
- how to approach the difficult challenge of software selection

The success of the project depends on understanding the objective and on initial clarity about what good and successful looks like. It's important to decide what do you want to get out of it and to differentiate what matters more to you; what are the must-haves and what are the nice-to-haves. Changing these factors mid-implementation without care can jeopardize your operations and bring about the risk of failure.

Understanding the Objective

The objectives are, essentially, points of focus you want to be clear about.

They generally include the following:

- **product:** be very clear about what you're offering.
- **scalability:** what are the future growth plans and are there any?
- **cost to implement/cost to run:** realistic estimates are essential.
- **integration:** how you integrate is going to be a pivotal part of implementation of core-banking platform. Important to think is what else is involved. Regulatory reporting, payments, MI, customer decisioning/AI, pricing feeds, specialist sub-ledgers, etc.
- **future proofing:** you need to have a view as to what future might bring. The ability to change a platform easily is fast emerging as a primary consideration for banking software selection.
- **automation capabilities:** plan the processes to be fully automated from the beginning. What is your automation route map? Does it include the new platform?

Project Team

The people included in the project should be the best ones you have. The project sponsor needs to be a senior, engaged, and must have accountability. Project teams should be focused and dedicated to the project 100%. Implementing software should be their only task.

Your project team should consist of:

- Project Managers and Project Managers Officers
- Business Analysts
- Subject Matter Experts
- Test Managers
- Test Analysts
- Software Developers
- Project Communication Specialist

Project Approach

The project approach is typically determined by corporate internal policy. In all methodologies however, there is a need for project governance and the early appointment of a steering committee/project board is essential. Their job is to keep the project on track, fund and challenge the various stages, and ensure that the project delivers to the original vision. It is also important to understand that 'agile' does not mean a no-planning, free-for-all. But it does allow for a reshaping of design and a lower risk revisit to requirements.

*"See your software vendor as a partner. They can come and help you to make sure you get this right. Ask them for good case studies and where they have implemented before."*²

Software Selection

Selecting software is frequently the most abused part of any project. While it is evident that such decision has enormous implications, it is frequently rushed and is not given the resources it deserves by the significance of the work. Assuming that the decision has not been pre-determined, the guidelines that follow could be of use:

- Know your requirements: there is no substitute for clear requirements, and these are difficult to create to a decent standard (a fairly skilled and senior activity). Therefore, investment is needed. Do not anticipate the answer.

² Swithun JK Mason, Director at Masonbreese

- Do not include the whole company in making the decision. The decisions should be made by a sub-group of skilled staff (and consultants) – and the rest of the organisation must accept the decision.
- Exclude those with a prior bias. This can be politically difficult to achieve but those who come to the exercise with a strong and expressed preference are unlikely to be able to see options clearly.
- Accept that meeting 80% of original requirements is a reasonable outcome. With software as complex as a banking platform, compromise will be needed: the skill comes in understanding where compromise is reasonable and where a firm line is needed.
- Remember that software salesmen are skilled at not telling the whole story: formalise all contact between vendors and the selection team with disciplinary measures available for breach.

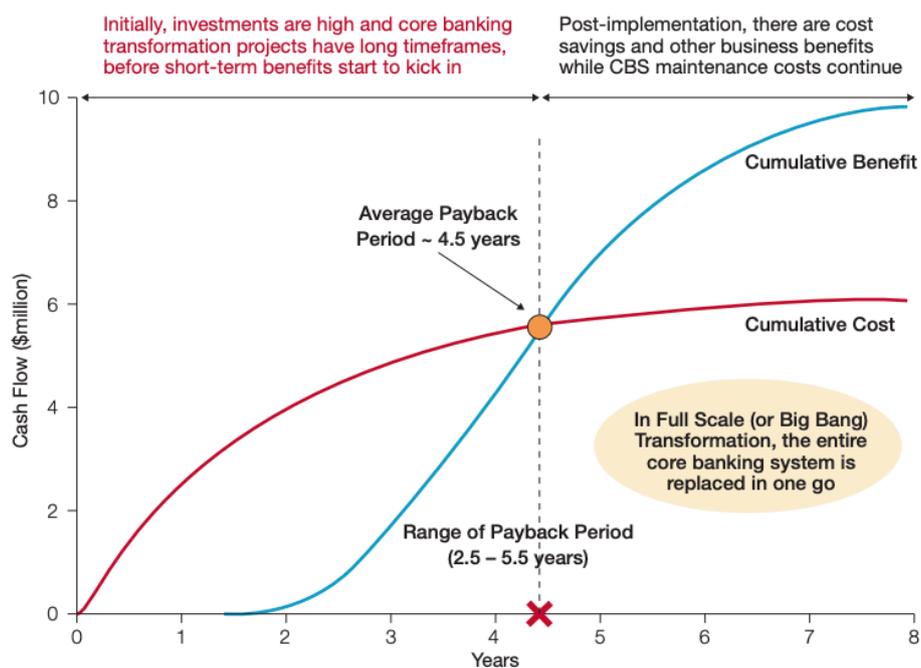


Figure 2 - Source: Capgemini Analysis, 2013; Core Banking Systems Cost Benchmark, IBS Intelligence, 2012

Note 1: The plot is comprised of 29 banks belonging to Tier 1 (>USD\$500mn), Tier 2 (USD\$100-500mn), Tier 3 (USD\$5-100mn), and Tier 4 (<USD\$5mn) category, with the majority of banks belonging to Tier 3 and Tier 4 category³

³ Capgemini - Core Banking Transformation: Measuring the Value <https://www.capgemini.com/se-en/wp-content/uploads/sites/29/2017/07/core-banking-transformation-measuring-the-value.pdf>

The Implementation Process

When you decide to implement the software, it is important to make certain changes. Changes in ways processes are done, in ways who owns such processes, in ways you do business, in ways documents are used, approval is gathered, communication is exchanged, and tasks and responsibilities are executed. The objective should be more meaningful work, less busy work so be aware of overpromising and underdelivering.

It is important to focus on three things:

- Process change
- People change
- Communication

"Change management is the most important thing you need to consider when you implement software."⁴

Reasons Why CBS Implementations Fail

- No executive sponsorship
- Lack of collaboration
- Resistance to change
- Picking the wrong vendor
- Poor vendor management
- The wrong team
- Picking the wrong implementation approach
- Poorly thought out testing
- Inadequate or zero customer communications
- Ignoring risks

Training Approach and Structure

Everything that comes in the implementation will end up in training so one of the most important steps in change management is training. It's important to understand what the training strategy of the CBS provider is.

⁴ France Barral, CBS & Change Management Expert

The training of trainers (ToT) is crucial and the person doing that needs to have the following qualifications:

- Relevant business experience
- Strong CBS knowledge
- Strong training skills such as communication and interpersonal skills; organisational skills; built training plan and materials; deal with difficult participants etc.

How to train the trainers:

- Choose the team members that are comfortable with this task.
- Create redundancy (good trainer backed up with someone with an excellent business knowledge).
- Train the trainers: Ideally, future trainers should participate the ToT course to be able to do the work effectively.
- Make sure that training materials are consistent and up to date.

About Oradian

Oradian is a financial inclusion company serving financial institutions in remote, hard-to-reach communities. Using insights from our community of customers, Oradian builds a cloud-based core banking system that financial institutions plug into to access best practice and efficiency. Their global community is made up of over 80 financial institutions in 12 countries serving over 4 million end-clients. Feel free to contact them at knowledge@oradian.com.