View Point

Banking Transformations – Setting up for Failure

Banks across the globe have been embarking on core banking transformations with a view to enhance productivity and augment customer experience. However, they need to be cognizant of several pitfalls that await any core banking transformation.

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Banking Transformation Landscape

Driven by the rapid changes to technology landscape and customer preferences, global banks have been embarking on transformation of their core banking systems to achieve business efficiency and agility in operations. Banks embark on transformation initiatives thrilled at the thought of overhauling their inefficient ways of operations, get dejected mid-way understanding the magnitude of transformation and their unpreparedness, and finally go live compromising on quite a lot of objectives that they expected the transformation to solve. While many banks claim to have realized success through core transformation initiatives, the expectation to reality gap continues to mire majority of transformation projects even now. Even the ones that achieve success, rarely spent time to document the best practices or the do's and don'ts of transformation.

Having been associated with 50+ banking transformation engagements till date, we realize that majority of issues can be resolved by having an understanding much earlier in the lifecycle, even before embarking on a transformation initiative. However, most of the challenges are not obvious and are easily overlooked by banks. A transformation initiative has tremendous interplay across multiple service providers including solution providers, system integrators, assurance specialists and PMO organizations. Understanding the challenges across the diverse provider landscape is key to ensuring the success of transformation.

Lack of Standardized Selection Process

First and foremost among the set of pitfalls is the absence of a formal process to capture the exact or near exact expectations from a transformation program. Most of the times the RFP is a replica of previous RFPs or copy paste from similar ones that have been used for earlier engagements. The most preferred approach is to explore the services of an intermediary or advisory firm. However what banks don't realize is that this approach again suffers from the copy-paste issue mentioned earlier – the only difference being the copy-paste comes from the existing repository of RFPs with the advisory firm. This is extremely detrimental since the transformation objectives of each bank differ and cannot be compared with one another. Many a times the intermediary is overly focused on the product selection part of the transformation engagement and fails to realize the needs of multiple critical components including system integration and quality assurance of the application landscape.

Product selection is only one aspect of the transformation engagement. A flawed RFP process does not effectively capture requirements from the perspective of implementation, timelines and quality assurance. Incomplete requirements not capturing the needs of transformation translate into inaccurate product/solution delivery, further causing a ripple effect across all stages of the transformation process, ultimately leading to disaster. To complicate matters further, vendors are forced to commit to a fixed bid engagement without service level agreements. The product vendor might complete implementation within the committed timelines but does not adhere to the intermediate SLAs and milestones. Resulting delays and staggered approach inhibits the ability of assurance provider to ensure accurate testing of critical product modules. The net effect is that the bank has to content with what they have achieved at the end of the transformation process – an image that is grossly different from what they wanted to be when they started the exercise.

Banking Solution and Transformation Objectives Mismatch

The other side of the spectrum shows banks finalizing on a core banking solution much before the transformation objectives are set in place. Rather than doing a requirements study for transformation much ahead of product selection, the bank gets the product vendor to anchor its transformation objective. Needless to say, the vendor pretty much tries to force fit their product to the bank's transformation requirements, and in the process, skewing it such that it is extremely product centric with heavy customization. All other providers – the integrators, surround applications and assurance vendors are forced to work on the lines of what the product dictates. However, the expectations from the bank across all vendors continue to be from the perspective of transformation – a total mismatch between two requirement streams.

In addition to vendor evaluation and solution selection, advisory firms in this role act as a PMO for the transformation engagement. It needs to interact with the system integrator, product vendor, assurance vendor and multiple other surround system vendors to ensure that the transformation initiative moves in line with the stated objectives. In reality, this rarely happens.

The governing power that the advisory firm has with the vendors is insufficient since the contractual agreements and SLAs are directly signed between vendors and the bank. The advisory firm finds itself in troubled waters; it has to resort to cajoling and relationship driven tactics to get the vendors agree to the timelines – a totally ineffective measure. The natural outcome of this situation involves delays in go-live dates and resulting ramifications to business, else a compromise on the quality of applications in case of no delay in the launch date.

Diluted Focus on Transformation Scope

The third mistake that banks commonly make is to bundle all surround system replacements along with the core transformation. This is similar to making changes to the heart while simultaneously making changes to other organs in the body. The impact can be so huge that death becomes a certainty. The ability of the bank and for that matter advisory firm, to contain the changes that take place on account of this pitfall is insufficient. Most likely, the advisory is not able to convince the bank on the need to focus on the core transformation in entirety and then take up the surround systems in a phased manner. By being flexible enough to accommodate multiple requirements of the bank along with the needs of the transformation project, the advisory firm sets itself up for failure, and simultaneously, pulling other system vendors along with itself to doom.

Purely from an assurance perspective, any change that happens to the surround system need to be tested in isolation and then in integration. As a last minute effort to salvage the initiative, the bank starts crunching timelines required for adequate testing types. Of course, what inevitably follows is delayed launch of a much awaited transformation project with, quality issues.

Conclusion

No core transformation project is free from challenges. While many banks claim to have realized benefits through such transformation engagements, the results are sub-optimal in terms of cost, time and promised functionality. By being cognizant of the common pitfalls that we have addressed in this article, banks can ensure rectification of majority of issues. Service providers definitely have the capability to execute various transformation advisory services, but may lack the vision required to understand the transformation from the bank's point of view. By pointing service providers in the right direction and incorporating an effective governance mechanism, the bank can ensure that its core operations are truly transformed.

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