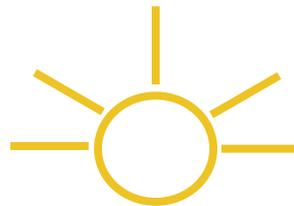


2008 Bankers Guide to System Selection

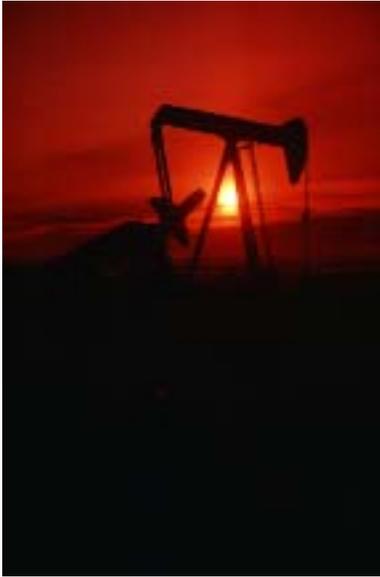
Author: Mark Sibthorpe

This guide provides an overview of the key steps financial service institutions (FIs) should consider when selecting new core banking systems. This step-by-step analysis of best practices is designed to guide FIs during the selection process and help them streamline their selection process. Following these guidelines, based on years of practical experience in system selection will help FIs avoid common traps and ensure they get the best system available based on its unique requirements.



START A BANK





Who should read this paper

This paper is intended for individuals involved in systems selection at financial service institutions (FIs). It is designed to provide insight into best practices used in the selection and purchase of large-scale core banking systems. It aims to provide an overview of the issues FIs face in selecting the best system to address their needs. It will help FIs understand the standard procedures for identifying, appraising and selecting the systems available on the market, avoiding common pitfalls, understanding how the vendors in this market operate and finally readers will have tools in order to negotiating a price to its best advantage.

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Introduction

Changing or acquiring a new core banking system is risky, can be expensive and the wrong choice can hamper a FI's ability to operate or even lead to failure. It is a well known fact that IT spend for FIs is typically the second highest non-interest related expense (second only to human resources) for most FIs. Considering the well documented risks and costs associated with changing a core banking system, FIs are advised to proceed with caution. An example that demonstrates the potential risks of converting to a new core banking system is Wells Fargo and First Interstate, two revered institutions that merged onto one system. The poor conversion described in detail in Ingo Walter's book, *Mergers and Acquisitions in Banking and Finance 2004*, resulted in 13,000 job losses as revenue dwindled due to IT problems and what some outsiders said was a heavy-handed approach to pushing customers into new types of accounts. Another poor conversion was a consequence of the creation of Canada's Alterna Savings (BankNews, Banking System Market Report 2007) whose conversion problems caused the FI to lose focus, fail to implement its business plan and experience high staff turn-over.



Take your pick, changing core banking systems is as risky and complicated as open heart surgery or changing the engine of a fighter jet in mid-flight.

David Moulton, Financial Services Consultant, TELUS

David Moulton, Financial Services Consultant, TELUS

Business drivers for change

Mergers are a strong motivator for changing a core banking system. In Canada typical drivers for change include:

- Necessity due to a merger between FIs (credit unions in particular)
- Starting a de novo bank: There are also over 20 applications with OSFI by companies looking to obtain banking charters and start a de novo FI.
- Technology no longer supported: There are currently 45 FIs in Ontario alone facing this issue (BankNews.TV, Banking System Market Report 2007).
- Operating expensive legacy systems. Large banks are also grappling with changing core systems but are facing much larger challenges that are related to legacy systems that originated 30 years ago or more and linked to a myriad of applications. Up till now they have to be able to make work arounds, but they are motivated to change due to issues that range from high product development costs and long development cycles to the risk of maintaining systems based on archaic languages with fewer and fewer programmers able to support the technology.

Importance of comprehensive business strategy

Regardless of a FI's motivation for changing its core banking system or selecting from scratch in the case of a de novo, the first step before looking into systems is for an FI to understand its business strategy and to build a business case. FIs need to understand:

- Their core processes

*Plan Plan and Plan or
Prepare Prepare Prepare
The more work done
upfront will save time and
possibly ensure the ROI is
attained.*

Neil Beckley, independant consultants, formerly director of sales at BIS, Delta Informatique and also Neptune Software PLC. Neil also worked at Deutch Bank.

- The market and how they fit in
- Their clients and what they expect
- Employees and the way the business operates
- The products it offers today and into the future

It is assumed that any FI reading this guide will base their decisions on the above criteria, factors that are the blueprint for both the business strategy and IT strategy documents.

People factor

Any FI looking to change their core systems should also be aware of the importance of managing people. People management can make the difference between success and failure in any IT project. According to Sean Jackson, CEO of Meridian Credit Union, managing people is one of the most important challenges in implementing a new system. After all, changing a core banking system will affect the way an FI operates from the teller to the CEO: Meridian changed over 50 applications as part of their conversion process.

‘In the case of Meridian, people management was doubly important because Meridian was formed through the merger of Niagra and HEPCO credit unions whose staff were both attached to their respective systems,’ Jackson adds. ‘Some of the issues that make people management such a complicated issue are that IT staff as well as end users tend to become very threatened about changes to core systems.’ From a staff perspective, the elimination of a core system could mean layoffs of entire departments, staff must get used to new systems and often more senior operation staff are very resistant and scared of changes, not to mention the emotional attachment of IT staff to what often represents years of their work.

A particular situation to avoid is that effort becomes directed towards proving one system is superior to another. This can and does lead to compromises and quick fixes to the detriment of business strategies. This report touches on the importance of building a team and encourages FIs to pay careful attention to involving individuals from many levels in their decision making process.

The people factor is one of the most important elements in any selection and is expanded on further in this document.

Dealing with vendors

Cutting through vendor noise can be difficult. Vendors are experts at confounding potential clients with jargon and buzzwords that seem designed to make it difficult to understand what is under the hood. From the latest buzzwords like SOA and J2EE to understanding the nuts and bolts of a universal banking system, there is a lot to know and it often seems that vendors are all saying the same things, and they all promise the world. This is why it is particularly important keep your search grounded on your requirements and not to get caught up in every trend driving the industry (the jargon). As Steve



Steve Gesner, former CIO
Meridian Credit Union

Gesner, CIO of Meridian says, 'Banking systems are like wine and cheese. Too young and they have no character, too old and they stink. Ours is mature enough to give us the services we need and it has a migration path which is Wealthview (Open Solutions, formerly Fincentric). Gesner's approach cuts to the chase. Similarly, this guide is intended to help you to root out the relevant facts that will make it possible to distill out the solution that is right for each FI's unique requirements.

Birds eye view of selection process steps

Build a business case

In principle FIs should already have a business strategy and an IT strategy based on this. With these blueprints as guiding principles, decision makers can begin to build a business case and start project planning. Always bear in mind that system requirements need to be defined based on business processes, workflow, functional requirements, sales channels, reporting requirements (both internal and for external regulatory bodies) and the resulting plan justified by an objective business case

Get approval for resource requirements

This is essential to ensure that sufficient resources are available to the project. At this point a time-line should be created detailing member involvement, project teams, roles and responsibilities. You should begin to earmark budgets for outside expenses including software, consultants, travel, hardware etc. Costs should be allocated based on perceived ROI. Board level approval for budget and overall project plan based on business value needs to be obtained before moving to further steps.

Assemble a selection team and ensure buy-in to the business strategy and business case.

Be sure to involve potential stakeholders at various levels from operations to IT. Clearly identify the technical requirements (hardware, software, architectural) necessary to execute the business strategy. Define the features and functionality requirements. Define your system for evaluating vendors. According to Greg Marsh an independent consultant serving many Canadian FIs, this is probably the hardest lesson to learn - be prepared to spend much more time than the vendor states. Organizations can only move at their own pace and any attempt to change this will fail.

This is also true of vendors.

Vendor qualification

- Write a request for information (RFI) document and identify shortlist of potential suppliers.
- Evaluate RFIs based on agreed metrics and create a short-list of potential suppliers.

Step 1

Step 2

Step 3

Step 4

- Meet qualified suppliers, ideally, 3-10 and share your technical and functional requirements document.
- Issue an RFP based on functional requirement document.
- Evaluate RFPs.

Step 5

Vendor analysis

If requirements are met by shortlist of suppliers contact each of the vendors clients directly and request feedback based on pre-defined metrics. Do not rely on Vendors to provide reference clients for obvious reasons. Ideally meet with FIs that match your organizations profile. Arrange product evaluation at clients sites either independently or in conjunction with vendors.

Arrange product demos.

Select the systems that fit your criteria.

Step 6

Negotiation and Implementation Planning

After systems and vendors have been chosen, the ensuing negotiations are very important. The selected system is something the organization will have for a period of 5 to 10 years. It is important that the agreement with the vendor reflects that level of commitment from both parties. Implementation planning, also carried out in this phase, forms part of the contractual agreement.

Step 7

Implementation

Implementation or conversion can take from 3 months to more than a year. Even with the same system, the process can vary dramatically. The variables are resources and customization requirements. A typical implementation or conversion will last from 6-12 months.

Building a Business Case

Assuming that you have defined your requirements based on your business strategy a next step would be to quantify the value of your IT spend. This will help you to assign budgets and avoid investing into product and markets that are never going to produce the kind of returns necessary in order to justify your spend.

HSBC example

Of course when you are considering large projects this can be a challenging process, but it is worthwhile because rewards can be significant. A clear example of the benefits of following this approach is demonstrated through HSBC's decision to purchase a card processing company.

In part, HSBC's decision was based on their development strategy based on a philosophy of 'build once, deploy many.' As this example demonstrates, the philosophy makes complete sense given that HSBC plan to make this system operational in 26 countries. The HSBC

In this case HSBC chose to purchase an entire company in order to secure payment technology, as opposed to simply buying, leasing or outsourcing the technology.

As a general rule, according to Clive Burton, a consultant specialized in systems selection, companies should be careful to avoid Vendors if the business value they represent is too small to get on their radar. And if the value of their business represents more than 40-50% of a company's revenue they also have cause for concern. In this situation they might even consider buying them.

example provides an excellent illustration of how development strategies should influence technology decisions.

The business requirements for wanting credit card processing technology was to allow them to optimize the management of their credit card processing business, reduce costs and grow the portfolio up to 25%. At the time, HSBC performed 440 million credit card authorizations a year, all of which were processed by the bank's UK data centre. HSBC also anticipated 25% growth in credit cards and did not want to add incremental costs to support the growth.

The result was that after considerable evaluation, HSBC embarked on one of its most successful global technology roll-outs called Whirl/eChamps credit card authorization and accounting platform. This technology was acquired three years ago when HSBC bought US Household International (now branded HSBC Finance), the platform consists of 17 linked applications, including credit assessment, risk-based pricing, card ordering and transaction processing and reporting.

The scope of the project was immense, under its program, HSBC installed and localized versions of the system in 26 countries, including Mexico, the US, Canada, the UK, Australia and the Middle East. A further 11 migrations are under way. The internet protocol (IP)-based system's multi-language interface allows deployments to be completed within acceptable time frame and has proven to be capable of adding features and functionality securely and uniformly across multiple locales. In keeping with its 'build once, deploy many' IT strategy, HSBC said that customization of the software was kept to less than 5% for each roll-out, with 70% of development work being undertaken by HSBC in India.

Derived business value:

- 89% of HSBC credit card accounts support Whirl and eChamps
- Reduced transaction processing costs, generating an estimated annualized saving of £23m
- 25% growth in credit cards use without any incremental cost increases.

The above metrics are great example of the kind of factors that should be used in the decision making process.

Decisions are not always this easily quantified. A less clear cut example, but equally relevant in the Canadian market is evident in Coastal Community Credit Union's selection of Open Solutions TCCUS. This example was chosen in order to highlight the fact that there can be intangible factors that can go into the decision making process.

In the case of Coastal, one of the many factors that contributed to their decision to choose TCCUS was that they felt regulations may change requiring a separation of operation between banking and insurance. In this event, they want to be able to align their financial service and insurance operations and cross sell. As Shelly McDade



Shelly McDade former executive vice president, Coastal Community Credit Union

puts it, ‘The biggest selling point for us with the system was total integration,’ McDade affirmed. ‘Open Solutions Canada has the capacity to accommodate our business lines so we’ll have an integrated offering to help our members meet their financial objectives.’ ‘TC-CUS has the scalability needed for future opportunities. While commercial and retail services are integrated in Canada, insurance and wealth management, from a regulatory standpoint, cannot be run on the same core system. This regulation, however, may change. Indeed if the regulatory environment changes, Coastal’s product mix will shift. That scenario might include combinations we haven’t previously seen, such as the mingling of wealth management and commercial services, or a combination of retail banking and insurances, or a combination of all four. What we saw in the Open Solutions Canada system was a capacity to accommodate the day when Canada’s regulations would allow these blends, which will be critical to us. Even if we cannot currently align all four business lines on our banking system, we still need the ability to align all of the third-party software that we’ll be using with the system.’

Coastal were willing to pay significantly more money in order to ensure that they are ready if and when the time comes. Some of the areas of concern for Coastal were:

- Banking conversion
- Networks infrastructure
- Switching
- Retail network
- Business model
- Finance
- Training
- Pre/Post conversion support
- Products and pricing
- Communications
- Audit controls
- Administration and project management controls

Getting executive approval

If a strong business case has been built based on business value, one would think that getting approval should be a logical result. Typically though, without a compelling event, getting approval at this stage can be a slow process. That is why the first questions vendors ask prospects is: ‘What is your budget? Is it approved?’ For vendors it is painfully evident that getting budget approval is not always a straightforward process. In fact, obtaining approval often takes several months and even years.

Coast Capital Savings, Canada's second largest credit union with \$9 billion in assets, is a case in point. They currently are using an old version of Sanchez Profile. To appreciate the technical challenges they are facing, any observer only has to look at what Lisa Bolton, small business director at Coast Capital refers to as, 'the fragmented and outdated' green screens. Their solution requires staff to perform a lot of manual processes while more modern solutions are generally fully automated. As the last remaining client in Canada running version 2.41 of Profile, despite obvious user frustration, a decision to change may still be a while away: and why rush? This FI has increased profitability as shown by their stellar financial performance, recently introduced many exciting new products, introduced award winning marketing innovations and are regularly recognized as one of the top 50 employers in Canada. They also recently announced that they are aligning themselves with Worldsource Financial Management as part of their expansion strategy, which, according to Lloyd Craig, President and CEO of Coast Capital Savings, is geared to 'accelerate the profitable growth of our investment services business.' Their cautious approach to adopting new technology may simply be a case that they have other priorities.



Screen shot of Julie, Coast Capital Saving's award winning marketing star.

To sum it up, make sure that the decision to change makes business sense and that there is a compelling reason that justifies the risks associated with changing systems, not to mention the opportunity cost of allocating resources that could be used to build areas of business that may be of more strategic value.

Building a team

Changing core banking systems will affect almost every person in a FI. It will obviously also affect many of the applications a FI uses to run its day to day operations. In the case of Meridian, formed as a result of a merger between Niagra and HEPCO credit unions, 50 applications were changed over a 12 month period when they both converted to Ovation (Open Solutions, formerly Fincentric). In Sean Jackson's words, 'The biggest challenge we faced was the reality that most human beings resist change.' Steve Gesner, Meridian CIO echoes this statement, 'Our big concern was to ensure that our employees were able to work with the new technology.'

The views held by Jackson and Gesner contributed to their decision not to use 3rd party consultants in their selection and implementation process. Gesner was particularly keen to keep decision making in-house as opposed to having hired consultants. His thought was that this helped Meridian to 'keep the members in mind when we made all of our decisions.'

Coastal Community Credit Union, as opposed to Meridian, decided to work with consultants as well as 12 employees representing each of the legacy credit unions and **CU Technical and Administrative Services Corporation (CUTASC)** for the selections. When it came to implementation they had up to 25 people at some management

meetings.

Qtrade Financial Group, a wealth management provider to individuals and over 180 institutions had 10-15 senior managers involved in the process at varying stages. Their objective was to take all of their middle and back office functions in-house. Participation varied from financial modeling, gap analysis, research to test driving the systems. Their selection process took over 1 full year to complete.

'Our big concern was to ensure that our employees were able to work with the new technology.' Steve Gesner, CIO Meridian

The views held by Jackson and Gesner contributed to their decision not to use 3rd party consultants in their selection and implementation process.

How to engage the end users

Engaging end users can mean the difference between system acceptance and outright resistance. It is common to hear of implementation where the new system was selected by senior management or IT staff without any reference to operations staff. Invariably users reject these systems and complain constantly about shortcomings. Ironically these can be systems that are loved by other similar FIs.

Apart from the project manager, you will need a variety of user representatives from various departments in order to provide input and help define the requirement they will have. These individuals will also contribute to the assessment of the new system(s).

Generally IT staff will develop the Request for Proposal (RFP) and manage the selection process. Ideally, one or two users from each relevant user department will be required and one to three IT/business analysts.

Depending on the scope of the selection and the FIs technical expertise you might want to consider engaging a 3rd party consultant. Consultants can help your organization by providing expertise and selection experience. Often consultants have participated in several selections and are very aware of vendors and the typical issues each FI faces during the selection process. Depending who you ask, they can be a boon or a distraction in the selection of a new system.

Some advantages:

- Expertise, they have experience with prior selections
- Consultants generally know the vendors and how they operate as well as industry contacts
- They have a current knowledge of the systems on the market and other complimentary skills
- They bring a fresh perspective to your systems approach and do not have a parochial bias that interferes with the process

Disadvantages of consultants:

- They are often attached to certain systems and vendors.
- There are many relationships and the dynamics of these relationships is not always clear.
- The cost can be high, \$2000 or more per day is not uncommon. This should be weighed against the cost of doing it yourself,

Consultants perspective

One big advantage of consultants is that a vendor manager can be the person in the middle - the one who is looking out for the client but can also talk openly to the vendor. Vendors struggle with bringing bad news to the business mainly because the client thinks they are only looking out for their own interest.

Maturity

A lot of vendors do not have the capability of being fully open with a client - the senior consultant can present issues with facts, backup as to why the situation occurred, is the situation common, and who is to blame on both sides.

When situations do arise the senior consultant can typically recommend methods of getting projects back on track that the vendor may not wish to hear but ones that will ultimately save the project. The reason for this is the vendor does not understand the clients political situation nor what is considered “acceptable” to senior management.

The good consultants can actually pay for their entire contract by saving project and maintenance costs. This is done by ensuring that quality is not sacrificed.

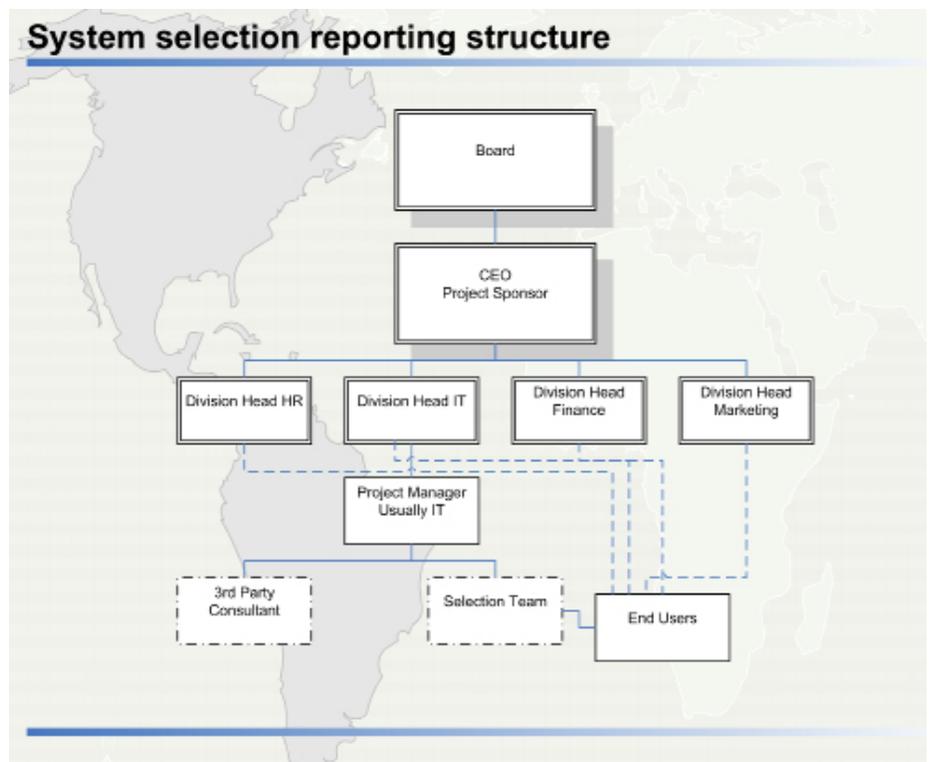
Greg Marsh, independent consultant serving many Canadian FIs

which may end up costing more because you save money short-term but it cost more long-term.

- Consultants will not understand your business the way you do, so they will have to be brought up to speed before they can be of any use. This will take your resources and is part of the cost. Using a consultant does not eliminate the possibility of failure. A careful selection will reduce this risk, but can never fully eliminate it.

Basically you would have a project manager who typically reports to the head of IT. Projects will also need a sponsor, typically the CEO who will report to the board. One of the key areas is to make sure you have buy-in from the end users from each department. Typically each department will provide 1-2 resources that will be in charge of defining their business requirements and reporting back to their division heads. Proper management of the users is important. They need to be able to contribute and be engaged in the decision making process. It is important to have their buy-in so compromises will often have to be made between their potentially exhaustive requirements and what is the real priorities for the new system.

A typical team structure would look like this:



Structuring and evaluate the Request for Information (RFI)

The goal of the RFI is to narrow down the field of potential bidders. So, while the RFI should be loosely based on the subsequent RFP, the objective is not necessarily to identify the potential candidates but to eliminate the hopeless ones that are clearly not the right choice for the FI. Ideally the ‘long shortlist’ will consist of 2-3 vendors. In Canada this is not a big challenge because FIs are starved for choice due to

A bank must be aware that they may not have all the skills in house to perform all the necessary functions: after all how often does one change a core banking system during ones career?

Neil Beckley, independent consultants, formerly director of sales at BIS, Delta Informatique and also Neptune Software PLC. Beckley also worked at Deutch Bank.

A message for smaller FIs (below \$10 B assets): *localizing a solution is expensive, risky and as demonstrated by some systems recently localized in Canada, can be challenging and complicated. There are also ongoing development requirements that must be met for any FI operating in Canada. So be aware that without an installed base that is large enough, there is risk that should be factored into the decision making process.*

limited competition.

Therefore, in writing the RFI one of the objectives, apart from narrowing down the field, is to interest potential vendors by providing a document that provides enough detail to make some basic decision but not to make the effort of completing a full blown document unattractive to vendors.

Completing a full-blown RFP is a considerable commitment and vendors will want to know that they have a reasonable chance of winning before making the investment required. Evidently the RFI should be based on the IT requirements document. Fundamental areas of concern at this point are:

- Vendor's financial situation
- Vendor's client list
- Vendors ability to support your project.
- The relevance of the vendor technology
- Development path of the technology

The RFI should provide the vendor with an overview of your requirement specifications and functional requirements. For example, if you need the software to work on an Oracle database or use .net technology make it clear. Also, be sure that your requirements are broken down into priorities: essential, important, important but not essential immediately, nice to have.

Things to avoid: Vague questions like, 'Is the system flexible?' Instead define your requirements more precisely. For example, ask, 'Will the system let me add loan products with a variety of parameters, terms, workflow.....'

What to include:

- Realistic timeline for reply
- System selection timeline
- List of times and contacts for questions, not for sales meetings.

Sample RFI and RFP will be available in February from BankNews.TV and StartaBank.ca. Contact sales@banknews.tv

Evaluating the RFI

When changing your core systems you are entering into a relationship that normally last 5-10 years: the longer the better. Selecting software is not just about technology either; there are many other factors that should be considered. For example, you want your business to be of interest to your vendor. One suggestion offered by Clive Burton, former head of development for Kindle (Acquired by Misys and 2000 implementations worldwide) suggests is that, 'You need to be big enough to be on their (vendor's) radar but not so big that you

represent more than 20% of their annual revenue. If you are too big, for example, you represent 60% of a company's revenue you might as well buy them.'

This may have been the conclusion HSBC came to in the earlier example. The reasons for this is due to possible concerns that the vendor gets acquired or becomes insolvent. In face a recent transaction involving Selient was due in part to their financial situation. Selient was acquired by CRI Canada in December 2007. Similar concerns were expressed by clients evaluating Fincentric prior to it being acquired by Open Solutions.

Other issues to consider is a global vendor with too few clients in Canada. One of the issues in this type of situation is that you will not be adequately supported or that your product will not be adequately supported because the vendor's market share does not generate enough revenue necessary to keep the product current; the result being that the software will stop being supported.

Establishing a relationship with vendors

Having identified your shortlist of vendors a pragmatic strategy is to confirm your findings through contact with the vendor's clients. Naturally you will want to identify clients with a similar profile in order to obtain relevant information. Of course vendors would prefer that prospects make arrangements through them, but this is not always necessary and you will find that most FIs (especially credit unions) are more than happy to talk on or off the record about their experience.

A vendor's customers are really the best testimonial as to what you can expect. In fact, McDade said that attending Open Solutions vendor conference with 1500 of their clients present was a contributing factor in her company's decision making process. As she puts it, 'In speaking with other Open Solutions clients, they all said that they had hiccups during conversions and other problems. What we heard though, was how well Open Solutions dealt with issues: they are very responsive.' McDade adds, 'The fact that I can pick up the phone and call Elliot Lipsey (formerly general manager for Open Solutions Canada) whenever there is an issue and the fact that he personally oversees monthly planning sessions demonstrates where their priorities are.'

Steps to take prior to meeting vendor clients

If you decide to meet vendor clients be sure to plan your visits in advance. Make sure that you are prepared in advance with structured questions that cover key issues. Ideally you will want to meet the IT Manager, the CIO, the CFO, and various individuals representing the heads of the relevant operations departments. Your goal being to find out as much as possible about their experience.

Try to pick a client that has been operational for at least a year. This way you will be able to see how the new systems affects their opera-

tions. Some key indicators are:

- How satisfied are they?
- What were the major issues they faced?
- What would they change?
- What would be their advice to another client?
- How satisfied were they with the vendor support at each stage: pre-planning, implementation, training, post-implementation, ongoing product support?
- What resources were required on their part? What resources would they recommend?
- Is the day to day vendor maintenance and support what you expected?
- How to they measure the ROI and based on this, has the system delivered on the promises?

Advice on dealing with vendors

A question that FIs might ask themselves is have they found ways that they can save money or improve the way they do business? As a FI, I would be constantly questioning how the new systems are going to save money or make me money or both.

David Moulton

Having a successful relationship with your vendor is important for many reasons but is not always easy to achieve. One of the issues that can act as a barrier to building a successful relationship is pre-conceived ideas FIs often have that cause blockages in communications. According to Jeff Roby, VP sales, Open Solutions, ‘The biggest mistake prospects and clients make is not being honest with vendors. Prospects often feel that they have to keep their cards close to their chest. Prospect often want to keep their real business challenges quiet and they often talk about the glitz and glamour as opposed the what is really causing them pain. Over the years I have seen the results. Clients can end up implementing a solution and then realizing that it is not right for their needs. Here is a list of some common misconceptions that make it difficult to have an open dialogue:

- Prospects think that they are losing the upper hand or some sort of advantage in negotiations by telling too much.
- Prospects are uncomfortable sharing information because sometimes they are embarrassed by mistakes their company has made. For example doing manual processes.
- Project leaders sometimes want to keep too much control over the selection process and keep vendors from speaking with individuals further down the food chain. This can often leave issues unaddressed and have negative impact on user acceptance as the process unfolds.
- Prospects need to realize that vendors have to invest considerable resources every time they deal with an opportunity. For example, it is common for a RFI to require 10-12 days of work from up to a dozen people.
- Prospects forget that vendors want success for their clients and

strong references because they depend on this for future sales.

- When a prospect ask about pricing they often think a vendor is not forthcoming if they do not give pricing right away. The fact is that each project is different and some understanding of the vendor issues is always required before even a ballpark figure can be presented. I have seen RFIs with 800 metrics with 2 to 3 entities merging and significant training, customization and growth requirements etc. It is impossible to provide a viable quote unless they understand the issues.

Another perspective that can be more productive

- Prospects can view vendors as an extension of their IT department. Vendors can be a trusted resource. The only way this can work is if there is an honest discussion and confidence that the real issues can be addressed, even when the issues do not reflect well on the organization.
- Vendors need to understand the real pain. Unless they are aware of the real issues there is no way they can talk about the real problems. Vendors often find it frustrating to find out after the fact that a CEO is disappoint because something is not working the way they anticipated.
- Vendors need access to people at all levels of the organization. This allows vendors to have a better understanding of the real issues and will ensure better product acceptance. The CIO often knows a lot but may not be aware of key issues or not understand them.

Roby says that budget is another issue that almost always comes up early in the sales process. He feels that budget is always a sensitive issue from both sides and it doesn't have to be. Vendors want assurances that they are not wasting their time and prospects want to be sure the product is within their reach and priced fairly. So the question 'What is your budget?' is really an assurance to vendors that a prospect is serious, can afford a solution that is a significant investment. Sometimes FIs will be simply be gathering information for future reference. Naturally we won't treat a situation like the in the same way we would a prospect with adequate funding, management buy-in and a clear idea and time-line in place.

Prospects might even be surprised when vendors disengage from prospects that look like they are a poor fit. For example, recently Roby was approached by two mortgage companies. He learned that both were using excel sheets to calculate interest payments. This made him question their ability to afford a real core banking systems. Naturally, one of the first question was what kind of budget do they have. When the companies learned that they would be looking at a 6 figure spend it was fairly obvious this was not something they were prepared for.

One thing some people don't realize is that budget questions are just

as likely to originate with the vendor as with the prospect. It's a fair question for a prospect to go back to the vendor and say what you think this will cost? Both parties often want to know if this is within the range they are thinking. Roby says 'its good to get this out of the way early, especially because prospects preconceptions of what this project real costs are can sometimes be totally out of whack.' If Roby feels that he has enough information to give a ballpark he will; but, if something is missing, such as the number of users, or the kind of support etc. then throwing out a price is really not realistic.

Evaluating the responses

In certain situations it may be necessary to conduct performance benchmarking. Some examples that might justify the time and expense of this would be that you have high transaction processing requirements and there are no reference sites with comparable volumes. Perhaps you require minimal or no down-time for end-of-day processing. Or perhaps there has been a new release and you want to make sure that it will run properly on your systems. Performance benchmarking is a complicated field, will require technical expertise and can be expensive. This is something that you would do only with a preferred vendor.

The gap analysis

The gap analysis is where you identify where the system falls short of the requirements. No system ever built can possibly do everything a FI requires right out of the box. Therefore, the selection team must evaluate what the system does and does not do.

Do not trust the RFP to provide all the answers. One of the biggest problems with RFPs is the creative license that sometimes goes into the replies. It is not uncommon to have 5-800 functional metrics and yet all the replies come back with identical capabilities listed. Based on this tendency, the merits of an RFP are not that they identify winners, but rather serve to further limit the field by pointing out possible shortfalls, or potential obstacles. For example, a product might need expensive hardware, require extensive maintenance or specialized IT staff, or not be localized or proven in certain environments.

Therefore, a necessary approach is to validate vendor claims through demos and hands on workshops. Depending on the scope of the system, these workshops can take anywhere from 3-4 days to 3-4 weeks for each system and will involve several individuals from both the vendor and the FI. Hopefully the field will be narrowed to 1 to 3 vendors.

A common practice for FIs is to define a series of test cases based on the FIs real or anticipated requirements. Test cases can cover up to 100 pages and might even involve demonstration using specified operating environments or connecting to 3rd party applications. Needless to say, FIs generally need to prepare these test cases and this can be an extensive process. Typically they can take several weeks to

Changing a core banking system should be a business decision and not a pure technology play. Therefore the ROI is vitally important. Normally, to attain the required ROI to justify a change, a bank will have to undergo significant reengineering leading to improved STP, lower risks, lower costs etc. These are great intentions but all too often forgotten when it comes to the selection process. Similarly the implementation project rapidly becomes a battle resulting in 'let's just get it in and we can fine tune it later. The famous ROI is often never attained.

Neil Beckley

If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not your enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle.

The Art of War, by Sun TZU

Do your homework when it comes to the vendors capabilities. Typically most clients do not understand SDLC, CMM and other industry standards that consultants use to measure against. Understanding what level your vendor is at will save the organization in many ways.
Greg Marsh, independent consultant serving many Canadian FIs

prepare and require input from several departments. Once complete the FI will schedule subsequent workshops involving all the necessary staff from both sides.

The aim of the test cases is that they will allow the team to log all shortcomings (gaps). The team can then determine the requirements needed to bridge all gaps and queries that are logged. Subsequently it will be possible to go through each item to determine if the solution can meet the requirements within budget. The end result being that FIs have a good idea about real costs, system capabilities and the advantages and disadvantages of the preferred systems verses other possible choices.

Risk Analysis

Many banks have operational risk departments. According to David Moulton, it would be prudent to conduct an evaluation of the risk involved prior to entering into negotiations. Although following the steps in this guide will help minimize risk, changing core systems can be risky, so careful evaluation of the risks by qualified analysts is a step that Moulton feels is a necessary requirement.

Negotiations

After you have narrowed down the field to 1-2 preferred vendors it is now time to begin negotiations. If you have done the previous steps and have concluded that a system fits your requirements and you are comfortable with the vendor you should now be in a position to negotiate successfully.

Of course, in entering this phase of the process, the most important point is to understand what you want and what you are willing to pay for it. To this end, knowing what motivates a potential vendor will help you to understand how you can get what you want at the best possible value: the best possible value does not mean price alone.

Examples of motivators for a vendor apart from price:

- Vendors accounts that they can reference
- A new entrant often needs business so badly that it will often give away their software if they see a new client as a possible beach-head
- Canadian vendors are paranoid about losing business to the competition

Examples of FI motivations apart from price:

- To be able to carry out the business mandate
- The CEO wants to retire or make a name for herself
- Fear/risk of change
- Hostile IT department
- Expected growth

On the flip side - do your homework when the vendor provides costs - are they giving you a sales proposal or are they providing you with a cost that reflects "your project". Time and time again vendors have the sales team provide a cost that does not cover the true cost of a project nor does it reflect the activities that each side must complete. Not only does this cause frustration on both sides but tends to cause delays, work arounds, compromises and in some cases legal action.

Greg Marsh, independent consultant serving many Canadian FIs

- To be able to introduce products faster than competitors

Here is a list of costs FIs might consider as part of the negotiations process:

- Deployment, who will deploy and what are deployment costs?
- Training, what is the training requirements and how will they be carried out?
- Are enhancements the responsibility of the vendor or the FI?
- Are you the first FI in your region if so what are localization costs and risks?
- Are you the first FI to use a new version or module, operating system or database?
- What are ongoing maintenance costs and what do they include?
- Who owns the code in the event of a situation where the vendor goes insolvent, is bought-out or stops developing the code?
- What is development path of the product and who pays?
- When do payments start and how is the product licensed?
- What 3rd party licenses, if any, are required to operate the software?

All of the above points can influence the price a FI pays for software. FIs should be sure to have clarity on these issues before agreement is set.

Pre-implementation steps:

- Ensure that both the FI and Vendor commit to resource allocation
- Ensure that the Vendor makes all modification and enhancements based on the functional specifications
- Ensure that adequate training material and resources to train staff are allocated
- Plan the implementation
- Make modifications to the FIs other applications and test
- Configure the system in conjunction with the Vendor
- Freeze code changes on applications pending conversion
- Modify or create procedure documents and user manuals
- Write project timeline and deliverable schedule
- Avoid unnecessary frustration by putting structures in place to deal with the many issues that will prove challenging. This includes establishing a steering committee and procedure for problem escalation

Summary

This paper has covered many of the key issues FIs face in going through a selection process. From building a business case to negotiating the best deal, the strategies and ideas (best practices) necessary to optimize its system selection process. The StartaBank.ca and BankNews.TV teams would be delighted to discuss your system selection with you. Call: 514.671.0208

About the author

Mark Sibthorpe is a veteran when it comes to helping FIs understand the process behind system selections. Having worked with some of the leading software developers and other internationally regarded technology developers he has had the opportunity to work with many of the industries leading experts specialized in system selection. Sibthorpe is also the founder of BankNews.TV and StartaBank.ca and has helped over 65 Canadian FIs through hands on workshops. He has also written a ground-breaking report covering Canada's banking software developers. Details of which can be found at www.banknews.tv