Understanding Failed Core Banking Projects

Correctly analyzing a failed core banking implementation and assigning collective responsibility is crucial for combating organizational resistance to the initiative.

Executive Summary

Most core banking IT system renewals suffer significant overruns of cost and time estimates. Strong internal capabilities, careful selection of implementation partners, clear contractual parameters and roles and rigorous project and change management are the critical factors that determine the success of a core banking implementation.

Given the magnitude and risk involved in such large-scale initiatives, it is important to understand that the success of such efforts is the collective responsibility of all the stakeholders involved. In the event of a failed implementation, this sense of collective ownership should be applied to analyze the causes of the failure. All the stakeholders should be brought on board to help figure out a solution and to put the initiative back on track.

In this paper, we discuss the importance of selecting the right core banking solution, the challenges involved in its implementation and the importance of skillfully managing a failed implementation.

Based on our experience, we outline the entities impacted due to a failed project, the nature of the impact, the entities' immediate expectations from a solution and the possible considerations for a potential vendor/SI in providing a meaningful solution.

Introduction

A core banking system is essentially the heart of all the systems operating in a bank. It can be described as the core of a bank's IT platform. With the advancement of technology, core systems tend to cover more and more functionalities, providing the bank with an integrated solution for most of its operations in varied business lines. A core banking system resides in the heart of a bank's data center and provides a central operational database of customers' assets and liabilities. It enables a 360-degree view of a customer's relationship with the bank.

Experience shows that there is a high failure rate of core banking system implementations. We estimate that 25% of core banking system transformations fail without any results while 50% do not achieve the transformation objectives – costs and implementation times double or triple. Only 25% of the transformations can be called successful.[1]

In February 2011, Irish Bank AIB sued Oracle over a failed €84 million implementation of its Flexcube banking software. In July 2011, the Union Bank of California cancelled the implementation of Infosys' Finacle Solution – almost two years after the program was initiated.[2]

Given its scale and organization-wide impact, a failed core banking initiative requires extremely skilled management. It is crucial to emphasize collective responsibility for this failure. This will prevent feeding into the resistance to change initiatives that bogs down most transformational initiatives.

It is very important that the failure of the core banking initiative not be perceived as a failure of the concept.

Preparing for the Transformation

As core systems form the backbone of any banking organization, a replacement/change/transformation should be a very well-thought-out process with due consideration given to the views of all impacted stakeholders.

Such an initiative not only involves substantial investment but also needs to be backed by a business case that clearly demonstrates a steady stream of return on investment with minimum impact and disruptions to the existing business as usual (BAU) operations. It involves significant brainstorming to get all the stakeholders on board and convince them of the need for a core banking system, its impact on operational efficiency and the tangible gains and benefits that will accrue with its successful implementation.

Most businesses are highly dependent on information systems. The banking industry is no exception. If the selection and implementation of the core banking system is not sound, it can result in anything from a small glitch to a complete operational shutdown.

The Banking Systems Market Survey results for 2012/13 indicated the following IT trends in the banking industry:[3]
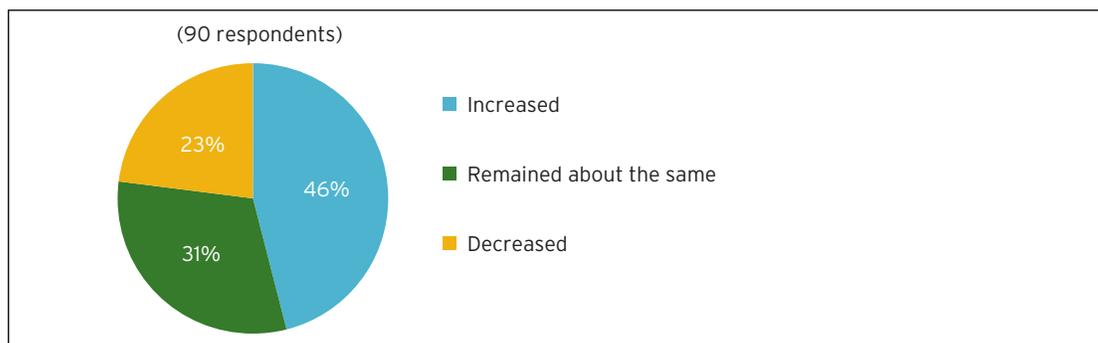
- Of the respondents, 34% intend to replace their platforms; of these, 74% intend to move to packages.
- The pressure on bank IT budgets over the past five and two years is notable.
- There is considerable activity within "satellite" systems, such as payments and channels.
- Banks are placing high importance on data warehousing and business intelligence technology.
- Social media is not making a great impact on most banks as yet (other than in Southeast Asia).

The Boston Consulting Group conducted a survey on "Renewing Core Banking IT Systems." All the respondents said that they had struggled to deal with expanding project scope and changing requirements. Clearly, it is essential for a successful core banking system transformation to understand, plan, control and execute all aspects of a CBS transformation program.[4]

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Banking IT Budget Change Over Past Two Years

(90 respondents)

- Increased 46%
- Remained about the same 31%
- Decreased 23%

Figure 1

an inappropriate core banking product can turn out to be very costly, adversely affecting business processes. It can result in unsound strategic decisions, which in turn result in significant losses to the organization.

Challenges

Replacing a core banking solution is a daunting task for a large bank. Several banks tend to put off replacing their core banking solutions for decades by investing in local work-arounds, quick fixes and narrow point solutions. This leads to the creation of a complex network of solutions, which is expensive, risky and difficult to maintain.

The biggest challenge for large banks lies in knowing "what to do" and "where to start." Here, a systems integrator (SI) can play a key role by providing consultancy services on the pros and cons of system replacement. The ideal SI can provide these services by leveraging a large pool of resources with the requisite skill sets as well as hands-on experience with core banking transformations worldwide.

Many core banking transformation programs face challenges midway through the project due to lack of coordination and lapses in communication between the vendor and the bank project management teams. An SI can help reduce this confusion through its expertise in overall program management and through ensuring systematic information sharing among all the stakeholders.

Some other issues encountered during a core banking transformation include:

- Higher IT cost in the event that multiple solutions need to be replaced.
- Insufficient information collected during the requirement gathering phase.
- Lack of historical information on geographical customizations made on the legacy core systems, resulting in the existence of multiple versions of the legacy system.
- Change in banking dynamics during the project lifecycle, leading to scope change.
- Inability of banks to distinguish between "wish list" and "must-haves."
- Over-engineering of the existing solution, leading to poor performance.
- The banking staff's preference for existing processes and their reluctance to adopt newer, out-of-the-box functionality/processes from new solutions.

- Change in the project management team at the bank level, the SI level and the vendor level during the project lifecycle; this often results in inadequate knowledge transfer, which in turn results in requirements and key issues not being addressed properly.

Managing a Failed Implementation

A core banking initiative is a very large transformational program that impacts various stakeholders within a bank. There is a very high likelihood that even a single aspect handled incorrectly can lead to failure of the transformation as a whole.

Given the high stakes, a failed core banking implementation causes organizations to question the very hypothesis underlying the initiative. Transformational initiatives such as a core banking implementation have to go through a long cycle wherein various stakeholders need to come on board regarding the very idea of core banking and its benefits. Obviously, there will be some who support it and some who are unwilling to change the organizational status quo. The failure of the initiative can strengthen the stance of those who may have questioned the benefits of the initiative. It tends to affect the overall confidence about the transformational initiative within the organization.

At this stage, it is crucial to understand that it is not a failure of the concept of core banking but rather a failure of the implementation approach. It is not a failure of a particular group but a collective failure for which no single entity can be blamed. Instead, all the entities involved – including the bank, vendor and SI – need to take responsibility. Only then can a more informed and well-thought-out remedy emerge.

It is equally important to understand each group of stakeholders' views regarding what they believe has "failed." Some may believe it was caused by budget and time overruns. Others may blame the absence of expected functionality or a failure to anticipate and prepare for the sheer magnitude of the initiative.

Based on our experience, we summarize in the table in Figure 2, on the next page, the entities impacted due to a failed project, the nature of the impact, the entities' immediate expectations from a solution and the possible considerations for a potential vendor/SI in providing a meaningful solution.

Reasons for Failure

Based on our observations during core banking implementations for various clients, we have been able to identify some key reasons for failed core banking implementations:

- **Lack of an appropriate product selection methodology:** The product selection methodology is based on the bank's specific requirements and characteristics. What applies to one bank may not necessarily apply to another. Hence, unless the product selection methodology is well thought through, it can become one of the reasons for initiatives such as these to fail.
- **The vendor's inability to deliver:** The vendor's experience in delivering similar core banking engagements is crucial. It is therefore important to analyze the vendor's performance and capabilities in similar scenarios in the past, both in terms of functionality as well as in terms of the size and complexity of the engagement.
- **The project group's limited capability:** Just as the vendor needs to be experienced, it is also important that the entire project group, which would include representatives from the vendor, SI and the client, have experience in and exposure to handling projects of similar size and complexity.
- **The SI's limited capability:** The SI plays an important role as the interface between the bank and the vendor. Hence, the SI's capability in handling projects and programs of this magnitude is an important consideration.
- **Lack of a well-thought-through model** set in place from the very beginning of the implementation can be a major stumbling block that can trip up the initiative.

Multiple Levels of Impact from Failed Core Banking Implementations

Impacted Entity	Nature of Impact/ Area of Concern	Immediate Expectations	Considerations for Potential Solution
Project Sponsors	1. Under pressure to deliver a core banking solution. 2. Curtailed budgets due to money burnt in the failed implementation. 3. Credibility impact on senior leadership.	1. Regaining the confidence of senior leadership. 2. Securing budgets for the remedial measures. 3. Providing tangible benefits and results in a 3–6 months timeframe.	1. Highlight quick wins. 2. Target low-hanging fruit to make maximum impact. 3. Apply 80–20 rule (address items that are high on impact but low on effort) to provide immediate business benefits and gain the leadership's confidence.
Business	1. Having to continue with the older system despite its shortcomings and underlying issues. 2. Absence of new/desired functionalities that would have otherwise affected the top line and/or the bottom line directly or indirectly. 3. Large number of customizations. 4. Inability to market new business products quickly (time-to-market). 5. Considerable time and energy spent (SME time) without any tangible benefits.	1. Minimum involvement of SME time. 2. Ability to bring in new products quickly to match/beat competition and have impact on revenues. 3. Improved operational efficiency.	1. Leverage existing set of documentation so that SME involvement is minimized. 2. Take up high-impact functionalities for implementation in phase 1. 3. Plan for tangible benefits to accrue in 3–6 months.
End Users	1. Loss of confidence in transformation initiative. 2. Sense of vindication of their initial resistance to change.	1. Continue with legacy/ traditional system with no change until a well-thought-through plan is laid out.	1. Confidence-building sessions with end users. 2. Highlight business benefits of the potential solution. 3. Demonstrate evidence of successful implementations to restore faith in CBS initiatives.

Figure 2

- **Lack of support from top management:** If sufficient backing is not provided by the top management of the bank for the core banking transformation, any roadblocks can turn into significant impediments to the success of the transformation.

Role of an SI in Managing Challenges

In this context, it is important to highlight the role of the systems integrator. Ideally, the SI will have handled similar situations before and will therefore be able to determine a suitable model for the bank's specific situation.

The SI should ideally undertake an assessment to arrive at the real causes of the failure and how these could be avoided. The SI will also need to bring all the entities together and restore trust. The SI must ensure that all stakeholders take collective responsibility for the failure and are fully committed to the remedial measures.

A well-thought-through model can only be worked out with support and cooperation from all entities involved. An experienced SI can fulfill the role of a trusted consulting partner by helping organizations overcome the perceived "failures" more effectively.

Conclusion

It is very important to understand that a failed core banking implementation does not in any way indicate a failure of the concept of core banking. Often, this is used as an excuse to shun transformational programs in the organization. It is very important for all stakeholders within a bank, and the SI and vendor to analyze the reasons for failure and take appropriate steps to mitigate the risks up front.

Footnotes

[1] *http://www.xing.com/net/bankingclub/orga-itforbanks-2566/best-practice-driven-core-banking-system-transformation-37590241.*

[2] *http://www.xing.com/net/bankingclub/orga-itforbanks-2566/best-practice-driven-core-banking-system-transformation-37590241.*

[3] *http://www.ibsintelligence.com/index.php?option=com_content&view=article&id=16940:about-the-banking-systems-market-survey-201213-plus-free-extracts&catid=374:banking-systems-market-survey-201213&Itemid=680.*

[4] *http://www.bcg.com/documents/file14774.pdf.*

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