Evaluating and Implementing an Effective Core Processing System

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The diverse demands of financial institutions in today’s environment require an integrated, flexible and secure core processing system solution. This system affects virtually every critical aspect of a financial institution’s operations, including processing deposits, payments, loans, most transactions and customer data. The core processing system can directly impact business objectives, growth goals and customer satisfaction. Evaluating core processing options and determining the best option is one of the most important decisions a management team can make.

The technology platform is the backbone of all bank operations, and implementing a new core processing system is an extensive process that requires considerable planning and coordination. While a system conversion can involve significant time and resources, it can be an opportunity to improve processes as new functionality is added. Here are some points to remember as your organization considers whether to make this important change.

Time for a Change
Many institutions have been running the same core system for years, despite the fact their business model or needs may have changed. If current system capabilities are not meeting current or future needs, it may be time to review other options. The evaluation of institution needs should be a strategic process driven by input throughout the organization. A team should be assembled that includes senior management and representatives from each business line or department. The team should have a clear, uniform understanding of key business objectives and critical issues throughout the institution and evaluate the performance of the current system and provider, as well as the current contract, service expectations and future institution needs.

Examples of situations that indicate other core processing system options should be considered include:

- An old and aging system that is no longer supported
- A system requiring a high degree of manual processes versus automation
- Increased demand for services to be delivered over new channels, such as mobile banking, that are not offered or functionality that lags behind competitors
- Inability to easily roll out new products to support strategic growth plans

A new core processing system can provide increased efficiency, more flexibility, better integration across products and stronger security and protection of data. Converting core systems is a costly and demanding undertaking, and converting systems in the middle of the current contract may be cost-prohibitive. It takes clearly defined improvements to justify a change. Once the decision has been made to explore core system options, a request for proposal (RFP) can be sent to prospective service providers to facilitate the evaluation process.

Due Diligence
An RFP outlines an institution’s needs and expectations when searching for a system and provider. All selection criteria—including performance requirements, business needs, partnership expectations and any other concerns—should be included in the RFP. Many
institutions will use a consultant in various parts of the core system evaluation process. A consultant can add value by sharing pros and cons of the available options, help craft language in the RFP and help management identify the key decision factors in making a selection.

The best provider candidates after the initial due diligence or RFP process should be brought in to demonstrate their processing systems. Each presentation should conclude with questions and an internal debriefing discussion of each option. Each provider’s references should be contacted to discuss their experience and answer practical questions. There is no better assessment of a product than a peer who is a current user.

**Contract Negotiation**

Once the right system has been identified, the contract will need to be negotiated. A consultant and legal counsel can assist in the negotiation process. Core processing is one of the most significant noninterest expenses for a financial institution, and in the current environment of tight interest margins, rising compliance costs and less-than-stellar economic growth, controlling expenses is critical in building shareholder value and maintaining performance. A poorly negotiated core processing contract also can significantly reduce shareholder value in mergers and acquisitions and even obstruct a potential deal. While financial terms are an important aspect of the contract, other key contract issues should be considered, including the following:

- All service agreements, including well-defined responsibilities and recourse
- Language regarding dispute resolution and how disagreements will be resolved
- Agreement length and any termination clauses
- Renewal scenarios and required notice prior to making a change
- Backup and recovery processes
- Account management
- Training
- Technical support

**Implementation**

In order to fully take advantage of the new core system’s capability, all users should thoroughly understand the system. A successful core conversion implementation requires planning well in advance of the conversion date, along with preparation of data to be converted and significant training.

**Conversion Process Planning**

All parties should develop a clear blueprint of the conversion and senior management at all levels should participate in the planning and completion of tasks. Discussion with peer institutions that have gone through a similar conversion process is helpful in establishing the steps and timeline and avoiding common pitfalls. Set a schedule with milestones and stick to it to stay on track. A clearly planned conversion process will help control the costs of the conversion. Frequent meetings are necessary to track progress and issues.

**Data Preparation**

The data to be converted should be ready for the migration to the new system. Customer account information must be correct prior to conversion to ensure a smooth process. Complete as much system clean-up as possible before conversion. Reports should be compared from the old system
to the new system prior to conversion. Don’t assume terminology and reports on the old system will be the same on the new system. Extract and archive as much relevant information from the old system as possible in the event it is needed subsequent to conversion.

**Staff Training**
The most critical aspect of the implementation is training the users. Getting employees trained and comfortable with the new system is imperative. Frequent, transparent communication is necessary throughout the conversion process. Employees should be reminded of why they are doing certain things to help re-establish the how. Support from management will be necessary, as some might be overwhelmed during the process. Employees should be encouraged to suggest how processes can be re-engineered for improved effectiveness and efficiency. In addition, issues will arise in the implementation phase, so senior management’s handling of these situations will send a message to all employees.

Having the right core processing system in place is essential to remain competitive in the financial institution landscape. The system should be evaluated to ensure strategic objectives of the institution are being met and shareholder value is being maintained. An effective core processing system can add value for the institution through better functionality, efficiency and cost savings.

For more information on how a core processing conversion may impact your institution, contact your BKD advisor.

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