



WHY CORE SYSTEMS TRANSFORMATIONS OFTEN FAIL



212-202-0078



info@coresystempartners.com



coresystempartners.com

The word "core" is derived from the Latin word "cor," which means "heart" or "innermost part." This reflects the idea that the core is the most fundamental or central part of something, around which everything else revolves or depends.

TABLE OF CONTENTS

Executive Summary	03
Lack of Clear Goals and Objectives	08
Insufficient Resources, Planning and Preparation	09
Ineffective Communication and Collaboration	10
Resistance to Change	11
Technical Challenges	12
Lack of Experience	13
Treating It as a Project Instead of a Transformation	14
Treating It Like a Technology Project	15
Failure to Re-engineer	16
Poor Governance	17
Conclusion	18
Core Systems Partners, LLC	18



EXECUTIVE SUMMARY

For simplicity and ease of reading, in this white paper, we will use the term “bank” to refer to both banks and credit unions.

Core banking transformations are large-scale projects that aim to modernize and digitize a bank's core systems and processes. These transformations are crucial for banks to remain competitive and meet their customers' evolving needs. However, despite the potential benefits, many core banking transformations fail to deliver on their promises and can even cause significant disruptions and financial losses for the bank.

Understanding why core banking transformations have failed in the past can be valuable for many reasons. First and foremost, it can help organizations to avoid making the same mistakes and ensure that their transformation efforts are more successful. It can also provide valuable insights into the challenges and pitfalls that arise during a core banking transformation and allow organizations to develop strategies to mitigate or overcome these challenges. Additionally, understanding the reasons for past failures can help organizations to identify potential risks and develop contingency plans to address them. Finally, learning from past failures can help organizations to improve their overall project and change management processes, which can benefit future projects and initiatives.



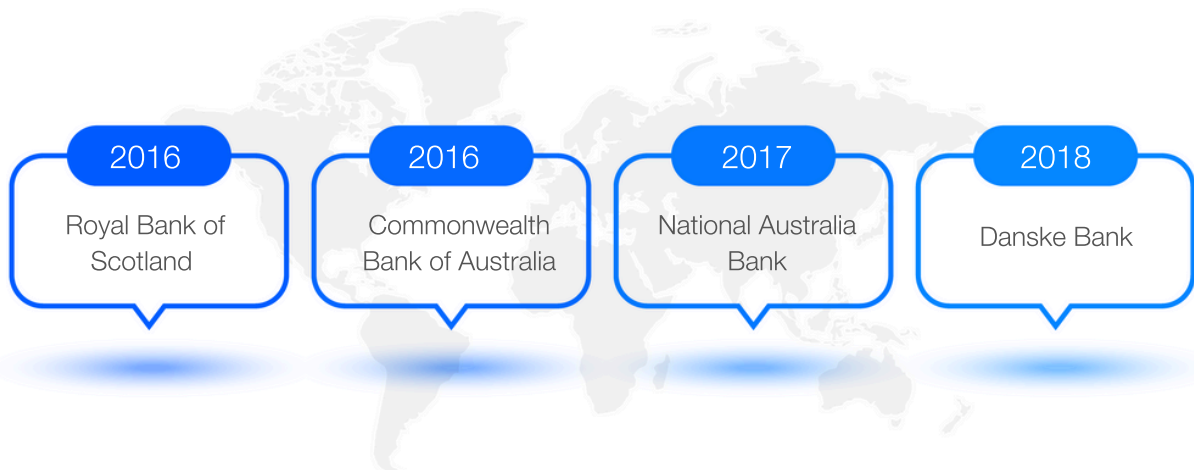
Changing a core banking system for a bank is like doing heart surgery. Just as heart surgery involves replacing or repairing a vital organ essential for the body's functioning, a core banking transformation involves replacing or modernizing a bank's core systems and processes, which are necessary for the bank's operations.

Both heart surgery and a core banking transformation require careful planning and preparation to ensure success. Both involve a wide range of stakeholders, including doctors, nurses, and support staff in the case of heart surgery and customers, employees, regulators, and technology vendors in the case of a core banking transformation. They also require the coordination and collaboration of these stakeholders to ensure a smooth and successful outcome.

Moreover, both heart surgery and a core banking transformation can be complex and risky endeavors. In the case of heart surgery, there are risks associated with the surgery itself, such as bleeding and infection. In the case of a core banking transformation, there are risks associated with implementing new technologies and changes to processes and systems, such as technical challenges and resistance to change.

Furthermore, heart surgery and a core banking transformation require significant time, money, and resources. Heart surgery can be costly and lengthy; the same is true for a core banking transformation. Both need a dedicated team of experts and a significant amount of funding to be successful.

Recent history is littered with costly examples of failed transformations costing time, money, and valuable resources:



These are just a few examples of failed core banking transformation projects. There have likely been many other such projects that have encountered challenges and ultimately died or have gone several multiples over budget.



Lack of Clear Goals and Objectives:

One of the main reasons why core banking transformations fail is a lack of clear and well-defined goals and objectives. With a clear understanding of the transformation's goals, it is easier for the bank to develop a plan and allocate resources effectively. Not doing so results in a lack of focus and direction, leading to delays and cost overruns.



Insufficient Resources, Planning and Preparation:

Another common reason for the failure of core banking transformations is inadequate resources, planning and preparation. These complex projects involve many stakeholders, including customers, employees, regulators, and technology vendors. If the bank does not dedicate resources or time to plan and prepare for the transformation properly, it is likely to encounter unexpected challenges and obstacles along the way.



Ineffective Communication and Collaboration:

Effective communication and collaboration are essential for the success of any large-scale project, and this is particularly true for these transformations. If the various teams and stakeholders involved in the project are not communicating and working together effectively, it can lead to misunderstandings, conflicts, and delays.



Resistance to Change:

Another primary reason why core banking transformations fail is resistance to change from employees, customers, and other stakeholders. These projects often require significant changes to processes and systems, and some people may be more comfortable with—or resistant to—these changes. The bank needs to properly manage and address this resistance to ensure the success of the transformation.



Technical Challenges:

These projects often involve implementing new technologies, which can bring challenges. These technologies may be complex and difficult to integrate with the bank's existing systems. The bank can implement the latest technologies successfully if it has the right technical capabilities.



6

Lack of Experience:

Project teams with little or no experience of core banking transformations must prepare for the challenges and complexities of these projects. They may need more skills, knowledge, and expertise to properly plan and execute the change, leading to delays, cost overruns, and other problems. In addition, inexperienced project teams may need help to effectively manage and coordinate the various stakeholders involved in the transformation, including the bank's employees, customers, regulators, and technology vendors. Inexperience often leads to misunderstandings, conflicts, and other issues that can derail the project and undermine its success. Overall, inexperienced project teams can significantly increase the risks and challenges associated with core banking transformations, making it more difficult for the bank to achieve its desired outcomes.

7

Treating It Like a Regular Project:

A core banking transformation is a large-scale project (to be fair, they are large programs with many projects) that aims to modernize and digitize a bank's core systems and processes. It is considered a transformation project rather than just a regular project because of its complexity, scope, and potential impact on the organization. A core banking transformation is a complex and multifaceted project that has the potential to change and improve a bank's operations fundamentally. Transformation projects are typically long-term initiatives that involve significant changes to processes, systems, and technologies and require careful planning, preparation, and execution to be successful. These changes involve many stakeholders and can have complex technical challenges and risks. Depending on the scope and scale of the changes, even the operating model may need to change.



Treating It as Though It is Just a Technology Project:

Core banking transformations are business projects that involve almost all departments in a bank, rather than just the technology team and perhaps one or two departments. It is worth repeating that these transformations have the potential to change and improve the way a bank operates fundamentally. They require the coordination and collaboration of multiple teams and stakeholders. They are not just one-time projects; rather they are long-term initiatives that require ongoing support and maintenance, making the involvement of numerous groups and stakeholders essential for their success and sustainability.



Failure to Re-engineer:

Process re-engineering is a critical component in ensuring the success of business transformation. Every process must be examined to identify areas that need optimization to align with the new direction. Failure to undertake this exercise may limit the benefits and long-term success of the transformation.



Poor Governance:

This refers to a need for more effective oversight, control, and accountability in managing a core banking transformation project. Poor governance can manifest in several ways: inadequate planning and budgeting, risk management, communication and coordination, as well as monitoring and reporting. In our collective experience, this is usually the first reason for failure.



1. LACK OF CLEAR GOALS AND OBJECTIVES

One of the main reasons for the failure of core banking transformations is a lack of clear and well-defined goals and objectives. A core banking transformation is a significant undertaking that involves the revamping of a bank's core systems, operations, and processes. It is typically a complex and costly process that requires a substantial investment of time, money, and resources. With a clear understanding of the transformation's objectives, it is easier for the bank to develop a plan and allocate resources effectively.

When a bank lacks clear goals and objectives, it can result in a lack of focus and direction, which can lead to delays and cost overruns, as the bank may not be able to prioritize its efforts and allocate its resources efficiently. Additionally, with clear goals and objectives, it can be easier for the bank to measure the success of the transformation and determine whether it is achieving the desired outcomes.

To avoid these pitfalls, it is essential for the bank's core banking transformation to establish clear, well-defined, and measurable goals and objectives. To accomplish this, a thorough analysis of the bank's current systems and processes and a thorough understanding of the bank's business strategy and goals will help in setting the objectives. Based on this analysis, the bank can develop a plan for the transformation aligned with its overall business objectives.

Once established, the bank must communicate the goals and objectives clearly and consistently to all stakeholders. The communication should include not only the bank's leadership team but also its employees, customers, and shareholders. By clearly communicating the goals and objectives, the bank can ensure that everyone is working towards the same goals, and that the transformation is executed in a way that is consistent with the bank's overall business strategy.

A lack of clear and well-defined goals and objectives is one of the main reasons core banking transformations fail. With a clear understanding of what the change is meant to achieve, it is easier for the bank to develop a plan and allocate resources effectively. By establishing clear goals and objectives, communicating them effectively, and aligning the change with the bank's overall business strategy, a bank can increase the chances of success for its core banking transformation.

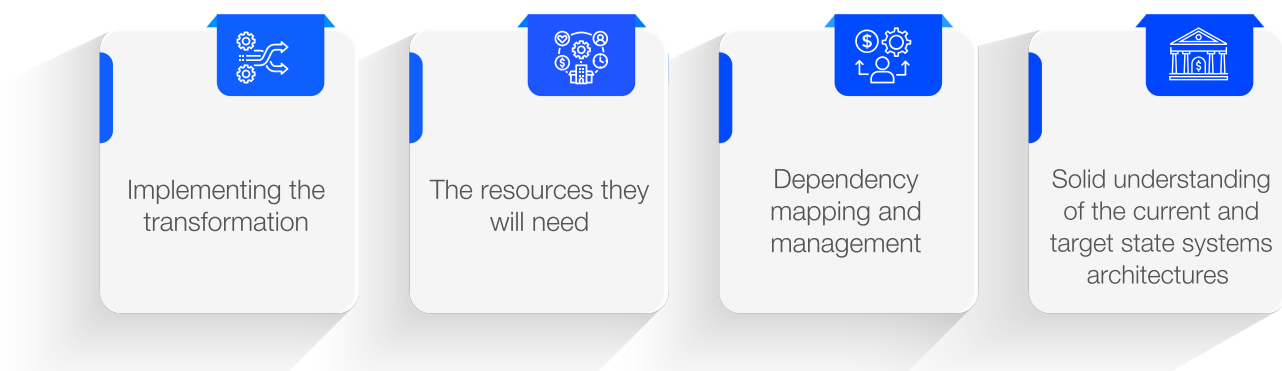


2. INSUFFICIENT RESOURCES, PLANNING AND PREPARATION

When undertaking a core banking transformation, it is essential to have dedicated, full-time people resources. Bank leadership may be tempted to think that they can have employees work on the transformation while continuing to do their day-to-day job, but this approach is likely ineffective. Dedicated, full-time people resources are necessary because they can provide the expertise and focus required to manage all aspects of the transformation. These resources can coordinate with vendors, manage budgets, and ensure that the new system is correctly integrated with other systems and processes within the bank. They can also play a key role in communicating with stakeholders and providing training and support to employees.

Insufficient planning and preparation are common reasons for the failure of core banking transformations. These complex projects involve many stakeholders, including customers, employees, regulators, and technology vendors. If the bank does not take the time to plan and prepare for the transformation properly, it is likely to encounter unexpected challenges and obstacles along the way.

When a bank does not adequately plan and prepare for a core banking transformation, it can result in various problems. For example, the bank will need a clearer understanding of the scope and scale of the conversion, otherwise it risks delays and cost overruns. Additionally, the bank will need detailed plans for the following:



Inadequate planning and preparation can also result in a lack of engagement and support from key stakeholders. For example, if the bank does not take the time to communicate the transformation plan to its employees and customers, it may not be sure how it will affect them, thus may be less likely to support the change. Similarly, if the bank does not engage with its regulators and technology vendors, it may not receive the guidance and support it needs to implement the transformation successfully.

To avoid these pitfalls, a bank needs to adequately dedicate resources, plan and prepare for its core banking transformation. This should involve a thorough analysis of the bank's current systems and processes and a detailed change plan. The bank should also engage with all its stakeholders to ensure that they are aware of the transformation and are prepared to support it.

3. INEFFECTIVE COMMUNICATION AND COLLABORATION

Effective communication and collaboration are essential for the success of any large-scale project, and this is particularly true for core banking transformations, which are complex and involve many stakeholders, including customers, employees, regulators, and technology vendors. If the various teams and stakeholders involved in the project are not communicating and working together effectively, it can lead to misunderstandings, conflicts, and delays.

For example, if the groups involved in the transformation are not coordinating their efforts, it can result in duplication of work, conflicting priorities, and inefficiencies. Additionally, suppose stakeholders need to be better informed about the progress of the transformation. In that case, they will need clarification on how the conversion will affect them, so they may be less likely to support the change if they are not "kept in the loop."

To avoid these pitfalls, a bank needs to establish effective communication and collaboration among the teams and stakeholders involved in the transformation. Regular meetings and updates ensure that everyone is on the same page and that any issues or concerns are proactively managed. Additionally, the bank should establish clear lines of communication and decision making so that everyone knows whom to contact and the process for making decisions.



4. RESISTANCE TO CHANGE

Another primary reason why core banking transformations fail is resistance to change from employees, customers, and other stakeholders. It is also the single biggest blind spot for most bank CEOs. These transformations often require significant changes to processes and systems, and some people may be uncomfortable with, or resistant to these changes. You hear things like:

“We’ve always done things this way; why do we need to change?”
“They are trying to eliminate our jobs.”
“I’m retiring in two years; I don’t need all this extra work.”

Whether it is because of culture or group think, the reality of existing resistance does not percolate through to the C-Level often enough. The bank needs to correctly identify, manage and address this resistance to ensure the success of the transformation.

As highlighted above, resistance to change can take many forms, including skepticism, fear, and opposition. For example, employees may be skeptical of the benefits of the transformation and may be reluctant to learn new processes and systems. Customers may be concerned about how the changeover will affect their experience with the bank and may be hesitant to adopt new technologies or services. Regulators and technology vendors may also be concerned about the transformation's impact on the broader financial ecosystem.

Managing resistance to change is an essential aspect of any transformation effort. One way to do this is through effective communication and stakeholder engagement. This includes transparently communicating the reasons for the transformation, the expected benefits, and the impact on stakeholders, and actively seeking input and feedback from key stakeholders.

Another practical approach to managing resistance to change is using change management techniques, such as training and support programs, to help individuals and teams understand and adapt to the new processes and systems. This can include providing the necessary resources, such as training and support, to help individuals and groups effectively implement the change.

Finally, organizations must be flexible and adaptable in their transformation efforts. This may involve being open to feedback and suggestions from stakeholders and being willing to adjust the transformation plan as needed.

5. TECHNICAL CHALLENGES

These transformations often involve the implementation of new technologies, and this can bring its own set of challenges. These technologies may be complex and difficult to integrate with the bank's existing systems. The bank can implement the new technologies successfully if it has the right technical capabilities.

Suppose the bank needs the right technical capabilities. It may need help in order to implement the new technologies effectively, thus resulting in delays and cost overruns, as well as a poor user experience for employees and customers. Additionally, if the new technologies are not implemented correctly, they may not provide the desired benefits, and may even create new problems for both the bank and its customers.



Implementing new technologies can be a complex and challenging process; a bank needs the right technical capabilities to do so successfully. It should hire new employees with the necessary skills and expertise and providing training and support to existing employees. Additionally, it may need to invest in new hardware and software, and establish processes and protocols for managing and maintaining the latest technologies.

A bank needs the right technical capabilities before implementing new technologies as part of its core banking transformation. A thorough assessment of the bank's technical capabilities and a plan for addressing gaps or weaknesses are essential. By having the right technical capabilities in place, a bank can increase the chances of success for its core banking transformation and ensure that the new technologies are implemented smoothly and efficiently.

6. LACK OF EXPERIENCE

Project teams with little or no experience of core banking transformations may need to prepare for the challenges and complexities of these projects. They may need more skills, knowledge, and expertise to properly plan and execute the transformation, leading to delays, cost overruns, and other problems.

In addition, inexperienced project teams may need help to effectively manage and coordinate the various stakeholders involved in the transformation, including the bank's employees, customers, regulators, and technology vendors. This inexperience can lead to misunderstandings, conflicts, and other issues that can derail the project and undermine its success. Overall, inexperienced project teams can significantly increase the risks and challenges associated with core banking transformations, making it more difficult for the bank to achieve its desired outcomes.

A brain surgeon is highly experienced, but you do not hire one for heart surgery. The same thing applies to core transformations.

One of the main challenges associated with inexperienced project teams is their need for more knowledge and expertise. Core banking transformations involve various technical, operational, and organizational issues. Project teams with little-or-no experience may need to be more familiar with these issues and may struggle to plan and execute the transformation effectively. Delays, cost overruns, and other problems arise as the team may need help to identify and address potential challenges, ideally proactively, else promptly.





7. TREATING IT AS A PROJECT INSTEAD OF A TRANSFORMATION

A core banking system is the backbone of a bank's operations. It is, first and foremost, a product factory with supporting functions such as account management, transactions, and reporting. Changing this system is a significant undertaking that has far-reaching implications for the bank and its stakeholders. It involves substantial changes to processes, procedures, and technologies and can require the coordination of multiple teams and stakeholders.

Transformation projects are typically large-scale initiatives that aim to change or improve an organization fundamentally, and they often involve significant changes to processes, systems, and technologies. In the case of a core banking transformation, the goal is to modernize and digitize the bank's core systems and processes, which can profoundly impact the bank's operations and ability to meet its customers' evolving needs. Because of the complexity and scope of a core banking transformation, it is considered a transformation project rather than just a regular project.

Furthermore, transformation projects are typically long-term endeavors that require careful planning, preparation, and execution. They often involve a wide range of stakeholders, including customers, employees, regulators, and technology vendors, among whom effective communication and collaboration is required. Additionally, transformation projects often require significant resources, including funding, personnel, and technology, and they may involve complex technical challenges and risks.

Overall, a core banking transformation is a complex and multifaceted project that requires a focused and coordinated effort to be successful. It is not simply a regular project, rather a transformative initiative that has the potential to change and improve a bank's operations fundamentally.

8. TREATING IT LIKE A TECHNOLOGY PROJECT

Core banking transformations are business projects that involve almost all departments in a bank and happen to have a LARGE technology component. This is because these transformations have the potential to change and improve the way a bank operates fundamentally, and they require the coordination and collaboration of multiple teams and stakeholders.

A core banking transformation is a large-scale project that aims to modernize and digitize a bank's core systems and processes. This can include implementing new technologies such as digital platforms, complex integration layers and applications, and changes to the bank's internal processes and systems. These transformations are crucial for banks if they are to remain competitive and meet their customers' evolving needs.

As such, the transformation may require the involvement of the bank's customer service, marketing, compliance, and operations teams and its technology vendors and regulators.

Furthermore, a core banking transformation is not just a one-time project, but a long-term initiative requiring ongoing support and maintenance. This means that the involvement of multiple teams and stakeholders is essential for ensuring the success and sustainability of the transformation.

In summary, core banking transformations are business projects that involve almost all departments in a bank, rather than being solely technology projects. These transformations have the potential to change and improve the way a bank operates fundamentally, and they require the coordination and collaboration of multiple teams and stakeholders to be successful.





9. FAILURE TO RE-ENGINEER

A crucial factor that's often overlooked when it comes to transforming a business: process re-engineering. Here's the deal, just like pouring new wine into an old bottle risk diluting the taste and losing the essence of the wine, transforming a business without re-engineering existing processes risks diluting the intended benefits of the new system and falling short of goals.

To truly transform a business, we need to examine every process with a critical eye. This means identifying areas that are inefficient or outdated and finding ways to optimize them. Skipping this step is a surefire way to sabotage the transformation effort right out of the gate.

But re-engineering isn't just about streamlining operations. It's also about aligning every aspect of the business with the transformation goals. This includes everything from the company culture to the organizational structure. We need to review all existing systems, processes, and procedures and identify areas that need to change to align with the new direction.

Re-engineering is critical to the success of any business transformation effort. It ensures that both the technical and human elements of the transformation are aligned with the intended outcomes. If we don't do it, we risk limiting the benefits of the transformation and greatly diminishing the potential for long-term success.

To sum it up, we need to focus not only on the technical aspects of the transformation but also on the human elements. By optimizing every process through re-engineering, we can ensure that the transformation achieves its intended benefits and sets the business on a path towards long-term success.

10. POOR GOVERNANCE

The single biggest reason core transformations fail is poor governance, and that starts and stops with the CEO. A core banking project is a complex and multifaceted undertaking that requires careful planning and coordination. Transformations can be daunting, even for the most experienced teams; they require careful attention to detail and strong leadership.

Effective governance, led by the CEO, makes identifying and addressing potential risks and issues more straightforward. Failing to do this can result in costly mistakes and setbacks, ultimately leading to project failure. Poor governance can also lead to a lack of accountability, as team members may need to be held responsible for their actions or contributions to the project.

The CEO is the highest-ranking executive in an organization and is responsible for the bank's overall success. As such, he/she must be involved in and take ownership of critical decisions and initiatives, including a core banking system transformation. Effective leadership and decision-making processes, led by the CEO, simplify the process of aligning the project with the organization's goals and objectives. Furthermore, better governance, led by the CEO, can help the project's overall success.

In addition, the CEO has the authority and influence to ensure that the necessary resources and support are in place to execute the transformation successfully. This may include securing funding, assembling a solid project team, and gaining the help of other key stakeholders. The CEO is also in the best position to communicate the vision and goals of the transformation to the whole organization, and to ensure that everyone is working towards a common objective.

Overall, the CEO is the most appropriate executive to lead a core banking system transformation because of their strategic and leadership role. Other C-level executives, such as the CFO or CIO, may have important roles to play in the conversion. Still, ultimately the CEO is responsible for driving the initiative and ensuring its success.



CONCLUSION

In conclusion, core banking transformations are complex and challenging projects that require careful planning, preparation, and execution if they are to be successful. Many of these transformations fail due to a lack of clear goals and objectives, inadequate staffing, planning and preparation, ineffective communication and collaboration, resistance to change, technical challenges, lack of experience, treating it like a regular project, and poor governance. By addressing these challenges and pitfalls, banks can increase the chances of success for their core banking transformation projects and reap the benefits of modernized and digitized core systems and processes.

CORE SYSTEMS PARTNERS, LLC

As a leading provider of core banking transformation services, Core Systems Partners has the experience and expertise to help your bank overcome the challenges and pitfalls of these complex projects. We can assist you with every stage of your transformation, from planning and preparation to execution and implementation. Our experienced advisors will work closely with you to help you develop a tailored plan that meets your specific needs and objectives, and we can advise you on navigating the risks proactively.

We have helped many banks and credit unions successfully navigate the challenges of these projects, and we can do the same for you. You can benefit from our extensive knowledge and expertise in core banking transformations by partnering with Core Systems Partners. Contact us today to learn more about how we can help your bank or credit union achieve its goals and objectives.

CONTACT US



212-202-0078



info@coresystempartners.com



coresystempartners.com

CORE  **SYSTEM
PARTNERS**



STAY AHEAD
SCAN TO SUBSCRIBE
TO OUR UPDATES