What a Core Transformation Offers Your Bank

FIS Consulting
**Current State of the Banking Industry**

The banking industry struggles with top line growth as sources of new revenue remain elusive. With revenue growth challenges in both non-interest and interest income, financial institutions must continue to cut costs wherever possible. Independent cost reduction efforts will only reduce expenses to a point. For meaningful, sustainable efficiency improvements, banking executives need to consider transformative initiatives. These efforts stand to deliver the maximum benefit when the foundation of the project is built around an institution’s primary technology platform. The case for a core banking platform transformation can make much sense to many organizations facing today’s profitability challenges.

The BAI’s director of research stated the dilemma this way: “With no clear sources of near-term revenue growth, where does a bank turn to make a profit?” This profitability challenge is highlighted in the banking industry's rise in efficiency ratios over the past 14 years.

While recent years have improved, according to FDIC data, the overall industry efficiency ratio does not match the 2009 levels. Banks must continue to seek to do more with less.

![Commercial Banks' Efficiency Ratio - Industry Average](image-url)
The challenges become further exacerbated in both the smaller banks and very large banks, as shown in the second graphic. According to FDIC data, the cumulative efficiency ratio for banks with assets between $500 million and $1 billion is close to 65 percent, while for banks above $200 billion in assets the efficiency ratio is over 59 percent. Size may no longer offer an easy means to increase productivity. The key to making significant efficiency gains lies in transforming both a bank’s technology and business processes.

### Why Core Transformation?

As banks confront the necessity of becoming more efficient, many will be forced to replace their core banking systems. They will seek reductions in compliance expenditures, an increase in speed to market of new product offerings, leveraging of advanced technologies such as application programming interfaces (APIs) and predictive analytics, and seamless integration with an exceptional user experience.

Replacing core systems should not become a simple swap-over effort. To deliver substantial efficiency gains available in new technology platforms, innovative business processes must accompany new systems. Best practices and finely tuned staffing models can be applied to ensure maximum value becomes created, starting even before the actual conversion event.

Implementing best practices, along with simultaneously re-engineering business processes, can help solve efficiency challenges; however, the new processes should also improve sales and customer service responsiveness. Process improvements also have great impact on customer-facing activities such as:

- Sales referrals
- Sales and incentive management
- Account opening
- Loan origination
- Loan servicing
- Exception handling
- Customer and account servicing

Not only are efficiencies gained, but revenue can also grow through new revenue opportunities identified and implemented during the core transformation initiative.
Core Transformation Requires Partnership

Transformations require close partnerships with core processing providers. According to research from Celent, banks are shifting investment from maintenance of existing systems to new development. The growth of new system investment is projected at almost 12 percent from 2015 to 2021, as shown in the graphic below.¹

![Projected Bank Technology Investment Mix](image)

The closer the technology partnership, the better the potential pay-off on new system investments. As banks rely on one key primary partner in a core transformation, they can also reduce the overall risk in the transformative initiative.

Partner for Mitigating Risk

A strong partner in a core transformation will offer a strong methodology to mitigate the risk in an initiative of this type. A program of this magnitude encompasses a certain level of risk due to the degree of change required. The types of risk inherent in a transformation of this complexity involve scope, resources, quality and financial aspects.

One challenge that an organization faces in a program of this nature is the need for expert internal resources to contribute throughout the program even though they are expected to participate in many of the projects simultaneously. These resources often have business-as-usual roles to fulfill as well as the project’s demands, so it is important to plan the use of key resources effectively to avoid conflicts that could introduce delays to the program delivery.

Your partner’s transformation methodology should develop a comprehensive Target Operating Model (TOM) that starts with a solution design to help mitigate resource risk and ensure all business requirements are met.

The Target Operating Model

Supporting a transition to new core banking technology, the TOM helps define how a bank will use the new applications, and also identifies proposed changes to the business processes using the new solutions. The overriding goal is to maximize the utility of new technology features and functions, and help ensure the bank achieves the most efficiency and greatest return on their investment.

Typically, TOMs will focus on the processes, procedures and systems integration for the following areas:

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¹ Celent, *Global Tech Spending Forecast Banking Edition*, March 2018
The TOM process should provide governance and structure to technology initiatives with program management oversight. A solution design that defines a future-state banking environment should address an institution’s unique market needs. New business processes, a comprehensive design and banking subject matter expertise should be guided by sound program governance, creating superior user experiences for bank users and customers.

How a Core Transformation Works

During TOM development, bank staff work with banking and technology experts to thoroughly analyze and develop an objective understanding of essential aspects of the current operational environment. Current processes and workflows are reviewed and documented. The team should define and document a future-state environment. This future-state analysis quantifies financial benefits and defines new processes to optimize your bank’s investment in the new technology. The reciprocal relationships created during the analysis and preparatory stage enables the bank to seamlessly transition your staff to an implementation phase.

Accelerating the realization of key financial benefits and achieving greater scalability motivate core system transformations at financial institutions. A transformation toolkit that delivers upon these goals must include:

- A group of business process experts with a combination of extensive financial industry best practice insights and knowledge of the most effective core platform best practices to optimize performance
- A proven integration team led by a senior program manager that deals with the unique requirements of transformation projects
- A partner to facilitate and accelerate development of new business processes that match a bank’s strategic objectives with the appropriate people and technology
- A solution architecture and design services that ensure the new technology aligns with a well-defined future-state environment

The following graphic depicts the relationship between the major activities driving a core transformation. The business process improvement, future state and conversion activities are closely intertwined.
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### Business and Technology Transformation

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<th>Program Start</th>
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<td>Planning &amp; Preparation</td>
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<td>Current State Analysis</td>
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<td>Future State Definition</td>
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<td>Business Process Development and Implementation</td>
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<td>Potential Phased Technology Refresh</td>
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**Key**
- Intermediate Document
- Evaluation Deliverable
- Program/Conversion Complete

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The critical combination of a business process team, tightly coupled with core platform technology experts, unleashes the forces that drive significant financial improvement. The program manager leading this team updates an executive steering committee on the initiative’s progress and resolves issues and concerns as they arise.

### Business Process Improvement Element to Core Transformation

Core transformation initiatives are comprehensive projects that involve all areas of the financial institution. Subject matter experts from the functional areas provide the impetus for action teams that identify, develop and implement the new business processes coupled with the new technology. Technology experts attached to the Action Teams recommend best practices and offer guidance on the feasibility of proposed solutions.

A collaborative, structured process that guides the Action Team focuses on drawing-out the best ideas in the shortest time frame possible. The following graphic depicts the three phases typical in a core transformation project. Typical time estimates are provided in the first two stages, indicating it does not take long for a bank’s action teams to identify and develop the transformation plans so critical to delivering the value from the implementation of a new core platform.

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**FIS**

Empowering the Financial World
Core Transformation Approach

Within this three-phase process, the Action Teams must first understand the current environment and the strategic plan of the bank as it relates to their respective functional areas. Outside facilitators not only add technology expertise, they can also manage the overall initiative and keep the individual work streams on track. With much at stake in a core transformation program, it becomes imperative to seek advisory services from experts.

Examples of Core Transformations

If you conduct a Business Process Improvement as a part of the core transformation, you should consider partnering with a firm that understands how to plan, execute and drive these initiatives to a successful conclusion.

The following case study briefings (drawn from recent projects at financial institutions) highlight the significant benefits and approach taken by core transformation partner FIS Consulting.

**Bank A**

This bank realized that to significantly change, it needed to demonstrate management support and ensure that cross-functional teams worked together to align new core technology with new business processes.

As part of the core transformation to the FIS’ Integrated Banking Solution (IBS) platform, the Consulting team leveraged the HelixPLAN® methodology to enable process teams to focus on driving maximum financial benefit for the bank. The discovery effort uncovered $2.9 million to $4 million in annual savings at this $8 billion financial institution.

In addition to the financial benefit, the bank implemented recommendations from the discovery effort in its retail, treasury management and reporting areas. This delivered the following benefits:

- Anticipated reduction of deposit origination time from 45 minutes to 20 minutes
- Reduced third-party vendors by 35 percent
- Transitioned 60 percent of sales management work to point of customer contact

**Bank B**

This bank, with $18 billion in assets, originally started discussions with FIS as it considered moving all of its processing to IBS, thereby making it the bank’s core solution. The bank recently acquired three institutions that ran their operations on IBS. Bank executives were favorably impressed with IBS Loan Processing – so much so that they decided to convert their existing
loan servicing system (running on Shaw) to IBS and consolidate the lending systems from the three acquired banks onto the same IBS lending platform.

Concurrently, bank executives decided to hire FIS Consulting to manage the conversion of the three banks from the Hogan Deposit platform. Not having executed a bank acquisition in the past 10 years, the bank knew it must secure outside assistance to help ensure the successful integration of the acquired banks into its technology and operations model. It came down to the following scenario:

**The bank’s dilemma:** Many moving pieces and no experienced leadership to guide the effort.

**The FIS solution:** Consulting, IBS Conversion Services, and IBS Loan Processing expertise.

**Benefits realized:** The bank improved overall productivity in its loan servicing area and:

- Improved customer service
- Increased lending efficiency
- Realized savings from platform consolidation

**Bank C**

As a midwestern bank crossed the $10 billion mark in total assets, institution leadership began to consider new core banking technology. Consideration deepened following a significant merger in 2016 – which nearly doubled the bank’s assets. The bank selected FIS’ IBS as the ultimate core solution, and the bank’s management elected to plan the transition to maximize the return on its investment in time and resources.

This planful approach first led the bank into discussions and later, into close collaboration with FIS Consulting. Integrating a team of experts from both organizations, the bank and FIS developed a TOM in anticipation of the bank’s conversion to IBS.

During the TOM effort, new business processes and solution designs were created to:

1. Leverage the new IBS technology.
2. Improve operational efficiency.
3. Enable scalable growth.
4. Ensure unique technical functionality remains available to the bank.

The chief information officer at the bank commented on the TOM approach as follows, “The TOM approach prior to a conversion optimizes our use of IBS technology, documents the new integration and business processes, smooths the way for training, and places us in a great place for our transition to IBS in the summer of 2018.” The bank realized the following benefits with the TOM:

- Increased efficiency with new business processes aligned with new technology
- Documentation to sustain over 500 new business processes
- More effective training for bank staff to prepare for the transition to IBS

**Bank D**

In recent years, this bank’s assets have increased from $250 million to nearly $10 billion through significant organic growth. The bank, known for its use of leading-edge financial technology, has been recognized by Forbes Magazine and American Banker among top-performing banks in America.

Enhanced capabilities provided by the IBS core banking platform include a more intuitive and easy-to-navigate user interface, integrated digital and mobile banking tools, enhanced security controls, and anytime access to statements and forms. The IBS platform will also help the bank manage complex regulatory requirements and streamline back-end processes.
Solution components included:

- Governance of comprehensive conversion including: IBS, EFT/Debit, Bill Pay, Account to Account Transfers, FOS Print and Archive, and Business Intelligence
- Integration of FIS Bill Pay with the bank’s proprietary digital applications
- FIS Managed IT Services taking on the bank’s data center support
- Creation of FIS mainframe high availability production environment
- Program and Engagement Management
- FIS Managed IT
- Solution Architecture and Design
- Quality Management and Integrated Testing

The chairman and CEO of the bank, pleased with the IBS partnership, was quoted in the trade press as follows, “High-tech, high-touch service is our differentiator and calling card at our bank. Moving to a new online and mobile banking platform from FIS helps us provide our customers with the advanced services and convenience they are looking for, while giving us the flexibility to support our continued growth.”

**Bank E**

A financial institution decided to grow significantly and transform itself by acquiring all Puerto Rican-based operations of a larger bank. It then turned to FIS Consulting for assistance. This significant acquisition of an entity with nearly $5 billion in assets would double the size of the bank, adding 26 branches and tripling retail transaction volumes.

The core transformation initiative encompassed new technology, new processes and new levels of teamwork. The effort required a solution design that met the business requirements of the acquired branches and minimized customer disruption. Employees would need to learn new technology while managing current workloads.

FIS’ assistance started with FIS Solution Architects who crafted the design of the new IBS technology to support the new branches. A TOM was defined that guided the development of additional functionality. Working together, the bank and FIS established a tight deadline to transition the 26 branches off its technology platform without financial penalty. The bank staff had to make decisions early and often in the TOM process.

Fortunately, the FIS process provided a framework that called attention to critical business requirements, around which decisions were reached. Informed decision-making earlier in the effort laid a foundation for the ultimate success of the conversion. The following benefits were realized with the transformation partnership:

- Met conversion deadlines and avoided financial penalties
- Combined a wealth management focused bank with a very high-volume institution
- Mitigated risk with staggered implementation approach

**Summary**

As bankers address efficiency challenges with a survival-of-the-fittest mentality, they must take a hard look at the performance of their technology platforms. A strong partner can mitigate risk within core transformation efforts that can substantially improve the performance of a financial institution.

**Contact Us**

For information about FIS Consulting and core transformations, call 800.822.6758 or visit [www.fisglobal.com](http://www.fisglobal.com).