PROFIT RESOURCES
INCORPORATED

SYSTEM EVALUATION AND SELECTION

How to profitably evaluate and select the right system

Community banks are faced with a technology environment that is more dynamic than ever. Personal computer purchases are declining year after year, and the number of customers using mobile applications to conduct their banking business is increasing to an estimated 112 million users in 2016.

While mobile banking is important to most financial institutions' abilities to remain relevant, technology isn't all about mobile banking. The industry has tremendous pressure to automate and innovate just to remain profitable and compliant. That pressure doesn't stem only from banks and credit unions—competitors from outside the traditional industry (PayPal, Wal-Mart, etc) are forcing adoption and innovation of new products and technologies. Add the consumer perception that community banks are behind when it comes to technology, and the heat is on. Banks across the country feel the pressure to innovate, but it must be strategic.

As financial institutions develop strategic plans for growth, they must align the strategic plan with what is currently being offered in the market today and anticipate what will be offered tomorrow. But technology is not only driven by the institution's desire to offer products and services that meet customer product requirements. Technology is also needed for regulatory compliance, to improve the efficiency of product delivery and service, or occasionally for an effective operation and process.

Using a well-formed strategic plan, IT departments support the innovation section of the strategic plan, including new product delivery. With all of the technology needs infiltrating executives' conversations, it's easy to let IT drive the bank and its strategic direction. However, IT costs rank among banks' top three expenses, and spending is on the rise. Executives must keep a close eye on this expense to keep it in alignment, particularly since the expense side of profitability is under tight scrutiny for most community banks and credit unions.

In response to the pressure on financial institutions, vendors are moving rapidly to ensure that core applications are scalable to meet customer demands. According to FinTech 100, there are forty one core applications included in the top seven vendors nationwide (among them CSI, FIS, Fiserv, Jack Henry, etc.)[1]. While these vendors work to improve their technology and solution offerings, financial institutions continue to evaluate ways to cut non-interest expense. Consequently, the challenge is choosing the vendors best-suited to provide cost-effective solutions that meet specific processing and customer needs.

[1]Business Performance Innovation Network via Marketwide News Releases, May 20, 2013

So, it's time to evaluate a current system.

Perhaps it's the core, perhaps another significant ancillary system. With so much to keep in mind, how will you analyze your current vendor and review alternatives? How can the overall review and selection process be executed to address all of the institution's needs from initiation through implementation?

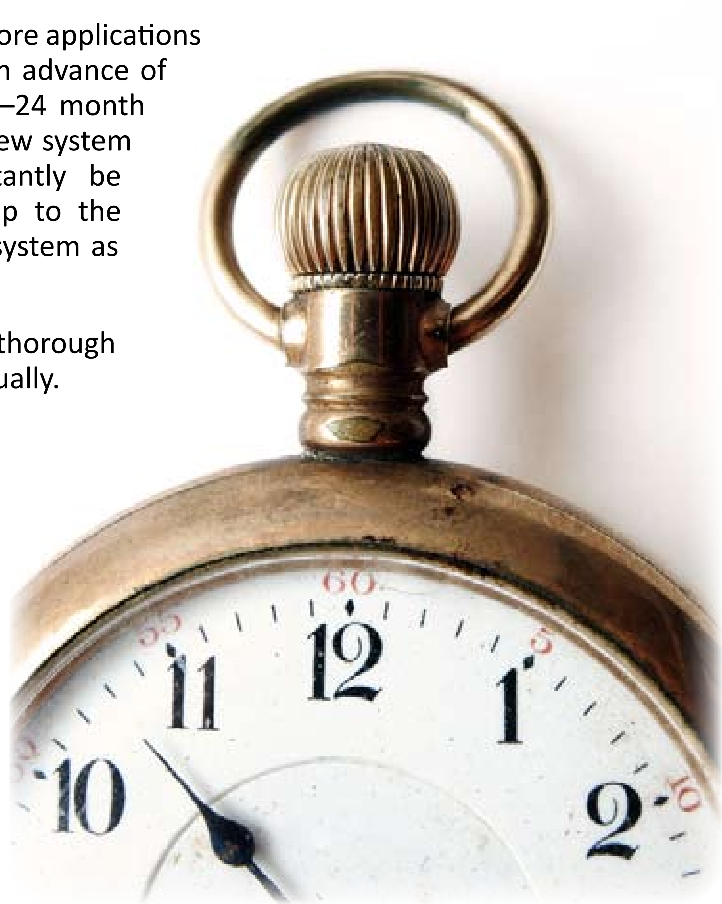
This white paper will explore these issues and help to determine when to evaluate systems/products, what to evaluate, how to select the right system for the organization, and how to manage implementation. We will even discuss what to do to ensure system and resource maximization.

When to evaluate

Financial institutions spend millions on technology for all areas of the bank. Despite this expenditure, in corporate America, IT consultants estimate that only 60% of technology capabilities are being used effectively. [2] At Profit Resources, our experience has been that banks rarely use more than 30% of their core system's feature functionality. Time and time again, CIOs, COOs, CFOs and CEOs have indicated that getting the maximum value from existing technology and vendor relationships is of great importance. However, bankers buy the technology because the feature functionality is sexy and exciting, but then they don't use it in their day-to-day processes.

It is estimated that 7% of community banks replace their core applications each year. However, the evaluation process begins far in advance of the implementation of a new application. While an 18–24 month evaluation cycle is typical, anytime is a good time to review system feature functionality. System utilization should constantly be monitored to ensure system performance measures up to the vendor's commitment and that users are accessing the system as designed, utilizing the system to its fullest capacity.

There are, however, events or milestones that promote a thorough evaluation of a system. Let's explore these events individually.



[2] White Paper "Leveraging Technology To Its Fullest Capacity", by Jeff Janisse, June 13, 2012

Milestones that Prompt System Evaluation

New Technology – New products and services are changing the landscape of banking, and will continue to mold the way customers do business. While a large percentage of products and services will be initiated by ancillary solutions, traditional banking processes are changing. In today's environment, vendors are prepared to buyout existing contracts now more than ever.

Expense Lowering Initiatives - IT Costs – The economic downturn over the past several years has led to an erosion of bank revenue, while the strain and burden of ever-expanding regulatory compliance has caused increased costs. However, even with these outside influences impacting the bank, there is one controllable category of non-interest expense that financial institutions can address: IT costs and outsourcing of core processing.

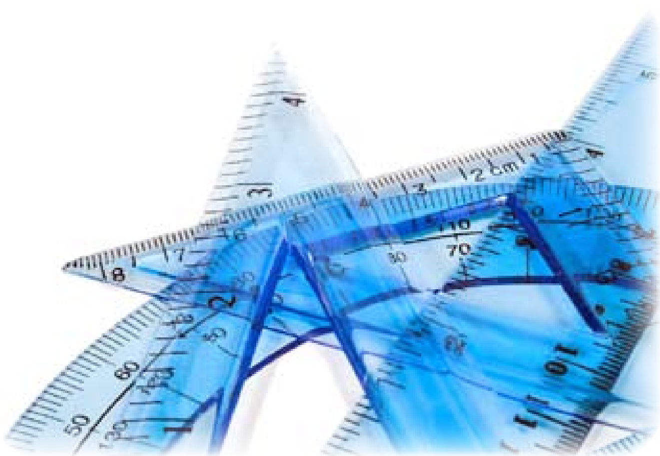
IT costs rank among banks' top three expenses and are trending up. On average, banks can reduce these costs by 24% if a disciplined approach in selecting the right vendor is applied. One avenue to consider when dealing with IT costs is outsourcing, which could provide cost savings to the bank while moving out mundane, monotonous activities.

Contract Renewal - System evaluations cannot start close to the contract renewal date. This leaves the vendor in a position of power and the financial institution loses in the end. System evaluations should begin at least 18–24 months before the contract renewal; a timeline which is typically known by strong IT managers and operational executives.

Mergers/Acquisitions – Aside from a contract renewal, there is no better time to evaluate contracts than that of an impending merger or acquisition. It will be important to determine which core system will be able to support the long term strategic plans for the merged organization. During this time, vendors will be anxious to renegotiate contracts to maintain long term relationships.

What to Evaluate

Everything that supports core business needs should be analyzed or evaluated. To begin, the strategic plan should be reviewed, which would include a review of the IT Strategic Plan and clarification of any differences between the two. Institutions without an IT Strategic Plan should develop one and ensure it aligns with the strategic initiatives of the bank. The development of these plans should include a thorough discussion with management of all lines of business. Growth plans and marketing plans should be evaluated, including target markets and customer needs. This would include a review of the technology tools, as well.



Current consumer and business products/services should be reviewed to understand how the feature functionality fits with the marketing plans. Current system weaknesses should be identified, as well as 'must haves' in a new system. And bank initiatives, such as operational efficiency, profitability modeling, and customer remote capture should be included in this review, to establish the foundation for the system evaluation and selection process. Understanding every functional area (such as deposits, loans, debit/credit cards, etc.) will ensure that the proper system is selected to support what is offered today and what the financial institution plans to offer in the future.

How to Select a System

Your strategic initiatives are defined, and you know you need to renegotiate the current system vendor contract or seek out potential new vendor partners. When determining whether to seek out potential new partners, consider if there are changes in product offerings, a lack of service provided by the current vendor, gaps in the operational effectiveness of the current system or simply a need to understand what other vendors have to offer. This is where it can be advantageous to have third-party assistance. Having a partner who understands the banking business, has experience with vendor review and selection and is knowledgeable about evolving technology can be key to selecting the best option available.

There is a logical approach to this sometimes overwhelming process, which should easily identify the current challenges/opportunities that support strategic goals. The following ten step process ultimately leads to selecting the right vendor and successful system implementation.

Strategically follow PRI's ten-step process to selecting the right system.

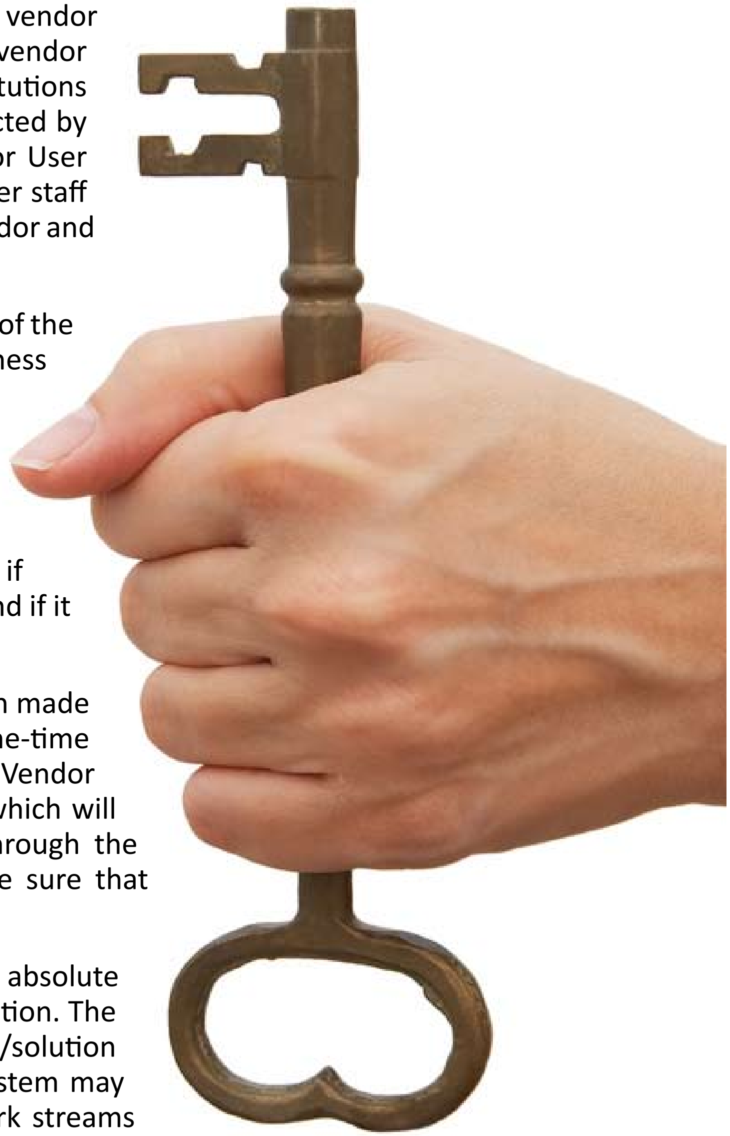
1. Appoint a selection committee. To begin the process, a vendor selection committee should be formed to provide system evaluation oversight. This committee should be comprised of 5 – 8 members who represent all key areas of the financial institution; Technology, Finance & Accounting, Operations, Loans, Deposits, Branch & Marketing Administration, Business Banking, Wealth Management, etc. Key stakeholders are not all at a management level. The people who best know how the current system works or doesn't work are the ones that consistently use it. Furthermore, the best employees for the committee are typically not afraid to share system feedback with management.

2. Perform needs assessment. Once this vendor selection committee has been identified, it is time to determine the overall goal in selecting a vendor. Support of strategic objectives would certainly be part of this review process, but consideration should also be given to regulatory, customer, and processing needs. This is typically defined as high level business requirements and is completed by working with departmental leaders and subject matter experts, as well as system users.

3. Analyze volume dynamics. Customer needs and processing needs are key drivers; however, the volumes of data and analysis of the same will also drive future plans for your institution. Analyzing the customer needs through volume driven data will provide clearer insight of the type of functionality required and potential ancillary solutions that will be integrated with the system. Transaction cost is also important to identify and understand in terms of the overall cost of the contract.

4. Develop system specifications. Consideration needs to be given to the system specification, such as hardware deployment, current interfaces, controls, production deadlines, customer commitments and procedural changes. This should be detailed in a systems requirements document and used in the vendor analysis.

5. Develop and publish RFP. The RFP process is more than the actual request for proposal, which includes the comprehensive questionnaire, vendor resume, and customer references. It involves some investigative work such as reviewing the vendor's background, financial stability, market share of peer institutions and service reputation. This investigative work can be accomplished through user site visits, current customer references, and vendor interviews (on-site and telephone). Request the vendor provide a complete customer list of financial institutions within your area, not a list of specific customers selected by the vendor. Attending a vendor's User Conference or User Group Meeting and visiting with the vendor's customer staff can provide crucial information regarding both the vendor and the product.



6. Evaluate proposed alternatives. Evaluation and review of the organization's strategic goals and the resulting business requirements in comparison to vendors' functionality and experience is critical. Also, detailed analysis of the vendors' proposals is necessary on an "apples to apples" basis. Vendors most likely will have some very cutting edge technology, and while it looks very attractive, the selection committee must determine if the technology provides benefit to your bottom line and if it will be used by customers.

7. Select vendor and negotiate. Once a decision has been made on the final candidates, analyze costs—including the one-time investment and ongoing servicing and support costs. Vendor demos should be offered, as well as computer labs which will allow your users to actually test the system. Go through the proposed contract with a fine-toothed comb and be sure that you're getting a good value.

8. Implementation. The implementation process is an absolute critical part of the vendor selection process and execution. The key driver of the process is obviously the right system/solution choice. But without proper implementation, the system may fail to live up to expectations. The multi-faceted work streams involved in implementing a new core application require that a highly effective program office be established. Coordination of tasks and activities within the program office involve individual business units, training, scheduling, testing or quality assurance, policies and procedures, risk assessment, continuity of business, system certification, internal and external communication, and the actual conversion.

9. Post-Implementation. An objective post-implementation review of system functionality is necessary to ensure that the vendor has delivered system/solution commitments, the functionality is performing as designed within the bank environment, and customer needs are being met. Ensure that what was purchased is being correctly used and that the feature functionality is continuously delivering as committed by the vendor. If exceptions exist, document them in an action plan and work with the vendor to close the gaps. Other factors of a post-implementation review include a budget review, remedial training as needed, and implementation of process improvements.

10. Ongoing Process Improvement. Kaizen, a Japanese word for continuous improvement, became popular in the mid-1990s throughout the United States. It basically means a never-ending effort to expose and eliminate root causes of problems. Ongoing process improvement is done in small steps, by paying attention to detail and encouraging individuals to take responsibility to identify root causes of problems instead of dealing with them as exceptions. Ongoing process improvement results in better products/ services, lower costs and greater customer satisfaction.

System evaluation is the opportunity to meet strategic growth plans and establish a foundation for the future.

Summary

Technology will continue to provide leading edge solutions for banking customers at an increasingly rapid pace. And customers will continue to look for products and services accessible at their fingertips. How can an institution be sure that a system will meet strategic growth plans, customer needs, and competitive pressure, while positioning itself for lower costs and greater efficiency?

System evaluation and/or selection, if completed in a thorough, methodical manner, is the opportunity to meet strategic growth plans and establish a foundation for the future. Core systems should be evaluated based upon any major milestone that impacts the organization, and specifically 18–24 months before a contract renewal. Engaging a well-defined vendor review process, including utilizing key resources that understand your business, will help demystify the system selection process.

When a financial institution can answer the age-old questions of who, what, when, where why, and how regarding system evaluation and selection, the foundation has been laid for a great outcome.

About the author...

Gladys Rodriguez is a banking executive and consulting professional with a unique background of expertise leading business operations and client engagements. Her 30+ years of experience include managing many back office operations including item processing, research and adjustments, return items/exception processing, fraud detection, reconciliation/settlement, and customer relationship information systems. As a consultant, Gladys' attention to detail directly impacts our clients' bottom line. Gladys has managed teams of 250-500 employees, conducted best practice reviews, implemented cost reduction projects for banks of all sizes (including system implementations) and led training programs as needed to realize change.

About Profit Resources, Inc...

Profit Resources Incorporated (PRI) strengthens financial institutions by improving profitability and efficiency, so that banks can best serve their customers, employees, and shareholders. By taking a hands-on approach to consulting, the PRI team of seasoned banking professionals makes a measurable impact on the bottom line through income enhancement and expense reduction. Established in 1990, PRI's expertise covers most areas of the bank including:

Non-Interest Income	Non-Interest Expense
Mergers and acquisitions	Retail banking
Item processing	Vendor management
Cash management	Lending
Mortgage banking	Operations
System Evaluation & Selection	

By taking a hands-on approach that results in real, quantifiable change, PRI helps good banks get better.

pri
PROFIT RESOURCES
INCORPORATED

T: 800-576-2374
W: www.profitresources.com
E: grodriguez@profitresources.com