



# CORE BANKING SELECTION CHALLENGES & APPROACHES A TIER 2-3 BANK PERSPECTIVE



In collaboration with



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Banking System



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## Context | Setting the big picture

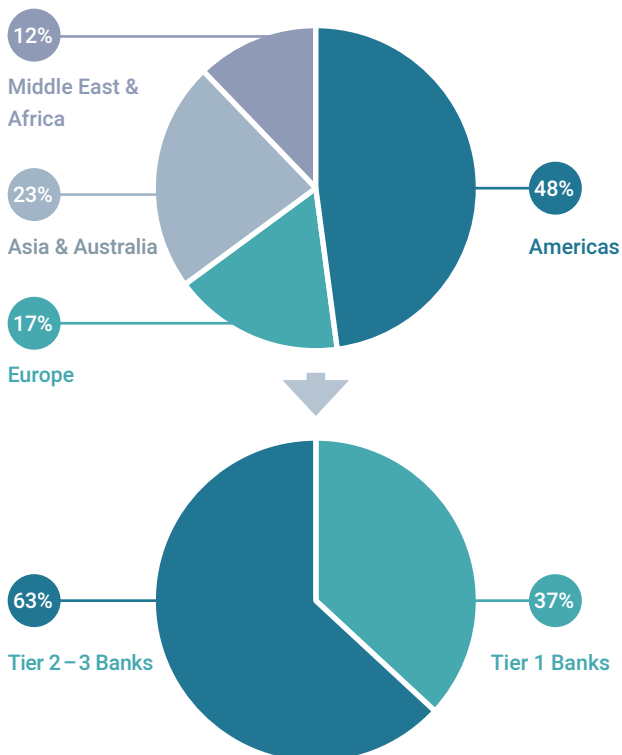
The Core Banking System is considered as being the heart of every bank. One of the most critical factors in the successful modernisation of the technology backbone is choosing the right solution and supplier, to complement the bank's strategy, business needs and values. The choice of an inappropriate solution partner may lead to both short-term and long-term implications.

Looking at the way forward for a bank typically needs a number of questions answered.

- Where does the bank see itself in five to ten years?
- Which channels are more likely to be used for customer engagement in the future?
- How is the customer experience likely to be enhanced?
- What are the products to be offered in the medium to long term?
- Therefore, what are the implications from a technology standpoint?

It is imperative that the choice of the system is aligned with the bank's aspirations. More importantly, ensuring that the supplier is the best fit partner is key to a successful way forward.

### Core Banking replacements by geography and bank types (2017-2019)



Source: IBS SalesVision

### What is changing?

There are significant changes that banks are experiencing around the world. These changes are driving banks to adapt and improve their competitive positioning. Fast-evolving customer expectations, the push for digital banking and the need for collaboration with fintech players, all means that most banks need to look at how to modernise their technology. A robust technology platform powered by a modern Core Banking System is imperative to navigate through this ever-changing environment.

The trend in Core Banking modernisation is evidenced by the fact that there have been more than 1500 replacements over the last three years alone. Interestingly, almost two-thirds of these replacements were that of Tier 2-3 banks.

# 1 Context | Setting the big picture

It is important to acknowledge that the challenges faced by Tier 2–3 banks tend to be somewhat different from their Tier 1 counterparts. While Tier 1 banks typically have significant financial wherewithal and access to expertise, Tier 2–3 banks are relatively constrained. More importantly, the margin for error is much more limited in a Tier 2–3 bank context where resources are considerably more finite. Therefore, there is a need for Tier 2–3 banks to be that much more sensitive about both the process and its outcome. Effective execution is not just about doing things right, but also about doing the right thing.

The typical challenges faced by Tier 2–3 banks when changing Core Systems fall in five broad buckets:

The emerging practices in the selection of Core Banking solutions may be summarised across the

## **E3 FRAMEWORK: ENVISION, EVALUATE AND EXECUTE**

- ✓ **Envision** the end state of the bank's objectives.
- ✓ **Evaluate** based on business requirements, technology aspects and supplier credentials.
- ✓ **Execute** structured processes for the selection of a best fit solution partner.

This paper is a reflection on these challenges faced, their implications, and the potential approaches that may be adopted across the three stages of the E3 framework.

## KEY CHALLENGES

- 1 **Aligning strategic objectives**  
Non-alignment of strategic objectives leading to partial / not achieved results.
- 2 **Limited knowledge of supplier landscape**  
Limited market intelligence leading to potential opportunity loss or inappropriate short listing.
- 3 **Balancing between the breadth & depth**  
Ineffective balancing between breadth and depth while making selection choices.
- 4 **Incorrect prioritisation of requirements**  
Incorrect prioritisation of requirements, resulting in gaps only being identified at an advanced stage.
- 5 **Identifying the right evaluation criteria**  
Vague evaluation criteria, resulting in potential wrong conclusion and selection.

## Envision | The end state

### Aligning objectives

As customers demand change, banks also rethink their strategy. Banking products, channels and processes are continuously evolving. Therefore, the expectations from a Core Banking System are also expanding. Unless these are defined and crystallised, it is hard to align the technology

roadmap. A lack of alignment typically results in gaps that get discovered later. In order to avoid those gaps, the end state objectives will need to be articulated well and reflected in the selection process.

#### 1 CHALLENGE : Aligning strategic objectives

**CONTEXT:** Banks are reinventing themselves with specialised offerings. Technology has to be in alignment with the changing business needs

##### Implications

Non-alignment of the bank systems to the bank's strategy

Non-alignment of business expectations with the requirements

##### Approach to be adopted

Articulate the business expectations appropriately in the selection process

Drive the enterprise architecture in line with the business direction

**“In preparing for the selection of a Core Banking System, it is important to understand the financial ecosystem of the bank and the customer segments that the bank intends to target. The bank’s position in this ecosystem is important for rationalisation of portfolios and systems”**

*Vaibhav Sakorikar, Chief Information Officer, PT Finance, Vietnam*

### Determining initial shortlist of suppliers

There are 80+ Core Banking suppliers around the world. However, the awareness levels tend to be generally limited to the suppliers in the region where the Tier 2 – 3 bank operates. Invariably, this results in a significant opportunity loss. In an increasingly flat world, there are more opportunities

now to consider solutions that have been proven elsewhere and can be a potential fit for the bank. The points of reference for drawing up a well-represented shortlist are typically analysts’ reports supported by inputs from external research consultants.

#### 2 CHALLENGE : Limited knowledge of supplier landscape

**CONTEXT:** There are over 80 Core Banking suppliers in the market, however not all may be known at the point of selection

##### Implications

The opportunity loss due to limited awareness of global suppliers

##### Approach to be adopted

Review analysts’ reports providing holistic views on solutions available

Engage with external research consultants

### Scoping the program

Tier 2–3 banks typically have about 30-40 applications as part of their enterprise architecture. A Core Banking transformation does not necessarily mean that all the application areas need to be modernised. It is important to determine which of these areas need to be transformed based on a review of the architecture. The considerations are as follows:

1. Can the application be retained as is?
2. Is there a potential opportunity to upgrade?
3. Does it need to be replaced by a new/different system?

Usually, the applications that fall under the 'Replace' and 'Upgrade' categories form the scope of the modernisation and subsequent evaluation process.

Additionally, the options available to the bank in terms of supplier selection approach are:

- A. An end-to-end (integrated) solution supplier who could address all (or a large proportion) of the needs or
- B. A combination of suppliers who are specialists in their specific areas (best-of-breed).

The kind of implications that the above questions pose can be interesting. Can both corporate and retail banking functionalities be addressed by the same solution/supplier? Can both wealth and credit functions be covered by the same solution or would they need specialist applications? Can both digital banking and branch banking be part of the same solution stack?

Banks will eventually need to decide between choosing a single solution partner or specialised solutions for each area. The consideration set for making this decision includes the system functional coverage, the profile of the supplier(s), the ability of the internal technology teams to coordinate with multiple suppliers, cost implications and opportunity loss/gain for the bank.

### 3 CHALLENGE : Balancing between the breadth & depth

**CONTEXT:** The choice between selecting a universal banking solution with end to end breadth of capabilities in some modules or specialist solutions with deeper functionalities in specific areas

#### Implications

Choosing a universal banking solution supplier may result in dealing with a single supplier, potentially leading to end to end breadth of functionalities

Choosing multiple suppliers for specialist solutions may result in access to deeper functionality in specific areas



#### Approach to be adopted

Drive a balance between the two, taking into consideration profile of the supplier, the ability of internal IT teams to engage with multiple suppliers, the opportunity loss/gain and cost implications

**“There should be a balance drawn between the number of systems in the application landscape and the capabilities required by a bank. This needs to be done without complicating the integrations while ensure ease for future ensuring”**

*Paul Cazaz, GM Core Banking, ME Bank, Australia*

### Prioritising requirements

Every system evaluation needs to have the bank's requirements documented clearly for a granular evaluation. The degree of detail may vary. While in some cases, the requirements range from 1000 to 2000 line items, the more detailed ones may run up to 5000 lines. In order to ensure that the evaluation is done with the same sense of criticality, it is also helpful to classify the requirements into three broad buckets.

- **Must have** ———  
Where requirements are typically mandatory and cannot be compromised
- **Need to have** ———  
Critical requirements that are essential for running the bank
- **Nice to have** ———  
Not so critical requirements but would be good if available.

Classifying the requirements helps to make the evaluation process more granular as it distinguishes between the systems that meet most of the 'Must have' against the "Nice to have".

**“Ensuring that the evaluation focuses on the ‘Must have’ is very critical as one can easily get carried away by what suppliers present which may not always be what the bank needs”**

*Fouad Baalbaki, Chief Information Officer, Bankmed, Lebanon*

#### 4 CHALLENGE : Incorrect prioritisation of requirements

**CONTEXT:** Right prioritisation of requirements enables banks to distinguish between suppliers who address most of the 'Must have', as compared to those who do not

##### Implications

Unless banks prioritise the requirements, the ability to compare & contrast solutions is diluted

##### Approach to be adopted

Prioritise requirements as 'Must have', 'Need to have', 'Nice to have'

Focus on the 'Must have' requirements

## Evaluate | The way forward

### The evaluation process

The evaluation needs to cover functional requirements, technology aspects and the credentials of the supplier. While the functional requirements deal with the specific areas of business, the technology aspects include scalability, agility, interoperability, open architecture, and modularity, amongst others. Additionally, it is also critical to evaluate each supplier's implementation track record, sales performance, management profile, financial health and other non-technical factors. These include support and team profiles that are key to ensure the best supplier fit with the organisation, size and culture of the purchasing bank.



The evaluation process is usually carried out in two stages:

1. **Supplier's capability to align with requirements:** this is used to rank the initial fit.
2. **Supplier responses validation:** this is carried out through product demonstrations, resulting in deeper insights and the final scoring.

The scoring needs to be weighted across functional, technical and supplier credentials criteria in order to have a balanced perspective of both the solution and partner.

**“The focus of the selection should be based on functional and technical fit while ensuring the shortlisted systems and supplier align with the bank’s strategy. Commercial discussions based on products and services should be done later in the process.”**

*Shahzad Anjum, Chief Information Officer, Gulf Bank of Kuwait*



## 5 CHALLENGE : Identifying the right evaluation criteria

**CONTEXT:** Different criteria are applied at various stages of the selection process

### Implications

Selecting a supplier who may not fit the bank's medium and long-term strategic objectives



### Approach to be adopted

Strike a balance between business requirements, technology aspects and the supplier credentials

### Aligning stakeholders expectations

One of the typical outcomes of the evaluation process is the gap analysis. In most situations, these gaps tend to be viewed as additional customisations which also results in cost escalation. Most successful banks have been able to minimise customisation by aligning key stakeholders in adapting their requirements and processes to that of the selected system rather than reinventing the wheel. In simple words, "the lesser the customisation, the more effective the implementation".

**“A key success factor is ensuring the engagement of the management from the start of the transformational phase, which helps in adopting the new system’s capabilities rather than building customisations.”**

*Chief Technology Officer,  
A leading bank in Malta*

## Execute | Determine the best fit partner

### Finalising the solution partner

Once the solutions get scored and ranked, there are typically three other elements to be reviewed in finalising the right partner.



**Determining the  
Implementation Partner**



**Finalising  
commercial fit**



**Validating strategic  
and cultural fit**

#### A. Determining the implementation partner

Any decision on an implementation partner should also take into account the experience of the partner in implementing the particular solution, as well as the implementation partner's knowledge and experience of the banking sector and geography.

#### B. Finalising commercial fit

The total cost of ownership (TCO) for any Core Banking program includes the costs for the product licenses, implementation, migration, training, project management, system integration etc. Additionally, all indirect costs such as hardware/hosting charges, database, operating system also need to be considered. The maintenance/AMC charges over the next 5-10 years are also integral in a TCO estimation. Not to be forgotten either is what it will cost to keep the Core Banking System updated over that time as the supplier releases new versions. Some banks selectively also include the cost of internal resources. The TCO helps in a holistic comparison between suppliers for thorough budgetary planning and effective decision making.

#### C. Validating strategic and cultural fit

Prior to signing up with the solution partner, banks would do well to validate the supplier's credentials with leadership-level interactions and also seek key reference feedback from existing customers of the finalised solution partner. This feedback is critical to make a qualitative judgement on the supplier. Both implementation experience and long term support commitment get sufficiently reassured through this exercise, as are the "soft skills match" – how does the supplier's management philosophy and flexibility align with those of the bank.

**“The R&D budget of the supplier, the speed in launching new functions and features & most importantly the voice of a Tier 2 – 3 bank in the supplier's roadmap or strategy plays an important role in the selection.”**

*Shahzad Anjum, Chief Information Officer, Gulf Bank of Kuwait*

## Conclusion | Making the right choice

The replacement of a Core Banking System is akin to changing the engines at 30,000 feet. Choosing the right partner and most appropriate solution are obviously the key success factors. Adapting the right selection process is therefore the foundation for that success.

In conclusion, the key principles to be adopted for an effective selection can be summarised as below:

### Do's

Determine solution and technology requirement in alignment with way forward strategy.

Build a holistic view of the enterprise architecture before starting on an evaluation journey.

Ensure requirements are prioritised and are holistic across functional, technical and supplier credentials criteria.

Validate strategic fit of supplier with leadership level interaction and reference feedback.

Choose the supplier(s) based on breadth of offering and depth of specialisation.

### Don'ts

Do not be limited by short term imperatives. Core Banking investments should address medium to long term needs.

Do not limit evaluation to already known suppliers alone. Scan the marketplace before an RFP is circulated.

Do not judge a solution by commercials before they are ranked for their functional and technical fit.

Do not drive the selection just by the technology team. Having business users engaged is key for ownership.

Do not miss out on also focusing on the System Integrator/ implementation partner, which may be key for effective implementation.



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