

ABAX Consulting in the press

October 2012



Agefi Luxembourg – October 2012

Process Management and Process Improvement adding value to banking system migration projects

Introduction

As ABAX Consulting has been active in the Financial Industry for many years, we are involved in different types of projects and more specifically we have had a large exposure to banking system migration projects. We are therefore quite familiar with the complexity of such projects.

The present article will explore why in our view, acquiring a good understanding of your key bank processes is instrumental in making such projects a success. We also will describe a possible approach to achieve Process Improvement.

What are the drivers for replacing the legacy banking system?

When considering banking system migration projects, the first question that arises certainly is: “Why do many banks eventually face the obligation to replace their banking system?” The answer is most often a combination of different reasons.

The first reason certainly deals with efficiency. Technology is rapidly evolving and systems and applications may become obsolete, or may no longer be supported by their providers. Historically, large banks built heterogeneous IT systems, comprised of in-house developments interfaced with third-party applications. Over the years, such environments become increasing difficult and costly to maintain, thus eventually obliging to rationalise and implement agile IT architecture.

Financial institutions also need to meet changes in regulatory obligations and to have more transparent control systems. Others need to follow group decisions and comply with their mother company.

No matter what drivers may be, such projects require a good understanding of inflows and outflows of each activity as well as a clear view on applications and infrastructure that support the business flows.

Thorough preparation of the project

In 2008, advisory firm Gartner pointed out that in the United States, more than 75 percent of IT projects fail, and other studies reported that project failure can skyrocket above this threshold. Whereas many experts regularly publish studies aimed at explaining the reasons of such statistics, our experience tells us that a poor analysis of the existing business environment as well as a lack of clear vision on the target environment can lead to many mistakes, waste, wrong decisions - and eventually project failure.

There are nevertheless ways to mitigate such risks.

Most of banking system migration projects imply indeed new processes, or at least significant changes in existing ones.

Therefore when the banking system replacement project is kicked off, project sponsors must ensure that AS-IS¹ key processes are fully understood by all stakeholders within the organisation and are thoroughly documented.

They also have to ensure that knowledge on existing processes is aligned between people and departments that the project concerns.

At this stage the following two project tasks are instrumental: first clearly communicate on AS-IS processes and second allow for people to align their view on AS-IS processes.

Once these tasks completed, the next project deliverable consists of defining target processes, also called TO-BE processes. These new processes will reflect changes and improvements as opposed to existing processes, thus providing a clear picture on how business will be handled upon completion of the project.

Operations departments must be involved in the project to ensure a real buy-in from the whole organisation. This requires strong communication within the project team as well as towards the rest of the company. Communication can be done to large groups, but must also be organised in workshops with specialists to obtain feedback in order to measure the buy-in.

The importance of Process Management in a project

A process may be simply defined as “a series of interrelated activities involving people, technology and business logic that transform inputs into outputs to produce a specific service or product for customers or internal organisation needs.”

When performing a process review, the target is to draw a coherent and objective flowchart to show what happens between process actors and applications in terms of inputs, contributions, interactions and dependencies, data transformation and production of deliverables.

This is formalised in a process which must be documented with standard notation (such as BPMN) that is commonly used by process management tools and experts.

To do this exercise, it is required to structure the different points of view coming from business departments and streamline them to avoid any divergence in the process

¹ An AS-IS process described how a current process works. It usually consists of describing in a documented flow how things happen. The objectivity of the description is required and the flow can be documented at a high level or with more details depending on the project focus and target.

description. This phase combines interview techniques, analysis, communication and structure.

In addition to ensuring a common understanding of current processes, the performance of the process review allows to highlight existing weaknesses and risks, which in turn paves the way for future improvements.

The use of a process modelling tool to document processes permits, amongst others, to structure and formalize deliverables and help the Customer working on processes beyond project finalization.

Achieving Process Improvement in a banking system migration

The replacement of a core banking system represents a critical project, because it impacts all Operations departments (private banking/branches, dealing room, back office, accounting, risk management, reporting, compliance, aso) as well as IT departments.

For this reason we advocate taking a top-down approach such as to understand current processes and link them to the functionalities of the new banking system to derive target processes, requirements for parameterisation and bespoke developments and updated work procedures.

We first perform a process review (as described in a previous section) to obtain a sound – and agreed upon – understanding of all AS-IS processes and document them so as to describe for each of them the following three layers:

- Functional layer, describing what the process achieves and by whom;
- Application layer, describing how it is achieved in terms of functionalities, reports, data flows, aso;
- Infrastructure layer, describing components that support functional and applications layers, such as interfaces, internal/external networks, web platform and hardware;

This process review is a prerequisite for assessing strengths and weaknesses of AS-IS processes and deriving improvements.

With the support of product experts of the new banking system, the next phase consists of walking through each AS-IS process (functional layer) and map them to functionalities of the new system.

This phase enables to take advantage of features of the new banking system to improve existing processes, thus leading to the definition of TO-BE processes. It also represents an excellent – and often unique – opportunity to simplify and streamline a number of critical processes that tend to become increasingly complex and rigid over time (such as client acceptance, credit acceptance, handling of clients' commissions and income collection, aso). Furthermore it allows for the definition of parameterisation required in the new banking system as well as the identification of gaps that will need to be addressed with bespoke developments.

This complex phase requires the involvement of experts combining skills in process management methodology, in business operations and in the new banking system. It also requires broad knowledge in banking business (e.g. products, regulations, risk awareness, best practices) as well as the ability to help business users step back from

their current habits and help them consider processes differently. If this is not done, lot of time and budget may be spent – and wasted - in attempting to replicate into the new environment workflows, banking system functionalities, screens and reports that existed in the legacy environment, in other words in keeping current processes “as they are”.

Furthermore realization of this phase must address weaknesses that had been identified in AS-IS processes. It must also aim at increasing automation (through the reduction of manual tasks and related operational risks and costs), quality, controls and segregation of duties.

Moving forwards

Documenting key processes represents a key success factor in all projects that impact current processes. It indeed helps clarify roles and responsibilities in Operations and better understand dependencies between each process actor (be it human or software), department and company.

Process Management does not only bring benefits in projects. It can also support strategic decisions that have to do with functions, applications or infrastructure.

Authors:

Lionel Gendarme

Olivier Devaux

Partner at ABAX Consulting

Consultant

process-management@abax.eu