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Bank Strategy Briefing

Ideas and analysis for community bank executives

Anatomy of a core processor conversion

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A bank's core technology service provider (TSP) is usually the most critical vendor a bank manages, and for good reason: the products and services provided by a TSP are vital to the operations of a bank.

A conversion can be all-consuming for the personnel involved, and management should prepare to put "all hands on deck" to ensure that the conversion is a success. Here are some general observations based on our experience with core conversions that we believe will be helpful to banks considering a conversion:

- **Start the process early.** Banks should start the process for pursuing a core conversion at least eighteen months before the expiration date of their existing TSP agreement, but ideally even earlier. In addition to staying ahead of your current agreement's termination notice deadline, this significant undertaking requires advance strategic planning, as well as reaction time for midstream project changes and obstacles.

- **Create a project management team.** A formal project management framework can impose order on an otherwise highly complicated process. The team can serve as a central point of contact, working across departments and with the TSP on scheduling for development, testing, and eventually going live on the conversion date.

- **Catalog the services a TSP is (or will be) performing.** Banks should poll employees and ask them how they use the existing TSP. For example, branch and customer service representatives may use CRM software, whereas other staff might have their own functionality needs for software that is "owned" by different areas.

  Banks should also review their existing TSP vendor file to identify the services an existing TSP is providing, as well as services you might be paying for and not using.

  This diligence is critical for the new TSP. Whether the goal is to change the bank's processes via conversion or to have the new TSP better deliver existing services, a bank needs to give the new TSP clear direction on the services it requires. There also will likely be changes to services that might necessitate compliance review.

- **Review the existing TSP agreement for legal pitfalls.** The existing TSP's master services agreement may include exclusivity or intellectual property provisions that hamper a bank's conversion-related activities. Violating the TSP's rights can result in liability for damages and premature termination of the existing TSP services. During the conversion process, a bank will still need its existing TSP to perform until the existing agreements expire. Moreover, banks need to understand contractual requirements for a deconversion, including fees and expenses.

- **Going live is not the end.** When the conversion date comes and goes, banks might be tempted to believe that the conversion is over. However, even best laid plans often yield unintended consequences. Ongoing monitoring of the bank's systems will help identify potential areas that were missed.

There can be strong business justifications for pursuing a core conversion. Such an undertaking, however, requires careful planning and teamwork to ensure that your bank realizes the full benefit of its decision to convert.

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