Ten questions bankers should ask before investing in new technology (August 18, 2009)

Be sure that new system gives you a competitive edge and not just expense

By Harold &Idquo; Bud" Boughton, Senior Banking Business Analyst, Technology Management Resources, Inc.

As tough as it is in banking today, almost every banker I talk to says they are considering making some sort of technology investment for their bank. This seems both reasonable and justifiable. After all, for years bankers have been told (usually by vendor organizations) that newer technology would give them a competitive edge in their marketplace. But, is that really true?

For example, let's look at core systems. How much better really is one core system than another? If it takes 8-10 months to implement a new core system and then another 6-12 months for your employees to get over the 'learning curve' of using the new system, how long will it take before you begin to see any real return on investment? Why have most bankers, who totally identify with risk management and ROI when it comes to credit, not applied specific, measureable, quantifiable objectives when it comes to evaluating new technology? Shouldn't a technology investment be viewed from a true ROI perspective? Isn't this what 'due diligence' is supposed to be all about?

We don't buy technology because it's cool; we buy it because it is supposed to deliver results and help us achieve certain performance objectives. If a technology-based solution cannot clearly and specifically show how it will have positive impact on such items as increased fee income, decreased expense, core deposit growth, improved efficiencies, or specific functionality that will result in measureable improvements in customer service and retention, then what good is it?

More than ever before, bankers need to make sure that they are investing in the right technologies for their bank, that is–technology that makes sense for the bank and delivers a predictable and definable ROI. Here are ten simple 'categories' of questions to give you a better idea whether or not the technology you are considering for your bank has a justifiable ROI:

- 1. Why, specifically, is your bank even looking at this new technology? Are you losing business because you don't have this product or service offering? Are customers (retail and/or commercial) asking for this service? If the answer to those two questions is "no," is there some other reasonable justification to make the investment?
- 2. Will this new technology help the bank increase income, decrease expenses, grow low-cost core deposits, improve efficiency, and/or enhance and solidify current customer relationships? If the technology you are considering does not provide one of these five benefits–end of discussion. You shouldn't even waste your time with it.
- 3. What is the cost of entry (total initial investment) for this new technology? Your bank is already going to have to pay a

http://www.ababj.com Powered by Joomla! Generated: 24 May, 2013, 11:19

special one-time FDIC assessment this year (due September 30th) which probably wasn't in the budget. Is this initial investment something your bank can handle at this time and if so, can you reasonably expect this technology to produce an acceptable return in the next 12 months?

- 4. How quickly can the new technology be implemented at the bank and how quickly will the bank start seeing a return on its investment? For example, some technology-based solutions can be implemented in as little as 30-60 days. Others (core systems, for example) may take months or up to a year. Also, how soon after the live conversion can you expect to see the associated benefits from the newly implemented technology?
- 5. What will be the impact of the new technology on personnel? Will there be increased workloads during the implementation? How will people be trained and what will that do to work and vacation schedules? What should you expect in terms of a learning curve for the people who will be using this technology?
- 6. What is the scalability of the technology being implemented? The ROI will definitely be impacted by the answer to this question. Will this technology solution scale in a cost-effective manner as your institution grows?
- 7. What is the total investment for the technology over the life of the contract? Can you calculate the actual measurable impact of this new technology in order to make a solid determination of the ROI over the contractual period associated with the technology you are acquiring?
- 8. What is the risk associated with the new technology being implemented? Not only financial risk, but compliance risk and risk to customers, employees, etc.
- 9. Does the technology and the vendor have a solid track record? Talk with references, visit references, do what you can to understand how the vendor supports its customers and ask for worst-case scenarios. You need to know who and what you will be dealing with. Yes, this can very much affect the ROI on a technology investment.
- 10. Maybe the most important question of all: do the benefits associated with this technology fall in line with the strategic business objectives for the bank? If not, why are you even considering the technology?

In the end, technology decisions for a banker are not technology decisions at all. They are strategic banking decisions. Technology must deliver real business value for the bank and do so in a timeframe that makes sense if it is going to be a sound investment for your bank and deliver a positive ROI.

About the author

Bud Boughton has spent the majority of his professional life marketing technology-based solutions to the financial services industry. He currently is a senior banking business analyst at Technology Management Resources, Inc., a 20-year-old company providing automated payments processing solutions (lockbox, NSF check representment, and

http://www.ababj.com Powered by Joomla! Generated: 24 May, 2013, 11:19

merchant remote deposit capture) to small and mid-size community banks. Boughton can be contacted at 317-885-9431 or by email at bboughton@TMRSolutions.com.

[This article was posted on August 18, 2009, on the website of ABA Banking Journal, www.ababj.com, and is copyright 2009 by the American Bankers Association.]

http://www.ababj.com Powered by Joomla! Generated: 24 May, 2013, 11:19