

IT Insight

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For many bank executives, Information Technology (IT) is one big blind spot. Most of them don't have a frame of reference because they have no formal training nor work experience in the area. Plus, more often than not, we find that they lack the tools and reporting that would help them gain an understanding of what is currently being done in IT, what the IT expenses are, and which requests for additional IT investments are truly justified. As a result, executives are constantly asking themselves questions they aren't prepared to answer:

- **Are my IT costs in line with industry standards?**
- **Are my IT costs appropriate given the technology and staffing required to support the bank's business strategy?**
- **Am I spending enough on IT to provide the appropriate level of service to internal and external bank customers?**
- **I am inundated with requests to spend more on IT, but how do I know what we really need and where should we focus?**

There are innovative ways to help executives better understand the bank's current IT environment and give them the processes, tools, and reporting that would enable them to actively participate in the management of IT from a business perspective.

One approach is to provide executives with a complete assessment of the current IT function and an assessment of the bank's IT governance program. Senior management would benefit most from this two-pronged, comprehensive approach, but some of them might find discrete components useful too.

Sheshunoff Consulting + Solutions developed a service, **IT Insight Service**, based on this approach. The IT Insight program is offered as a comprehensive program including all the components listed below. The program also is offered in selected parts.

Assessment of the Current IT Function

This assessment would include an analysis of the following:

- IT costs
- IT-related contracts
- An assessment of the efficiency and effectiveness of major IT processes

IT costs

■ Staffing

We utilize our proprietary IT Staffing Model, which incorporates proven benchmarks, that enables us to determine where you are over/under staffed in the following areas:

- IT Management
- Project Management
- Business Analysis
- Application Programming & Systems Analysis
- Systems Programming & Systems Administration
- Computer Operations & Production Control
- Help Desk
- Desktop Technical Support
- Network Administration & Support
- Database Administration
- QA/Testing
- IT Security
- Training & Documentation
- IT Process and Standards
- IT Finance, Procurement, and Contract/Vendor Management
- Webmaster, Web Design, and eCommerce
- Clerical

We take into consideration:

- The number of hours spent performing various IT activities by IT resources, not only for internal resources but also for external/contractor resources.
- The compensation paid to bank IT employees, and for external/contractor resources, we review their billings.
- The skills and experience of the Bank's IT management and staff personnel.
- IT workload volumes and whether staffing is appropriate, in terms of numbers and skills, to meet Service Level commitments and expectation of internal and external customers

IT-related Contracts

We review the IT-related contracts and associated invoices that are financially material, for example, we look at:

- Telecommunications
- Software Maintenance
- Hardware Maintenance
- Processing Fees

- External Contractors

We review the contract's terms and conditions along with any related addendums. We also review the pricing structure of the contracts and identify cost-reduction opportunities based on our extensive experience in assisting financial institution with IT procurements, including contract negotiations.

Contract terms

The Contract Terms review includes items such as:

- Review of critical terms and conditions;
- Review of inflation and other non-static clauses;
- Inclusion of Service Level Agreements where appropriate;
- Terms that ensure all ancillary system interface issues have been determined;
- Training schedules; and
- Any other contractual issues that may arise.

Financial Terms of Contract

The Financial Terms review includes items such as:

- Conversion fees (if applicable);
- Upfront licensing fees of software (if applicable);
- Upfront hardware fees (if applicable);
- Maintenance fees of hardware and software;
- Monthly per account and per user fees
- Monthly volume and activity usage unit fees
- Training fees;
- Monthly servicing fees;
- Interface costs; and
- Any other financial component that may be included in the contract.

An Assessment of the Efficiency and Effectiveness of Major IT processes

We include all the major IT processes in our assessment, for example:

- Project Management
- Business Analysis
- Application Programming & Systems Analysis
- Systems Programming & Systems Administration
- Computer Operations & Production Control
- Help Desk
- Desktop Technical Support
- Network Admin & Support

- Database Administration
- QA/Testing
- IT Security
- Training & Documentation
- IT Finance, Procurement, and Contract/Vendor Management
- Webmaster, Web Design, and eCommerce

For each of the aforementioned processes, we review the following in order to identify opportunities to improve process efficiency and/or effectiveness:

- Cross-functional process flow, at a high level
- Supporting technologies
- Service Level commitments and expectation of internal and external customers
- Staffing levels and costs (leveraging IT Staffing analyses described above)

Assessment of the Bank's IT Governance Program

The goal of assessing a bank's IT governance is to make recommendations and provide reports that enable the bank's IT Steering Committee members to actively participate in IT management, from a business perspective.

SCS would review the bank's IT Governance Program, and as appropriate, recommend processes, structures, tools, and reporting to the IT Steering Committee members.

We evaluate these elements of an IT Governance Program:

- Composition and structure of the IT Steering Committee
- Business case analysis method
- IT procurement process
- Status reporting for major IT initiatives
- IT strategic plan

Composition and Structure of the IT Steering Committee

We assist in making sure that the bank's business units are well represented on the IT Steering Committee. This enables the business units to (1) share in the ownership of technology and in the direction of IT, and (2) have more influence and control over getting their IT needs met. We also provide advice on how to structure the IT Steering Committee so that strategic and tactical matters are adequately addressed.

Business Case Analysis Method

We assist in developing a standard, formalized process for evaluating, justifying, and selecting significant IT investments, if such a process is not already in place. The process should facilitate the discussion and evaluation of significant IT investments (specifying dollar amount and type), and force the decision makers to be disciplined enough to perform the appropriate level of due diligence pertaining to costs, benefits, risks, and personnel resources. .

The process should include a format for describing qualitative, as well as quantitative, information. The process should also require a standardized, multi-year, financial analysis of the investment. This analysis would include the initial outlay and ongoing operating costs associated with the investment, compared to the investment's incremental benefits (e.g., avoided costs, any increases in revenue, etc.) to derive standard, financial-analytical measures about the investment, such as Internal Rate of Return (IRR), Net Present Value (NPV), and Payback Period.

IT Procurement Process

We assist in developing a standard, formalized process for procuring significant IT investments that the Bank considers business-justified, if such a process does not already exist. The process should include the following phases:

1. Define and Document Requirements – Functional and Technical
2. Develop and Issue RFP (or similar procurement document) – include requirements and base the RFP on the Bank's procurement policies and strategy for the specific procurement
3. Develop Vendor Evaluation Process (vendor demonstration scripts, evaluation criteria and scoring, etc.)
4. Evaluate and Select Vendor(s) – based on the vendors' responses to the RFP, including updated BCA results
5. Negotiate Contract(s)

Utilizing a formal process for acquiring IT asset and services will:

- Force the discipline to perform the appropriate level of due diligence in acquiring IT assets and services, which should lead the Bank to better decisions; Move the process along faster than applying a relatively unstructured approach; and
- Improve the Bank's decisions regarding investments in IT.

Status Reporting for Major IT Initiatives

We assist in developing a high-level reporting process for presenting the status of the portfolio of significant IT projects in a way that will enable the IT Steering Committee members to make decisions such as (1) modifying timelines (letting some projects slip so that others can be moved forward more quickly), (2) redistributing resources among the portfolio of projects, and (3) determining when to acquire and apply outside resources, if such a reporting process is not already in place.

IT Strategic Plan

We assist in developing or modifying the IT Strategic Plan so that it defines the technology direction for the Bank and contains specific technology projects and initiatives needed to support the bank's business strategy, as well as projects needed in order for the Bank to meet regulatory requirements, address technology-related risks, and evolve the technology infrastructure in keeping with the Bank's technology direction. We also assist in implementing a process for prioritizing initiatives taking into account cost, ROI, effort, risk, urgency, and importance to achieving corporate goals.

If you are interested in learning more about this service, call 800-477.1772.