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Needing information from your core banking system is like being adrift in an ocean and needing a drink of water.

Information is in overabundance, yet often you can die of thirst for it before you can locate it.

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Your bank's income from the products and services used by your customers are dependent upon your core system. It's where your product pricing is established and where your automatic calculations are performed. It triggers customers to be charged the associated product pricing. It reports your income and expenses. And, finally, you depend on it to track the bank's performance and to provide you with information to make daily management decisions.

So now ask yourself: **How thirsty am I?**

Each day most of what your core system does for your institution is what it should be doing and it performs these functions exceedingly well. However, what if something small *or large* was missed during a conversion or merger? What if one or two of your products were either set-up incorrectly or set-up in such a way that they are not performing as expected? A few more important questions are: Do you have the right core system for your bank type? What information should your tellers and branch managers have access to? What decisions should be automated? And how do you want this information recorded and reported?

It is not unusual for bankers to find that they are **adrift in an ocean** of information consequently finding a specific bit of information becomes a formidable challenge. A recent analysis of all Advanced Earnings Methodology (AEM℠) projects completed over the past 16 years has found that on average **51%** of missed income opportunities our clients have experienced are a result of the core banking system's *incorrect* or *unprofitable settings.* Also known as parameters or system specifications, these settings vary by system and govern all manner of how a bank processes function.

Example 1: A few years ago Lodestone found $1,450,000 in lost annual non-interest income that was hidden deep in our client's core banking system. This institution was looking for ways to increase its annual earnings and had utilized the consulting services of 15 other firms prior to retaining Lodestone and as you would expect, all the *"low hanging fruit"* had already been found. Lodestone had to go deep into their core system and discovered that an entire group of customers were NOT being assessed their ACH fee! This opportunity had been missed because on the surface everything looked to be accurately set up for this particular *profit-driver*. And this is why this *profit-driver* was missed; the bank had the fee properly disclosed, it was priced competitively and their General Ledger was set up to report the ACH income to the bank. However; Lodestone's heuristics pointed out that the GL income numbers were low for the bank's asset size, so we developed a query to analyze how the bank was processing all ACH transactions and discovered that an *entire universe of customers* were not included in the daily ACH fee capture. For this client it was as simple as changing the specific parameter settings on their core system for the *identified customers* and the next day the bank began collecting their missing $1,450,000. This is not an isolated situation! **Every AEM℠ discovers 15 to 25 income opportunities and as stated above approximately 51% of these are system related.**

Example 2: Errors that are made at the time of a merger are typically not questioned or revisited for many years. Following a merger, a client believed it was charging a $2.00 foreign ATM fee. The setting reflected this policy; however the fee amount field had been left blank. So even though the activity counters were being updated as intended, no fees were being assessed and this had gone undetected for over four (4) years.

System parameter income opportunities are not specific to one vendor; however there are certain aspects of each system that once understood makes finding lost income much quicker. Regardless of the type of core system you may have... Jack Henry, FIS, FISERV, MISER, HOGAN, UNISYS, BISYS, HFS, FSI… remember that there are always significant income improvement opportunities to be realized, which are hidden deep just waiting to be discovered.

So why do core systems often have unprofitable or incorrect settings?

A client made the observation *"We do not have the ability or time to perform a forensic analysis of our core system to find and correct less profitable or incorrect system settings."* Sometimes clients are just too busy or do not have the internal methodology & analytical skills required for this type of work.

But system conversions and mergers are the two primary reasons for lost income due to unprofitable or incorrect system settings. *For instance, one client that had used the same core system for over 20 years was unnerved to find out that system settings were not set as originally intended and the bank had lost income for all those years.*

Another reason is that system vendors naturally are more concerned about selling their system and achieving a punctual conversion than they are with their clients' ROA or ROE. This is not meant to speak poorly of system providers, only to emphasize the fact that they are not in the business of maximizing their clients' income potential.

Don't be fooled into purchasing more technology to get the job done. Unless you are a parent company that is comprised of multiple financial institutions and want to maximize profitability through better *bank-wide* controls, switching to a new core provider and/or purchasing ancillary systems to improve operations and enhance cross-selling opportunities may not significantly increase earnings. Lodestone recommends that before you invest more time and money on new systems that you first get what you have paid for from your current system, which has capabilities that *most likely* you are not taking full advantage of currently.

Conversion system errors occur because this is an extremely stressful time where the primary concern is to get the system operational. Consequently the objective is to have the new system match the old one, and the last thing on anyone's mind is whether the old one was set up with the most profitable settings to start with.

System providers need to appeal to a wide array of financial institutions. This requires them to offer "vanilla" system packages that have a tremendous amount of flexibility allowing them to customize the system to fit the precise needs of most banks; however with this flexibility comes risk. If all system settings are not completely understood and the right or more profitable settings are not chosen, considerably less profitable options can easily be installed. The fact is that these vanilla system packages offer many options within the system settings for each product, all of which are compliant with federal and state regulations. So, in most cases, it is not that your core banking system is set up wrong; it is just not set to the most profitable settings for your institution. Keep in mind regulators are quick to tell you that you are charging a fee incorrectly or that you should not be charging. However lost income opportunities are not a part of their process.

One of the most important questions you should ask is: **Are we using the right core system?** If you are considering changing your core system provider, which one would fit the needs of your bank best? Bankers either decide internally or look for a consulting firm to help them make this important strategic decision. If you are looking for consulting assistance, you should look beyond contract negotiations. **Think core system functionality & profitability!** What type of bank are you and what system works best for your type of bank? For example: If your bank is a strong commercial bank – then you should have a core system with robust commercial components supporting your need. There are significant differences between types of banks and there are significant differences in core systems. Understanding how you want your products and services to be handled on your core system and understanding what the different core system providers are offering will help you to make the right decision to meet the needs of your type of bank.

Four steps that you can use to improve your bank's core system profitability

Increase profitability by improving internal communication – Survey your users and determine the problems they are facing on a daily basis. Upward communication tends to be poor in most organizations and a mechanism needs to be put in place to communicate problems that end users are having. This will point out areas that need addressing either through clarification from the system provider, additional staff training, or customization.

Consider changing existing policies – Compare your system settings (or parameters) both at the global level and the account-type level to ensure the settings reflect your policies. At the same time, re-evaluate your policies to see if there is a more profitable option. Sometimes this will require a disclosure notification, so we recommend a full review be completed annually.

Always re-evaluate the need for customization – It is costly to customize your "vanilla" package. When a new version is released, system vendors charge an *additional fee* to convert to the new release. On an annual basis, you should review and confirm that the need for the customization still exists.

Ask Questions – Always ask yourself and your staff, "Is there a better, more profitable way?" And more importantly, "Is our system doing what we think it is?" Asking these two questions will definitely improve your bank's bottom line!

