



Taking the legacy system leap:

Why legacy system projects often fail to deliver

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It is a perplexing question: Banks and insurers appreciate the critical role of technology in their future success – and they have considerable internal and external resources at their disposal – but why do many legacy system renewal projects achieve mixed results or fail to get off the ground?

Although there is no single answer, clues may be found in the two solitudes that endure between business and information technology (IT) functions focus. At the

same time, Leadership's struggle to place priority focus on the long-term benefits of technology transformation, and simultaneously balance the contradictory combination of risk-averse corporate cultures and enthusiasm for large-scale/high risk initiatives.

Mixed results to a long-standing challenge

It's no mystery how the financial sector accumulated a massive inventory of business-critical legacy systems.

As early adopters of computer and data processing systems, banks and insurers embedded many 'leading edge' technologies into their core business functions over the past 50 years.

They continued to tack-on newer, inter-dependent systems as they grew, merged or expanded into other businesses and channels, as well as, ongoing addition of complex business rules. Even wholesale banks without retail bank mainframe

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dependencies have amassed decades-old capital markets systems that will soon demand attention.

There are countless case studies of financial institutions that have embarked on IT transformation projects, opting to 'rip and replace' old systems with complex ground-up new systems, either with the help of a blue-chip vendor or through a homegrown solution. Many of these projects, unfortunately, have produced lackluster results or failed outright.

There also remain a large number of financial institutions that have yet to decide how to confront their legacy system vulnerabilities, even though they have studied the issue since the year 2000. Typically these institutions have engineered around the edges of their legacy platforms, to provide customer-facing capabilities while retaining their core legacy systems using complex interfaces to keep the systems in sync. The result is a system that works but may ultimately be un-sustainable and does not easily embrace change and innovation.

Why the apparent failure to act?

Why have many highly-successful, respected institutions still not taken action? They may spin their wheels at the thought of making multi-year, multi-million dollar infrastructure investments that are unproven, will

provide no obvious, near-term ROI, or are overshadowed by higher-priority business imperatives or demands on capital.

Decision-making deadlock can also come from the wide array of choice in legacy system solutions, often advocated enthusiastically by technology firms who compete for senior leaders' attention. With complex choices, from costly core banking platform replacement and customized turn-key solutions, to smaller-scale application rationalization and portfolio optimization projects, it is understandable that senior management can be overwhelmed by the options presented. In many cases, interim, less-costly solutions to patch the problem or outsource legacy system maintenance have been the preferred route chosen.

It must be acknowledged that many financial institutions have in fact performed thoughtful, comprehensive analysis of the available options and determined that in the near to medium term, and in light of their risk appetite, deferring legacy system renewal is the best decision for their organization.

Portray the business benefits

The problem, in part, may relate to the age-old divide between business and IT groups, and technology leaders' often limited access to the leadership table. Similarly, technologists may not have clearly communicated the gravity of the legacy challenge, nor articulated alternatives or benefits from a business versus technology viewpoint.

For example, chief information officers (CIOs) may need to better present the business and customer capabilities that legacy system renewal will enable, rather than detailing the dry technical capabilities. With even the most conservative corporate boards and leadership teams now taking note of the impact of digital disruption and social, mobile, analytics and cloud (SMAC) issues – and the looming impact on

their institution's growth – this may be prime time to connect the dots between these much-discussed digital concepts and how legacy system renewal is an essential enabler to such plans.

Boards may warm-up to capital requests to create 'systems of engagement,' which can help them better understand and engage their customers, rather than proposals that emphasize essential but mundane 'systems of record.'

By making the relevant, accurate links between legacy systems and an organization's strategy to be more customer-centric, agile and flexible, CIOs may find greater appetite among boards and chief executive officers (CEOs) to invest their time and corporate resources. Boards may warm-up to capital requests to create systems of engagement, which can help them better understand and engage their customers, rather than proposals that emphasize essential but mundane systems of record.

Clearly express the risks of inaction

The perceived risks of legacy system replacement are frequently the prime culprit that stall or kill potential transformation projects. There are certainly considerable risks, particularly regarding migration of customer data or processes for banks or insurers, many of whom realize that they lack the skills, documentation or business rules knowledge to proceed with confidence.

Similarly, technologists may not have clearly communicated the gravity of the legacy challenge, nor articulated the alternatives or the benefits from a business versus technology viewpoint.

However, management must recognize – and technologists must communicate precisely – the potentially greater risk of inaction. These risks center on both business and technology considerations:

Business: There is a growing and constantly changing customer and business expectation for new and innovative products, services and information that must be offered faster and securely across more delivery channels than ever before. The need for agility and speed to market in this and the regulatory space, has never been more acute in the face of legacy applications which are difficult to maintain and slow and expensive to upgrade.

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Technology: Legacy systems are generally old and often use underlying technology that is facing industry obsolescence. This, combined with an aging workforce capable of supporting these technologies, and a scarcity of skills is driving up the risks and costs of maintenance and enhancement. Now, the software engineering at the 'legacy edges' used to trying to keep up with the capabilities of more modern systems acts like a dragging anchor when trying to innovate. This contrasts with the

Developing a sound strategy

While selling an IT transformation project definitely requires the technology community to better sell 'the sizzle on the steak,' it is also critical that the strategy delivers substance and garners senior support. Best practice strategies should incorporate the following considerations:

- **Build a richer business case:** First and foremost, build a better, fact-based business case. Not only must it be compelling, but it must be well-grounded in complete, deep analysis, both to provide leaders with confidence and to help set achievable targets and expectations. Strategists need to move beyond high-level analysis and source more reliable, in-depth data that confronts the unknowns head-on. This may require creativity, and drawing upon existing available internal data and intelligence, if research resources are scarce.
- **Big picture plan, but with manageable complexity:** While organizations are well-known for crafting 'too big to

fail' transformation projects, the surer path may be to build a broad umbrella plan that sets a clear vision, but with manageable components. This may include an over-arching enterprise-wide technology strategy that lays out the broad business and technology capabilities. Then, the program is broken down into well-aligned but separate projects to address individual requirements. Ensuring manageable complexity will enable the execution of smaller, phased projects that can be better planned, budgeted and monitored, yet with the flexibility to adapt to shifting priorities or emerging needs.

- **Board-driven for continuity:** In light of typical turnover in c-suite roles, a multi-year legacy system renewal project requires longer term continuity, support and oversight, ideally engrained at the board level. An engaged board, with a designated member or committee focused on achieving the IT vision, has a stronger chance of shepherding major technology projects to completion, and

emergence of ostensibly fit-for-purpose industry software solutions supported by large-scale service providers which offer not only core system replacement and functional agility, but also the opportunity to more readily outsource maintenance and development of these commoditized systems.

In fact, financial institutions, from retail and corporate banks to property and

casualty and life insurers, are now witnessing the considerable exposure, legal, regulatory and reputational risks that can arise from outdated legacy platforms. Evidence of this can be drawn from daily headlines that recount client lawsuits against broker/dealers for trading errors, massive fines imposed on global banks for regulatory missteps, and losses incurred by insurers for miscalculating policy exposure.

the ability to defend or balance the program against quarterly deliverables and competing enterprise priorities.

- **Appoint a guru:** In support of a board-mandated program, there can be great value in appointing a senior leader able to bridge the business and technology spheres to drive the strategy forward. While many companies have created Chief Strategy Officer or Chief Innovation Officer posts, these positions often lack reporting clarity, are not designed to be advisers to the board, or operate without the mandate to champion the long-term technology vision. This individual must be an ambassador for the vision and the resulting capabilities, be ready to mediate competing business and technology perspectives, and provide necessary oversight and scrutiny to keep transformation programs on track.
- **Ensure adequate resourcing:** Major technology programs often fail due to poorly estimated or overly

conservative resourcing plans. In turn, inadequate investment is made in formative program stages, including vital change management components to achieve top-down and bottom-up commitment, resolve stakeholder discomfort and manage the impacts. They often lack sufficient funds to build highly skilled, appropriately-staffed planning and execution teams.

- **Instill disciplined program governance:** Transformation programs require comprehensive governance models and structures to ensure clear ownership, oversight, adherence to program vision and targets, and risk mitigation. While organizations may lean on external partners and vendors to execute the program or specific projects, thorough executive governance and internal oversight are essential at each stage of the journey.

Ultimately, these recommendations require deep, meaningful organizational culture change. Success will depend on an organization's ability to adopt fresh approaches, embrace experimentation with a gestation period well beyond the next fiscal quarter, but carefully counterbalanced with their traditional strengths as disciplined risk managers, meticulous process owners and sound, principled fiduciaries.

Those organizations that face their legacy challenges in this spirit can reclaim control of the technology labyrinth and be well positioned for any threat or opportunity on the horizon. ■

MORE INFORMATION

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