

Technology Flops

Avoiding the Sting

How can you ensure that your credit union's implementation of technological advances results in a graceful swan dive as opposed to a painful belly flop? Take a clue from the past where former flops hold the keys to making that flawless 10.0 off the diving board. Industry experts critique the replay so your CU can perfect its technique.

By W.B. King

Albert Einstein said, "Not everything that can be counted counts, and not everything that counts can be counted." While this intuitive statement can be applied to many scenarios, it certainly rings true when approaching technology. For example, who recalls "counting" on Betamax to win the home video wars?

Throughout the years, particularly the last two decades, technological advancement has propelled the financial industry to new heights. This proverbial elevation has provided credit unions with the necessary tools and derived knowledge to enhance member experience.

In order to provide accelerated services, risks were, and continue to be, required. And when technology is mixed with risk, the outcome isn't always rosy. The four-letter word most feared by early adopters, therefore, is flop. And technological flops sting just as badly as smacking your belly from a high dive into a cool pool. The difference: It not only stings, but it's also expensive and can shake member confidence.

"The first incarnation of many banking technologies has been flops, including electronic banking, mobile banking and smart cards," says Kelly Trammell, managing director, Technology and IT Risk Management for the Austin, Texas-based

Sheshunoff Management Services. "In all three examples, the primary reason for the failure to take hold in the market was due to the fact [that] the excitement regarding the technology and what it could do ultimately swamped the need to design the solutions around what customers actually wanted and needed."

Flex or Flop?

Historically, credit unions, collectively speaking, are considered gun shy when adopting new technologies. Not unlike waiting for someone else to sample the first hot pepper from the jar to see just how hot, hot is, sometimes it's best to wait in the wings and not get burned. In certain cases, however, peer pressure supercedes conviction.



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“With Internet banking specifically, most institutions were caught up in an environment of fear and competitive pressure to simply get online first, regardless of the actual customer experience. The competition was from other banks but also from software companies as well like Microsoft and Intuit who saw the Internet as a way to make banks irrelevant,” says Trammell. “Most financial institutions reacted defensively and put up sites with limited functionality and confusing user interfaces just to stave off the competition from all fronts,” he continues. “It was not uncommon for institutions to spend several millions of dollars getting these sites online only to realize poor adoption rates and customer rejection.”



Sabeh F. Samaha, president and CEO of the Chino Hills, Calif.-based Samaha & Associates, Inc.

Technological platforms have numerous variables. What works for certain industries does not necessarily translate to others. In some cases, vendors have provided “new” technologies that were basically an amalgamation on different operating systems packaged as the next best thing.

“In the late 1990s, there was an ATM-processing system that was sold to a few credit unions. A quick look at [this particular] system showed that it emulated a mainframe from the mid 1970s,” explains Sabeh F. Samaha, president and CEO of the Chino Hills, Calif.-based Samaha & Associates, Inc. “This system required the credit unions to actually learn the job control language from a long dead system. The product was hard to learn, batch oriented and frequently failed,” he continues. “The credit unions that bought it almost immediately realized that it was a failure, but it took the average credit union almost a year to replace. The dollar loss was under \$100,000, but the lost member goodwill was worth much more.”

When asked what the inherent problem was regarding the aforementioned flop, Samaha was quick to point out that “the ATM system failed because it was very old technology.” He adds that “Technology ages about as well as mayonnaise at a hot summer picnic. There are few universal truths in the technology realm. This is one.”

Samaha, whose company provides consulting services in the technology and e-business environments for more than 50 credit unions, provided additional examples of flops from the past.

“One credit union tried to integrate a third-party consumer lending package with their core system. Their core vendor was not open to working with the third-party lending package. The credit union persisted but did not have the source code to the core system. They hired consultants and programmers to build interfaces. But without the assistance of the core vendor, the data transfer was never perfected,” he continues. “After a few months, it became obvious that staff was doing double entry on all consumer loans, once into the new system and once into the core. Because so much time and money had been spent on the new lending package, it was kept in service for four years then quietly killed when a new vice president of lending came in,” he adds. “About \$150,000 and four years of double entry were wasted.”

Having the ability to reverse course, assume losses and regroup before wasting additional time and money are characteristics too few credit unions possess. Those that do, industry experts say, have been once bitten and are thus twice shy. Still, other examples exist.

“An avant garde credit union decided to implement online document storage and viewing solutions for its members, and this was done before most other credit unions even had online banking,” recalls Samaha. “The goal was noble, but the vendor selected to write the solution came from the world of large government contracts. The project took two years and never even came close to coming online,” he says. “The low six-figure investment,” he adds “was a total loss.”

While multifaceted, interfacing programs are prone to mishaps and snafus; even “perceived” simpler technologies can cause significant and costly headaches. Samaha says that a

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large credit union client hired a highly recommended wiring contractor to extend its network to a newly opened third floor of its building. “The contractor,” he says “made no effort to understand the intricacies of the credit union’s systems. The result was that parts of the teller line would mysteriously stop working for up to half an hour at random. No printers worked at all in [the] accounting [department]. The call center kept getting terminal numbers that were normally assigned to another branch.” Samaha continues, “The money loss was relatively minor, but the staff wear and tear was substantial.”

Avoiding Future Flops

Determining what will be a winning solution need not be a gamble, however. Due diligence coupled with collective foresight will eliminate a host of potential problems, explains Blaine Pack, SVP and chief technology officer for the Capitola, Calif.-based Bay Federal Credit Union. “One of the biggest mistakes is to not match the technology to the rest of the business strategy. For example, when a very conservative, slow moving organization suddenly decides it wants to have cutting-edge technology, trouble will soon follow,” he says. “They will hire innovative, high-flying IT [Information Technology] management that will only get frustrated with [the] slow pace of the rest of the organization.

Another error is to underestimate the hidden costs of new technology, which can be a tremendous time and energy sink for your IT department. They have to handle issues such as backup, recovery and upgrades to the new technology. They have to make sure the new technology does not open any security holes,” Pack continues. “All of this has to happen before the new product/service goes online.”

At the end of the day, or quarter as it were, credit unions

want to enhance the collective bottom line. After all, members are counting on effective leadership. Despite best efforts, however, large issues can be overlooked. Experts advise double and triple checking technological oversight, which includes keeping a discerning eye on vendors.

“Credit unions, like other financial institutions, focus on getting the technology up and running quickly as the solution as opposed to focusing on solving the underlying issue or exploiting the opportunity that justified the purchasing of the technology in the first place,” says Trammell. “The key is to stay focused on the expected return on the investment to drive the implementation effort and not be distracted by ancillary features or functions that look cool but offer little real value. The temptation is to think that the mere installation of the new technology will solve the problem or issue, which is often what the technology vendors will want you to think,” he continues. “It is important to keep in mind that implementing new technology is a major change event that requires re-examining the people and processes that the technology will support in order to deliver full value.”

While achieving a platform that is free of hiccups is the goal, Samaha says selecting a vendor is as important as selecting a new platform. “Technology can fail because the wrong partner is chosen. Even if everything else is right, this can be a killer. Credit unions need to be sure that they understand the operating philosophy of any potential partner before diving into a major project,” he continues. “Vendors should be tested on smaller tasks first if possible.”

Arriving at all-important decisions such as “vendor testing” is usually a byproduct of knowledge-exchange initiatives among credit union IT professionals and key stakeholders. “Credit unions frequently get into trouble when they allow



their vendors to make all of their technology decisions for them,” says Pack. “The peer network is rich in credit union land. It can be especially useful in avoiding bad products.”

Where to Look and When to Act

With past flops identified, the question most credit unions have is: How do we avoid future flops? While there are no guarantees, experts stress equal parts investigation, research and oversight.

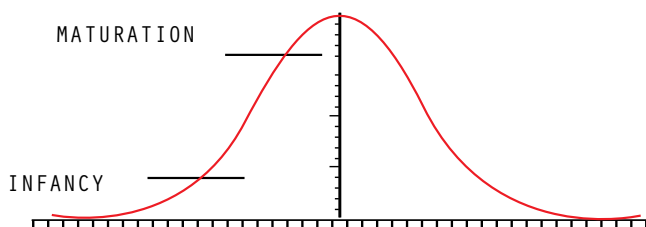
“It is important that credit unions keep abreast of the frequent, dynamic changes in the technology climate and be aware of how these changes could affect the institution either positively or negatively,” says Trammell. “How early or late a credit union adopts new technology is really all dependent on the implementation risk associated with the technology and the overall impact to the institution,” he continues. “In some cases, the early adopters get the lion’s share of the market op-

portunity, and it’s the latecomers who fight over the crumbs. My advice is to be flexible in your adoption timeframes and [to] carefully weigh the potential value against the risks and costs of early adoption. A rigid waiting period without regard to potential value could result in significant missed opportunities.”

When asked how often a credit union should evaluate its current technological platform, Samaha answered, “[A] credit union should maintain a three- to five-year revolving technology plan. This plan should be managed by a technology committee and should be updated annually. It should be a natural progression from the credit union’s strategic plan but should have its own crystal clear identity.”



The key to successful technological implementation is knowing when to strike, says Samaha. “Our position is that credit unions need to constantly and clearly identify and then adopt technologies that have evolved beyond their infancy and before they have reached a state of full maturation.”



Moving forward, Trammell says payment technologies are going to have a profound impact on not only credit unions but the entire financial services industry. “With the continued decline of checks and the emergence of non-bank players into the payments space, such as Paypal and even merchants with stored value cards, the payments arena will be a battleground for years to come, with consumers ultimately determining the winner,” he says. “Credit unions must stay informed in this area and look to adopt emerging payment technologies that can improve customer service and increase operational efficiency while, at the same time, offer the broadest appeal to their membership,” he continues. “This balancing act can only happen if the credit union is diligently monitoring the changes in the payment space.”

In the final analysis, Samaha says, “Most technology works. If a credit union has been burned in the past by poor technology decisions, the most likely cause can be found in the lack of realistic and factual analysis.” He continues, “Senior managers need to be sure their technology strategy matches that of the rest of the company. If a credit union’s strategy is to be in the safe middle on products, services and price, they should not suddenly decide to be heavy technology innovators. Likewise, if a credit union is extremely innovative in all other areas, it should be prepared to follow suit in IT.”

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