



# Best Practices: Core Transformation Case Study — Stanford Federal Credit Union Deploys Open Solutions' DNA to Be Real Time and Customer Centric

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IDC Financial Insights: Commercial Banking Strategies  
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BEST PRACTICES

#FIN238967

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## IDC FINANCIAL INSIGHTS OPINION

Core banking replacement and transformation have been hot topics of conversation in the United States, although very few United States-based institutions have begun the core transformation journey. Legacy core systems are expensive to maintain and create complexities in terms of integration and work-arounds to provide real-time and customer-centric information. Stanford Federal Credit Union (SFCU) is an example of an institution that has overhauled its core processing environment with its implementation of Open Solutions' DNA, following its strategy of moving away from in-house development toward more standard software. SFCU required a core that could provide the foundation to meet the needs of its highly educated and technology-savvy member base. Following are some of the findings from this case study:

- It is becoming more expensive and complicated for smaller institutions to maintain in-house solutions while managing an increasing regulatory burden, putting smaller institutions at a disadvantage compared with their larger competitors. Packaged solutions with customization features enable institutions to better focus on customer/member needs.
- The top keys to success in a large transformation project are meticulous project management and an abundance of communication.
- Workflows, processes, and people are just as important as the technology itself and must be evaluated in concert with core transformation to ensure the greatest benefit from the effort.

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## **IN THIS STUDY**

This IDC Financial Insights case study highlights the experiences of Stanford Federal Credit Union through its core replacement project deploying Open Solutions' DNA.

## **SITUATION OVERVIEW**

Stanford Federal Credit Union, established in 1959, has about 50,000 members and \$1.4 billion in assets at the time of this writing. With 130 employees, SFCU is a large credit union with a small staff — its four branches are far less important to members than its self-service channels. This is one of the reasons we chose to profile this institution's core replacement project and implementation of Open Solutions' DNA core platform and ancillary self-service channels. SFCU has a member base that is pushing technology adoption, making it a standard-bearer for the future of retail banking. SFCU is also an example of an institution that is moving away from in-house customization and development and instead shifting to more standard software. With this new approach, customization is carefully evaluated to make sure that it provides true differentiation without undue complexity.

SFCU is a full-service financial institution serving the Stanford community, including Stanford University, Stanford Hospital & Clinics, Lucile Packard Children's Hospital, and SLAC National Accelerator Laboratory. In addition to these university-related communities, SFCU's field of membership includes employees of companies in the Palo Alto Chamber of Commerce, such as Google, Genentech, Facebook, SAP, and VMware as well as several other Palo Alto-related organizations.

SFCU demonstrated its commitment to offering innovative technology to its members when it became the first financial institution to offer online banking in 1994. SFCU also provides personal and business banking and lending, investment, and insurance services.

SFCU describes itself as efficient, profitable, conservative, and well run, with a long history of innovation. A simple question posed by the then CEO of the credit union — "Why can't we deliver bank transactions over the Internet?" — resulted in SFCU launching the first online banking product. SFCU was also the first financial institution to use RSA multifactor authentication. This was an amazing accomplishment for a relatively small financial institution. However, a better understanding of SFCU shows it's really not that surprising considering its member base and embrace of cutting-edge technology.

Given that Stanford University is at the epicenter of the credit union's membership, the SFCU membership includes some of the smartest minds and most successful people on the planet. The SFCU demographic is highly educated, has good to excellent credit scores, is younger than average, and travels frequently, particularly internationally. SFCU has affluent members with significant deposits, meaning SFCU struggles more than others with the common credit union issue of increasing its loan portfolio and cross-selling results. This demanding member base requires innovation in solutions and delivery to match members' personal and business activities. SFCU members use self-service channels for 99% of transactions. In fact, most of the traffic SFCU sees in its four branches is nonmembers and members needing more consultative services. Therefore, a strategic goal for SFCU is to achieve channel equilibrium and capitalize on the data it has.

To achieve this goal, SFCU requires data and intelligence to better understand its members' activities and to proactively serve its members better without the members having to initiate the conversation. In the eyes of SFCU, it already has the necessary information to prequalify members for new products, so it would be a natural extension to push out prequalified offers with fulfillment that is aligned with member delivery channel preferences. SFCU does indeed have low fraud incidence rates with its member base, which is quite conducive to this approach. However, SFCU's legacy environment was not readily able to handle this strategy.

SFCU has historically had a do-it-yourself (DIY) culture. In the past, it was easier for smaller institutions to keep their technology up to speed with the largest financial institutions. However, more recently, it has become more expensive and complicated to maintain in-house solutions while managing an increasing regulatory burden. It is therefore becoming more difficult for SFCU to keep pace with the big banks, so it is focusing more on purchasing software rather than building it in-house. Prior to its core system replacement, SFCU was using Canadian-based Fincentric's Wealthview Banking (Fincentric had been acquired by Open Solutions). SFCU reports that Wealthview was able to meet its immediate needs; however, the non-United States-oriented Wealthview only had one other core customer in the United States. SFCU lacked peer interaction as well as new feature development from the provider.

Wealthview is an extreme example of what institutions can expect if they choose to remain on software solutions that are no longer generating new license sales. Vendors must put resources where they have the most potential for new sales. They will rarely sunset out-of-date solutions, but new enhancements will typically be limited to compliance issues and customer-funded enhancements.

SFCU decided it needed to redefine its DIY approach. It did not want to be in the business of software development but rather wanted to be innovative with the solutions it procured. And, perhaps even more importantly, SFCU wanted to be strategic partners with its critical solution providers. For SFCU, it was also essential that its vision aligned with the vendor's and that it would continue to have influence over the vendor's road map, including potential custom development with vendor maintenance if the need arises. Therefore, SFCU sought a core platform where it could leverage a substantial peer base and investment in innovation, security, and compliance. SFCU also has a talented technology team and wanted to give this team an environment where they could continue to write code, but with very clear guidelines to ensure that their output will add value and differentiation for the long term.

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### **Business Needs**

SFCU hired Joan Opp, a CPA and former auditor, as its new president and CEO in 2010. One of Opp's first declarations was that she wanted to update SFCU's systems and bring on a CIO. In the credit union's history, it had never had a professional CIO, and Opp saw that renewing the institution's approach to technology was an important foundation for the future of the institution. The primary challenges with its legacy systems were twofold. First, customer onboarding was difficult and was inconsistent with the member preference for self-service and automation. Second, financial reporting was complicated and slow. Disparate systems had inconsistent information, which had to be reconciled for financial and regulatory reporting. SFCU brought in Jim Phillips as SVP/CIO Technology to focus on building a new technology infrastructure to serve its tech-savvy member base. Phillips' first order was a core conversion that would give the credit union a modern platform that could meet most of its needs but also allow the institution to introduce differentiation as appropriate.

Turning first to core replacement, SFCU evaluated several leading United States–based core applications, ultimately narrowing the list to Fiserv's Acumen, Jack Henry Symitar, and Open Solutions' DNA. To further the evaluation with an extensive RFP, SFCU engaged consulting partner Next Step. SFCU had specific requirements to position itself for the future, which included a nonproprietary database, a proven solution in the U.S. credit union market, and a fast implementation schedule. SFCU also placed calls to references and peer institutions and conducted onsite visits with local credit unions to review their technology implementations and operations.

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### **The Selection**

The SFCU evaluation team ultimately, and unanimously, decided on Open Solutions' DNA.

The key reasons for this selection according to SFCU included:

- DNA supports customization without impacting maintenance and upgrades.
- The DNAappstore approach offers a more open method of procuring enhancements and modules that also provides an outlet for SFCU's developers.
- Open Solutions has a large portfolio of credit union products, including self-service channels, vital to SFCU's business model.
- DNA is proven in the U.S. credit union marketplace, and SFCU would not need to be a pioneer.
- Open Solutions has strength in innovation and release quality.

SFCU recognized that there would be some functional gaps, yet it did not want to build in too many must-haves that could jeopardize the implementation date. At this institution, the board was very involved in assessing the project as it progressed and approached it expecting deadlines to be met. To meet the aggressive 12-month implementation time frame, the technology and business teams worked closely together. SFCU identified the gaps and prioritized them for implementation. The CIO was diligent in ensuring that customization requests were minimized and that each change request was truly necessary. To keep to the time frame, they did go live with some gaps and addressed those gaps with internal and, when needed, external communication. Indeed, SFCU currently has development efforts underway five months after going live on DNA to address the remaining gaps using Open Solutions' DNAcreator development toolkit.

DNAcreator leverages industry-standard tools and services to enable Open Solutions' developers, clients, and partners and independent third-party developers to build custom core extensions called DNAapps that add functionality to DNA without jeopardizing the core system layer.

With DNAcreator, SFCU can add new functionality to DNA that extends beyond new screens and workflows and does so independent of Open Solutions' release schedule. SFCU expects that DNAcreator will enable it to dramatically improve its ability to respond to market demands, solve specific challenges on its own schedule, and differentiate itself from competitors.

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## **Management Challenges**

A primary concern for SFCU was that it did not want to lose the ability to do its own customizations, particularly given its history as a

technologically progressive DIY institution with a staff of very talented developers. SFCU has approached customization requests in two ways.

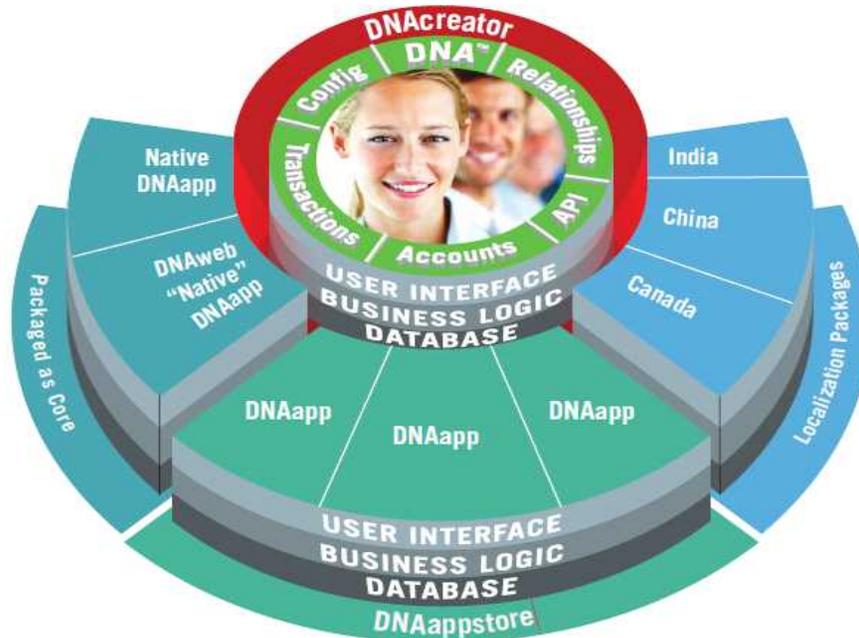
The first is quite traditional in that SFCU simply went back to Open Solutions to map the credit union's gaps and desired enhancements to the DNA road map. SFCU and Open Solutions have had, for example, multiple discussions on the collective vision for mobile, and SFCU, as a user of Open Solutions' mobile banking solution — DNAmobile — is getting more involved in these discussions. When appropriate, other Open Solutions clients are brought into the discussion to enhance collaboration. SFCU appreciates that Open Solutions is serious about involving and listening to its institution clients.

SFCU's second approach to customization and increased innovation is DNAcreator and DNAappstore. DNAcreator is a tool institutions can use to develop customized extensions to the DNA platform. This has provided the credit union's development team with the ability to use their talents to create unique enhancements. With the DNAappstore, SFCU can make its DNAapps available to the community of DNA users. With revenue sharing, SFCU can also benefit financially if it develops DNAapps that are purchased by other institutions. In those cases where another institution or Open Solutions or its partners have already developed a DNAapp and added it to the DNAappstore, SFCU has the option of purchasing from the store rather than investing its own resources to build out the same capability.

As an example of development work the institution is pursuing with DNAcreator, the team is writing bidirectional interfaces to the Open Solutions database. This allows back-end integration to other systems without custom development from the vendor or a systems interaction provider. Figure 1 provides a visual of the DNA solution.

**FIGURE 1**

Open Solutions' DNA



Source: Open Solutions, 2013

## **THE BEST PRACTICES**

### **Implementation**

SFCU signed with Open Solutions in June 2011, with the stipulation that the conversion needed to be completed within 12 months — a very aggressive timeline, especially seeing that the conversion included a move to DNAweb, DNAmobile, and DNAvoice (Open Solutions' integrated online, mobile, and telephone banking solutions, respectively). SFCU engaged technology consulting firm Samaha Associates for the implementation. SFCU needed a hands-on firm to augment its small yet swift and efficient staff to keep the project moving on schedule. Samaha's primary responsibility was to catalog and prioritize the 127 core interfaces and own that part of the conversion. Samaha also moved anything ahead on the schedule that it could to stay within the 12-month implementation timeline. For example, the IVR was moved up on the schedule when the general ledger application build was finished early. SFCU also brought in a few of its own temporary resources to assist with the conversion, including a retired employee who ran the test lab.

SFCU, Open Solutions, and Samaha planned to have the conversion steps completed early to allow a quiet period prior to the go live for training, additional testing, and fine tuning as needed. They did a mock conversion over a weekend with success. They did four complete data cuts from SFCU's legacy system. They also used test automation software that helped the team shorten cycle times. SFCU started working with Open Solutions in February 2012, four months before go live, to run both existing and new processes to test and validate that everything was working as expected.

The project steering committee met weekly, ensuring adherence to the strict project plan and timeline. The focus of these meetings was to review weekly deliverables, update timelines, identify issues, address gaps, and minimize member impact. As with any significant technology project, there were issues that arose along the course of the project. Any significant issues were immediately escalated and resolved, and therefore, SFCU reports no significant issues or concerns with the conversion. As part of the conversion, SFCU also moved its datacenter to Sacramento, California; upgraded servers and fiber; deployed new routers and switches; implemented new firewalls; moved to multiprotocol label switching; and upgraded its telecom to voice over IP (VoIP). SFCU knew it was important to have the right infrastructure in place to get the most out of their core investment. Also, the VoIP interface runs through core, allowing better interactions when talking to members. This new platform supports double SFCU's current size and is ready for future innovations such as video chat and integrated messaging.

SFCU worked hard to ensure it prepared for member impacts and acted accordingly throughout the project. SFCU enacted communications to alert its members to upcoming events and any impact they would see. Communications included customer blogs with timelines, links to informational videos, and details on differences and improvements they could expect post conversion. SFCU was also methodical with internal communication to prepare staff. SFCU claims success for these efforts with no surprises. At go live, CEO Opp was provided with a dashboard reporting system to monitor real-time metrics for call center and Internet questions. SFCU added additional call center resources for the week following conversion, which turned out to be unnecessary as the slight increase in volume was completely manageable. As a proof point for the success of the data conversion, SFCU balanced its books perfectly from day one following conversion.

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## **Business Processes**

A very necessary but challenging component of the project was business process changes. These changes were tough for the staff and quite difficult at first, but ultimately everyone was engaged and willing

to review their current processes. The key according to SFCU is to not think about how it is done today but rather discuss if it can be improved by doing it differently. SFCU hired Raddon Financial Group, a research and consulting division of Open Solutions, to assist with this process, specifically to evaluate existing processes, transaction times, and staffing. For example, account opening had ballooned to many processes with little quality control. The workflow within DNA will allow SFCU to improve quality and compliance in the account opening process with a simple wizard workflow. Raddon returned to SFCU at the end of 2012 to begin measuring improvements.

## **FUTURE OUTLOOK**

Four months post conversion, SFCU is continuing to look at workflows and business processes. As virtually all institutions know, staff always find work-arounds within established processes, so SFCU is bringing its staff together to determine best practices. Overall transaction times have improved in some, but not all, processes. The staff still need to get more proficient on new core and related systems, and with time, the expectation is that processes will be more efficient across the board. Although process improvement is not the sole reason for changing its core platform, it is important for SFCU to evaluate where it is seeing benefits.

More important than process improvement is having a platform in place to serve member needs better. SFCU has initiatives in place to expand the services members use, especially lending. Similar efforts in the past had not been successful because pricing was a challenge. With DNA's relationship pricing module, automating pricing will be a key component. Additionally, SFCU has a new wealth management group that has been very successful to date, and with the inclusion of relationship pricing, this group should become even more successful.

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## **Learnings**

Jim Phillips, SFCU CIO, states that the key to a successful conversion is knowing what works best for your institution and having the right resources in place. In addition:

- Understand that one size does not fit all. It is critical to know the culture and goals of your organization.
- Do not underestimate competency training for staff. Training should be structured, comprehensive, continuous, and practiced.
- Document how every process works.

- Have the right people in place and hire outside competency, if lacking in-house.
- Complete tasks early whenever possible.
- Consider incentive programs for key contributors to incent and recognize achievement.
- Test everything! For example, ensure fee schedules carry over correctly as there are typically multiple nuances within the calculation logic.

With a new infrastructure and core system in place, SFCU will now focus on more creative ideas to serve its member base. SFCU is encouraging its members to become more involved in the direction of its credit union and is currently putting together a cross-section of its members to determine future product and service needs.

## **ESSENTIAL GUIDANCE**

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### **Actions to Consider**

A core system replacement is likely the most expensive, challenging, and risky IT initiative an institution can undertake. The rewards, however, can be tremendous in terms of cost savings, efficiency, and the ability to offer improved and timely products and services to customers/members. The SFCU case study demonstrates that a successful, comprehensive, and rapid core banking transformation is possible and can position an institution to quickly capitalize on strategic initiatives.

The keys to SFCU's success include:

- Clear understanding of SFCU's culture and strategic vision, and the appropriate analysis to choose the solution that best fits the needs of the organization
- Meticulous project management to ensure timelines and milestones were met or exceeded, including adequate time for testing
- Abundant training for customer-facing resources
- Including staff and members in decision making and brainstorming where appropriate to ensure both internal and external requirements are met

## LEARN MORE

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### Related Research

- *Results from IDC's 2012 Vertical IT and Communications Survey: How Do You Stack Up Against Your Bank Peers?* (IDC Financial Insights #FIN237991, November 2012)
  - *Best Practices: Cloud Vendors and Banking — Making Contracts Work* (IDC Financial Insights #FIN237441, October 2012)
  - *Business Strategy: Managing the IT Relationship Between Banks and Vendors — Tough Love* (IDC Financial Insights #FIN236550, August 2012)
  - *Vendor Assessment: Core Banking in North America — 2011 Deals* (IDC Financial Insights #FIN235725, July 2012)
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### Synopsis

This IDC Financial Insights report examines Stanford Federal Credit Union's core banking transformation deploying Open Solutions' DNA. The SFCU story is remarkable given the scope of the project and the very aggressive timeline of just 12 months with minimal customer and employee impact.

"This SFCU case study provides valuable insight into a successful core banking transformation," states Karen Massey, senior analyst, Consumer Banking, IDC Financial Insights. "SFCU achieved its goals of moving away from in-house development and customization while meeting the sophisticated expectations of its highly educated and tech-savvy member base."

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