



Five Key Steps for Selecting a New Financial Institution System

Choosing a new system for your financial institution is one of the most significant decisions your management team will make. Avoid making a quick decision based upon internal struggles or vendor pressure. After all, your selection can directly affect your institution's ability to meet strategic initiatives. Through a carefully planned and diligently followed process, you can secure favorable contract terms, reduce costs, and set performance expectations.

Before doing anything, make sure you review your current contract and understand your contractual commitments, terms and conditions, and cost structures. If you are looking to replace a current system, plan to begin the selection process at least 12 to 18 months prior to contract termination of your current system.

Once you have decided to select a new system, follow these five key steps to make sure your selection will be the right fit for your institution.

1. Perform a needs assessment

A needs assessment provides a deep analysis of the present and future viability of your current system. The insights gained through an assessment will help identify system weaknesses or potential threats that are critical to maintaining a competitive position and financial stability. A systematic approach can then be developed, aimed at continual improvement and system utilization, and in alignment with your business goals and objectives. An assessment should include the following:

- ☐ **Create a selection committee**
Form a committee that provides representation from all areas of your institution. These individuals will help establish a clear and consistent understanding of the objectives you will focus on when selecting a new system. Ensure all committee members have the knowledge, skills, and time available to carry out the selection tasks.
- ☐ **Hold a kickoff meeting**
Conduct a project kickoff meeting to provide an overview of the selection approach, including strategy and anticipated timelines. Timelines should allow selection tasks to be completed without being too short and rushed, or too long and confusing.
- ☐ **Gather your data**
Review your current contracts and supporting documents, including invoices and related information such as monthly transaction reports. Track your key business initiatives and critical success factors.

- ☐ **Analyze strategic drivers**
Perform a strengths, weaknesses, opportunities, and threats (SWOT) analysis of your current system. Afterwards, consider how a system change will allow your institution to address system weaknesses or potential threats. Set the stage for future actions and form the foundation for selecting the right system and implementing and achieving your desired strategic initiatives.
- ☐ **Identify key objectives**
Assess the data gathered. Then hold team conference calls to define the ideals of a new system and the key objectives to be achieved through the selection process, and identify the products to be included in the review. Include an evaluation of integration/interface needs or opportunities in existence, concerns and limitations with your current vendor, and additional opportunities.
- ☐ **Define functional requirements**
Identify the functional requirements your institution needs in a system, such as simplified reporting, real-time processing, seamless integration, or single sign-on access. Your requirements should be defined through a process that identifies the business functions and applications that support strategic initiatives such as improving operational efficiency, reducing technology costs, and streamlining workflows.
- ☐ **Conduct a cost-benefit analysis**
Assess the benefits and drawbacks of an in-house versus an outsourced system by developing a systematic cost-benefit analysis to assure decisions are based on a clear-cut picture of all options, costs, and benefits.
- ☐ **Set expectations**
Pinpoint your most critical issues and areas for improvement. Take into account how a system change could affect other strategic initiatives, such as large technology projects, organizational changes, mergers and acquisitions, or divestitures. Ensure expectations are clear and concise and that everyone remains focused on the defined functional requirements.
- ☐ **Contact your current vendor**
Issue a letter of non-renewal to your current vendor for the system you are looking to replace, and request a quote for deconversion costs and early termination fees, if applicable. Review data storage on your current system, determine whether any can be purged based upon your data retention policy, and request a quote for conversion of the data to a new system.

2. Complete a system analysis

After an assessment has been completed, the system analysis can begin. Data gathered during the assessment can be used in the analysis to determine the best system — both functionally and financially — for the future. A thorough analysis also aligns the vendor relationship with your business strategy. An analysis should include the following:

- ☐ **Conduct vendor pre-selection**
Initiate contact with vendors that best fit with your defined requirements and expectations to gather preliminary information, such as timeline and conversion dates. Following your conversations, identify the systems that most closely align with your requirements and finalize the vendor participant list.
- ☐ **Develop a Request for Proposal**
Issue a Request for Proposal (RFP) to the selected vendors. An RFP is a critical communication tool that outlines the requirements and expectations identified in the assessment phase. Unless there have been significant issues with an existing vendor, you will want to give them the opportunity to submit a proposal. The best proposals will be received when your RFP clearly defines your selection criteria and expectations.
- ☐ **Establish vendor requirements**
Determine specific criteria to discuss with participating vendors and host conference calls with them to go over requirements and expectations. Gather any follow-up questions from participating vendors and provide any requested background materials. Then send a follow-up document to each participating vendor containing responses to all of the questions you received.

☐ **Evaluate proposals**

Analyze responses to your RFP carefully to determine whether they meet your business objectives, pricing expectations, and functional requirements. Assess the viability and stated functionality, determine system flexibility, evaluate operational performance, and review program management. Then, as a committee, come to an agreement on vendor finalists.

☐ **Conduct on-site presentations**

Hold vendor presentations on site and evaluate demonstrated functionality. Complete an evaluation of each vendor's demonstrated system and prepare a list of follow-up questions, items for further discussion, and additional demonstrations to review. Provide the list of requests to the respective vendors and resolve all inquiries.

3. Perform due diligence

Once the analysis has been completed, vendor due diligence should be performed. Due diligence serves as a verification and analysis tool, providing assurance that the selected vendor finalists meet the needs of your institution and that you understand any risks posed by the relationship. Due diligence should include the following:

☐ **Conduct reference calls**

Complete reference checks with external organizations and agencies and conduct calls with clients of the vendor to evaluate the vendor's depth of resources and previous experience. Use your findings to assess the vendor's reputation, including history of client complaints or litigation, and to learn the experiences of clients who are utilizing the same system.

☐ **Perform site visits**

Conduct client site visits and data center visits, if applicable. Review the vendor's website and other marketing materials to ensure that statements align with your expectations and do not overstate or misrepresent activities and capabilities. Perform other research that verifies the quality of service, response time, financial information, and history of the vendor.

4. Select a system

After vendor due diligence has been completed, selection of the system can be finalized. A thorough selection gives you the opportunity to invest in and/or improve the critical issues identified during your assessment. This helps you avoid any negative impact or adverse conditions that would hinder achieving your strategic initiatives. System selection should include the following:

☐ **Select vendor finalist**

Review the results of your vendor due diligence and determine your preferred system. Keep in mind that you want to position your institution to be able to reach an agreement that best meets your requirements and provides a solid foundation for a long-lasting relationship.

☐ **Finalize any questions**

Discuss any questions, concerns, and required changes with the current vendor proposal and request an updated proposal. Then develop a list of key points for negotiation.

5. Negotiate

Negotiation can begin after the system has been selected and an updated vendor proposal has been provided. A well-negotiated vendor contract is an important tool for ensuring a long-lasting relationship with a vendor. With the aid of market data, your technology advisor, and legal counsel, you can position your institution to obtain a comprehensive package, with acceptable contract terms and conditions, at a fair price for the short and long term. Negotiations should include the following:

☐ **Review package and price**

Evaluate the vendor's proposal and appraise the price as it relates to market value, growth, strategy, and potential future expenses. Based upon your evaluation, prepare a price request list. Review questions and expectations, and hold a meeting with the vendor to review your pricing requests. Afterwards, assess the updated proposal and finalize pricing.

- ☐ **Appraise terms and conditions**
Review the contract language carefully. Pay attention to security and risk management issues and make sure you understand service level agreements. Also consider backup and recovery services and technical support. Once you have prepared a contract request list, set up a meeting with the vendor to discuss. Work with your trusted technology advisor and legal counsel to discuss contract language considerations related to required services, strategic considerations, performance and functionality, and overall relationship expectations.
- ☐ **Address training and implementation**
Confirm you have a clear understanding of training and implementation requirements for resources, timing, and expectations before finalizing the contract. Developing a communications plan can help set your institution up for a successful implementation. Review personnel and technology requirements and request a training and implementation plan from the vendor.
- ☐ **Finalize the agreement**
Continue to meet until an agreement is reached between your institution and the vendor on price, contract terms, and service levels. Developing a contract that clearly defines expectations and responsibilities of the vendor helps ensure the contract's enforceability, limit your institution's liability, and mitigate performance disputes.
- ☐ **Manage the contract**
Begin implementation of the new system upon completion and signing of final contracts. Allow six to nine months from start to finish for the implementation process. After the implementation process is complete, conduct periodic performance reviews and service level agreement tracking to determine whether the existing contract is meeting your needs and should be renewed. If not, you may need to begin the process again to select a different system.

How we can help

CliftonLarsonAllen's (CLA) Technology Advisory and Strategy (TAS) team has developed a system selection and contract advisory methodology for financial institutions that challenges them to think holistically, set clear expectations, and evaluate price. Whether your institution is considering a new system, looking to renew a critical contract, or considering a merger or acquisition opportunity, our advisors can help you secure a contract that fits into your budget, meets your service level expectations, and aligns with your critical business objectives.

Our tailored approach, along with our team's extensive knowledge, adds recognizable value to each engagement. Our clients benefit from our hands-on experience, knowledge, and insight obtained working in financial institutions and within the industry nationwide. TAS's industry professionals analyze vendor solutions to assist you in making informed decisions that align with your strategic initiatives to enhance performance while managing your cost investment.



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