CREDIT QUALITY BULLETIN

Out With the Old, In With the New

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Implementing Automation Software Calls for a New Mindset

It's a brand new year. After much due diligence last fiscal year, your bank has made the decision to finally move away from its tedious, manual processes (translation: spreadsheets) to an automated credit risk management solution.

Your credit risk officer is breathing a sign of relief, knowing that automation will help ease the growing pressures from regulators. Your loan review officer is very pleased, knowing that efficiency levels will significantly improve. And those staff members responsible for generating board reports and responding to other ad hoc management requests are thrilled, knowing that these tasks will now take hours instead of days.

As anticipation builds and your bank prepares to implement the new system, one of the things we have seen far too often is the tendency for some banks to want to retrofit the new software to conform to their existing processes.

There are a number of reasons why banks may initially head down this path. It may seem quite logical to take the manual processes that have been embedded in an institution for months or even years—processes that almost seem second nature—and make the software automate them. The institution believes their current processes are solid, no sense in changing them. While this mindset may be based on a strong confidence level in current processes, more often than not it's really driven by the aversion to change. Some banks hold on to their current policies and procedures to avoid having to move out of their comfort zone.

We have also seen banks that are extremely anxious to begin automating everything as quickly aspossible, so much so that they believe porting over their old workflow structures will shortcut the implementation process and get things up and running more quickly. They usually explain that they will update their policies and procedures once they are working with the system. Unfortunately, months go by, other priorities take precedence, and revising those long embedded processes is never readdressed.

A Fresh Way of Thinking

Going from manual processes to an automated system requires a new mindset. In our experience, the banks that have maximized their return on their software investment, that are the most effective at managing risk and maintaining credit quality, who continue to show the most dramatic improvements across a wide range of metrics, are those institutions that looked at the acquisition of new software as the impetus to take a fresh look at everything from workflow to the roles of the credit risk staff.

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In their view, the advent of their system was the ideal time to reevaluate many aspects of their department's operations. They used this time to carefully and thoughtfully draw up a detailed blueprint for the ideal functional environment, and then went about putting the software to work to automate their vision.

Get Tough

In order to determine what to change, you obviously need to identify what you are currently doing for every policy, procedure and process. While tedious, that's not the hard part. Your current processes should be documented in detail. The bigger challenge is answering these tough questions for every function:

- Why are we doing this?
- Do we need it/does it make sense?
- How can we make it better?

One of our clients literally put their entire credit risk department in a self-imposed lock down for a few days to force themselves to answer these questions. Armed with donuts and bagels, the staff bravely ended up tossing quite a few policies and procedures because they simply found themselves coming up with no reason to keep them other than "because we've always done it that way." For this progressive bank, that just wasn't going to cut it.

Once your organization knows the value and importance of a particular procedure or policy, it's much simpler to identify ways to improve it. For example, if your bank has traditionally reviewed its loan portfolio solely by geography and/or branch as a matter of practice, you may decide that to further reduce risk, you want to look at your portfolio in a few other ways. You decide that "making it better" means being able to see different risk pools other than by geography or branch. Once you know how you want to enhance the process, you can then adapt the software to meet your needs.

Another aspect that your organization should rethink is how it intends to maximize the roles of your staff, as this is intrinsically intertwined with improving your workflow. For example, when the system replaces manual processes, the time it takes to scope a review, generate board reports or track down information is going to be reduced dramatically.

Therefore, the roles of the staff members who normally perform such tasks can potentially be shifted toward more analysis-type functions, special projects, etc. You need to apply the same questions when reviewing staff roles as you do when reviewing current workflow—why are we doing this, does it make sense and how can it be made better.

Worth the Effort

It is important to resist the temptation to speed through the implementation of your new credit risk management system. Time spent reviewing, revitalizing and yes, even tossing some of your superfluous processes, as well as taking time to understand the impact on staff roles prior to implementation, will streamline your entire credit risk management operations.

The intention of automation is to leverage it to affect positive changes for your organization. Yes, this requires work by your bank at the front end, but if you are willing to dedicate time to this, you will reap the long term benefits—reduced risk, improved efficiency and the strongest return on your technology investment.

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