Why banks still need to move full speed ahead on IBOR transitions
There’s no slowing down the banking industry’s mandated transition to Interbank Offered Rate (IBOR) replacements. Despite the many difficulties posed by ongoing public health and economic concerns, many banks still expect to complete their IBOR replacement projects by the deadline of year-end 2021. Their progress would be fine — if that were the only deadline.

Unfortunately, banks face not just one IBOR deadline, but many. Some of these deadlines will arrive quite soon. In fact, banks will need to start supporting new products as early as this year, 2020. At a minimum, by the fourth quarter of this year, new contracts still issued with reference to an IBOR must include fallback language to a new risk-free rate. Banking regulators want banks to demonstrate that they’re moving at an acceptable pace as they switch from IBOR to either the United Kingdom’s Sterling Overnight Index Average rate (SONIA) or international equivalents.

Similar milestones have been put in place for euros and U.S. dollars, and banks will need to change their discounting assumptions to match the clearer. For these and other related transitions, banks will be expected to prove their readiness well before year-end 2021. Some market watchers even expect to see a pre-cessation trigger for IBOR by as early as December 2020.

Banks may encounter other triggers, too. These could include customer demands for new non-IBOR products to be offered sooner rather than later. Regulators could exert pressure as well, especially if they determine that banks have failed to meet intermediate milestones.

Compounding the issue are a large number of factors that, for now at least, are impossible to predict. For example, how will banks handle nonperforming loans? This issue, which some expect to come to a head late this year, could add complexity at the same time that banks are working on their IBOR transitions, placing yet another constraint on bank resources.
The stakes are high. Any bank that fails to support new, non-IBOR products before year-end 2021 will likely suffer a competitive disadvantage, falling behind others that can support these products. In fact, this is already happening with floating-rate loan transactions.

Too many laggards

As urgent as the IBOR-related deadlines are, some banks are lagging. For example, most banks have now adjusted to having staff work remotely, but some took more time to adjust than others.

Consider a poll conducted during a recent webinar by Grant Thornton, a DXC Technology consortium partner, on “LIBOR [London IBOR] transition in the time of COVID-19,” which included a DXC expert on the panel. Only about one in four (23%) attendees said their transition program was either on schedule or operationally ready. Well over half (60%) said their progress is ongoing but has a significant way to go. And nearly one in five (17%) admitted they had not really started. We assume this last group is waiting for more clarity related to the transition.

IBOR replacement programs require substantial amounts of time, staffing and technology and can be costly. Yet, currently, many banks are looking to cut or at least control their costs. As part of these cost-cutting measures, some banks have instituted layoffs. However, once the economy recovers, these banks may find it difficult to hire skilled and knowledgeable workers, especially at the right price. And with so many people now working from home, getting new employees up to speed may also be slow, given that few banks have onboarding processes adapted to remote workers.

Even some of the best-positioned banks have been waylaid by the pandemic. Prior to March of this year, although legal contract remediation and customer outreach in general had fallen behind, many banking IBOR replacement projects were still on track. But that changed with the lockdown. Banks needed an additional 3 to 6 weeks, on average, to provide the equipment and connectivity needed by their newly distributed and remote workers.

The road ahead

So what should banks do now? Think ahead. Start planning now for a business recovery. IBOR is not going away, and the deadline most likely will not be extended.

• **Reallocate resources.** If necessary, banks should reallocate resources from paused programs to speed up their IBOR replacement programs. Later, if other projects get back up to speed, resources can be redistributed. These reallocations will need to be done in a targeted fashion, ideally following robust project management principles.
• **Engage with partners.** Now is also the time to engage with experienced services and technology partners. They can take responsibility for delivering end-to-end results and lower costs. In this way, banks can leverage global delivery while leaving the hiring and training — both time-consuming and costly — to others.

• **Assess readiness of applications vendor.** Because many current applications won’t work in a post-IBOR environment, it’s important that you talk to your software vendors and assess their readiness. Some vendors are much more prepared than others. Are they offering upgrades or replacements? If so, are they mandatory? And how much will they cost? Are your systems in-house, and if so, will they require customized development changes?

• **Adopt/expand agile practices.** Banks should use the IBOR replacement process as an opportunity to adopt and expand agile practices. Agile development allows banks to deal with the dynamic aspects of projects like IBOR, giving them the responsiveness needed to deal with ambiguity and unpredictable changes. It also helps by engaging cross-functional teams that include business owners, turning what were previously IT projects into projects for the business.

• **Consider digital modernization — your application strategy.** This time also presents banks with an opportunity for digital modernization. Is it time to review and reconsider your application strategy? For example, does your bank have the right applications? Can you move some — or even all — to the cloud? And could you consolidate multiple instances of applications? Will the applications accommodate the new, complex algorithms?

  Take, for example, one bank’s IBOR transition program that DXC is supporting: During the process, the bank upgraded an older version of a key application to the vendor’s latest version. The bank made this upgrade to not only comply with the mandated transition, but also to ensure that its core technology would be in the best possible position to adapt to future market changes. Another DXC customer is consolidating three instances of an application into just one and enjoying the commensurate cost savings.

• **Consider digital modernization — cloud and SaaS.** Another powerful way to modernize is with the cloud and software as a service (SaaS). Cloud delivers both flexibility and a long-term solution based on a more modern approach. For example, one of our customers operates a loan-application system that is simply too old to handle the new compounding rates. To upgrade, the bank is moving to a cloud-based system and providing workarounds to serve customers during the transition.

• **Inform customers of transition’s impact.** It is important to remember the impact on your customers: Treating customers fairly during the IBOR transition falls under the heading of conduct risk. How well are you informing customers about the changes to adjustment spreads and other related items? Have you implemented a program to train your relationship managers and customer-facing sales teams on the impacts of IBOR transition so they can educate their end customers?
Banks need to plan for an uncertain future. This means no slowing down of the IBOR transition, no time off, along with the possibility that remote working will remain the norm for months, maybe even years. Start planning now for these new scenarios.

How to counter resistance

Banks delivering their IBOR transition programs are likely to encounter resistance from managers in two main areas. The first of these is a concern over scarce resources — both budgetary and staffing. The worry is that as some intermediate deadlines get shifted, this will create additional complexity or a bottleneck at the same time that resources become especially scarce.

How do you overcome resistance to advancing the program when so many questions are still unanswered? By reminding managers that despite so much economic uncertainty, the main IBOR replacement deadline remains unchanged. Regulators expect banks to stay on track. What’s more, delivery is critical to the business. Banks that fail to meet the deadlines could suffer serious repercussions to their bottom line.

A second area of possible resistance concerns adopting agile development practices. While the advantages of agile are well known, some banks have found its adoption difficult. Among the barriers have been banks’ longstanding governance, risk-management and control practices.

To move past this, remind managers that just as the pandemic has required banks to accelerate adoption of remote working and collaboration technology, so will it require banks to accelerate adoption of agile approaches. These will permit a more iterative approach to implementing technology and business changes as industry agreement evolves and things become clearer.

Yet another way to overcome objections is to ensure that the testing strategy for your IBOR transition and readiness is fully understood from all angles. Different testing methods will be required for different deliverables. For example, fallback transition testing will differ from new-product testing.

Get help from an expert

For many banks, the transition from IBOR will be complicated and difficult. Fortunately, you can get help from a trusted partner such as DXC.

DXC possesses resources that your bank may lack. After all, DXC has been serving banking and capital markets customers for nearly half a century. Today, DXC serves customers with banking solutions, technology services, regulatory consulting and project delivery.

What’s more, DXC serves banks in more than 70 countries around the world. That gives DXC a perspective as global as your own.
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