

P E R S P E C T I V E

Products and Services Innovation-led
Approach to Transformation



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Surviving the Financial Crisis

It's rough sailing for financial service providers in the wake of the enormous global turmoil. Hallowed institutions crumbled in a matter of days, and those that are still standing are scrambling to survive. In an environment of extreme uncertainty, banks are doing all they can to maintain their edge over competition – rationalizing costs, downsizing, innovating and importantly, managing risk. More than ever before, they are seeking newer, more efficient ways to service their customers better.

To last out this period of pain and emerge stronger in a happier future, banks will need to be resilient enough to withstand the disruption that will arise broken only by shorter periods of stability. They need to be adaptive enough to deal with shifting business paradigms and agile enough to meet the demands of their customers within shrinking time frames. And that calls for transformation. The writing on the wall is clear – to win during adversity or 'in the turns', banks must either shape up or ship out.

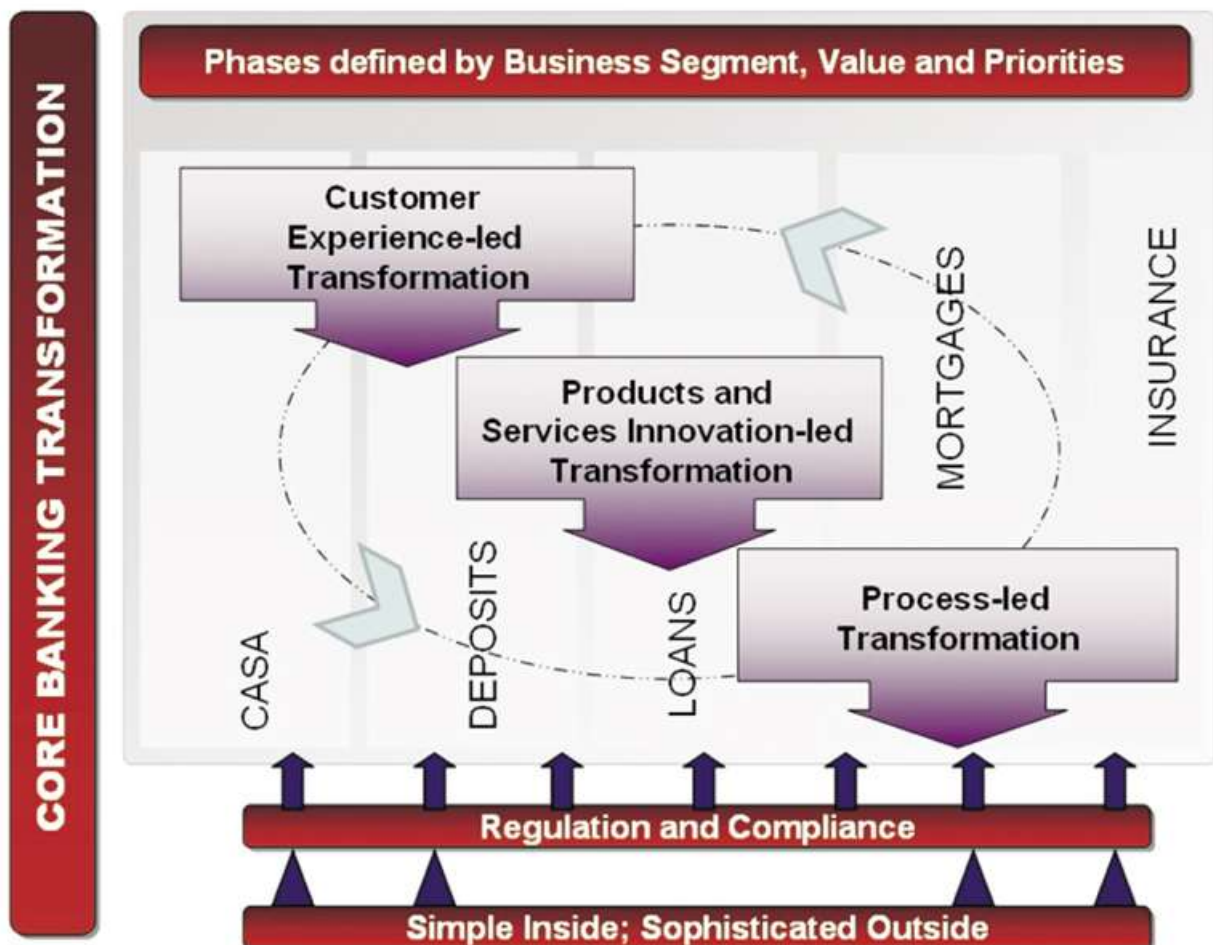
Transformation: It's Inevitable

As banks seek ways to satisfy customers more completely, faster and at lower costs, they must re-examine, re-align and re-invent their products, processes and even philosophies. The legacy systems, which are at the heart of many banks, leave the organization ill-equipped to cope with this new mandate.

While most banks recognize the imperatives for transformation, not all of them pursue this agenda with equal enthusiasm. Traditional approaches to core banking transformation, either with a 'Big Bang' that encompasses the entire institution, or through a more cautious 'Phased Rollout', bring with them their share of implementation risks. Not wanting to risk business continuity, banks sometimes prefer to defer, delay or deny the inevitable.

Risk-managed Transformation

There's a new dawn in banking transformation, heralded by the 'Risk-Managed' approach.



By definition, this approach attempts to mitigate risk, first, by not only ensuring regulatory compliance at every stage but also facilitating compliance with regulations of the future. Second, it provides decision makers and managers holistic risk cognizance by integrating all the risks the bank faces across product and service lines, channels and functions.

The appeal of this concept lies in the fact that it can be totally aligned with the bank's larger objectives, and consequently driven from any of the following perspectives:

Customer Experience

Risk-managed banking transformation approached from the customer experience perspective seeks to change the bank's world-view of its customers. By consolidating the enormous amount of information regarding customers that it secures during its interaction with them, the bank is empowered with a 360-degree view of its clientele. This can be leveraged to redefine customer strategies seeking to enhance customer experience.

Processes

Transformation led by a process-centric approach, works towards streamlining banking processes across the institution, such that it results in higher employee productivity and enhanced customer satisfaction.

Products and Services Innovation

Risk-managed transformation can also be approached from the products and services perspective, which is the focus of this paper. Historically, banks take about 12 to 18 months to incubate and launch a new product. In the present scenario, they simply do not have the luxury of that amount of time. Thanks to information explosion,

customers are aware of the choice of products available to them from different banks – if their needs are not responded to quickly, they can quickly shift allegiance.

It is, therefore, abundantly clear that banking transformation must enable the conceptualisation, development and quick rollout of products and services, at low cost and optimum risk. It must also provide the flexibility to customize products according to the needs of specific segments.

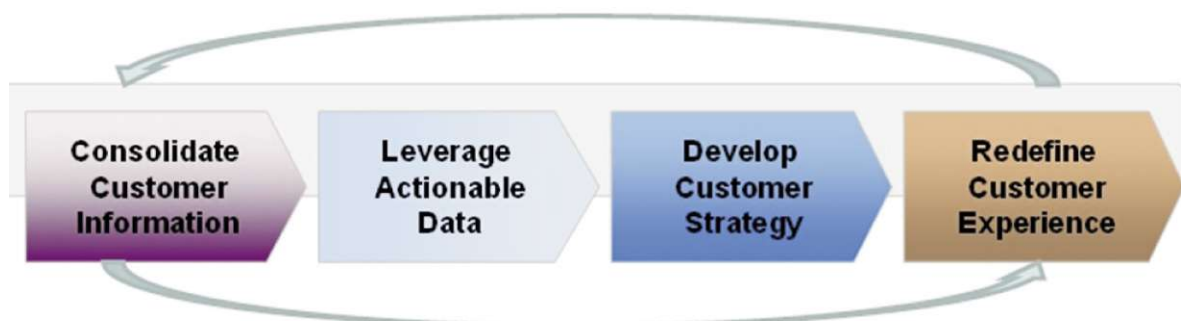
Products and Services Innovation-led Transformation

The basic premise of risk-managed transformation is that the bank approaches this journey from a holistic perspective, taking into account stakeholder requirements, the bank's vision, mission, competition and resources. It entails a re-alignment of its entities and departments, products and services, and staff and management, while ensuring they work coherently and seamlessly.

Before addressing the task of offerings innovation, a bank must standardize its products and services in accordance with this realigned strategy. This consolidation across the enterprise, promotes competitiveness and efficiency, better equipping the bank to satisfy customers and cross-sell products.

This standardization must be driven by an objective analysis of the offering's performance track record, its potential for growth and the bank's own core competence and strength areas.

When thus addressed the products and services-led approach to transformation delivers on the following agenda:



Offering Design:

Every bank needs to have a suite of products and services, targeted at different segments or geographies. That said, the offerings menu must be of a size and diversity that can be managed within the bank's infrastructure and resources. Transformation that enables the design of a product as a sum of its components reconciles these two important objectives and provides the bank the flexibility to customise its offerings easily. This allows the bank to serve a vast set of differentiated customer needs by making minor changes in product features.

The availability of banking 24x7 is now the expected norm rather than the exception – a customer who would have his passbook updated at a branch during working hours now prefers to download his account statement during the weekend. Hence, transformation must enable the uninterrupted availability of offerings across multiple channels to suit individual banking needs.

The current turmoil has underscored the need for banks to understand and manage their risk exposure with even greater diligence than before. While designing a product, a bank needs to factor in the risk posed to potential customers. Increasingly, regulatory commissions are reiterating that banks must conduct thorough risk assessment prior to selling financial products and also map the risk profile of the product with the risk appetite of the customer prior to doing so.

Appropriate communication to customers is a vital part of the offering design process. Having re-designed or launched a new basket of products, the bank must ensure that the right message is carried through to its clientele. While emphasising the benefits of the offering, the bank must reassure its customers with regard to the safety and security of the same. Therefore, communication must aim to not only generate interest but also inspire confidence in the target segment. Similarly, providing customers with insights into products that help them make the right decision is another confidence building measure.

And most importantly, the offering is not completely designed unless it is compliant with all the relevant regulations in the country where it is launched.

Products and services-led transformation must therefore be approached bearing in mind not only existing regulations, but also those anticipated in the foreseeable future.

Offering Development:

Not all customers are the same, and neither are their financial needs. Thus, a bank must look to further develop its products and services to best serve these differentiated requirements.

Custom bundling products for different segments is one way of doing this. It is a fact that it is easier to sell more products to an existing customer than go about acquiring a new one. Banks must identify their most valuable customers and continuously innovate to deepen their ties with them. Recognising a customer for the relationship that he or she brings to the bank, by preferential pricing or other rewards must be considered. Whichever route the bank may choose for developing the offering, it must not lose sight of its goals of ensuring value for the customer and viability for itself.

Offering Delivery:

A product or service is only as good as its delivery. Customers expect a consistent level in service delivery, across all the channels they use. While transforming offering delivery, a bank must be able to specify delivery parameters for different segments, and go on to meet those at all times.

In addition, transformation must strengthen the bank's endeavour to continuously innovate and provide value added services to its customers. Be it advisory services to High Net-worth clients, or a simple alert when a transaction is executed, the solution must be able to maximise value for the customer at every level. If the bank is to achieve delivery excellence, its employees and partners must be enabled with adequate and timely information to fulfil their respective roles in the process. A knowledge repository that can be leveraged to provide a dashboard with customer information can help bank staff engage with him or her proactively. Likewise, the availability of pre-packaged documentation support designed to help address customer queries, can go far in supporting the bank's objective of providing best of breed service.

The utility of toolkits, such as those described, is not restricted to employees alone. Participants in the supply chain, for example, vendors of credit cards or cheque books, also play a vital role in service delivery. Empowering partners with information that facilitates their interaction with the bank is one more step towards ensuring timely, consistent and uninterrupted flow of offerings to customers.

Offering Distribution:

Finally, transformation must leverage all available channels appropriately, to widen product and service distribution. The bank's distribution strategy must seek to optimise various channels available to it – for example, it may need to promote structured products to High Net-worth Individuals through personalised selling, but could make a simple deposit product available through Net Banking. It is essential that the transformation journey supports these objectives.

Transformation of products and services distribution that seeks empowerment of the partner ecosystem as well as customers will go that much further in enhancing customer experience. For example, a bank that relies heavily on agents must ensure their network has access to timely information on prospects. Likewise, the advent of self-service channels has created a new breed of informed and confident customers whose service experience does not need to be micro-managed by the bank at every stage.

Against this backdrop, a bank must plan to implement the transformation of its products and services innovation in accordance with its business priorities, value and segments.

This prioritization is essentially at the heart of risk-mitigated transformation.

Implementing Transformation

For it to be successful, products and services innovation-led transformation must follow the 'risk-managed' roadmap, beginning from the conceptualisation phase.

Banks must prioritize the offerings space earmarked for innovation, addressing the task from a

risk-managed perspective. Banks would do well to analyze data and past records to arrive at the least risk-prone offerings to be part of the transformation agenda first. While all products and services, from the infrastructure perspective, may benefit from the revamp, they cannot all be addressed at one go. Hence, key stakeholders including product managers, line of business owners, and customer representatives, must pool in their advisory input to define and finalize the list of product and services for prioritised migration.

For example, the bank can begin the innovation journey from products like the savings and current account, and on gaining confidence and momentum seek to address the deposits portfolio and its associated payments. Further on, simple loans, mortgages and other products can be considered. Another attending caution to be exercised is to ensure that the transformation causes minimal disruption of service to customers, in the event that customers of the bank are identified as significantly impacted stakeholders. This can be ensured by adequately strengthening infrastructure like the call-center and front line resources that directly impact service experience. Hence, preparedness from the training, education and documentation perspective is of paramount importance.

The transformation process itself must have the following attributes:

- Remain simple on the inside, yet wear a sophisticated veneer. The communication surrounding transformation must clearly convey depth of value and reflect this sophistication
- A strong interfacing and integrating framework must serve to hold the components (both new and old product infrastructure) together until a stage is achieved wherein the products and services innovation led-transformation is sufficiently matured. This simple yet robust integrating framework will serve to avoid point-to-point integration and duplication of interfaces and investments
- Not only transform offerings such that they comply with existing regulations, but it must take into active consideration the need to comply with the anticipated regulatory framework of the future. Instilling adequate checkpoints and milestones

at various stages of transaction therefore becomes crucial

- The risk-managed approach to transformation mandates that the design-develop-deliver-distribute cycle is strengthened by lessons learnt, over the transformation lifecycle and benefited from best practices derived. Hence each stage is augmented by learning input from the preceding stage and the entire cycle is iterative to facilitate maximum risk-mitigation and opportunity maximization
- Provide the bank with an integrated risk perspective, not just limited to the operational risk it faces. The bank must gain insight into its customers' perception of risk while effectively dealing with them. This insight must be analysed and managed proactively, so as to safeguard the bank's position and reputation
- The choice of implementation partner is critical to the success of the outcome of the transformation initiative. Before deciding to ally with any particular partner, the bank must carefully examine their credentials and prior track record. Banking transformation, which takes months of effort and large financial resources to put in place, must stay relevant for several years going forward, for it to yield a payback to the bank. Hence, it is vital the bank zeroes in on a partner with an integrated and long-term view

Banks with a large global presence must verify that the chosen partner has the capability to implement across a multi-geography, multi-currency and multi-cultural landscape

Once the choice is made, the bank must adopt current best transformation practices. The solution will deliver as per expectation only if it is backed by:

- Careful scheduling of phases as per pre-defined goals and priorities
- Adequate support in terms of plans, resources and knowledge-ware to manage the imminent change

- Proactive communication through the length and breadth of the organisation, which will help reassure stakeholders and secure their buy-in

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