

PERSPECTIVE

Process-led Approach to Transformation



As banks strive to satisfy customers and stave off competitors in these unsettled times, those with legacy systems and processes may be faced with the inevitability of undertaking the transformation journey. One of the biggest deterrents to this pursuit is banks' perception of risk associated with such deep-rooted change. However, by taking a risk-managed approach to transformation, in consultation with the right partner, banks can mitigate their risk exposure at every step, and progress towards a successful outcome.

A bank's risk-managed transformation initiative could be driven by any or all of the following objectives:

- Customer experience enhancement
- Products and services innovation
- Process improvement

Whereas the decision of which one to address first is influenced by the bank's business priorities and risk appetite, the availability of adequate and relevant infrastructure is an additional pre-requisite for taking the process-led approach. That being said, it is clear that none of these approaches work in isolation; the three aspects inextricably go hand-in-hand. Any improvement in customer experience has to be brought about by innovative products or services, which can be delivered on a sustained basis only when the supporting processes work to plan. Hence, a bank must ensure that its processes are completely aligned with its customer experience or products and services-led transformation strategy.

Cornerstones: Productivity, Efficiency, Uniformity, Continuity

Before a bank embarks upon its journey of process transformation, it must recognise that its final destination is greater productivity and higher efficiency. For process transformation to be deemed successful, it must create a salutary impact on the bottom-line of the bank. Studies on Return on Investment (ROI) on Business Process Management (BPM) show that most companies see a return of 10 to 25% on their first BPM project. It is seen that ROI improves significantly as more and more processes are automated.

Interestingly, the projects that deliver the highest or fastest ROI are those involving customer-facing processes, back-office process optimization or partnership communications.

While seeking to make processes more efficient, transformation must ensure that the revised processes yield a unified experience across channels and locations for key stakeholders - namely the bank's customers and internal users. Therefore, in addition to transforming the internal processes of the bank, similar attention must be paid to customer-facing processes undertaken by members of the bank's partner eco-system. This is to ensure that a customer dealing with a third party distributor of the bank is delivered the same value and service as one walking into any of its branches.

Likewise, the internal users of the bank, who will deliver the transformed processes, must also be exposed to a broadly uniform experience across functions or locations, subject to local requirements. For example, a loan officer in the Paris branch must not be confronted with vastly differing procedures when she is transferred to the London office.

But above all, is the realisation that process-led transformation is not a one-time quick-fix, to be patched on and forgotten about. It is a continuing journey for the bank, which must be able to transform every time external circumstances or internal compulsions deem it necessary.

Thus, the ideal process-led transformation model is one that enables the bank to **envision, plan, execute and sustain** its revised processes on a continuous basis.

System and Process Considerations

From a transformation perspective, banks can be classified depending on whether they have:

- Legacy Systems and Legacy Processes
- Legacy Systems and New Processes

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Banks with legacy systems and processes are, without doubt, prime candidates for core banking replacement as well as a larger transformation exercise. Without that, not only will the bank's business be under pressure, in time, its very existence will come under threat.

Banks with transformed or new processes, run on legacy systems are also vulnerable. Weighed down by the baggage of mismatched configuration, irrelevance or technical obsolescence, the legacy systems are unable to support the new processes. At this stage, an overhaul of the system to match the new processes will require significant investment in terms of finance, effort and time and therefore, may not pass the acid test of a cost-benefit analysis.

Banks that have invested in new systems, but retained age-old processes, are a case of wasted opportunity. Their legacy processes might have been set up in an environment vastly different to that prevalent today. Needless to say, those processes would have been designed to satisfy the needs of a less demanding customer, deliver products and services through fewer channels and meet the requirements of a simpler regulatory regime. By holding on to these processes, the bank is simply not maximising value from the new system.

Banks that look to have new systems as well as transformed processes in place are generally headed in the right direction. It is believed that process transformation is most effective when embarked upon in tandem with legacy system replacement.

Iteration of Design, Simplification, Rationalisation and Standardisation

The process-led transformation framework is built around the achievement of the following goals:

- Process Efficiency
- Process Rationalisation
- Process Orchestration

Any change in each of these impacts two groups, namely, the owners and the stakeholders. Generally, the owners are those belonging to functional groups within the bank whereas the stakeholders are a broader set, and could include the bank's customers.

Here, it may be in order to note that the onus of process-led transformation should ideally be vested with a single group, which can lead the exercise from an integrated bank-wide perspective. In the opinion of experts, this is a crucial factor in transformation success.

➤ **Process Efficiency**

Processes are what make banks tick; therefore, it is critical that they are done right. Legacy processes make powerful shackles, severely cramping the bank's ability to adapt to changing environments. The bank must begin its quest for higher process efficiency by taking a fresh look at process design and go on to find ways to simplify existing processes as far as possible.

To illustrate, process design and simplification must address goals such as minimisation of clicks or reduction of manual intervention in business operations, greater convenience for front-line operators and enhanced employee productivity.

At the same time, processes cannot be viewed in isolation, disparate from the products and services they are designed to support. The "more efficient" processes must be able to map periodic innovation in the bank's offerings, whether related to pricing, segmentation, product bundling and so on. On the flip side, this could be the reason why process design is usually driven by different products groups, not necessarily to the bank's maximum advantage, as each of them would approach it from their own limited perspective.

Caveat: Prior to implementing a new process design, the bank must plot a what-if scenario, to forecast the outcome of the proposed changes. This could well be an

iterative exercise, finally resulting in an optimised process design.

That being said, a new process design is not an end in itself. Meticulously designed processes have failed to deliver results on account of their complexity of use. When banks fail to take a process-centric approach, especially at the time of acquiring new customers, they risk annoying and even losing them.

Process simplification looks at process design from the viewpoint of its key stakeholder, the bank's customer. Will the new design sustain across channels? Will it make transacting easier for the customer? A design that does not provide answers in the affirmative to such questions is not worth much in practical terms.

➤ **Process Rationalisation**

Since process rationalisation is all about doing the right things, it concerns the bank's staff the most. In a bank that is structured along lines of business, processes may operate in vertical silos, leading to unnecessary duplication. But cutting across lines of business, process rationalisation seeks to create end-to-end processes that span not only the banking organisation but also its partner eco-system.

Rationalisation must encompass the processes concerning a wide cross-section of the bank's human resources, including front, middle and back-office workers, external partners and even other group companies. Since a customer interacts with the bank in a multiplicity of ways, unless the processes at each of the contact points are rationalised, the customer will not enjoy a unified banking experience free of procedural duplication.

In practice, process rationalisation employs tactics such as the sharing and re-using of templates, streamlining of processes for management of centralized knowledge resources and the outsourcing of certain business processes, if required.

➤ **Process Orchestration**

In line with the larger objective of ensuring unification of processes, process orchestration seeks to standardise them across various lines of business, channels and geographies. Thus, the entire banking organisation, spanning all the regions it operates in, becomes the stakeholder. The goal of process standardisation is to ensure that customers and internal users alike, are not confronted with a vastly different experience on account of differing processes, when they shift channels or countries.

Constant review and feedback from customers, partners and users must be integral to the process improvement measure. Constant review of bottlenecks, process redundancies, training needs, educational measures and performance measurement must be incorporated.

It is obvious that the above framework must operate in a loop in order to sustain continuous transformation. Process design, simplification, rationalisation and standardisation must work iteratively to deliver processes that are robust and time-tested, capable of meeting the bank's expectations of productivity and efficiency.

Readiness for Transformation

The decision to transform processes is one of very high involvement as it results in wide reaching, often irreversible changes. Therefore, prior to taking the plunge, the organisation must introspect awhile to reassure that it is capable of managing the impending change.

The following check-points can indicate the bank's readiness for transformation and also raise red flags regarding corrections required in strategy prior to implementation:

- **Compelling Business Need:** The end goal of any transformation is a better bottom-line. Therefore, the bank must be clear at the outset about the deliverables expected from process transformation. Should it result in a lowered cost-income ratio, an improved net interest margin or higher market share? Will

it satisfy consumers better and raise employee morale and productivity? The determination of specific goals, to satisfy the banks' compelling business needs lays the foundation for eventual success.

- **Vision:** Any transformation that is not aligned with the bank's larger vision is a potential source of misdirection and conflict, and runs a high risk of failure. If the vision is to attain a position of leadership, the organisation's processes must be robust enough to support aggressive growth. On the other hand, if the bank is aiming to be perceived as the safest for its customers and is pursuing a path of risk minimisation, the supporting processes must be built on a solid foundation of checks and compliance.
- **Strategy:** For the realisation of any goal, a sound strategy resonating the bank's vision must be implemented. For example, a bank with a vision to become the largest player in consumer banking will pursue a strategy of product innovation and channel diversification. The processes to support this strategy will vary markedly from the case of another institution that has development finance as its *raison d'être*.

Organisational Support: Process transformation is pervasive and far-reaching; therefore, the organisation must be ready for it. The importance of adequate infrastructure in terms of human resources, technology and expertise cannot be overstated. A chink in any of these would mean that when the time comes to run the revised processes, the people or their hardware systems will not be able to hold their end up.

- **Motivated Talent:** The bank must invest energies to ensure that people absorb change quickly and adapt faster. The key to this is to keep the workforce motivated and better adapted to deal with change. They have to, in every sense, be geared with the learning and emotional readiness to know how the change will affect them, and what they can do to prepare themselves for a transformed tomorrow.

- **Communication:** In order to have any chance of success, large scale change must be supported by the right communication through its life cycle. Only then will the organisation orient itself in unison towards the larger vision, which is after all, what the transformation is all about.

That being said, not all things are to be said to all people – the flow of information has to be directed based on factors such as seniority, role and criticality to transformation success. Those at the operational end of things must be oriented towards the transformed processes, so that they have both the confidence and capability to make a smooth transition to the new process environment. Last but not least, only through communication will the bank secure the buy-in of its people, arguably, the single largest ingredient of successful transformation.

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