

# PERSPECTIVE

## What Banks Can Do Now Transform to weather the tough times



It's been a tumultuous ride on 'Fall' Street. The events that unfolded recently were surreal, but the damage only too tangible as the domino effect of the subprime crisis claims revered economic icons everyday. The world watches heart-stopping bankruptcies, record-breaking bailouts, and colossal buyouts in horror as one financial giant after another capitulates to the credit squeeze and fleeing investors.

The going has been rough for banks, for sometime now. They had been mauled by the difficult credit market, a worsening labor market, and higher commodity prices. However, the Great Panic of 2008 pushed the financial system to the edge of the abyss because the precious but unappreciated foundation of trust on which it rests simply evaporated. With the mortgage meltdown, banks today face a crisis of confidence – bad loans, tight credit, risk-averse investors and frightened customers – that has broken the virtuous cycle of making money.

It's not about US banks. The contagion has spread to become a systemic crisis. Markets around the globe have plunged in reaction to the blood-letting. The world's central banks have had to come together to inject \$300 billion into global markets to stave off the worldwide crisis. After all, markets are intertwined like never before and international banks hold substantial amounts of troubled US mortgage debt. Therefore, the unprecedented \$700 billion toxic debt rescue plan notwithstanding, credit, cash and confidence may be hard to come by for banks.

But all is not lost. Banks can take immediate and simple measures to ensure that they can effectively power on and progress even in these troubled times. Here are the top 10 things that must figure on their agenda.

#### ➤ **Instill Confidence**

With the market turmoil, trust has all but vanished from the financial system. As a first step, banks need to get this trust back. They need to show stakeholders that they are running the business responsibly and transparently in accordance with universally accepted guidelines.

A disclosure framework has already been laid out in the Global Reporting Initiative's Sustainability Reporting Guidelines. These establish principles – with performance

standards – allow organizations to report on the economic, environmental and social dimensions of their business.

While making a report, banks must include information on the positive and negative aspects of business to build credibility and faith. Such a process will help them develop and disseminate information to all stakeholders – both internal and external – on where they are and where they are going in the context of the risks and challenges they face and the strategies and practices they have adopted. Simply put, it allows stakeholders to have an integrated view of the bank's mission and make a SWOT (Strength, Weakness, Opportunity, Threat) analysis of its ability to succeed in its mission. The resulting transparency will ensure that the financial system does not come undone through loss of confidence.

#### ➤ **Build a Knowledge Repository**

Knowledge is power and managing it effectively empowers stakeholders and helps the bank sustain business as usual. To ensure this, banks must build a knowledge repository by consolidating knowledge about products, customers, systems, processes, revenue and practices. This provides banks with an integrated, 360-degree view of the organization.

Such consolidated knowledge is intellectual capital which can be realized by proactively sharing it with all stakeholders – both within and outside the bank. The bank must communicate the knowledge to all employees, extending to the front-desk banker in all branches, through training. Employees will thus be empowered with the knowledge necessary to sustain day-to-day banking business. Moreover, they will have the wide-ranging information that helps match customers with products and apply process to problem.

Banks must also leverage consolidated knowledge when communicating with customers. Not only does this inform existing customers about the bank's overall health and products but it also helps attract new customers who see how the bank's knowledge dissemination can empower them financially. Thus, a knowledge

repository is an intangible asset which creates structured solutions and promotes innovative services.

### ➤ **Right-selling**

Customers hold the key to a bank's survival. While attracting new customers is a bonus in difficult times, retaining existing customers is essential and relatively simple. Making customers happy by fulfilling their needs is directly proportional to ensuring their loyalty – customers who are satisfied with the bank will forge a stronger bond and make greater investments.

For this, banks must have an integrated view of customers – a complete customer profile that allows them to sell the right product to the right person at the right time. Customers are demanding and tech-savvy, and stipulate greater responsiveness and transparency from banks. Not only do customers want personalized products, but they are willing to switch their account to the bank that gives them a better deal.

Ensuring right-selling calls for customer-centricity – which includes customer profiling, customer service and improving cross-selling. Banks must gain greater insight into the drivers of customer behavior by having an integrated view of customers. They need to link their operations and processes to the goal of maximizing customer satisfaction and increasing profits.

### ➤ **Simplicity and Sophistication**

In a turbulent situation such as this one, it is best that a bank does not radically change the way it does business. But it must change its approach to a more market-sensitive and customer-centric one. A bank must embody the tenets of simplicity inside but maintain a veneer of sophistication outside.

How you may ask? Though a bank is making incremental changes to instill order and confidence among its customers, it must not rock the boat by making fundamental changes. These may alarm more than it soothes. Thus, the changes a bank makes need to be simple. But they must also be visible to the outside world so that a bank's strategy is articulated to all stakeholders.

### ➤ **Consolidation**

Confronted with the challenges of trust deficiency, retaining customers, tight credit and competition, banks must take urgent steps to stay relevant in the marketplace. To ensure that they know, understand and service customers better, give them tailored products at a low cost, manage information effectively and coordinate multiple product channels, banks need to consolidate.

Consolidation must encompass all areas of activity: from IT and systems to workforce, products, services, and processes. This ensures that a bank enjoys a total view of its operations and marketplace and deploys a holistic approach to take on challenges and run its business. A unified operation brings scalability, agility and greater efficiency to the bank. Customer strategy is integrated, as are the offerings and processes.

The bank must also look at consolidation from a market perspective. With the current crisis, bank valuations have slipped below their intrinsic levels and a bank may be able to find an affordable financial institution whose philosophy complements its own. Take for example Lloyds TSB buying HBOS, Barclays acquiring Lehman Brothers' North American operations, and Mitsubishi UFJ getting 20% of Morgan Stanley.

### ➤ **Channel Effectiveness**

Banks are trying to thrive in tough times, seeking to increase earnings when resources are limited, competition is fierce and customers are distrustful. With margins compromised severely, it is difficult for a bank to make new investments in infrastructure. Instead, a bank needs to deploy its existing resources in an effective manner.

Thus, a bank must utilize its channels to the greatest possible extent and see how it can retain customers with existing channels. This helps reduce cost and extend a bank's reach. Customers do not restrict themselves to one channel; instead, they want choice and ease of use, and utilize a combination of channels to fulfill their banking needs.

Providing customers a rich and unified experience across channels is critical to gaining and retaining customers. Banks need to rethink their channel strategy around the idea of channel chains, where they use their existing channels to perform complementary roles for customers.

#### › **Due Diligence**

The financial system has run off the rails because financial institutions forgot to take the most elementary of steps before they offered products to customers: doing a thorough due diligence of the customer and his credit capability. Thus, banks lent money to over-stretched customers at subprime rates and compounded the problem by packaging these bad loans and selling them to investors.

To ensure that they do not make this mistake twice, banks urgently require a strong due diligence process that ensures they sell the right product to the right customer. The due diligence process must be integrated into the knowledge repository the bank creates so that the information the bank has about customers can be utilized to advantage and the risk to the bank is mitigated.

Banks will also benefit immensely from improving voluntary disclosures to regulators, exchanges, partners and customers, beyond the mandate of mere regulations. They must also seek to forge collaborative alliances with peers to share information about defaulters, to counter the risk of poor credit, with an organized and unified front.

While complying with current regulatory requirements stipulated, banks must also prepare themselves – from the inside out - to comply with an increasingly expanding regulatory landscape. While compliance may be viewed as bringing in tremendous complexity and increase in risk and cost of doing business, if handled right it provides an excellent opportunity to build trust and manage enterprise risk effectively.

#### › **Product Standardization and Rationalization**

Products are generally introduced in a piecemeal fashion, creating a complex landscape of often contradictory offerings that

confuse customers and hinder growth. Banks must simplify and consolidate products across the enterprise to promote competitiveness and efficiency. This helps banks satisfy customers and cross-sell products, enabling banks to succeed in a low-margin environment of decreased liquidity. Banks also need to bundle products from a risk mitigation perspective. For example, they must bundle a low-risk product with a mortgage.

To enable this, banks must transform their core banking infrastructure. Despite the core environment being mission critical, many banks use systems that were designed when requirements were different. Today, the bank's core needs to be robust and agile, helping the operations standardize processes. A modern core can help banks reduce cost and complexity and lay the foundation for better service and increased revenue. Even if a bank may not be able to modernize its core banking system in today's difficult environment, it must essentially start taking the first incremental steps in that direction.

#### › **Empowering Customers**

At a time when customers are quick to take their business to another bank and trust is a forgotten concept, retaining customers is key to increasing profits. All the steps we have talked about help a bank empower its customers. The sustainability reports and a knowledge repository arm them with greater financial acumen. The consolidated and customized products, channel optimization and due diligence ensure that the customer chooses a product best suited to her profile even as it helps fulfill her financial needs.

The bank must also offer customers online sales enablers that allow them make informed financial decisions. Such creative steps give a bank long-term credibility which brings repeat business in troubled times.

#### › **Integration**

To take these 9 steps in its journey to financial health, a bank must follow one principle – integration. A bank needs to integrate its IT landscape, its approaches, products, business models, processes,

customer knowledge - all the wide-ranging components that help it function as an effective whole. The move to integration can be an incremental one, but the beginning must be made.

To integrate its enterprise, banks must have an appropriate technology platform. A best-of-breed setup creates disjointed product silos that have difficulty talking to each other, result in operational complexity, redundancy and lead to inefficiency, high costs and loss of productivity. A bank will have to expend huge amounts of capital and energy to link all applications to obtain a single view of the customer, risk and compliance, and the other necessary intelligence and management tools in a best-of-breed setup.

On the other hand, an integrated core banking solution helps banks break down silos, reuse data and business logic, and delivers an enterprise-wide view of operations. This helps the bank's multiple entities work toward one goal, thus enabling profit creation. It helps provide a rich and unified experience to customers. The resulting satisfaction ensures customer loyalty and repeat business, adding on to the bank's revenue.

## **Authors**

### **Rajashekara V Maiya**

Product Manager - Finacle  
Infosys Technologies Limited.



Infosys Technologies Limited, Plot No. 44, Electronics City, Hosur Road, Bangalore - 560100. India • Tel.: +91 80 28520261 • Fax: +91 80 28521747  
e-mail: [finaclemktg@infosys.com](mailto:finaclemktg@infosys.com) • [www.infosys.com/finacle](http://www.infosys.com/finacle)

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