

PERSPECTIVE

Win the Global Challenge:
Consolidate and Standardize



It's the World that Banks are After

Banks are striving to win in a brave new world. Competition is brutal, margins are low and customers want everything and more. The quest for sustainable growth in a challenging environment is pushing banks beyond geographic boundaries. The rapid opening up of emerging economies and the saturation of developed markets have banks scrambling to tap emerging global opportunities. A reverse osmosis from the developing nations is also reshaping the industry.

Global bank mergers reached a record \$370 billion up to November 2007, according to recent research data. Cross-border deals made up about 55 per cent of that figure – more than double the share in 2006. The centre of gravity of global finances is shifting to accommodate the growing wealth of emerging economies such as China, India, Latin America and the Gulf states. Banks are fast making their way to these shores to increase their revenues.

As a result, the challenges banks face are widening in proportion. As emerging economies open up to offer new opportunities, banks are setting up operations in multiple countries, hoping to gain a fatter wallet-share. Opting either for expanding their presence by entering newer areas in these countries, or taking up ambitious Greenfield projects or extending footprint through mergers and acquisitions, local banks are becoming regional and regional ones are growing into global players. HSBC's promotional claim - 'the world's local bank' – seems to be the mantra of the moment.

Savvy customers, who have increasing access to information, now have more banking options to choose from in a fragmented market. They have individualized requirements which banks must fulfill – if not, they will take their valuable business to the next new bank. Thus, increased competition and a more discerning clientele have made it essential that a bank stands out from the crowd with innovative products that get to the market faster than the competitors' offerings. It is also imperative that they stay a step ahead of the next wave of change by gearing themselves with the latest robust technology ammunition. In addition, as banks expand to newer markets, their processes and products must also measure up to the challenge of compliance with varied regulations.

This is easier said than done in such a difficult environment. Amid a throng of competitors, banks need to understand the drivers of change and convert the challenges they pose into opportunities for growth.

But how can they do that? Banks need to leverage IT for competitive advantage and roll out an operating model for technology that allows people and processes to meet a common business objective.

Rolling IT Out

Though banks have added an array of products to their erstwhile simple portfolio of deposit and lending services, their IT strategy and setup is often inadequate. The technologies underlying such advances have often been introduced in a piecemeal fashion, creating a complex IT landscape which hinders scalability and growth. Banks must modernize these systems to reduce cost and complexity, laying the foundation for better service and increased revenue.

While pursuing their global ambitions, many international banks have acquired local core banking systems to support their activities, most often as a result of merged operations. Since banks' processing has developed in a series of silos, the new entity is saddled with multiple systems which duplicate functions, leading to wastage of time and resources. These systems may be unable to talk to each other in an efficient manner and may also operate at cross-purposes.

A bank can overcome this challenge by consolidating its IT infrastructure (if regulatory frameworks allow it), consolidating its back office through centralization and maintaining standard products, processes and operations across geographies. This back office can be located in low-cost regions, allowing banks to improve operational margins.

Consolidation and standardization are the two critical imperatives which can be enabled through a powerful technology platform in a multi-country scenario. Let us examine why this is so.

Consolidation

Confronted with the challenges of globalization, M&As, the need to cut time-to-market, and, above all, demanding customers, banks must take urgent and fundamental steps to stay relevant in the marketplace. Banks need to service their customers better: pass on to them the true benefits of the growth born out of globalization, by delivering a unified service experience across the various merged or acquired entities. Only then can banks hope to retain and gain customers.

As a bank adds products, services, employees, channels, and customers, and even other banking entities, its IT environment becomes increasingly complex. Moreover, after a merger or acquisition, a bank needs to take advantage of the economies of scale that a single institution offers. The merger may come to naught if the scale of operations cannot be leveraged for profit, which may well be the case if disparate processes, products and technologies paralyze the merged entity. In such situations, a bank can consolidate its back office to help it manage its diverse operations across multiple countries. This ensures minimization of the systems inventory to a viable optimum, imbuing flexibility into the technology infrastructure, ensuring its scalability and where possible, driving it all with one unified IT management at the helm. In addition, the back office can be moved to a low-cost region to help save money.

Another crucial requirement is the mandate for agility to meet the evolving needs of the marketplace, comply with changing regulations and to create niche banking products for different customers. Above all, the automated process needs to be error-free and secure to ensure customer satisfaction and credibility.

A consolidated back office ensures that banks can enjoy scalability and agility and put in place automated processes. This is owing to the greater efficiency that a unified operation brings to the bank. Front-office employees can access up-to-date, centralized information for cross-selling effectiveness. Additionally, real-time processing

across multiple time-zones allows simplification of many of the operations functions required for reconciliation and should reduce back-office workload, facilitating the business requirement for greater end-to-end processing and automation. This also helps increase efficiency and lower costs.

However, regulations may sometimes come in the way of a centralized global back office. In the United Kingdom, for example, laws prevent banking data from leaving the country in the interests of security. In such a scenario, banks can have one back office for the particular geography. This helps localize and consolidate back-office.

Standardization

operations and allows banks to cut costs even without a global back-office. The reality of the international market demands that banks standardize processes across time-zones and entities, making each function a global process. This translates into ease of business rollout, ease of maintenance support and ease of growth management and control.

The need for banks to comply with varied regulations – such as Basel II, MIFID, SEPA – specific to nations in particular and the world in general, makes the case for standardization stronger.

Moreover, diverse customers are demanding tailored products at a low cost and access across multiple channels. Shifts in demographics, incomes, attitudes, and behavior, in addition to easily accessible information, are empowering customers to demand greater responsiveness and transparency from their banks. Not only do customers want the breath of offerings across the channels of their choice, but are willing to exercise their freedom of choice and go to another bank that gives them a better deal.

In such a situation, banks need to fulfill customer needs and ensure customer satisfaction to increase their wallet-share. They need to ensure that they offer customers a one-stop shop of customized products at competitive prices.

Standardization creates one set of products and processes across the bank's various entities, across geographies. It enables a bank to process transactions from anywhere in the world within seconds. Global processes also provide a bank with a 360-degree view of the customer, enabling it to target customer requirements and ensure a high level of service. The customer in turn can enjoy real-time banking, with a unified service experience, anywhere and at any time.

Using the foundation of a centralized back office and standardized processes, banks can reuse products and processes across borders. Therefore, an existing product can be used in any part of the world where the bank has recently acquired an operation. The shared processes ensure that time and money need not be spent to develop and test products in the new environment. Instead, a repository of products can be tapped for the new geography, thus speeding time to market and allowing greater efficiency and cost savings. This flexibility allows a bank to respond more quickly to customer needs and changes in the marketplace.

Business agility is a fundamental imperative for success in the marketplace. If banks are to take on competition and succeed in an unpredictable market, they must anticipate trends, adjust the type of services supplied and develop the ability to deliver customized products rapidly. The time-to-market and ease of business rollout will determine their ability to take advantage of new opportunities. Standardized processes help ensure both agility of operations and innovation in offerings. This also helps in lowering costs of training and in relocating personnel, on a need basis, across entities and geographies.

Thus, a bank must have a core operation which is robust and has the flexibility and capacity to standardize processes. It needs to be able to address the needs of demanding and diverse customers and roll out new products quickly and efficiently. The processes a back office handles must be standardized across borders, products and legal frameworks.

The Problem of Legacy

Not many banks are in a position to perform all these tasks that are critical to their very survival. In a multi-country business environment, the IT systems and software that support operations need to grow ever more agile and sophisticated. However, despite core banking systems being

mission critical, many banks continue to use systems that were designed decades ago, when business requirements were very different.

These ageing systems lack the agility, flexibility and scalability needed to meet today's challenges and fail to provide a foundation for future growth.

Research says that banks often spend most of their IT budgets on maintaining existing IT, resulting in huge IT waste. The inefficient business processes resulting from legacy core systems are prone to error and fraud, and contribute to significant annual losses to the industry.

Thus, banks need to modernize their core banking systems or run the risk of paying a heavy price in terms of higher costs and lower profits. Faced with this reality, many banks are looking to rejuvenate their aging back office systems, else they will end up spending more on their core systems only because of the failure to renew the core.

Globally, the industry spends \$214.5 billion maintaining existing infrastructure with third-party providers. This includes all systems that are part of a bank's IT budget. Core systems take up a huge 73 percent of that total, a proportion that underscores the critical role of core systems. This leads to a vicious cycle, wherein banks have less to money for new technology investment because core systems become increasingly expensive to operate, forcing banks to cut IT and business initiatives. A one-time cost of core system rejuvenation is likely to help a bank save money not only in the area of IT but also in business operations.

With the core system being the heart of the bank, modernization is a risky and costly undertaking. However, the benefits are huge. As the emergence of new business realities forces banks to rethink their approach to the market, they also demand that banks re-examine their legacy core systems.

A consolidated back office – with standardized processes – that leverages service-oriented architecture (SOA) enables bundling and cross-selling of products and services. With SOA, banks can use data mining techniques to analyze customer behavior, thus creating cheaper, innovative and differentiated products and helping strengthen customer satisfaction, cutting across the silos of the various lines of businesses.

With SOA, banks can introduce value-added components to existing offerings. SOA enables technology integration and thus simplifies the IT landscape, allowing banks to make their technology environment more responsive to dynamic business challenges – either strategic or day-to-day. It helps provide real-time data, greater efficiency and better risk management and compliance. Integrated into business processes, these streamline business processes to allow growth. SOA also plays a critical role in facilitating easy localization, crucial for banks on the globalization path.

Modernizing the back office is often compared with replacing the engine of a Boeing 747 in mid-air. It is the most complex, risky and expensive IT project that a bank can undertake, and even a minor error can cause a bank's system to crash, costing the bank a great deal in terms of money and reputation. To mitigate the risks, a bank can make changes in the back-office of a non-home or peripheral geography which is less critical to a bank's operations. As the bank's comfort level and experience with the new IT landscape increases, it can modernize the back office of crucial geographies.

Irrespective of whether a bank transforms its entire back office or takes the step-by-step route, the bank must rely on a proven transformation partner to ensure success.

Conclusion

When your market is the globe, opportunities are limitless. But then so are the challenges. In a multi-country environment, banks are dealing with several simultaneous challenges, ranging from diverse consumer requirements to a wide array of regulations, from varied processes and fierce competition to disparate technologies. Banks can enjoy sustainable growth if they understand and address these requirements.

Consolidation of the back office and standardization of products, processes and operations are the best bet if banks operate in a multi-country environment. They empower the bank with the agility, efficiency and cost advantage necessary to take on the world, and grow to achieve increased profitability.

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