abstract

banks today are moving back to basics, shifting attention from complex product offerings to developing greater connect and intimacy with the customers. this change was a result of multiple factors like increased regulatory pressure, increased customer expectations and growing trust deficit in the bank-customer relationship. this is a massive transformation for most banks as their processes and strategy have ignored customer service and centricity for long.

this paper highlights some of the challenges banks face in this transition and seeks to delve upon the approaches to achieve this transformation seamlessly.
Our first priority is and always has been to serve our client interests.
- Goldman Sachs.

Client intimacy, getting back to basics, customer centric culture etc., are some of the buzzwords in the present day banking universe. Banks today are going out of their way to get closer to the customer and align their product & service offerings to best match the customer needs.

In the past, banks used complex product offerings as a competitive advantage to acquire customers and drive their strategic operations leading to ‘product centric’ operations. But in the present day market, banks understand simply churning new products and pushing them to the market will bear them no fruit.

What has brought about this paradigm shift from ‘product-based’ to ‘customer-based’ banking? Why has the customer suddenly become the focal point of banking operation and strategy formulation processes? What is the driving force behind this change? Is it the shrinking margins, the economic instability or the increasing market competition?

We believe that major drivers for this change include the following:

- Today key customer segments HNI and UHNI (high net worth individual and Ultra high net worth individual) increasingly value trusted lasting relationships over newer and complex product offerings; this has been proven by research as well.
- Banks are now realizing that lasting customer relationships are the key to stable business relationships and hence strong balance sheets.
- With the proliferation of social media, communication and collaboration channels, new investment opportunities in emerging markets, customers now expect integrated offerings spanning across product, geographies and channels.
- Banks today understand that customer is the essence of their business processes and no business is possible without the customer.

The transition from ‘product-centric’ to ‘customer-centric’ banking entails restructuring the internal business processes of the bank, more specifically the processes which are directly interfacing with the customer. Banks today are realizing that complicated product offerings alone will lead them nowhere and that the core of their operations needs to be about building lasting customer relationships based on solid customer understanding.

Based on the customer relationship touch points, banking functions can be broadly classified into two categories; ‘core’ and ‘non-core’. Core functions are those that add direct value to the customer and are a source of a competitive edge. All other functions/processes are non-core. Figure 1 demonstrates the evolving ‘core’ functions over the years.

Figure 1: Evolving Banking Operations
For banks to keep the focus on ‘core’ operations mean that they need to realign and reengineer their key business processes in such a way that they can synergize their efforts toward customer intimacy. In other words, it means banks need to reduce the inefficiencies in processes, integrate the siloed structures within the organization and channel their resources to meet the mounting customer demands across segments. Efficient processes will allow banks to better utilize their scarce resources towards aligning service offerings with customer needs and devoting greater time in understanding what the customer is really demanding.

To illustrate, below are some of the major challenges in banking operations today. The examples demonstrate how processes orbiting around these operations could be reengineered to improve efficiency and effectiveness:

The benefits of these process changes can help banks achieve customer centricity as a direct outcome. In other cases, they indirectly save effort and cost while ensuring regulatory compliance to enable greater time and resources for customer centric programs.

**Improve operational efficiency**

‘Cost to Income’ ratio is the most critical indicator of operational efficiency for any bank. Since the recent economic crisis, banks are undertaking large scale projects like revamping and consolidating the front and back office operations, to gain transformational benefits. However, in a majority of cases, projects are only adding to the operational costs and are doing little to contribute to the top-line growth or bottom-line profit. Thus, causing an upward increase in the ‘cost to Income’ ratio. To understand how operational efficiency can be improved let us take the example of the customer on-boarding process.

**Reengineering the customer onboarding processes:** Efficient and streamlined customer on-boarding is pivotal to customer stratification, because this process signifies the start of the customer relationship with the bank. The effectiveness of the on-boarding process creates the customer’s initial perception about the bank and the efficiency of the process dictates the up-sell, cross-sell probability. Research has proven that most of the cross selling happens in the first 90 days of customer relationship.

By involving the customers in the on-boarding process, banks can significantly improve the quality of customer data. With accurate customer data and a more streamlined on-boarding process, banks can reduce time to revenue and improve their up-sell and cross-sell potential thus making the on-boarding process more efficient and customer oriented.

Figure 2 shows how involving the customers in the mid office function of the onboarding process can provide benefits such as:

- High quality data, fewer issues in customer data. Thus reduced effort in data validation, obviate mid office function
- Integrated view of customer profile across bank, improved up-sell and cross-sell opportunities
- Improved customer connect as customer is more involved
- Efficient on-boarding process is key to customer satisfaction and the customer acquisition and retention strategy of the organization. Healthy customer base helps drive business growth

![Figure 1: Evolving Banking Operations](image-url)
Changing compliance and regulatory requirements

Regulations are getting increasingly technical and more detailed (i.e. FATCA, Dodd-Frank, and Basel III etc.) It is clear that regulators are trying to make up for their perceived lapses and safeguard the economy from future instability. They are also trying to win back investor confidence to ensure future economic growth. Conforming to these new regulations has significantly increased the bank’s operational costs which in turn affects the customer servicing capability of the bank (as banks have a limited operating corpus).

To overcome this wave of regulations while remaining focused on the goal of customer centricity, here is what banks needs to do;

- Senior management (i.e. CEOs, CFOs) needs to develop effective relationship-based connection with the regulators. This would help banks participate in regulation drafting process rather than just be impacted by it.
- Shift from ‘people centric’ to ‘process centric’ regulatory operations within the bank to ensure continuation and smoother transition.
- Earlier regulations like MiFID, Basel II have proven that successful responses to regulations are ones which are strategic and well-coordinated rather than quick fix tactical solutions, which actually cost more in the long run.

Let’s look at one of latest regulations, FATCA, to illustrate how having a flexible regulatory framework can help banks adopt easily to new regulations and ensure that their customers are compliant:

Strategic plug-ins for compliance systems: FATCA is still being detailed out and the full regulation is expected to be in place by mid-2012. But banks are already struggling to understand how they can get existing customers FACTA compliant. The current market understanding about FATCA and its implications is limited to a few experts. Instead of developing new FATCA processes, banks need to leverage their existing KYC systems and processes and enhance them with a FATCA plug-in. Having multiple plug-ins for each FATCA directive would inflate costs and increase inefficiencies. What is needed is a strategic plug-in that provides long-term value to the organization. This would provide the following benefits:

- Customer compliance as per the regulation timelines
- No adverse impact on customer transactions
- Reduced cost and effort
- Contributions to building trust with customers and prospects

Focusing back on the customer

Having ignored the customer for a long time, banks now realize that customer alone is the key to survival in these turbulent market conditions. The majority of the banks fail to capitalize on the ‘true value’ of their customers. Only a few banks have a deep understanding of customer needs and tap into them effectively. Thus these banks continue to either ‘under-serve’ or ‘over serve’ customers, which directly impact the per customer profitability for the bank.

Figure 1: Evolving Banking Operations
So here's what banks need to do to ensure customer focus and better market positioning than their peers:

- Define an interrogated customer strategy across segments and geographies
- Develop well defined metrics for the sales team to promote effective incentives and enable increased cross selling
- Equal focus on customer service with seamless back-to-front connectivity while enabling customer-facing staff
- Effective utilization of the CRM systems by the sales team to gain greater customer insights, superior data capture capabilities and sophisticated analytical ability

**Mobile commerce / services** are classic examples that can enhance customer focus. With the proliferation of smart phones, tablets, connectivity through social network and increasing technological innovation, most customers prefer to communicate and transact through their smart phones and other hand held devices/wireless devices. To cater to these savvy customers, banks have offerings such as mobile banking, phone banking, e-wallets, social network, etc., to stay connected to the customer. Mobility is the buzz word in banking today, and a number of banks are adopting it as a means of differentiation and value-add to the customer.

Mobility takes customer focus to the next level as it allows the customer to make almost all transactions with their handheld devices and stay connected with the bank 24/7. While this is not directly related to the core functioning of the bank, it helps improve the bank’s understanding of the customer’s socio-economic profile which can drive future business decisions.
To grow and prosper in today’s ever-changing world, banks too must change. They need to move beyond any existing organizational silos, infrastructure complexities and other constraints – towards operations that are centered on the customer. We recommend the following to seamlessly bring about this transition towards ‘customer centric’ operations:

- Involving the customer in the banking value chain. This would imply greater participation and involvement of the customer in the banking activities and hence allow the bank to have higher touch points with the customer. As a result customer would feel more involved in operations and this would also help reduce cost to a great extent.

- Banks need to revisit their customer relationship management (CRM) processes to realign how these view their customers. CRM systems need to be linked with other systems within the bank (i.e. trading systems, onboarding, transaction management etc.) and with desktop applications (outlook, excel etc.). Single unified customer view is critical to understand the customer better and recommend suitable products and services.

- Proactively gauge the customer needs by reviewing the banks customer touch points and processes. The need is to stay connected with the customer 24*7 and leverage this connect to efficiently manage the customer relationship, in terms of its optimal potential. Thus constantly revamp the customer touch points to be in sync with the bank’s ‘customer first’ policy.

- Conducting a 360 degree review of the bank’s front, middle and back office operations to ensure alignment with the customer centric business model. Ensuring at each level correct focus is given on the ‘core’ functions and optimize the ‘non-core’ ones to achieve best possible utilization of the scare resources banks have today.

- But all of these measures will not sustain for long, without the tracking and periodic reviews by the management. The management needs to have mechanisms for real time information access, status checks, cost review and control to successfully implement such programs.
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