Transform your bank’s operations model

A best practices discussion
This report was originally published by Booz & Company in 2013.
Executive summary

There is no single method for successfully transforming your bank’s operations model. Your approach to transformation depends on your goal – be it to improve customer experience, streamline processes, or reduce costs in your back-office operations.

Although every bank’s approach will differ, we suggest five best practices for transforming your bank’s operational model:

• Customer-back process transformation
• Product and service simplification
• Aggressive digitization
• Governance and performance management transparency
• Delivery model optimization

These best practices, along with aligning your operation’s performance goals to your business priorities, will help your bank enhance its most distinctive operations capabilities and meet your transformation objectives.
Banks are transforming their operations. Your approach should depend on your primary business objectives:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Operating strategy</th>
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| Drive efficiency and reduce volume | • In-source operations and maintain shared services  
| Example: Leading global financial-services firm | • Standardize client-facing processes end to end, reducing process steps by 60% and cycle time by 80% for customer onboarding  
| Simplify and standardize operations around the world | • Consolidate and rationalize IT, including trading platforms and mortgage servicing systems  
| Example: London-based bank | • Standardize IT platforms by country, with minimal customization  
| | (This bank standardized 14 countries in one year.)  
| Improve customer experience | • Reengineer core investment management functions  
| Example: Local bank dedicated to customer service | • Install lean business processes  
| | • Consolidate regional data centers through IT global shared services  
| | • Outsource to cut costs: for example, 50% of the IT development teams in China, India, and Brazil  
| | • Maintain shared services within LOBs with emphasis on client relationships  
| | • Standardize client-facing processes end to end; reduce process steps by 60% and cycle time by 80% for customer onboarding  
| | • Consolidate and rationalize IT  

[Diagram showing the relationship between culture of continuous improvement, common processes, cost, and purpose]
These five critical best practices are common across all successful operations transformation initiatives:

<table>
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<tr>
<th>Step</th>
<th>Practice</th>
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| 1    | Customer-back process transformation  
Redesign end-to-end processes based on desired client experience  
Analyze trade-offs between the level of customization and the value perceived by the client  
Use a structured, consistent methodology to drive change |
| 2    | Product and service simplification  
Minimize customization where the client sees no value (aspects increasingly driven by regulation)  
Align cost-versus-complexity trade-offs with the strategic direction of the business  
Standardize processes and supporting platforms to drive digitization of client experience |
| 3    | Aggressive digitization  
Use digital media to create better front-end client interactions (paperless statements, tablet interfaces, etc.)  
Implement straight-through processing to avoid manual processing  
Form partnerships with niche and nontraditional service providers to build and deploy digital capabilities |
| 4    | Governance and performance management transparency  
Establish and reinforce clear accountabilities, decision rights, and stakeholder roles  
Define goals and incentives that are clearly aligned with strategic imperatives  
Adhere to a metrics-driven culture with key performance indicators (KPIs), unit cost management, etc. |
| 5    | Delivery model optimization  
Move to shared-services or utility models to maximize scale and reduce costs within regional banks  
Integrate and align process-centric IT operations capabilities  
Increase integration of third-party providers into the delivery model to add variation to cost and to build capabilities |

Source: Booz & Company global benchmarking study of most well regarded operations organizations
Focus on those few core banking processes that have the greatest impact on your business:

From too many legacy processes... prioritize a few... and address them in successive waves

Prioritization: Select 1–3 processes for each transformation wave

Potential prioritized processes

**Wave 1**
- Card fulfillment and servicing
- Commercial lending
- Mortgage origination
- Deposit account origination, operations, and servicing

**Wave 2**
- Consumer lending
- Lead management
- Treasury management
- Onboarding and servicing

**Wave 3**
- Client problem resolution
- Real estate lending
- Others to be determined

Universal processes* are shared across multiple LOBs

* Universal processes are shared across multiple LOBs
One bank’s process redesign delivered enhanced customer experience, faster service, and reduced cost to serve

**Challenges**
Heavy process overhead, too many manual workflows, lack of visibility

**Approach:** Implemented a third-party IT solution (Kovax TotalAgility)

- Automated workflow with assigned responsibilities
- Shared view of the process and relevant policies to all participants
- Automated interfaces between users through integration of the bank’s systems with email servers
- Limited execution time
- Automated dynamic resource assignment based on workload, skill set, and availability
- Required data for execution ready at each step
- Automated management reporting at each workflow step

**Results**
- 80% reduction in client on-boarding cycle time
- 50% reduction in management overhead
- 40% increase in throughput capacity
- >60% of manual steps eliminated
- Improved visibility of client status in onboarding process
- New ability to capitalize on lessons learned in previous client onboarding

**Strategic objectives**
Faster and cheaper access to commission streams

Source: Kovax product case studies
**Simplify product architecture and technology**

### Simplify product architecture
- Rationalize product sets based on what clients value most
- Pursue modular product architecture
  - Tiered, component-based design
  - Shared common components across product lines
  - Isolated components that drive cost of complexity

### Best practices
- Rationalize portfolio, targeting one application per major process
- Limit the number of business-specific apps and put in place a higher percentage of general-purpose apps
- Design shared, central architecture with standardized, consolidated platforms

### Case Study: An Australian bank redesigns its product offerings
**From a cumbersome product environment...**
With a complex, inflexible product-centric architecture in place, this bank maintained more than 1,000 mortgage products and 50 residential secured products. Any minor feature change resulted in the creation of new products, leaving the bank behind competitors in creating valuable services and offerings.

**...to a modular architecture favoring innovation**
The bank established a simpler, four-tier product architecture (consisting of a customer offer, product bundle, product innovation, and core feature list). The bank set standards for product features, enabling it to innovate without affecting the stable component core. Results: a US $200M revenue increase and $50–$100M in IT simplification benefits.

### Case Study: JP Morgan Chase overhauls its IT infrastructure
**From costly strategic IT Investments...**
In 2004, CEO Jamie Dimon allocated over $600M to the bank’s IT initiatives and a subsequent investment in network overhaul ($2B by 2008). This created significant ongoing IT spending: $8.5B in 2010. IT spending made up 8% of the bank’s revenue vs. the average of 4% held by its peers in the industry.

**...to rationalization across silos**
The bank implemented a single platform for consumer and small business banking deposits, eliminating more than 50 fragmented systems. Also, the bank retired more than 50 legacy investment banking platforms, consolidated Chase, Bear, Bank One mortgage servicing systems, and consolidated data centers from 90 to 30.
Aggressive digitization

Digitizing front-end client interactions and processes can further improve client experience and reduce costs

Target state
Streamlined and automated process

Real time or online
Electronic data flow
Elimination of manual steps
Handling of exceptions
Optimized approval process

15% Overall process cost reduction

Current state
Highly manual and disjointed process

3

Multiple manual steps
Low value-adding activity (99% approval rates)
High redundancy (multiple faxes)
High re-work rate due to errors
Highly manual steps (lack of integration)
Align operations and LOBs through governance and performance management transparency

**LOB “business partners”**
- Ops staff members dedicated to each LOB to ensure ongoing communication
  - Attend all LOB staff meetings
  - Monitor LOB service needs
  - Assess and escalate performance issues

**Data-driven management**
- Standardized key metrics, such as:
  - Unit costs for supported products
  - Service quality measurement
  - Budget variances
- Maximum disclosure and transparency to establish trust

**Expertise & sustainability**
- LOB collaboration on prioritization
- Dedicated product management team to build expertise
- Robust allocation methodology to minimize risk to operations and showcase project impact on costs
- IT engagement to minimize footprint

**Top-down engagement**
- Operations included on senior agenda
- Periodic meetings to evaluate performance, progress of initiatives
- Collective engagement with LOB leadership on issues, alignment to strategy

**Dedicated relationship management**

**Robust reporting and metrics**

**Effective execution of initiatives**

**Structured governance**
Choose an operations delivery model that aligns with your business strategy and enables you to maximize scale.

**LOB-specific**

- Operations embedded within LOBs – report to LOB head
- Accountability and performance management within LOB

Choose this model to achieve:
- Functions of sufficient scale within LOBs to allow for reasonable economics
- Shared services created within LOBs

**Shared services**

- Operations centralized and set up as shared services
- Structured by LOBs for single point of accountability
- Some services provided by each area cross LOBs

Choose this model to achieve:
- Limited scale in individual LOBs
- Large degree of commonality in most processes

**Process-centric**

- Organized by major functions and activities
- Each function or activity serves multiple LOBs
- Limited customization by business

Choose this model to achieve:
- Low cost-to-serve and speed-to-market
- Mature operations with standardized processes
- Simplified product and service structures
- Established collaborative culture between LOBs and operations

Source: Booz benchmarking study, interviews with senior retail bank leaders, Booz & Company analysis

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**Model description**

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Increasingly, banks are looking to third-party providers to perform a wide-range of operations functions.

End-to-end procurement outsourcing

Example: Capabilities outsourced in sourcing and procure-to-pay (P2P)

Sourcing
- Spend data management
- Strategic sourcing
- Vendor management
- Demand management

Procure-to-pay
- Day-to-day purchasing
- Performance management
- Accounts payable

Phases of outsourcing and objectives

<table>
<thead>
<tr>
<th>Transparency</th>
<th>Control</th>
<th>Leverage</th>
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<tbody>
<tr>
<td>Create Improved P2P Process Efficiency</td>
<td>Enforce pricing and billing compliance</td>
<td>Develop sustained competitive advantage</td>
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<tr>
<td>- Center-led capability</td>
<td>- End-to-end processing</td>
<td>- Enriched date for sourcing and contracting</td>
</tr>
<tr>
<td>- Process automation</td>
<td>- Variabilization of fixed costs</td>
<td>- Improved leverage in buying power</td>
</tr>
<tr>
<td>- Portal-enabled interfaces</td>
<td>- Vendor and billing compliance</td>
<td></td>
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<tr>
<td></td>
<td>- Buyer spend behavior compliance</td>
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Results achieved
- Multi-year agreement for outsourced, end-to-end, P2P services
- More than $6 billion in addressable spend
- Affected 4 million annual transactions across 200 legal entities
- Transformation of systems and processes to “best practice”
- Services delivered through a combination of on-site resources and multi-client service centers in Bratislava, Bangalore, and Dalian
- Savings of more than several million euros
Banks with successful operations transformation programs achieve four benefits:

**Enhanced client experience**
- Eliminate customer pain points
- Improve responsiveness to clients
- Streamline process

**Operational and cost efficiency**
- Reduce cost by driving out variability
- Create capacity and scale
- Provide cost-effective services

**Continuous improvement**
- Define standard processes
- Train the organization in process-oriented thinking
- Instill a culture of continuous improvement into organization

**Risk mitigation**
- Ensure consistent and auditable controls
- Align operating model to changing regulations
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