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Formerly Booz & Company

*Transform your bank's
operations model*

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A best practices discussion



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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:

Purpose

Drive efficiency and reduce volume

Example: Leading global financial-services firm

Simplify and standardize operations around the world

Example: London-based bank

Improve customer experience

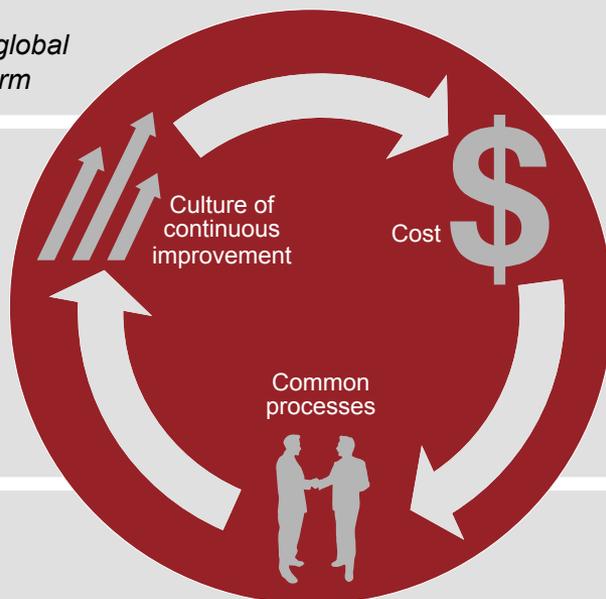
Example: Local bank dedicated to customer service

Operating strategy

- In-source operations and maintain shared services
- Standardize client-facing processes end to end, reducing process steps by 60% and cycle time by 80% for customer onboarding
- Consolidate and rationalize IT, including trading platforms and mortgage servicing systems

- Standardize IT platforms by country, with minimal customization (This bank standardized 14 countries in one year.)
- Reengineer core investment management functions
- 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



These five critical best practices are common across all successful operations transformation initiatives:

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

1

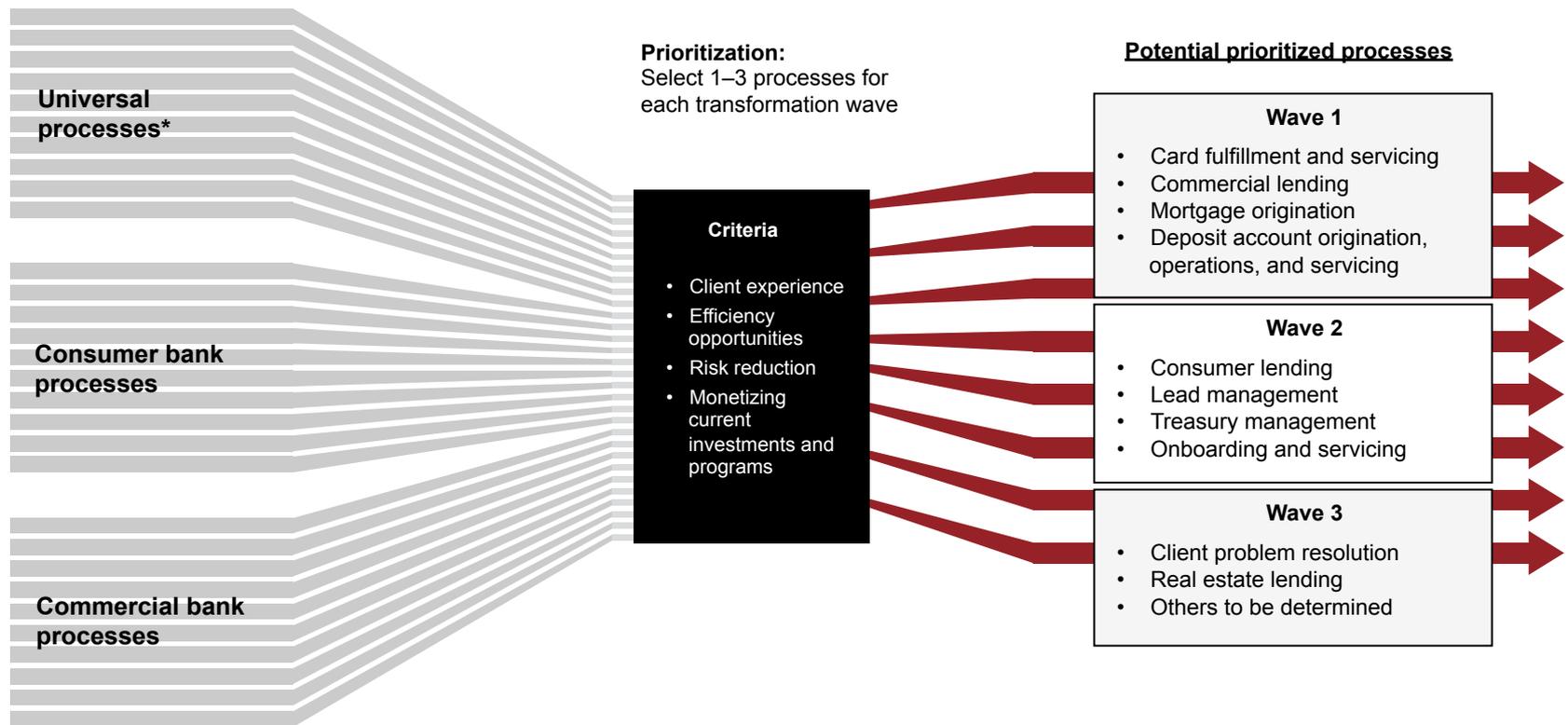
Customer-back
process
transformation

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

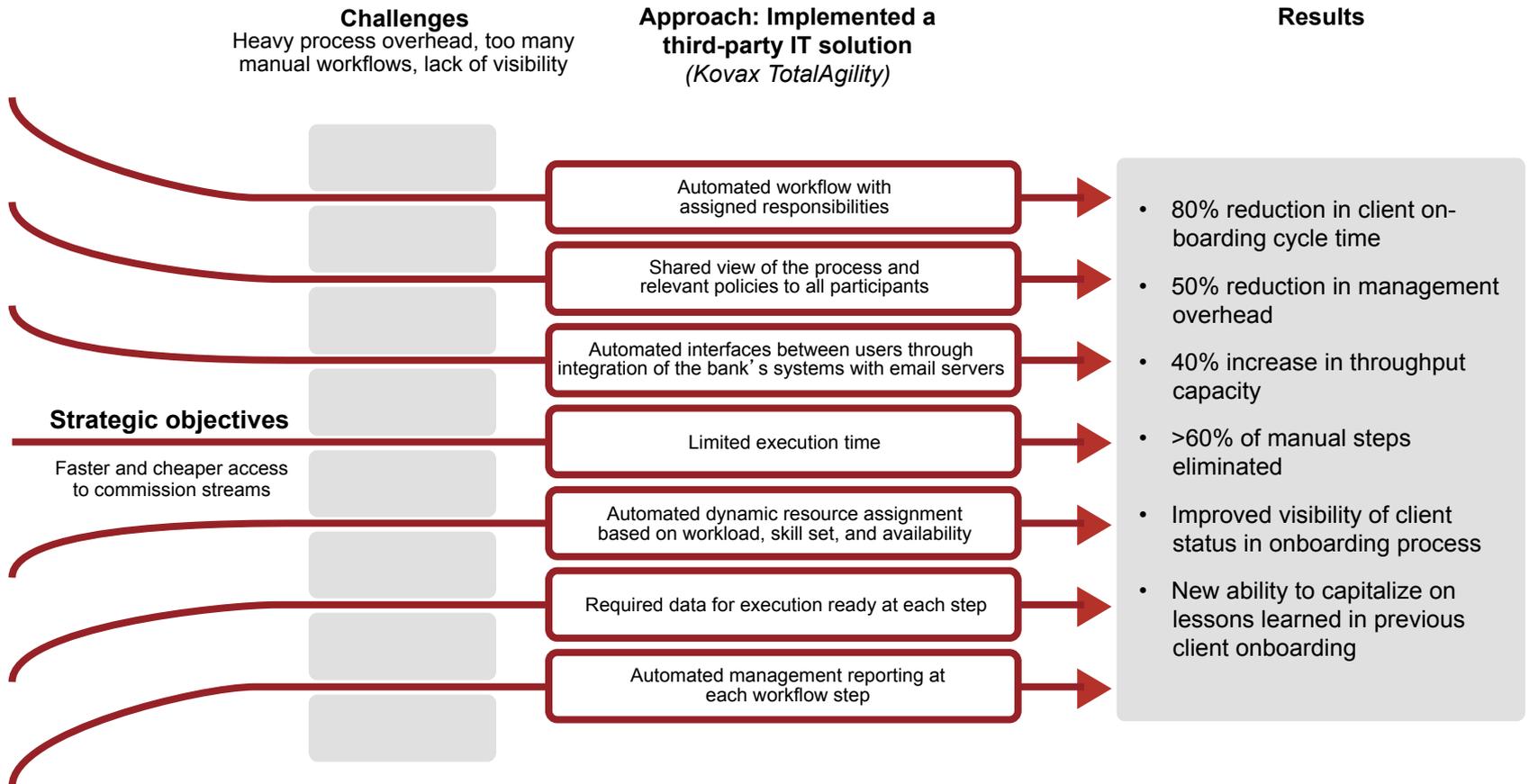


* Universal processes are shared across multiple LOBs

1

Customer-Back process transformation

One bank's process redesign delivered enhanced customer experience, faster service, and reduced cost to serve



Source: Kovax product case studies

2

Product and service simplification

Simplify product architecture and technology

Best practices

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

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.

Best practices

Simplify technology

- 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: JP Morgan Chase overhauls its IT infrastructure

From costly strategic IT Investments...

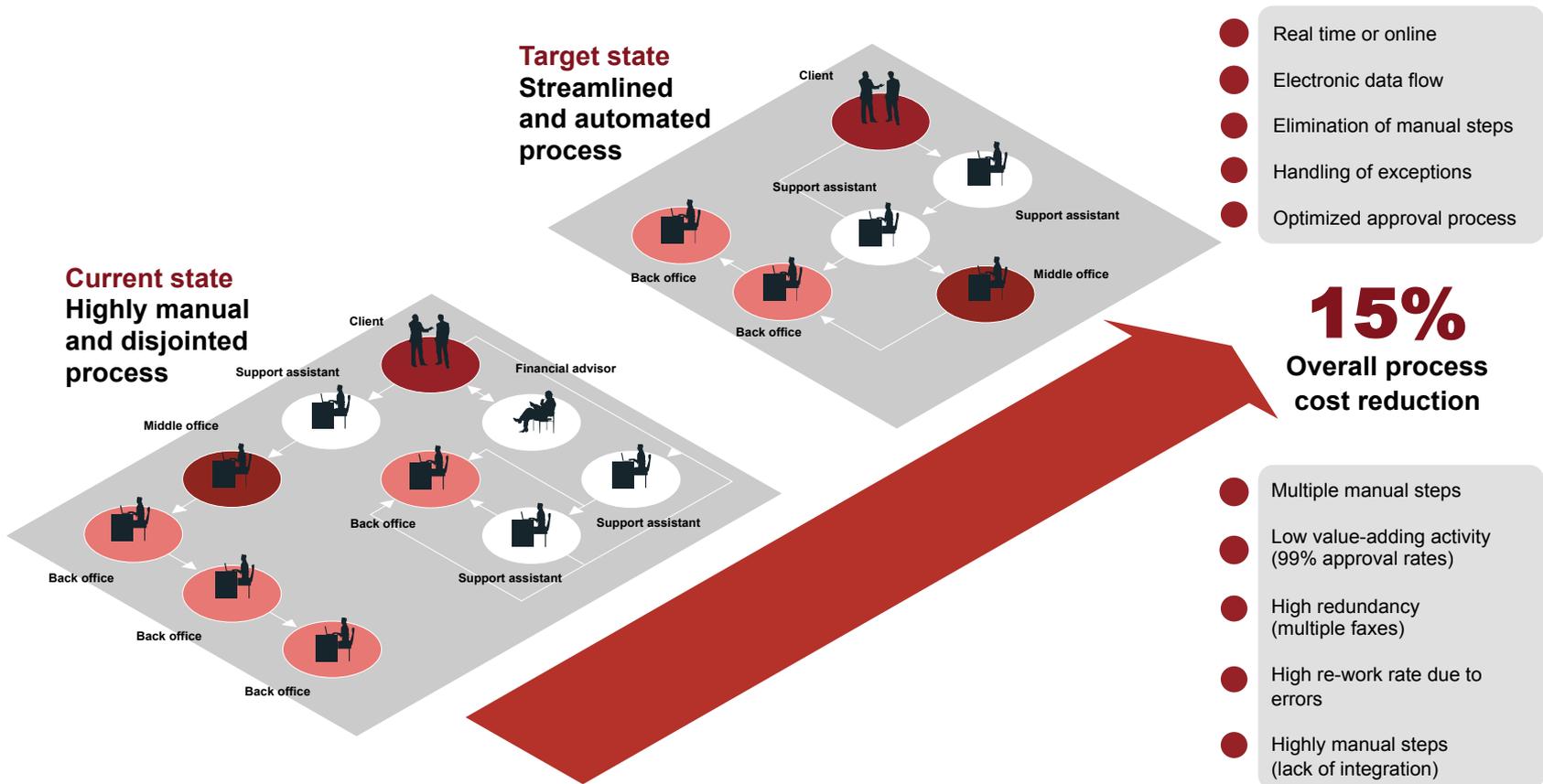
In 2004, CEO Jamie Dimon allocated over \$600M to the bank's IT initiatives and a subsequent investment in network overhaul (\$2B by 2008). This created significant ongoing IT spending: \$8.5B in 2010. IT spending made up 8% of the bank's revenue vs. the average of 4% held by its peers in the industry.

...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.

3 Aggressive digitization

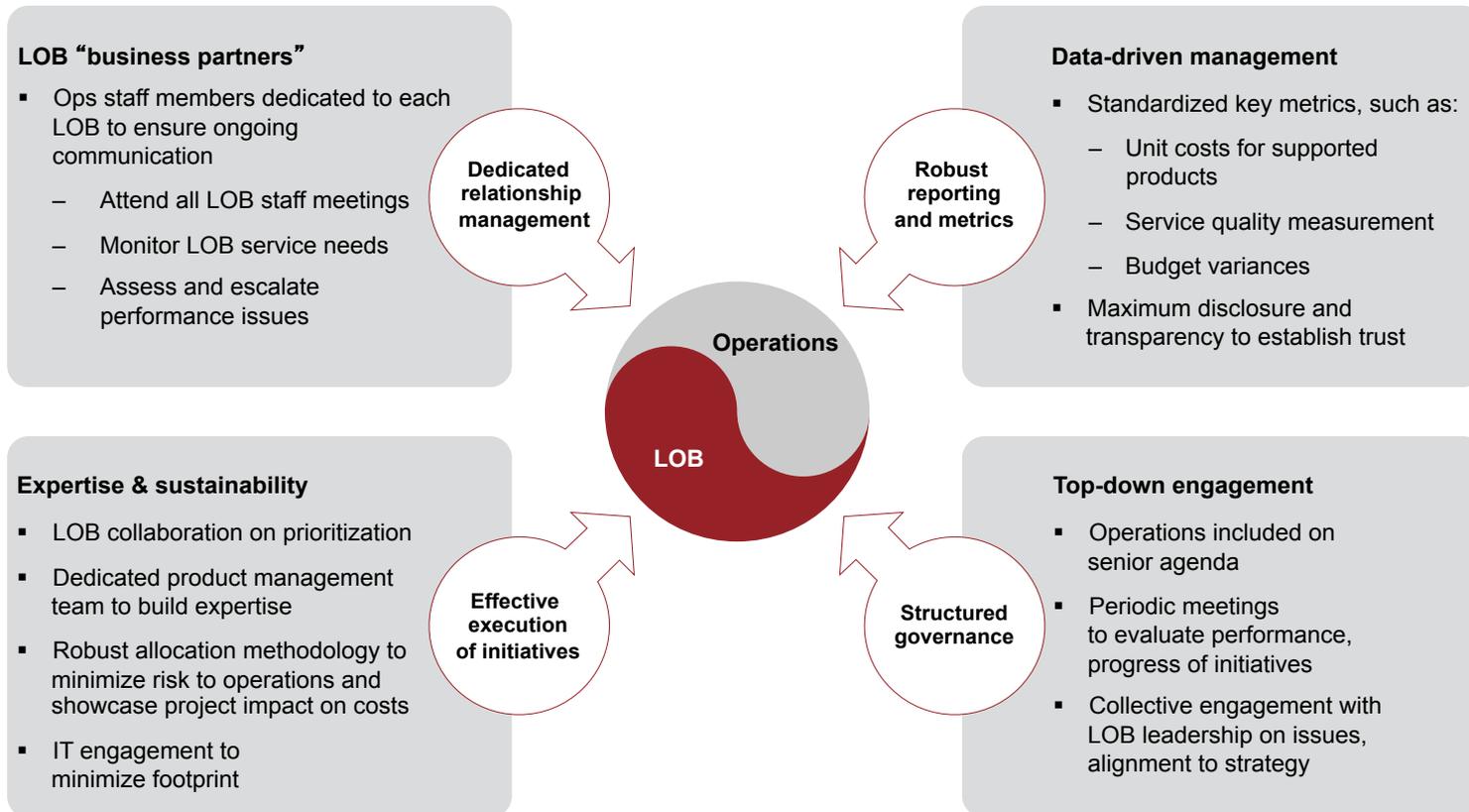
Digitizing front-end client interactions and processes can further improve client experience and reduce costs



4

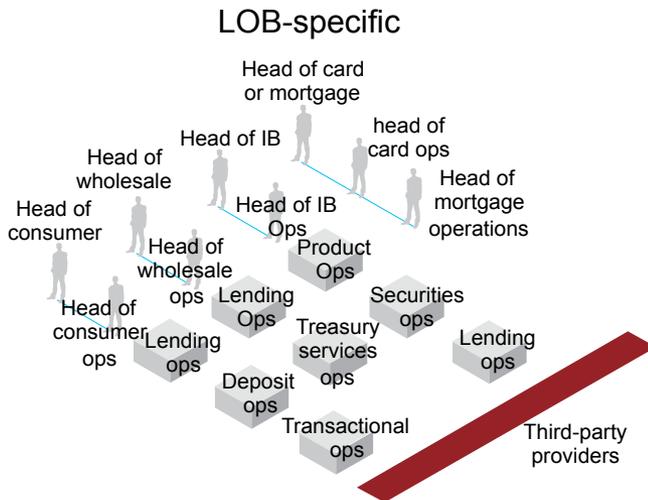
Governance and performance management transparency

Align operations and LOBs through governance and performance management transparency



5 Delivery model optimization

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

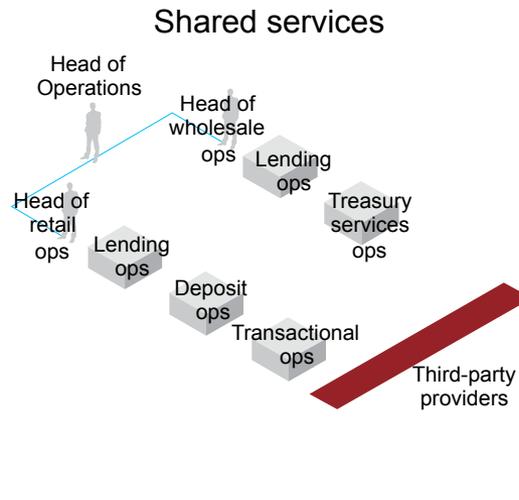


Model description

- 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

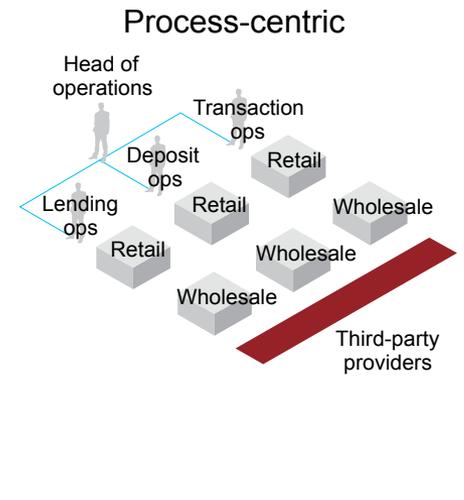


Model description

- 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



Model description

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

Choose this model to achieve:

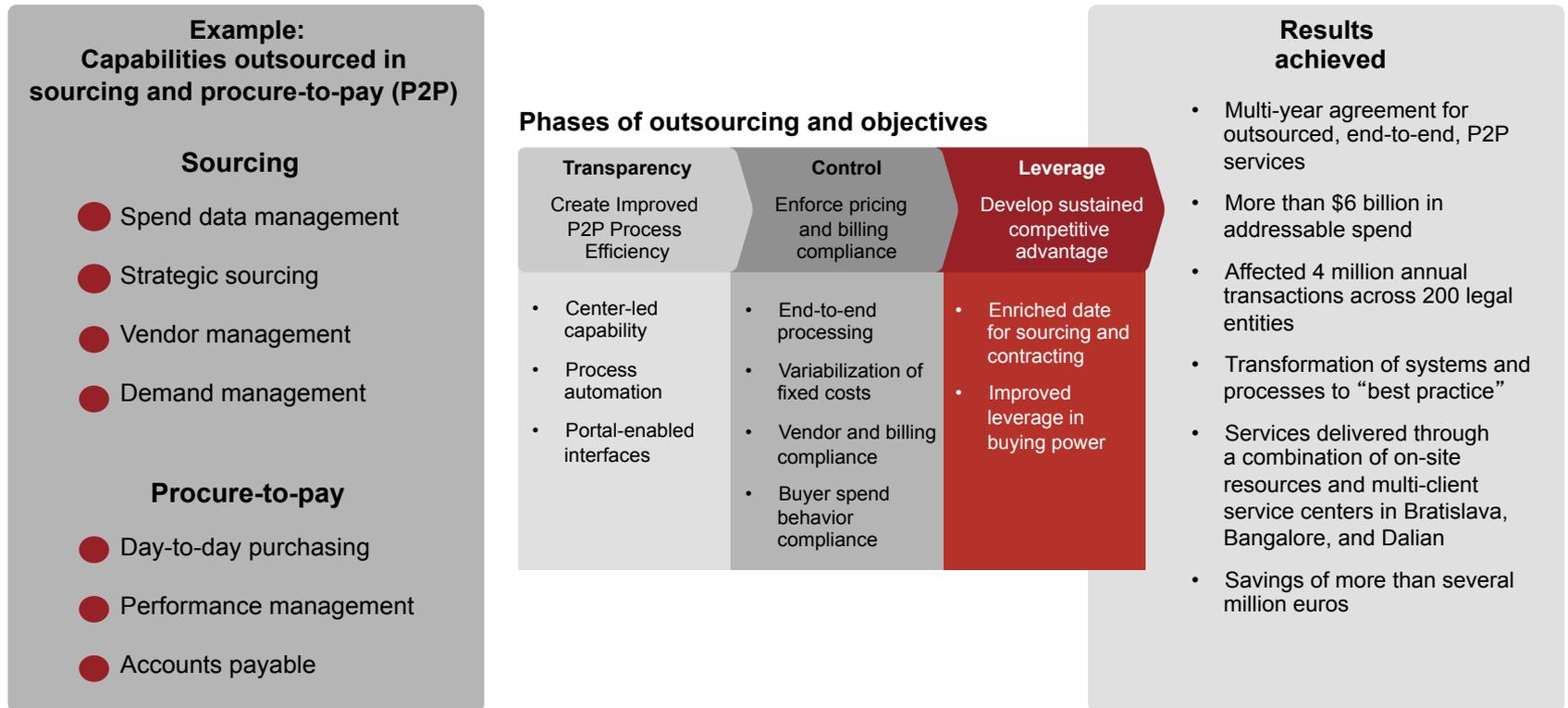
- Low cost-to-serve and speed-to-market
- Mature operations with standardized processes
- Simplified product and service structures
- Established collaborative culture between LOBs and operations

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

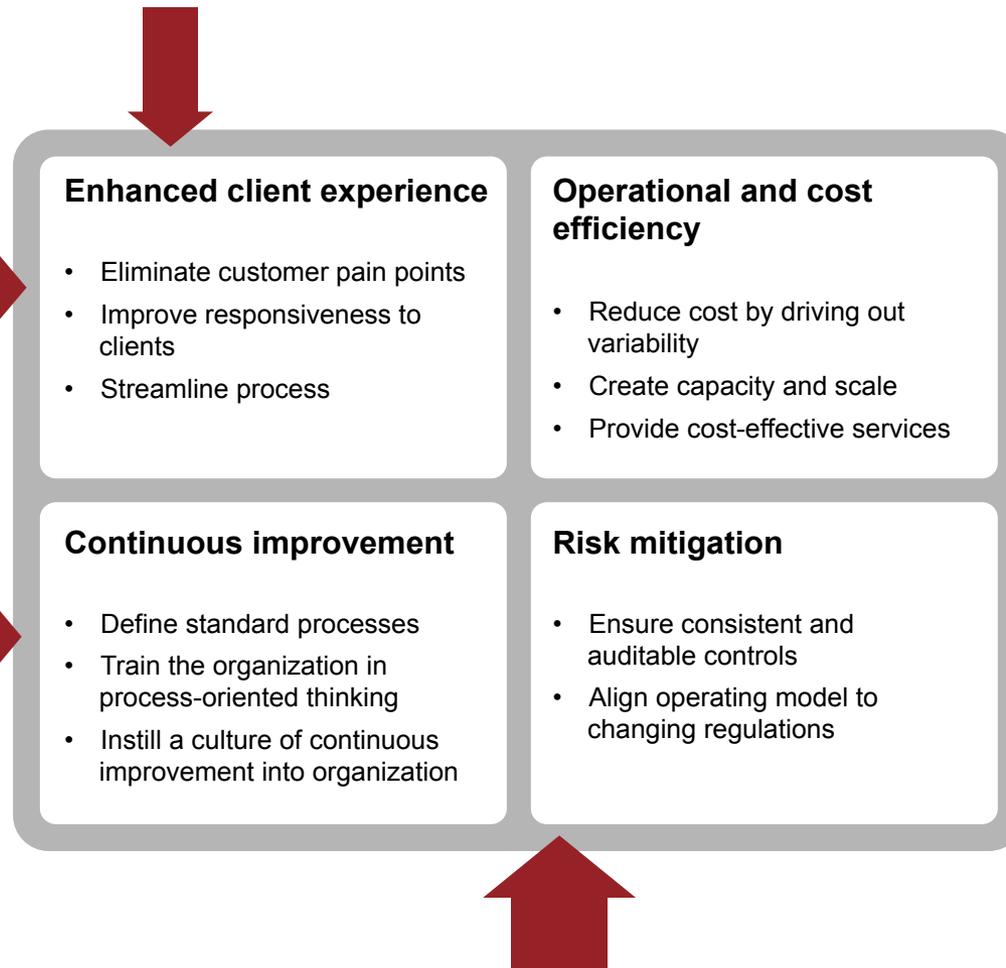
5 Delivery model optimization

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

End-to-end procurement outsourcing



Banks with successful operations transformation programs achieve four benefits:



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