

Chart a course through the crunch



Bob Landry, director of strategy for CGI's banking and financial market sector, explains how to maintain momentum in a turbulent credit environment.

Amid the widespread deterioration of the US housing and mortgage market, American consumers and businesses are under intense financial pressure.

In retail banking, consumers are defaulting on loans and declaring bankruptcy in record numbers, but the impact goes much further: Market stress is bringing uncertainty, forcing consumers to extend themselves to cover existing debts or reduce their credit usage. In turn, banks and other financial institutions are experiencing slower revenue growth and higher losses across their loan and credit lines.

While European markets seemed initially to weather the US credit crisis, evidence of the past few months makes it clear that the meltdown has had a significant effect on European markets. European and American retail banks alike are struggling with dramatic upticks in delinquencies and write-offs, a tightening of credit policy, and difficulties securing funds.

These economic conditions influence the daily choices banks must make, driving significant changes in strategic initiatives. Given today's weak market, many financial institutions are shifting away from costly infrastructure changes, resulting in projects that are less risky and smaller in focus.

However, while it's tempting today to take any action that can deliver short-term gains, keep your ultimate business destination in sight. Your goal should be to identify and make selective moves that provide steady progress and position you for success in the months, years and decades ahead – no matter the state of the economy.

Find a tailwind

Bad economic cycles happen to all businesses. But you don't have to stand still. Good ideas can spring from the toughest times, as long as you pursue strategies that advance you toward your destination.

Let's look at this in a different way. Consider your business as a sailboat aiming for the finish line in a race. Key to your goal to getting there, and getting there first, is known as "velocity made good" (VMG). VMG tracks how you are approaching your destination, not how fast your boat is moving in the water. These two speeds almost always vary because along the way are wind and currents, working to take you off the most direct course.

In your business, you need to make the best use of all your resources – just as a sailor must weigh the wind, currents and boat strength – to go as fast as possible toward your heading. You too may not have a straight line to your destination, but you don't want to veer drastically off course.

If an unexpected strong wind kicks up, don't just stop dead in the water and batten down the hatches. Instead, think about what you can adjust – your business transformation, if you will – to get going again. The sailor might reef the mainsail to reduce sail and keep the boat from heeling excessively or adjust course to move off the wind to make the sails more efficient. You may find things in your operation that need tweaking to operate more efficiently. Other things may need a significant overhaul.

To start, recognise the big ideas and innovation that will drive your business in the long term, such as delivering quality customer service, product innovations like customer level pricing and flexible

product bundling, or building agile enterprise operations by transitioning to a Service Oriented Architecture (SOA).

Many bankers recognise that a customer-centric model and improved customer service are linked to their ability to reduce barriers between applications created by "best of breed" solutions. Often, these solutions, whether purchased, built or acquired, are



linked together by a complex maze of interfaces, making it difficult or impossible to share data or processes in a meaningful way.

SOA is a next generation software architecture approach that breaks down complex operations into simple business functions, modularised and presented as services independent of the business applications that use them. SOA provides a more rational technology environment, and shifts control of business applications from IT to business users, allowing them to modify, enhance and

configure business offerings without the need for large software development projects. This modularised approach to application development and integration leads to increased productivity and shorter development timelines for new offerings.

In the short term, look for small, low-risk steps that move you closer to your vision, and when the market strengthens, you can easily turn up the speed and take more risk.

Only you can control your journey. While market conditions may dissuade you from major investments, you can take some fundamental actions now to ensure you are making the best use of current resources and positioning your business for the future.

Assess your situation

In this multidimensional downturn, it's imperative to confirm that your business processes are as efficient as possible, and that credit policy and risk management strategies are tuned for maximum effectiveness. The current market introduces layers of intricacy that necessitate trade-offs between risk management and risk mitigation, and making sound decisions requires you to understand those trade-offs.

Start by performing a critical assessment of your end-to-end credit operation, to take stock and determine where and how you can make changes to achieve greater efficiencies. If you already know you need to improve a specific part of your business, start your review there.

Focus your assessment on understanding the current state of your business processes, as well as your supporting technology, to ensure alignment with a credit policy that reflects current market realities. A focused, pragmatic assessment will help you identify best practices and tactics for targeted areas of your business, resulting in actionable recommendations that address operational pain points and improve financial performance.

As an example, a diagnostic focused on credit collections can generate a number of recommendations across collections business processes and technologies that, when implemented, result in millions of dollars in reduced charge-offs. Experience shows that small changes can yield big results.

Also review your analytic capabilities and increase discovery activities, such as champion/challenger testing, to fully understand what

combination of decision criteria give you the best risk/reward results in the current market.

Look for organic transformation

Transformation doesn't have to stop because the economy is tight. Common drivers across business remain the same: maintaining portfolio growth while controlling loss. And from a service perspective, you must continue to offer market-leading products to your customers, delivered with personalised service.

Just because the time isn't right to take the giant leap, don't dismiss how much progress you can make with smaller steps. Think of it as transformation with a small 't'.

You can still be bold and aggressive, without requiring significant financial

functionality focused on customer-centricity and is SOA-based, so it can readily hook into future technology transformation. This way, you continue progress to your goal state in a low-cost, low-risk and potentially high-impact way.

Search for big opportunities

Even during tough economic times, keep your eyes open for bigger opportunities that enable you to achieve breakthrough performance.

While that starts with assessments as outlined above, your review may indicate that you are nearing the "efficiency frontier" with certain systems or processes. Rethink these areas to determine where greatest gains can be achieved. That might include migration to service-oriented

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investment. In fact, selectively pursuing what may seem to be small-scale initiatives can deliver real-time improvements in your operational efficiency that translate directly to sustainable bottom-line savings and stronger risk management. From that well-managed foundation, you can add broader-scale initiatives as market segments rebound.

It's critical to look for transformative initiatives that not only address immediate problems but that also are positioned for long-term application and directly connect to your broad vision. This is particularly important in technology investments. Don't waste time or money on short-term fixes; find tools that are expandable, scalable and reconfigurable when you're ready for growth.

For example, your long-term goal may be a transformed credit organisation that is customer-centric and supported by an SOA-based IT infrastructure. But given today's market, capital conservation may preclude a full-scale technology and/or process transformation.

Rather than a full stop in the water – no system or process improvements – pick an area of particular pain within your credit organisation, and find a targeted solution. To ensure your solution has long-term viability, make sure it has some measure of

IT architectures, a shift to online, real-time systems, or more effective use of technology for cross-selling and up-selling to grow wallet share. Or you may opt to re-evaluate sourcing options, or establish new processes that pave the way to greater customer-centricity.

Even with these larger-scale projects, keep focused on improvements that continue to minimise risk and maximise benefit. With each transformative step in driving efficiency, you open windows for new ways to maximise how new systems and processes work together.

Short-term steps to long-term success

How you steer through today's financial climate will redefine your competitive edge. Direct your energy today into taking strategic steps that play to your strengths and ensure efficient operations to grow and adapt with market conditions. As the economy picks up, you'll be ahead of the game – and much closer to your long-term destination. ^{FBA}

Further information

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