

BANKING ON A CHANGE

THE COMPETITIVE LANDSCAPE FOR BANKS IS CHANGING AS THE PRESSURE GROWS ON THEM TO BECOME MORE CUSTOMER-CENTRIC AND BEHAVE LIKE SERVICE PROVIDERS. THROWING OUT THE OLD BANKING MODELS AND REINVENTING A COMPLEX ORGANISATION MAY SEEM DAUNTING, BUT WITH THE RIGHT APPROACH BANKS CAN STEAL A MARCH ON THEIR COMPETITORS.

The traditional image of a bank is crumbling. Like most other industries, customers' rising service expectations are forcing the finance sector to become more service oriented, and to compete for business by providing genuine value-added and personalized services.

It is no longer the case that banks can focus just on new products. The pressure is on to transform traditional structures, including culture, process and technology, to create customer-centric banks that prioritise customer service.

"One of the biggest pressures from banks' shareholders is the push for organic growth. There is a huge push to grow and not just through acquisition. Banks need to do more with their existing customers to achieve growth, but often they do not understand their customers and therefore do not act like service providers," says Jame Cofran, Head of the US Banking and Investments Group at specialist IT services and solutions provider CGI, pictured.

CGI's goal is to help clients transform their business environments through its IT and consulting services, and financial services is one of its key markets. CGI has worked with 45 of the top 50 banks in North America and Europe, including the top 11 European banks and 21 of the top 25 US banks, as well as the top seven Canadian banks and six of the top seven Latin American banks, so CGI is no stranger to transformational banking.

"Applying CGI's world-wide experience and expertise, we are helping banks understand and react to the fact that the marketplace for their services has changed, while they themselves have not. They must transform culturally, as well as in their processes and in their technology," says Matthew Grisoni, Head of European Banking and Insurance at CGI.

If banks fail to face this challenge they face being overtaken, not only by their existing rivals, but also by a growing number of non-bank entities that understand customer service and are keen to target the financial services market with that knowledge. Unless banks act, someone else will fill the gap.

Act quickly but carefully

Organisational transformation is a big task for any bank and not to be taken lightly. Cofran believes the scale of the change often



'The telecoms, retail and travel industries have raised customer service standards. Banks must also transform in order to meet customer expectations.'

- Banks must focus on transforming their business to provide excellent customer service
- Delighting customers requires comprehensive changes in strategies, business processes and underlying technologies
- Transformation is not easy and demands rigorously managed incremental change

discourages banks from acting, but that there are ways to manage the complexity.

"Everyone wants to go to heaven, but no one wants to die to get there. Transformation can be scary, but banks must look at how to do it successfully. Transformation won't happen quickly, but incrementally over the next decade. So, banks need to chunk it into reasonable, manageable projects," Cofran comments.

CGI's approach is to examine all of a bank's processes to identify the breakthrough opportunities that will quickly transform a process and generate returns. Tackling these early to generate bottom line benefits enables banks to fund other necessary transformational projects with less immediate impact.

"The main reasons for project failure are a lack of executive support at the highest level, a lack of effective internal communication - usually between IT and operations - and the fact that companies sometimes bite off more than they can chew," explains Cofran. "Banks need to look at transformation qualitatively to find the things

that will be fun to do, but they must also look at it quantitatively so that they generate returns.

"For banks it is a mental battle first. When that battle is won, then they can look at systems. For instance, we talk to banks about providing opportunities to cross-buy, rather than cross-selling. That seemingly subtle shift in perspective depends on a bank seeing itself as a service provider," he adds.

To delight their customers, banks need a major makeover that requires significant changes in their strategies, processes and underlying technologies. The path isn't easy or fast but it does exist and banks are beginning to follow it.





SUPPLY & DEMAND

THE TRADE FINANCE NEEDS OF CORPORATE BANKING CLIENTS NOW REFLECT THE CHALLENGES OF GLOBAL MARKETS, STRETCHED SUPPLY CHAINS AND WORKING CAPITAL CONSTRAINTS. BANKS THAT RECOGNISE AND UNDERSTAND THESE NEEDS HAVE A RICH MARKET TO TAP, BUT SO FAR NONE HAVE STAKED THEIR CLAIM.

- Supply chains are increasingly stretched
- Working capital constraints are prevalent
- Pressure on both sides to optimise capital efficiency

In their efforts to move closer to their customers and focus on service, banks must understand the challenges their clients face. In a world where these supply chains are increasingly stretched, clients are looking to their banks to help free up working capital and develop sophisticated supply chain finance services.

There is tremendous pressure on both sellers and buyers to optimise capital efficiency, and while banks could play a major role in this, so far their varied approaches to facilitating the financial supply chain have produced no clear concept of what that role should be.

"I have not seen a consistent strategy among banks. Some are targeting the open account space to assist with transactions and finance. Others are looking at specific areas like purchase order and invoice matching. Some, like JPMorgan Chase, have taken a broader view covering the whole gamut of services including logistics," observes Steve Starace, Director of Trade Services, Banking and Investments at CGI.

Banks are growing into supply chain finance through acquisitions and partnerships with service providers, but these are not the only options.

"We view trade a little differently. We recognise a broader definition, one that includes a wide variety of services that banks need to provide in order to fully support their corporate customers in the buying and selling of goods. Supply chain finance is a major part of that," comments Starace.

Technology obviously plays an important role in enabling this approach, and CGI's proven web-based global trade platform Proponix, was developed to do exactly that, and to enable banks to transform their business. CGI is a premier provider of trade services and supply chain finance solutions to financial institutions in Europe, North America, and Australia.

Starace is keen to point out, however, that technology alone is not the answer. Banks, he believes, must look more broadly

at organisational transformation and partnering with technology and service providers.

"Technology is an enabler, but you need to align that technology with business strategy and corresponding processes. That is why we spent a great deal of time and effort to enable our Proponix platform to adapt to each bank's business strategy, and operational and service models. It is essential that the bank is free to evolve its business without technology constraints," he remarks.

No time like the present

No market leaders in supply chain finance have emerged yet, partly because of the scale of changes that banks may have to make to their structure, systems, technology and processes to claim the market, but many advantages await those who bite the bullet.

"Due to the size and complexity of their organisations, banks have a daunting task to transform their business model and processes, and they tend to be slow in acting. But they must adapt in order to prevent being left behind by bank and non-bank competitors, which are quickly moving into the supply chain finance arena," notes Starace.

"The unfortunate reality is that many large and mid-level banks are mired in a quagmire of customer demands, tight investment climates, and divided opinions on the direction of the business. This is where we can assist," he adds. External advisors like CGI can give direction to transformation projects, acting as a strategic provider of complex technical solutions.

"Our solutions are transformational because the trade world is changing. The technology must mirror the market. There are great opportunities to redefine trade finance and fundamentally change the way banks operate. But it requires thought leadership, rapid technical evolution, and readiness for organisational change from the top down. Supply chain finance is on the forefront of that battleground," continues Starace.

Banks have a great opportunity in supply chain finance, but need partners who understand the industry and the technology, and who can help them define a winning business strategy.



'Processes need to change first, then technology, and perhaps the organisation's culture.'

SUPPORT THE SUPPLY CHAIN



AS BUSINESSES CONTINUE TO GO GLOBAL, THEY ARE LOOKING FOR CREATIVE WAYS TO OPTIMISE SUPPLY CHAIN MANAGEMENT AND, INCREASINGLY, LOOKING TO TRADE BANKS TO ASSIST THEM IN THIS PROCESS. CGI'S **KITT CARSWELL** EXPLAINS WHAT BANKS CAN DO TO REVOLUTIONISE CUSTOMER RELATIONSHIPS.

Global trade banks are moving fast to position themselves in the market by offering supply chain finance (SCF) solutions that help customers increase visibility, efficiency, cost optimisation, liquidity and predictability. Banks can transform from institutions that offer letters of credit and collection services – meeting a fraction of their customers' trade needs – to partners that provide SCF services across the entire supply chain. The following services can revolutionise customer relationships.

Purchase order and invoice data management

Purchase orders (PO) and invoices are the lifeblood of commercial trade and their data is foundational for SCF solutions:

- Banks must provide the ability to capture PO and invoice data and incorporate it into a growing array of trade finance, open account and financing solutions and services.
- Reconciliation capabilities are equally important to provide a number of SCF services, whether using Swift's TSU or internal capabilities.
- As a result of PO/invoice reconciliation, the bank can provide value-added tracking and reporting of purchase order utilisations and status.

Bank-assisted open account

This is a hybrid product that eliminates exposure fees associated with letters of credit, yet provides some of its benefits. Typically, it is based on purchase orders and issued like a letter of credit.

Open account payment

Open account payments are similar to straight payments, but are based on "approved for payment" invoice data received from the buyer.

Straight open account

New services offerings are emerging to address the vast majority of global trade, straight open accounts. These solutions and

services seek to give buyers and sellers higher efficiency, better working capital optimisation, payment services and financing.

Sell-side finance

The usual order-to-pay trade cycle places the financial burden on the shoulders of the seller, who must prepare and ship orders, and then wait prolonged periods for payment. This creates a demand for seller financing that can be met by the bank in various ways:

- The seller's bank can provide pre-, at- or post-shipment financing to the seller in the context of export trade finance transactions.
- The seller's bank can also provide receivables financing in various forms.
- In certain situations, the buyer's bank may be willing to finance the seller directly, offering financing on POs or invoices linked to open account instruments.
- Traditionally, buyers push to extend payment terms for as long as possible, while suppliers face higher interest rates and limited access to short-term financing compared to that obtainable by larger buyers. Ultimately, this results in the seller incorporating the cost of financing into their pricing and a higher overall cost for the buyer. Payables financing, also known as buyer-backed seller finance, gives the buyer longer payment terms and lower prices, resulting in cheaper and more reliable financing for the seller and new revenues for the bank.

Buy-side finance

The bank provides financing to fund the buyer's obligations under an open account or import trade finance or other instrument.

By incorporating these strategies, trade banks are poised to transform themselves into valued partners across their customers' entire supply chain – boosting customer retention rates and dramatically enhancing customer relationships.

Kitt Carswell

Kitt Carswell is a product manager and executive consultant with CGI's Trade Services Group. Previously, Kitt was managing partner of TradeEvolution, a trade banking consultancy, and a founder of the trade finance group at American Management Systems.





- Trade margins are shrinking
- Innovation can bring in new customers

OUTSOURCE TO COMPETE

WITH SHRINKING TRADE MARGINS, AUSTRALIA AND NEW ZEALAND BANKING GROUP (ANZ) WAS CHALLENGED TO IMPROVE SERVICE LEVELS AND INCREASE THE SCALE OF OPERATIONS WITHOUT ADDING COSTS TO PROVIDE CLIENTS WITH HIGH QUALITY CUSTOMER SERVICE. CGI PERFORMED A MAJOR PART IN THIS PROCESS.

The challenge for ANZ was to improve the level of service cost-efficiently and without jeopardizing the strength of its relationships. In addition, ANZ committed to helping its clients streamline financial supply chain inefficiencies wherever possible. Automation and process enablement play key roles in delivering the required productivity and cost efficiency enhancements.

The strategy

ANZ reengineered its business processes, at the centre of which was a wholly owned trade processing subsidiary called TradeCentrix. In addition, ANZ designed a high performance operations architecture supported by a robust trade finance technology solution, Proponix, developed and delivered by CGI. As a key component of the new architecture, TradeCentrix is using Proponix to support its global trade finance business.

The move to a bank-wide common platform was driven by the bank's decision to centralise its transaction processing into the 24-hour TradeCentrix operations centre located in Australia, and to outsource the centre's supporting technology to CGI.

ANZ's then head of trade service delivery, trade and transaction services, Chris Mouat, highlights the importance of CGI in the process: "ANZ is driving up customer satisfaction levels and offering trade transaction processing services to other banks over the CGI Proponix platform. Proponix is an important element in our expansion plans, helping us to achieve significant efficiency improvements."

ANZ is one of very few banks across the globe that has separated trade business processes from the technology. Working with CGI to migrate to the managed Proponix Trade Finance Platform, TradeCentrix was able to reduce risk through a phased global rollout. Proponix also allows operations to be distributed across any number of physical locations, enabling TradeCentrix to further develop an operations architecture that maximizes cost benefits.

CGI is responsible for all aspects of operating the Proponix service, including technology and operations support, help desk operations, software development and maintenance,

and general management of the data centres. Leveraging the centralised nature of the Proponix Trade Finance Platform, TradeCentrix and CGI have a development and release strategy that includes frequent software upgrades tailored to ANZ's particular needs.

The results

By outsourcing the maintenance and management of the trade operations technology infrastructure to CGI, TradeCentrix achieved significant reductions in operations costs. In addition, ANZ derives several other business benefits, including:

- **Superior customer service.** After 70% of trade transactions had been migrated to Proponix, TradeCentrix achieved a 10% increase in customer satisfaction. In 2006, ANZ was consistently rated Australia's number one trade finance bank, taking ten first place awards.
- **New revenue opportunities.** Proponix has enabled ANZ to drive new revenue opportunities by offering new products and capabilities such as export finance and by marketing third party processing to other financial institutions.
- **Transaction processing efficiencies.** Through tight integration of all applications, fully integrated imaging and workflow, and process automation, the Proponix platform has significantly improved scalability by increasing transaction processing throughput by at least 30%.
- **Predictable operating costs.** The Proponix platform is hosted and provided as a service by CGI. This ensures that IT operating costs remain stable, predictable and in-line with business volumes, while new capabilities are implemented.

By decoupling trade services business processes from the underpinning technology, ANZ is improving efficiency, increasing customer satisfaction, and laying the foundation for the planned growth in its trade volumes without significantly increasing operational costs.

Leading light down-under

Australia and New Zealand Banking Group (ANZ) is one of the world's leading trade finance banks, delivering trade services for 10,000 customers across 29 countries and processing transactions worth 25–30 billion Australian dollars annually. ANZ emphasises the importance of a profitable trade services business as an integral part of a global transaction services offering that also includes cash management and clearing services.