Banks have always sought efficiency, and the current financial climate has accentuated the need to cut costs. Outsourcing is an obvious option, but can banks overcome their caution and let in external service providers? **Steve Vanstone** answers Jim Banks' questions.

OPEN THE DOOR TO OUTSOURCING

While many industries have been quick to explore the cost advantages of outsourcing business processes (BPO) and technology services (ITO), the financial services sector has lagged behind. Tapping into markets with low labour costs clearly brings savings, but banks have largely felt it too risky.

There is a growing call, however, for banks to change the way they evaluate the outsourcing's risks and benefits.

'Whether consciously or not, banks, like any other business, face 'make or buy' decisions all the time. Banks usually choose to 'make' services themselves. But long-term conditions are changing, and short-term cyclical reasons should also make banks look at outsourcing,' says Steve Vanstone, vice-president, global banking and financial markets for technology and business process consultancy CGI.

This should not be a hard concept to grasp for an industry that has always prioritised the drive for efficiency.

'Banks need to be as efficient as possible, and they have always done a good job of it. But now is the time to start looking at 'buy' options. Outsourcing to low-cost labour markets is well established, but banks don't take full advantage of it. They should reconsider what it is they are good at and what might be better served by an outsource partner,' adds Vanstone.

He sees many areas in which banks could benefit from outsourcing, not least technology infrastructure hosting and applications management, as well as the related processes and people.

'There is little desire for blockbuster outsourcing that would hand over all these elements at once, but banks could do it in smaller, contained projects,' he notes.

Furthermore, Vanstone believes that banks would do well to externalise many of their business processes.

'Banks often focus outsourcing on more corporate functions like call-centres, but there are other business processes – even some that might have once been considered 'core', like collections or parts of the loan origination function – for which there are now mature service providers,' he explains.

{ 'The supply chain for capital is global, and so is the market in which banks source services for their business. Competition will drive banks towards outsourcing.' }

Proving the business case

To persuade a bank to initiate change there must be a compelling business case to show that the perceived risk of outsourcing may be much greater than the actual risk. Vanstone believes that outsourcing providers have matured a lot in the last five years, and that banks will find partners that have enough faith in the advantages outsourcing can deliver that they can guarantee the benefits.

'There are some highly capable firms like CGI on both the BPO and ITO sides. But there have been relatively few providers who were willing to share the risk. Banks feel better if someone else has taken on some of the risk. They might have done out-tasking before for processes like application development, but when they sign a service level agreement it is truly an outsourcing deal and the risk is shared,' notes Vanstone.

Albeit in government not banking, CGI's project to reengineer tax administration processes for the Commonwealth of Virginia Department of Taxation shows its willingness to guarantee benefits up front. The initiative set out to improve customer service and operational efficiency by implementing many new components, including online customer service tools, CRM integration to deliver a single-view of each taxpayer, a new automated collection system and a sophisticated remittance, data entry, and imaging solution.

Since the Department lacked the funding and experience needed to leverage enabling technologies, CGI initially funded the contract against future compensation as incremental revenues were achieved. The project outperformed its targets, surpassing the revenue to pay off the contract 8 months ahead of schedule.

Able to give banks confidence in the quality of service and cost, CGI feels a key remaining hurdle to banks adoption of outsourcing is a view that the services supply chain for banks is global.

'Banks are part of the service industry, which is moving to a global supply chain, but they often don't think in those terms,' Vanstone explains. 'The supply chain for capital is global, and so is the market in which banks source services for their business. Competition will drive banks towards outsourcing.'

THE CHANGING TIMES OF TRADE

The banking industry is the fulcrum for international trade, but the rules are changing. In the global, 24/7 marketplace, banks will need to be ready to change the way they do business to keep up with their customers. **Steve Starace** tells *Future Banking* how to plan platforms for the future.

'Sophistication requires transformation. It starts with a basic understanding of what a bank wants to achieve and how to organise around those goals.'

The rules of global trade are changing and banks face critical decisions over how to adapt to meet their customers' demands for supply chain finance solutions. The definition of trade finance as a product-centric activity, handling processes like risk management or arranging letters of credit, is now outdated.

'There is a huge opportunity in trade finance. Some banks will seize it, other won't,' says Steve Starace, head of trade and supply chain finance for independent IT and business process consultancy CGI. Their corporate customers are exploring supply chain finance solutions, so banks must follow.

'Every bank and every corporate is at a different stage of implementing supply chain finance solutions and enabling open-account transactions, but the needs of banks are very different. Their spectrum of finance services needs to be much more sophisticated,' says Starace. The challenge for banks, he believes, is to look beyond new products and technology and make the cultural and organisational shift required to deliver profitable financial supply chain services. 'Sophistication requires transformation. It starts with a basic understanding of what a bank wants to achieve and how to organise around those goals,' he adds.

CGI's approach begins with identifying the business problems presented by rapidly changing global markets and examining how they impact different industries and the financial services institutions that support them. The next step is to define the solutions that will deliver the necessary business transformation. Only then are the technology decisions made. The company advises at all three stages, and has its own global, 24/7 trade platform, Proponix®. Building on the system's success over the last seven years, Starace says that CGI and their clients felt it was time to take it to the next level.

'We wanted to leverage the Proponix solution to support supply chain finance. A bank doesn't need separate platforms for each additional capability. It needs a total end-to-end platform for trade, which captures all goods bought and sold, and all of the fi nancial fl ows that suppor t those transactions,' he remarks.

Built for the future

The latest version – Proponix360™ – is a customisable Software-as-a-Service (SaaS) tool, which reduces the total cost of ownership for the technology. In the last year, CGI has added supply chain finance capabilities. Now, it is looking ahead for new functions.

'We have a very interactive dialogue with clients and use market feedback to inform our decisions on what strategic enhancements to make to our solutions. We continue to update Proponix360 to address the capabilities needed to stay abreast of the changing trade market. For example, we are currently looking at more options for payables and receivables financing and management,' remarks Starace.

'Banks could take over management for their corporate clients. Using our platform to do it effectively this would be a sticky, profitable service and a clear value-add.'

Any bank considering a new platform to transform its trade finance services can look to the track record of solutions like Proponix. For the last five years the system has helped support the international trade business of Australia and New Zealand Banking Group Limited (ANZ) and BMO Financial Group (BMO), helping them to improve customer service and unearth operational efficiencies.

ANZ and BMO are taking up the new supply chain finance capabilities of Proponix360 – including Open Account Payments, export financing, receivables financing, buyer-backed financing, and enhanced Purchase Order/Invoice management and reconciliation – to broaden their range of trade banking services. Embracing a long-term relationship with CGI, both organisations have shown the value of strategic thinking.

'Some banks still see the technology as a tactical add-on, but their appetite grows when they see they are strategically transforming,' says Starace. 'People are sometimes discouraged from strategic thinking as there is too much risk involved, especially in the current financial environment, but when they see others banks succeed they realise that they must think again.'

MIND THE GAP

Meeting the demand for personalised, customised services

The banking industry is in the throes of major transformation and competition is now over customer service rather than products. The key phrase is customer-centricity, but do banks really know how to achieve it? *Future Banking* speaks to **Jame Cofran**.

Step back in time just one generation and retail banking was akin to law and medicine. Bankers dealt with clients one at a time and dispensed valuable advice and loans after careful consideration and consultation with their clients. Appointments were made and trust was an enormous factor in the relationship.

Today things are dramatically different. Technological advances have enabled banks to develop and execute many transactions remotely with no face-to-face contact. Computer systems instantly analyse each customer's situation and automatically carry out the programmed action. Overriding the systems' recommendations is typically frowned upon. Much of this 'progress' was in response to client demands for easier access and faster service and to shareholder demands for higher returns… yet along the way the professional bond between banker and client fell by the wayside. Clients have become customers and bankers have become salespeople. Retail banking has become a commodity.

Experienced providers of commoditised services (telecommunications providers, PC manufacturers, hotel chains) have long understood that. While a few might compete on price, feature or function, for many the only competitive differentiator is customer service.

There is a growing gap between the level of service most customers expect and the service that banks provide. Banks know they must put customers at the core of strategy, but the banking sector lags other industries in implementing a customer-centric business model. Even the more proactive banks have discovered the gap between what they offer and what customers expect.

> 'Customer service is the differentiator, but banks are still behaving as if they are not offering commoditised services. It is no surprise that banks have very low levels of loyalty.'

Putting customers first

Banks compete in a world where customers are well informed about competing products and services. In fact, they may know more about their relationship with their bank than the bank's own customer services team. Furthermore, customers have become used to dealing with organisations in other sectors that offer more personalised services and offer more attractive and less expensive goods and services. Banks must emulate the progress of such industries towards customer-centricity.

'We are telling banks to mind the gap, because it is getting bigger,' says Jame Cofran, SVP, head of global banking and financial markets for information technology and business process services firm CGI. 'The demand is for customised, personalised services, which people are willing to pay for because the services they receive are right for them and they want good advice on financial decisions.'

Cofran believes it is a big challenge for banks to develop personalised, customer-focused services. Access to the right data is not the issue. Banks already know a lot about their customers, but they have not leveraged that data to increase wallet share, improve customer retention, get products to market faster or increase the effectiveness of marketing campaigns. Nor have they adapted their business model to respond more quickly to changing expectations.

This is partly because banks' budgets are often consumed by existing IT infrastructures and regulatory requirements, leaving little capital to invest in transformation. As a result, banks risk falling behind competitors and customers. What's more, the standards set by other sectors mean the gap is wide and getting wider each day. 'Banks are increasingly judged in the same way a telecommunications or retail company is,' Cofran says.

He also believes that, though banks talk about being customer-centric, most behave as if they are not offering commoditised services. 'It is no surprise that banks have very low levels of loyalty,' he remarks. 'Service is the new differentiator, and customers will go elsewhere to find it.'

Who might banks lose business to? Other banks that are more transparent and personalised, or niche players that meet specific needs. What if a big non-bank player that excels in customer service enters the banking market? Are standard 'banking' products and services so commoditised that consumers would switch over to gain the service they desire?

There could be much to gain from looking outside the financial services industry for lessons in how to use personalisation, collaboration and transparency to take customer service to the next level.

Learn from the masters

Banks may be slow to change, but their efforts can be better focused if they look to other industries for the benefits of customer-centricity. For example, banking has more in common with online retail than is first apparent. In addition, both industries rely on sophisticated technology and quality of service as much as product differentiation to boost market share.

'Technology is key to banks, but in many cases they've followed the notion that banking is about technology not services,' says Cofran. He believes that the likes of Starbucks, Amazon and eBay show how personalisation, collaboration and transparency can be powerful competitive tools.

In the case of Starbucks, the value proposition lies in personalised service. If their coffee isn't right the first time it is remade until the customer is satisfied. In the online arena, collaboration between partners in the value chain is vital. Amazon and eBay, for instance, often sell products that don't come directly from their company but from suppliers with whom they collaborate. 'What they offer is the collaborative expertise, not the product or the quality of shipping procedures,' notes Cofran. One of the most important strategic relationships for a large online retailer is with its logistics company, and Cofran believes companies like FedEx have benefitted from embracing collaborative relationships.

'Banks should focus on providing outstanding banking services and must look at what allows them to achieve this,' adds Cofran. Technology change is a must, as most systems and processes within banks are good at containing information related to specific products but not at sharing information across the enterprise. This may cause some upheaval at first, but it is the platform on which a customer-centric organisation is built.

'It may be difficult for banks to make the shift from legacy systems to a flexible, service-orientated architecture, but it is no different to the cultural change they have to make to become service providers.'

To show the value that this technological shift can deliver, Cofran points to logistics companies that have shown the value of transparency, allowing customers to track packages from purchase to delivery. So far, banks have been slow to exploit the value of their data to develop new services.

'Imagine being able to track your loan application from point of origin through to decision. Customers feel more comfortable with an organisation if they feel they can see inside it,' Cofran observes, 'but banks seem to have problems with transparency even within their own organisations, let alone with customers. When we call a bank we often know more about our financial status than the people we speak with. This can be frustrating.'

'Contrast that with Amazon.com, which examines past purchasing histories and buying behaviours. They make recommendations that are relevant to you, whereas banks throw out offers that may not interest you,' Cofran says.

Closing the gap

Bank legacy systems, processes, and organisation structure tend to be departmentalised, focused on products rather than customers. No matter how good the intentions may be, it is virtually impossible to be transparent, collaborative and provide personalised services until this changes. So how do banks close the gap?

First, they must focus on their customers' best interests, not their own. Companies that excel in customer service have an executive sponsor who has said 'we will be customer oriented'. If this culture does not exist, any other change – technology, processes, structure – will not make a difference. Culture is difficult to change, but it is a task banks must undertake. 'Banks must understand the gap between what they offer their customers and the services that these customers receive from other service providers,' says Cofran.

Secondly, banks must translate the customer approach into their systems infrastructure and business processes. Sharing information to improve services and customer information is crucial, and the value of doing so has been clearly demonstrated in other industries. Personalisation, transparency and collaboration require data and process sharing; move off legacy systems that are not flexible or customer-centric.

Lastly, banks must examine their organisational structure to determine if it supports a customer-centric approach. This doesn't mean that the existing organisation must be dismantled. Rather, enable sufficient organisational change to improve communication between internal departments, customers, and partners. When this integration is achieved, it will support a culture that puts customers first.

The fruits of transformation

A customer-centric organisation is proactive, reaching out to its customers and putting their interests first. The goal is not to squeeze the most revenue out of them in the short term. 'Most banks put their interests first,' Cofran remarks, noting that customers often find it hard to change their relationship with their bank.

'It should be easy to change the payment date for a loan, for instance, and there is no technical reason why this can't be done simply online. Customers want banks' services to reflect their changing circumstances. Interest on the loan could easily be recalculated, so why can't customers do it?'

No one is suggesting that it is simple or easy for banks to transform to a new business model, but many feel it is necessary for their long-term future. It requires a concerted effort and needs to be led from the top, so the benefits must be made clear. The technology is there for banks to move to a service-oriented architecture, but engaging the will of senior executives requires direct links to the bottom line. Fortunately, these links are not difficult to find. Cofran notes that one CGI client – a top five US bank – has gained competitive advantage by aligning its culture and technology with growing wallet share. This innovative approach has seen it grow the average number of its products held by customers to five, compared to the average for other banks of two. Its goal is now eight products per customer.

'Good intentions are not enough. Banks have heard the message but are not doing enough about it. That is where a sourcing partner like CGI comes in. We can handle the technology aspects of this transformation. Banks know what they want to achieve and we can give them excellence in execution.'

CGI's faith in the benefits of transformation is shown in its willingness to pay for the project from the eventual benefits. It can share the risk and, in some cases, pay the savings to its clients up front. All in all, it is a powerful proposition. The question is, when banks put it into action?