Operate Better
What it entails for new age banking operations
Automation and Artificial Intelligence is augmenting human capital and enabling new orders. It’s estimated that AI can potentially unlock $1 trillion of incremental value for banks, annually.

Operational risks and cost to compliance significantly impact profitability. For instance, global financial services companies will pay $180.9 billion in compliance costs in 2020, thanks to complex regulations and increasing manpower costs.

The typical cost-to-income ratios of banks with digital only operations is nearly 40% lower than that of traditional banks.

Increasingly, banks will reduce devoting staff time to repetitive and automatable tasks. For instance, machines will perform from 10 to 25 percent of work across bank functions in the next few years, increasing capacity and freeing employees to focus on higher-value tasks and projects.

Banking services with customer-centricity will drive new propositions in client acquisition and servicing. For instance, DBS digibank, a leading mobile-only bank offers account opening in just 90 seconds, requiring minimal data and zero paperwork.

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People are also a victim of legacy; because the workforce has not been modernized, bank employees lacking up-to-date digital skills, and a contemporary mindset, are unable to perform as well as they should.

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Consider the following:

Yet, many banks are struggling to embrace new possibilities

A host of complexities is preventing banks from getting their operations in order. Unfortunately, most are tackling the issues with a less than optimal, piecemeal approach to transforming operations. Let us look at the common issues and their impact on business outcomes.

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These are just a few. Discussions on banking operations, the priorities and outcomes in the future will be starkly different from what it is today.
It’s time for a holistic approach for creating better operations

A master framework for better operations should take both an inside-out and outside-in view; that is, it must consider the customer perspective in addition to internal operations requirements. This framework for reimagining banking operations rests on 5 transformation pillars - they enable them transcend from value maintenance, to value enhancements.

The most important pillar of better operations is a complete review of business strategy and alignments. Banks need to review key business strategy elements such as business model, target customer segments, products and services portfolio and channel mix, ensuring they are all well-aligned.

Next comes smart processes, and newer ways of working. Better operations need smarter processes that are customer-centric, digital-friendly and open to automated execution.

The workforce modernization pillar focuses on skilling the people managing operations, making sure they are receptive to using new technologies; it also provides the necessary platforms to nurture a culture of continuous learnability. Workforce modernization manifests as increased effectiveness, extended outcomes, and enhanced customer propositions.

The fourth pillar, namely, technology advantage, seeks to build operations powered by new-age technology capabilities. It entails structural IT transformation for driving better operations, with a focus on digital-first platforms, continuous technology evolution programs and cloud-based innovative models.

Completing the framework is strategic governance. This ensures that the technology, people and process improvements driving better operations are measurable, risk contained and compliant, and have alert mechanisms in place to address deviations and uncertainty.
Driving Better Operations with Strategic Alignments

The pre-eminence metric of a bank’s operational performance is the cost to income ratio. Traditional banks, whose cost-income ratio is much higher than that of new-age digital players, are finding it a challenge to bring it down. They need to approach the problem from several angles:

The core purpose and perceived role in the market must inform a bank’s choice of business model. Getting the business model right is of paramount importance because it impacts several strategic decisions about target customer segments, products and services mix, and channel strategy.

No bank can serve every type of customer equally. It is therefore necessary to identify the target customer segments that align with the bank’s core objective and business model. Also, since this decision has a direct implication on cost, the bank must have an informed view of the cost-to-serve and profitability of each segment before taking it.

The choice of target segment will influence the product mix, as the bank attempts to offer the most competitive products and services to each type of customer. Focusing on products and services where there is a clear competitive advantage, while letting go of others, will help the bank to build more profitable operations.

The bank must now identify the channels through which it will deliver the chosen products and services to its target customers. Banks that choose to have both physical and digital distribution channels must cost optimize the mix, which could be quite tricky if it implies reducing the physical footprint.

Having made these choices, the bank has to strategically align them all – business model, customer segments, product mix and channels – to achieve better operations.

Building the right business model
Every bank needs to identify a business segment or space in which to operate. The decision depends on the bank’s unique circumstances – assets, competitive strengths, target markets etc. – that also influence its choice of business model. A viable business model is at the heart of better operations, and is the key to returns that exceed the cost of equity and grow faster than the market. Banks may need to reorient their business models to changing customer expectations and a dynamic digital operating environment.

Strategically targeting customer segments
Choosing the right mix of product and service offerings and the right customers to serve has a bearing on profitability. Banks should choose to operate in segments where they find the greatest value based on an analysis of consumer demographics, macroeconomic conditions, geopolitical factors, and policymaking regimes; in turn, the choice of business segment will determine the product portfolio, distribution strategy, channel mix etc.

Offering market competitive products
Banks should play on their competitive strengths and focus on products and services which are highly differentiated. A strategic review of the traditional business portfolio will help them understand which products to push and which to exit. A smaller product spread, coupled with digitization and workforce empowerment leads to better operations, higher efficiencies, and superior customer experiences.

Optimizing the channel mix
Banks need to create a cost-effective channel-product-customer affinity matrix, for a specific target customer base. Channel optimization calls for tough decisions, such as consolidating or even closing physical channels, while expanding reach. As digital channels and tech-enabled interfaces (such as chatbots, DIY tools etc.) increase in importance, banks may also need to review the role and deployment of staff in various functions. New measurement criteria for analyzing the performance and value of each channel, digital or non-digital, will be required.
Powering Better Operations with Smart Business Processes

The strength of a bank’s business processes strongly influences operational efficiency and quality of experience. Unfortunately, many traditional banks are yet to reimagine business processes that can unlock desirable outcomes. There are multiple aspects to this – for instance, while banks undertake business process improvements, it’s likely they fall short on the key consideration of ‘empowered customers’ in the digital age. Apart from customer centricity, the expanse of digitization in the bank’s operations to enable smart business processes may be limited. And automation strategies may be inadequate across both customer facing processes, as well as processes internal to bank’s operations. Banks can rectify this by:

Building customer-centric design into key business processes

The business processes of the best performing banks are highly customer-centric. Other banks can redesign their processes for customer-centricity by creating user journey-based process maps to ensure every customer interaction across a transaction lifecycle is personalized and frictionless, factoring the customer's primary – and not just financial – needs, and digitizing processes to support self-service.

A Cx journey based process-map will bring in the best of capabilities from across the organization, cut the siloes and deliver great experiences. The point of primary intent (for example buying a home, instead of securing a mortgage) will become central to building a holistic customer journey, and the business processes will be tailored for backward integration. Further, digital self-service will satisfy the demands of consumers and corporates alike, to empower them, and shift controls – so that they can perform 'RM (relationship manager) like' actions, on their own, with little or no assistance. As banks develop and adopt these new paradigms, they will also need to tailor staff execution, reconfigure performance measures and redefine metrics for the value delivered.

Driving ubiquitous automation

Automation is at the heart of the smart business process. A piecemeal approach is suboptimal; what banks need is a comprehensive automation roadmap covering front, middle and back office processes. Front office automation can change the quality of customer engagement, improve staff productivity, bring in agility, and reduce errors. Similarly, middle office automation is the key to achieving better risk management and adherence to policies and standards; it is extremely important for successful front-to-back automation. Back office automation will eliminate manual effort from tasks that are better done by machines to improve all parameters of efficiency.

Next is intra and inter-organization automation. The former focuses on bringing together business processes across functions, eliminating siloes, and creating unified experiences for both operations staff as well as customers. The seamless business flows of intra-organization automation cut processing time, eliminate organizational barriers,
increase STP, improve efficiencies and deliver consistent outcomes. Inter-organization automation via blockchain and other distributed ledger technology is transforming certain areas of banking, such as international trade and payments. The distributed shared network of blockchain brings key stakeholders together in a trusted environment and drives drastic improvements in efficiencies and customer value. It also helps banks take their platform strategy forward.

As banks reach saturation with in-house shared services, and exhaust opportunities to save costs through offshoring and outsourcing, a new automation option is emerging in the form of industry utility-based business processing. Here various banks and partner entities come together to form an ecosystem to perform a set of non-differentiating functions more efficiently for everyone’s benefit. With this approach, banks are set to contain costs, achieve process harmonization across the industry, improve risk mitigation, and elevate service delivery. Economies of scale, best practices and shared standards, and better preparedness to deal with an evolving regulatory landscape are some of its other promises.
Augmenting the Workforce for Better Operations

A bank's staffing strategy is an important lever of better operations, which require the right (skilled) person to be at the right place at the right time across the bank's execution arms. Workforce augmentation aims to create a body of right people by leveraging skillsets, tools and technology, and culture.

Contemporary skillsets for differentiation

Talent is among a bank's strongest competitive advantages. Banks need to continually refresh the skills of their workforce to maintain the talent pipeline and differentiate their organization in the market. A contemporary skillset can be built by developing multidisciplinary skills, providing on-demand contextual learning and creating an agile workforce model.

The first calls for setting up a strong multidisciplinary skilling program, mapping competency across functions to identify skill gaps, and closing those gaps with the help of tools, technological enablers and learning platforms. On-demand contextual learning will keep the workforce up-to-date with new knowledge. Along with enabling the workforce with multidisciplinary skills and providing contextual on-demand learning platforms, banks must also pursue an agile workforce model to address both understaffing and overstaffing challenges, and restrict the use of expensive temporary workers to cases of genuine need.

Technology for a blended workforce

The future of banking operations envisages technology as a major component of the workforce. So far, most banks have augmented their human capital with technology enablers in piecemeal fashion. To capitalize on the new opportunities of human-technology coexistence and amplify the outcomes, banks should prioritize workplace and work digitization at scale, empowerment of employees with insights, and creation of business process synergies between humans and machines.

The disruptive technologies will drive multiple use cases - improve the workforce productivity, foster human creativity, amplify human expertise, aid problem solving & logical reasoning, reduce the human biases, create self-help avenues for both business users as well as customers, draw insights into key business processes and customer behavior, drive agility into business processes with real-time information.

As operations staff, client relationship managers move away from “noncore” administrative, repetitive, and automatable tasks, they will don a more modern role - one of a specialist and sometimes that of a strategic advisor. Analytics and insights will equip them to derive better insights about clients, and predict their unique needs and desires, preferred engagement channels, affinity to specific services. It will help redefine operations, and better serve the client needs. Analytics will also enable operations managers to know more about the processes, its performance, and redefine the KPIs of staff who execute them.

The business processes will need to be calibrated for the new order where the humans and machines will co-exist, and where symbiotic relationship is established between the two. The overarching vision, the goals and purposes defines the right interfacing between the humans and machines, as jobs and roles will be redefined.

The digital maturity path of the organization becomes important, which will aim to strike the right balance between customer experiences, as well as shape workforce experiences. And as regulatory frameworks continually evolve, it will reinforce the ‘responsible use of technology’ and banks will need to respond adequately.
Culture reset for new propositions

Unless banks have a culture that supports their new business models, they will likely produce disappointing results. What’s more, cultural change should be continuous and ongoing. This reset will become central to banking operations when the banks’ top managements lead with purpose and vision and there is a strong focus on open, collaborative innovation.

Leaders should be proactive in shaping and measuring culture, approaching it with the same rigor and discipline with which they tackle business transformations. Their vision must include both inside-out and outside-in views to identify the key themes in the culture transformation matrix and maintain focus on both external and internal stakeholders.

Knowing that a culture reset entails risks, leaders must encourage experimentation and clarify how much deviation in outcomes is acceptable. They should also set up a governance framework to monitor and control the situation. Leaders must lead by example, encourage the sharing of best practices for making cultural change a matter of identity and participation, and inspire adoption.

Successful culture change programs put people at the center. When the reset aims at creating an innovation-focused culture, the participation, commitment and understanding of all stakeholders becomes paramount. As job roles change, and shared services models emerge, the culture must become more open, collaborative, and cross-functional to be truly effective. This requires creating the flexibility within functional units to drive sustainability and cross-pollination of cultural tenets.

Here, the banks’ innovation leaders should focus on making collaboration central to team effort and on driving home the message that when small efforts are pooled together, they can produce big outcomes. They must also ensure there is a common access platform for all the stakeholders to understand the new code of conduct, and the behavioral shifts required for adhering to common minimum standards amid new cultural alignments. Last but not least, they should institute a review and feedback mechanism as well as a system to recognize employees who embrace and advocate the culture change.
Most banks are on digital transformation journeys, but the desired outcomes have eluded them because of limited scope, changing priorities, poor technology selection and slow execution. As progressive banks try to emulate the vision and best practices of the technology giants, they are prioritizing a digital-first platform strategy, embracing continuous evolution and adopting cloud-based consumption in their structural IT transformation.

**Driving a digital-first platform strategy**

The traditional model, where a bank manufactures and distributes its own products and services, through channels that it owns, is fast becoming a thing of the past. The future is about applying a digital-first platform strategy to banking business operations, where a bank not only hosts its own products, but also provides access to complementary partner products, joint products, and third-party competing products.

A digital-first platform strategy envisions front-to-back digitization, with the bank opening up its core through APIs (Application Programming Interfaces) for collaboration and delivering customer-centric offerings through seamless multi-channel experiences. A front-to-back digital platform will enable banks to ramp up innovation capacity, streamline operations, renew business models and develop value-based partnerships with other ecosystem players to create new value propositions for end consumers.

The digital-first platform strategy will provide a suite of open APIs enabling extensive integration to improve automation, STP, and business processing outcomes. The open system will also support collaboration with an ecosystem of customers, developers and business partners. The flexible system allows banks to embed customer-centricity in business processes and customer transactions.

**Continuous evolution for scale and new outcomes**

Banks need to stay relevant and leverage emerging technologies to drive growth. They also need to have a continuous technology evolution roadmap. Next, they should ensure that they are able to scale and sustain the new digital initiatives.

Transformation projects can be extensive and risky. Since the goal of every bank is to transform with agility, and at minimum risk, a phased transformation is often the answer. With flexible modernization milestones, the bank can progressively deploy new systems and transform at a comfortable pace.

It is difficult to plan everything in advance when market and client behaviour is changing so fast. An agile approach allows banks to mount micro responses to changes and build on them incrementally. It also enables banks to achieve solution excellence, while frontloading risks and practicing strong governance.

As traditional banks face new challenges in their business operations from Fintech companies and neo-banks, they need to continuously renew the digital landscape so they can introduce new products and propositions and run better operations. Modernizing back-end systems and processes is a priority for which banks should adopt the latest technologies and software delivery practices including DevSecOps, continuous integration (CI), and continuous delivery (CD).
Cloud-based consumption

With customers switching to anytime, anywhere banking on digital self-service channels, transactions have increased exponentially with the occasional spike driving numbers up even further. Since it is unviable for banks to permanently maintain peak load IT infrastructure, they are turning to the cloud for its flexible capacity that can be scaled up or down, on-demand. Besides agility and cost efficiency, the cloud offers benefits such as business innovation and resilience.

A cloud-native, cloud-agnostic application suite provides the bank the necessary flexibility to deploy on a private, public or hybrid cloud, based on its requirements. A cloud-native infrastructure will enable banks to extensively leverage micro-services-based architecture, and drive stateless processes allowing applications to scale infinitely and independently for better operations.

Banks would do well to shift to SaaS (Software-as-a-Service) mode where they can subscribe to and consume technology as required. With this arrangement, banks can agree on full stack managed services, so their IT teams can focus on more important business activities. This consumption based model allows cost-effective management of digital transformation for most organisations.

Besides, cloud applications in a SaaS model typically provide continuous monitoring as well as preventive maintenance of applications, enabling higher availability and performance.
The banking industry continues to see significant structural changes. As digital becomes mainstream, it is bringing new implications for risk management and compliance. Constant regulatory changes are posing strategic and operational challenges. Hence banks need to reimagine risk and compliance management frameworks and their implementation across the enterprise.

**Driving strategic priorities in risk management**

The risk function will need to be reimagined over the next several years to face new realities. The demand for digital transformation in this area could overwhelm banks that are not prepared. What they need is comprehensive enterprise-wide policies and a multi-dimensional approach for reimagining risk management that harnesses the advantages of technology, leverages governance structures and policies, and drives definitive shifts in organizational risk culture.

Evolving technology will play an important role in building new capabilities in risk management and surveillance; use cases include enhancing data governance models, digitizing processes and workflow management with automation and AI enablers, embedding analytics and creating decision heuristics, and building early warning systems with smart visualization and risk reporting interfaces. But banks must carefully balance the roles of technology and human beings in containing and managing risks.

A dedicated risk practice will strengthen the risk landscape within the bank and contribute to the creation of new organizational structures and policies. The risk practice will also establish a comprehensive map of all internal and external risk events.

People who execute banking operations are an important factor in risk management; poor execution, lack of knowledge and training, and unclear, sometimes contradictory, procedures expose banking systems and processes to risk. Banks should look at building an organizational risk culture to address these issues.

**Strengthening regulations and compliance management**

Banks will need to transform their compliance practice to improve regulatory compliance, changing its passive role to a proactive one of monitoring risks, ensuring compliance with regulations, and providing independent oversight to the control framework. They will likely need to reconfigure their operating model to comply with emerging regulations.

They will also have to formulate a comprehensive compliance management framework that provides clarity on rules and regulations, and what it takes to operationalize them. The framework will define risks materiality and tolerance levels, develop a comprehensive risk identification and assessment toolkit, and prescribe interventions for effective risk mediation, among other things.

RegTech (Regulatory Technology) will disrupt the regulations and compliance landscape by providing technologically advanced solutions to the ever-increasing demands of compliance within the financial industry. Banks with a good RegTech roadmap will be able to build superior compliance management capabilities.

Banks will also benefit by setting up a dedicated compliance and controls practice. The group, with its compliance experts, will drive efficiencies in tracking all the existing and emerging regulations, and their institution’s current compliance. It will provide a dashboard showing an integrated, real-time view of regulations and compliance in relation to lines of business, their underlying systems, and processes.
Finally, better operations is an efficiency proposition with two dimensions, namely containment orders (measures focused on an internal functional unit) and expansionist orders (measures focused on the end customer). The former is inward looking, and needs to be minimized, while the latter is outward looking and needs to be maximized. Containment orders create productivity gains and cost savings; expansionist orders raise the net promoter score and every other associated benefit. When both dimensions are managed effectively, the key metric of better operations, namely cost to income ratio, becomes sustainable and reduces over a period of time.
Why we exist
To inspire better banking so that billions of people and businesses can save, pay, borrow, and invest better.

How we do it
Our solutions and people help banks to engage, innovate, operate and transform better, so that they can improve their customers’ financial lives, better.

What we offer
A comprehensive suite of industry-leading digital banking solutions and SaaS services that help banks engage, innovate, operate and transform better.

For more information, contact finacle@edgeverve.com