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FINACLE CONNECT

CONNECTING THE BANKING WORLD

featuring research from

CELENT

ORCHESTRATING CUSTOMER EXPERIENCE

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A Quarterly Journal From

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For more information contact: Sumit Virmani, Infosys Technologies Limited, # 44 Electronics City, Hosur Road, Bangalore 560100, India.
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Voice from the Desk

Few bankers will disagree with me, when I state that customer experience improvement is now both an imperative and an opportunity for banks that plan on surging ahead once the economic gloom lifts. This is not to say that banks have not focused efforts on enhancing customer experience in the past. Banking institutions have shown their commitment to improve customer experience through several initiatives designed to raise service levels, increase customer satisfaction and deepen client engagement, and continue to do so.

"Successful businesses in all industries have grown to understand that their top priority is the customer. Failure to recognize this priority is a grave mistake that could lead to imminent demise. The banking industry is no exception to this cardinal rule. In fact, given the financial crisis, and the competitive nature and complexity of the industry, prioritizing the customer must be a top concern." reiterates Celent, a leading industry analyst.

Olga Botero, CIO, Grupo Bancolombia, strongly endorses this, by emphasizing that during difficult times a bank's customer relationships are often under strain and providing excellent customer service experience assumes critical importance. While discussing the importance of delivering customer experience that delights, Olga opines "Banks must not lose sight of the fact that consistency lies at the heart of great customer experience. If they have to transform customer experience, they need to ensure that their people, processes and technology are geared towards this goal."

Kaleidoscope journeys to Latin America, telling us an engaging story of banking in the midst of a struggle in the current economic crisis; and eventual growth to emerge as a global force to reckon with.

I am sure other regulars, like the Tech Watch section – that this time around unravels the mysteries of *Cloud Computing* for banks, and the 'First Look' at *Managing Liquidity in Banks,* won't fail to interest you. And as always, I look forward to receiving your suggestions and feedback.

Till next time!

Haragopal M

Global Head - Finacle

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Feature

Crowning the Customer King: The Journey to Customer-centricity

Over the years, North American business culture has proven, time and again, that the customer is king. Customers have become accustomed to owning, directing and controlling the relationships they forge with suppliers. Successful businesses in all industries have grown to understand that their top priority is the customer. Failure to recognize this priority is a grave mistake that could lead to imminent demise. The banking industry is no exception to this cardinal rule. In fact, given the financial crisis, along with the competitive nature and complexity of the industry, prioritizing the customer must be a top concern. Building, enhancing and nurturing relationships is very much in the best interest of banks, as satisfied customers are loyal customers. Loyal customers drive future bank revenues and can be excellent sources of opportunity down the road. This simple-sounding concept is quite difficult to achieve, and one that many banks struggle with on a daily basis.

Three key areas that need to be evaluated with reference to customer relationship strategy — business processes, people, and technology.

Banks are still working on enhancing their customer relationship strategy and often find themselves in both internal and external power struggles. Internally, they are working on breaking down silos and are attempting to paint a single view of the customer. Externally, they are struggling to maintain control and enhance relationships in a difficult and ultra-competitive environment.

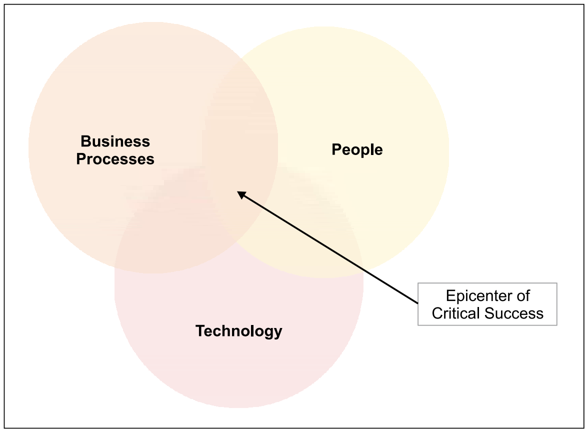
The situation would be far simpler, of course, if banks had unlimited funds to work with. Unfortunately, the majority of banks are slashing spendings on new technology investments. Banks are challenged to come up with additional funds once compliance/ regulatory spending, post-merger integration, and maintenance have been spoken for. Not to mention, the financial crisis has made it extremely difficult to get new projects funded. Projects that were supposed to take place during 2008 and were deferred to 2009, are now being canceled or pushed out further.

Overcoming challenges and avoiding pitfalls

The trials and tribulations that banks encountered with their initial CRM implementations have brought about new and innovative ways of thinking about and approaching customer relationships. In order to determine the path to success, banks need to understand which steps to take and in what order they should be taken. In addition to customer needs, there are three key areas that need to be evaluated with reference to customer relationship strategy — business processes, people, and technology. Initially, banks and vendors viewed technology as the sole driver that would help grow and nurture customer relationships. Lo and behold, banks became painfully aware that technology alone could not support the drastic transformations that need to be applied to processes and people.

In order for banks to successfully move forward with customer relationship projects, they must draw up and execute a plan that takes into account business processes, people and technology. Technology is merely the tool that will assist in managing people, and business processes. Banks need to determine the processes they want to work on, as well as those that will be affected as a consequence of embarking on customer relationship projects. In addition, they have to be set up to manage this transformation and ensure that it stays within pre-determined parameters. From a people perspective, there needs to be strong emphasis on open communication and providing requisite training to staff. Banks also have to be well prepared to deal with the sharp cultural shift that will impact their organizations. This shift can flow from numerous fronts—for example altering day-to-day work habits and activities, transforming a team of administrative staff into a revenue focused sales-driven group, ensuring that proper incentive management programs are in place and turning former cost centers into future profit centers, among others. Banks should work on people issues first and then move on to processes for which people are accountable.

Figure 1: Focusing on the epicenter is the only way to ensure project success



Source : Celent

By focusing on the epicenter of critical success (Figure 1), banks will be able to build, nuture, solidify and grow customer relationships and interactions. This intersection represents the lifeblood and direction of a strategic, forward-thinking, customer-centric bank.

Banks however still have significant steps to take with regard to sales, marketing and customer service. The relationship between the bank and a customer contains multiple building blocks, and banks usually end up stumbling on one or more of these blocks.

A change in framework

Banks that have avoided the pitfalls or have climbed out from them are well aware that a laissez-faire attitude will far from suffice. A transformation in framework and mindset has taken place at banks that has successfully developed and implemented a thriving customer relationship strategy (Table 1).

strategic in nature and are core to a bank's growth and profitability. Furthermore, customer relationship strategy will address a specific project, process, product or division of the bank as opposed to the all-encompassing, monolithic enterprise CRM solutions of the past. The goal of technology is to be the tool used to manage business processes and people. Banks are increasingly looking at componentized and transparent technology offerings that are targeted at enhancing sales, marketing and customer service functions. In order for banks to achieve a winning customer relationship strategy, a business-oriented leader must lead the change towards acquiring executive support and ensuring true collaboration between business and IT.

Change in framework is but a stepping stone along the path to becoming a customer-centric bank. In addition to the shifts mentioned above, banks must begin by charting out a path and having a detailed plan of action for each of

Table 1: A framework transformation is a requirement for customer-centric banks

	PAST	PRESENT
Focus and Investment	Technology-centric	Business processes, people and technology; Customer needs; Training and incentive programs
Coverage	Enterprise-wide	Project, process, product or division specific
Concentration	Routine, all-encompassing	Strategic and core; Targeted at critical gaps
Offering	Isolated, standalone	Components that are transparently integrated into applications and processes
Role of Technology	Primary	The tool used to manage processes and customers
Management	IT department with executive buy-in	The fusion of business and IT along with executive buy-in and a strong, focused, business-oriented project leader

Source: Celent

In addition to focusing on the epicenter of critical success and targeting customer needs, winning banks have identified critical gaps that need to be filled. These critical gaps are

the steps along the way. Pursuing this direction will give banks the opportunity to properly integrate themselves into the cycle of becoming customer-centric. With an influential leader

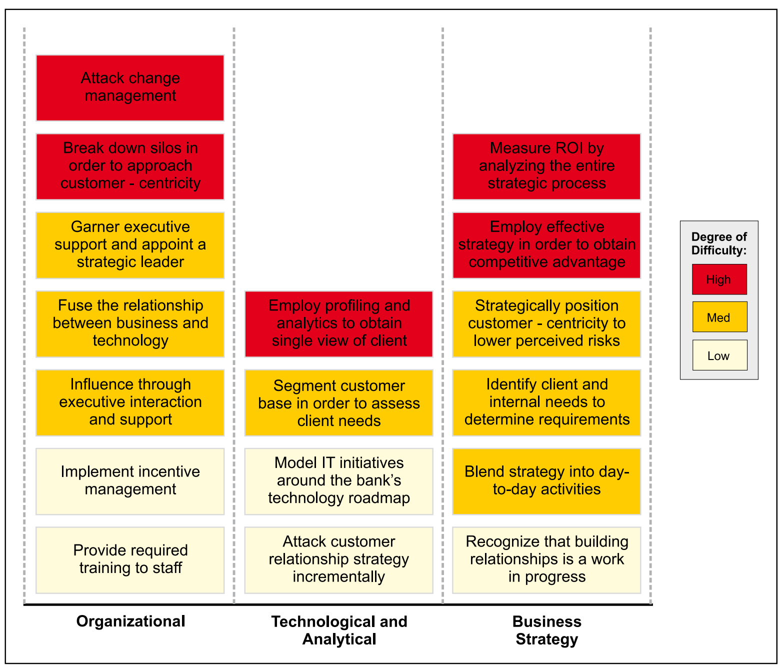
By understanding customer priorities and examining weaknesses, with the intention of turning them into strengths, banks will be able to identify and set clear, targeted goals.

at the helm, the first step along the path is to determine needs and strategically analyze critical gaps. By understanding customer priorities and examining weaknesses with the intention of turning them into strengths, banks will be able to identify and set clear, targeted goals. Once these goals are determined, the road will continue to the stage of creating a concept and developing a focused customer relationship strategy program. Concept development will involve and require the commitment and ongoing support at all levels of the organization - from administrative staff all the way up to senior executives. This is key to jump-starting the cultural shift that must take place in a bank and is critical for continuing down the road to success. Once these steps have been taken and preliminary research has been conducted, the dedicated team will identify the bank's requirements for embarking on specific projects that focus on one or more of sales, marketing and customer service. Depending on the bank and the situation at hand, the order in which these are attacked will vary. For example, banks that embark on initiatives to improve cross-sell may also need to ensure that they have both pre-sales and on-going customer support initiatives in place. Regardless of which direction is taken, a continuous and measured effort to collect and analyze data must be taken. Checkpoints should be pre-determined and used as indicators for problems or opportunities that arise down the path to customer-centricity. This data can then be used to once again identify needs and strategically examine critical gaps.

Best practices

Customer relationship strategy has been a challenge for most banks given the complexities and changes that it introduces. Banks, however, have identified goals they would like to achieve when it comes to knowing, understanding and better serving their customers. In order to reach these goals, banks must employ a set of best practices - these guidelines will help chart out a course and will allow for strong forward movement along this uphill challenge. While all of these best practices and goals are useful and will certainly aid a bank in moving forward with a customer relationship strategy, some are easier to follow than others. Banks must always keep in mind that customer relationship strategy is a journey not a destination.

Figure 2: Certain best practices are easier to follow than others



Source : Celent

Next generation online banking applications will engage customers in new ways

The online market is too competitive to allow banks to rest on their innovation laurels, and customer demands are forcing banks to shift gears and refocus their priorities.

What are banks doing to put these best practices into action? Banks are undertaking a wide variety of projects depending on their individual needs. Project uptake is slow, however, as banks are working with highly strained budgets. Although IT budgets are tight, Celent has noticed increased activity in several key areas. A good example is online banking, and banks are increasingly focused on engaging the customer online. The entire market is too competitive to allow banks to rest on their innovation laurels, and customer demands are forcing banks to shift gears and refocus their priorities. Banks are starting to recognize that their online banking platforms are at crossroads: the Web-based applications that they launched a few years back simply aren't cutting it, and they need to decide what direction to take them in. Although these applications provide a slew of features and functionalities, they look and feel out of date, aren't easy enough to use, and can't stand up to what the customer would really like.

Consumers are slowly beginning to expect enhanced experiences from the sites they frequent — from consumer sites all the way up to the cash management application they use at work. Unfortunately, banks have been slow to catch on. They have a lot of work to do when it comes to improving the online experience. The core features and functionalities are there; it's really a question of what banks need to do to improve the customer's interaction and experience with their products. Banks are beginning to explore the benefits of Web 2.0 and are planning to build rich Internet applications and integrate social networking features. Bits and pieces of Web 2.0 elements will begin to appear in 2009, but it will take a good 12–18 months before we begin to see cutting-edge Web 2.0 online banking sites ▪

Jacob Jegher
Senior Analyst
Celent

Delivering Customer Experience that Delights

Olga Botero
Chief Information Officer
Grupo Bancolombia, S.A.

I must admit that we are making great efforts to improve customer service at our bank. However, in general, the international financial crisis has contributed to undermine the confidence of customers of financial institutions. It has stressed the traditionally difficult relationship among customers and banks. And this lack of confidence makes customers feel stronger and have higher expectations from the service we have to offer them.

While this may be an easy subject in other industries, defining good customer experience and going on further to deliver it, consistently, is barely something to be made light of in the financial industry.

Need for transparency in customer relationships

In the aftermath of the financial crisis, bankers have emerged as worthy competitors to lawyers as the target of cruel jokes. There is no doubt that the downturn has shaken the confidence of banking customers, and certain surveys have concluded that less than half believe in the financial security of their banks. While that number is open to debate, it is clear that customers are voicing a need for greater transparency and openness in their banking relationships.

Colombian banks, including ours, are working harder than ever to forge a deeper bond with clients. While we were always focused on providing high quality customer service uniformly across our traditional and electronic channels, we are taking a step further in understanding our customers and their needs, by way of stronger customer relationship management. Of course, the end goal is to provide our clients with a banking experience that is hard to beat.

The values and promises underlying a bank's brand must be reflected in their products, processes and customer relationships.

Transforming customer experience along three dimensions

A survey of American banking customers conducted in the last quarter of 2008 indicated that despite transacting less in dollar terms, customers were watching their finances more closely than ever before. Clearly, banking relationships are under the scanner. Looking at it in a positive light, higher customer involvement opens up opportunities for banks to intensify their customer relationships and bind loyalty. However, in order to get there, they must be capable of delivering a unique and memorable experience - one that leaves a lasting impression on customers.

Certainly, most banks have made efforts to improve customer experience in the past, through initiatives aimed at improving service levels, increasing customer satisfaction or deepening user engagement. For the most part, however, the distinction between experiences provided by different banks is hazy in their customers' minds. Before the uniqueness of a particular banking experience can take root in the customers' mind, it must be reinforced in practice over and over again.

Basically, what it means is that customer experience is all about consistency – banking action must be consistent with policy and proclamation. Similarly, the values and promises underlying a bank's brand must be reflected in their products, processes and customer relationships. In a way, that will also reinforce their image of being an open and truthful entity which will not compromise clients' interests. And what can be more important than earning the trust of customers in these unsettled times? After all, staying close to customers is a top priority for banks around the world.

Banks that undergo core transformation, with improvement in customer experience being one of the primary goals, need to approach it along the three dimensions of people, process and technology.

- Customer experience delivery is impacted to a very large extent by the attitude and aptitude of banks' staff. Therefore, it is important to have the right people on board – the type who really care about understanding their customers and serving them in accordance with the highest standards. At Bancolombia, we endeavour to create a culture of customer orientation among our employees; our recruitment, training and reward policies are all designed to support this goal.

- Banking processes must also be made more customer-centric. So often, processes, designed to deliver optimal performance from the bank's viewpoint, are not sufficiently customer-friendly. Customers will not get the best experience unless processes are made agile and simple, and there is adequate communication and support to back them up. Therefore, apart from achieving the necessary Key Performance Indicator (KPI) targets, processes must also contribute to greater customer service and convenience.

- Technology is the third dimension. First of all, it enables the other two – it provides information support to banking staff to help them manage customer relationships more efficiently and also brings about higher automation and simplification of processes.

  That being said, its role doesn't end there. Technology allows banks to reach out and enfold their customers in a way that was never possible in the days of pure brick and mortar infrastructure. Technology does not merely add value to customer experience; it also adds value to customers. For instance, it enables banks to educate their customers on how to get the most from the banking relationship. This could be by way of detailed instructions on the merits of various products and services and the best ways to access them. While branch staff may not have had the capacity to impart one-on-one education, self-service channels can address this need with ease.

  When customers become better informed, they prefer to take at least some financial decisions on their own. Technology has made it possible for customers to access financial tools online, using which, they can confidently make informed decisions.

  As customers grow in knowledge and confidence, so does the scope of their financial requirements. An informed customer is likely to want a sophisticated and diversified financial portfolio. Technology driven channels such as mobile and Internet banking can ensure that a wide set of offerings are always accessible to customers, and what's more, can be acquired over them, as well.

  When customers derive meaningful value in this manner, their banking experience touches a new level.

'Technology does not merely add value to customer experience; it also adds value to customers.'

The technology platform is indeed vital to banks' functioning. Besides having a core banking system, which is a big part of this platform, banks run a number of applications to manage customer-critical lines of business, such as credit cards and treasury. In addition, a whole lot of processes, which are not part of the core system, are also at work - for example claims management and sales support. All of these can impact banks' moments of truth.

These systems generate a huge amount of information, which must be consolidated to create insights that will help banks deliver better service, and thereby enhanced experience to customers. A core banking platform capable of integrating diverse enterprise applications is required to do that.

Being consistent, yet personalized

Banks face some interesting challenges while, trying to create the ideal customer experience. While, on one hand, there is a need for consistency, on the other, there is an equally important need to fulfil customers' expectations of personalized solutions and services. What's more, both consistency and personalization can create "customer experience magic" and hence, neither can be sacrificed. So, even as banks endeavour to provide uniform customer experience across channels and locations, they recognize that customers will still exercise a preference for one over the other. Hence, it is as important to provide uninterrupted connectivity to an online banking customer as it is to greet warmly by name a customer who comes regularly to the branch.

Both consistency and personalization can create "customer experience magic" and hence, neither can be sacrificed.

While banks may find it impossible to cater to the specific individual needs of retail clients, they can certainly try to fulfill some of the common expectations of a homogenous customer segment. However, in the case of corporate clients, there is a strong need to engage in a highly personalized relationship.

In our bank, for example, we are evolving a method to deliver both consistency and personalization. All our processes, such as those needed to open an account or acquire a credit card, are being transformed uniformly regardless of the channel of origination. We also follow consistent policies throughout our banking organization – for example, branding and recruitment strategies are more or less the same in all the countries we operate in.

We try to personalize customer interactions as far as possible by maintaining a detailed account of each transaction, which serves as a reference for customer-facing staff during subsequent contact. Thus, all customer service employees can treat clients with the same degree of warmth and familiarity. We have gone a step further in our integrated treasury management business where we have created customized payment and collection solutions based on clients' individual requirements.

Needless to say, all of this would not be possible without the support of a robust and flexible core banking system.

Quantifying customer experience

Banks routinely employ brand awareness surveys to measure the effectiveness of their marketing strategies, or satisfaction surveys to assess how far they are meeting customer needs. However, despite intense focus on customer experience, the industry still lacks a definitive yardstick to measure this parameter. If customer experience is a derivative of process simplicity and consistency, there must be a way to measure the two and correlate the numbers with real-life experience. For instance, a bank that scores high on process consistency must be uniformly easy to deal with at all points of service. Similarly, processes that are rated as being simple must indeed be free of unnecessary steps and controls. In this context, banks may also find it useful to examine the complexity of their IT infrastructure.

Although we don't employ a standard measure of customer experience in our bank, we use a variety of other indicators that can be correlated with customer experience levels. As per our reckoning, the following elements have a strong bearing on the quality of customer experience:

Offerings – Customers will be motivated to buy products and services only when they match their expectations. A very important factor is the convenience of procurement and use.

Delivery – As will be discussed later in this article, delivery channels possibly make the largest impact on customer experience. While customers like to transact on different modes, they must enjoy the same experience – that means all channels should be simple to use and as accessible as possible. The channels must be consistent in the scope of offerings too.

Communication – The values projected through banks' branding and marketing strategies must be reflected in the customer experience. For instance, a bank that makes claims about security must back those up with compliant processes.

Orientation – The willingness of staff to listen to customers and their attitude in difficult situations is another telling indicator.

The onus of providing excellent customer experience rests more with the distribution channel than anywhere else in the banking system.

Integrated multi-channel customer experience management

Possibly, the onus of providing excellent customer experience rests more with the distribution channel than anywhere else in the banking system. Therefore, banks must explore ways in which each of their channels can be enhanced to deliver more and more. Banks that have pursued an integrated multi-channel strategy should leverage the vast information at their disposal to understand their customers' expectations from an ideal banking experience. At a minimum, technology must make all channels, from the ATM to the branch, more agile and user-friendly.

The popularity of social networking has added an interesting angle to customer experience management. Although social platforms such as Facebook or Twitter are not owned by banks, their customers can be found engaging in banking related discussions on them. Banking users review products, rate experiences, resolve doubts and share opinions with their peers, generating a wealth of insight for banks to reflect upon. Beyond doubt, social networks have to find a place in banks' channel and customer experience management strategies. Analytics technology can convert unstructured social opinion, also called "voice of customer", into quantifiable data, which can be used to direct appropriate action.

Core banking technology firms must consider a future scenario in which customers could consummate a transaction across multiple channels – that is, a process could start in one channel but end in another. Going forward, social platforms will assume even greater importance in shaping opinion about products and services, and hence, any multi-channel customer experience must factor in this "non-banking" channel as well.

In conclusion

At a time when banking relationships are under strain, providing excellent customer service experience assumes critical importance. Banks must not lose sight of the fact that consistency lies at the heart of great customer experience. If they have to transform customer experience, they need to ensure that their people, processes and technology are geared towards this goal. Apart from supporting banks to deliver the best possible experience, technology can add immeasurable value to customers by providing them with education and empowerment in financial matters. While modern core banking solutions have enabled the integration of multiple channels, and delivery of a consistent experience on all of them, going forward, technology must extend the same to emerging "non-owned channels" such as social networking platforms.

Author

Olga Botero
Chief Information Officer
Grupo Bancolombia, S.A.

LATAM Banking on a Brighter Outlook

A conglomerate of 20 economies, Latin America is flexing its muscles in the global arena - a display of strength which cannot be ignored given the prosperity seen in the many countries that constitute this economic block. While giants such as Brazil and Argentina are witnessing spectacular growth numbers, the other relatively smaller economies in this region – Chile, Peru, Venezuela, Colombia and Paraguay are fast catching up and steadily making their presence felt, not only in the region, but also globally. Growth, in most of these economies, was limited in the past largely due to controlled regimes that imposed economic and financial restrictions and hence had to be content with low levels of growth and financial dynamism. However, post 2000, the region has witnessed an increasing wave of liberalization with the introduction of free trade policies, market reforms and greater market access to foreign capital resulting in a spurt in growth indicators – be it the GDP of these economies, social health indicators or return on assets.

The Latin American economies grew at an above average pace in the past decade when their doors opened wide, allowing in liberalization. For the first time, most countries in the region posted fiscal surpluses, year after year. On an average, they expanded at over five percent per year since 2003. The consolidated growth in GDP for the entire region was in the range of 5 - 5.3 percent in 2008 and the individual rankings in GDP terms show a healthy growth in almost all the economies of the region.

Country	Ranking the Economy based on Size	World Ranking	GDP Percent Change		
			2006	2007	2008
Argentina	3	24	8.5	8.7	7.0
Brazil	1	9	4.0	5.7	5.1
Chile	6	45	4.6	4.7	3.2
Colombia	4	31	6.9	7.5	2.5
Mexico	2	14	5.1	3.3	1.3
Peru	7	53	7.7	8.9	9.8
Venezuela	5	35	10.3	8.4	4.8

Source: Wikipedia and www.latin-focus.com

‘Latin American banks, including those retail in nature, tend to be inclined towards corporate clients and concentrate on corporate banking business areas.’

The economies that have a strong linkage to the global economy have shown a slightly reduced and slow growth trend in the last year mainly as a result of the financial crisis which has affected global trade and investments in these regions. Nevertheless, a strong domestic demand with continuing private consumption and pronounced investment growth, adding to the continuous stimulus from healthy global demand from many of the other stronger economic partners across the world is continually fuelling the economic growth. Apart from this, much of the growth was due to record high prices for commodities the region sells like oil, copper, coffee or soybean. Sound management of fiscal budgets became a strong political agenda for elections and voters began to reward governments that could demonstrate good economic administration. Needless to say, all these reasons and initiatives have also helped these economies tide over the financial crisis in a much more confident and positive manner.

Retail banking trends in the region

The recent wave of acquisitions and market expansions by international banks has changed the face of banking in the region, but not its fundamentals. Many of the acquisitions were spearheaded by Spanish and Portuguese banks that were market leaders in their home country and introduced several best business practices, innovative products and, services and technologies from the more advanced markets. Most Latin American banks, including those retail in nature, tend to be inclined towards corporate clients and concentrate on corporate banking business areas. This scenario is, however, fast changing as banks have started to realize the potential of the burgeoning middle class and the affluent population. As a result, banks are now increasingly offering attractive retail products, reinventing channel strategies, increasing customer reach through widening networks and a growing lending base.

Credit off-take in these economies were impressive, fuelled by increasing consumer consumption and the eager initiative of banks offering innovative lending products.

Some recent trends sweeping the region are:

Plastic cards: Cards, whether debit, credit or pre-paid, are seeing a big boom in numbers with transactions rising at a rate of 15 - 20 percent each year. The overarching presence of debit cards has signified reduced use of cash as the medium of payments.

M-banking: Non-traditional modes of payments like mobile phones, Internet and cable TV are getting established as important channels between banks, consumers and the goods they purchase. The markets may also see more people purchasing goods through their digital TVs, perhaps also bypassing credit cards and retailers.

Lending boom: Despite the global crunch in credit services as a result of the financial crisis and prohibitive rates of interest, credit off-take in these economies were impressive, fuelled by increasing consumer consumption and the eager initiatives of banks offering innovative lending products.

Everywhere banking: Many alternative banking services are offered by lottery houses, supermarkets and drugstores (such as bill pay, deposits, and drafts). The emergence of new 'bankers' such as mobile operators, TV channels, and perhaps Internet portals, has led to diversification of banking services to newer players.

M & A: Banks are under heavy pressure from the global financial crisis, which has reduced the availability of credit and forced a consolidation of the banking industry from the United States to Europe. Banks in Latin America are also not far behind in their consolidation activities. Brazilian bank Itau recently acquired Unibanco to create the largest financial group in Latin America. Banks are viewing this as an alternate avenue to snap up loan portfolios from smaller firms squeezed by the credit crunch.

Country-wise trends

Brazil: Brazil has been a constant beneficiary of foreign remittances both in the form of foreign investment and remittances from private individuals settled abroad. This largesse has translated into improved efficiencies in the banking sector, higher productivity and increased capitalization. Banking has also broken the traditional mould of delivering services through branches and a wide range of alternative channels such as Internet banking, ATMs and kiosks have found their way into the market largely led by retail banks. Popular products include consumer loans, auto loans, salary loans and simple products such as insurance and *titulos de capitalizacao* which are low interest-paying bonds that offer regular cash prizes. Increased foreign participation, mainly from Spanish banks, has also resulted in heightening the competition factor among the various banks vying for the larger market share.

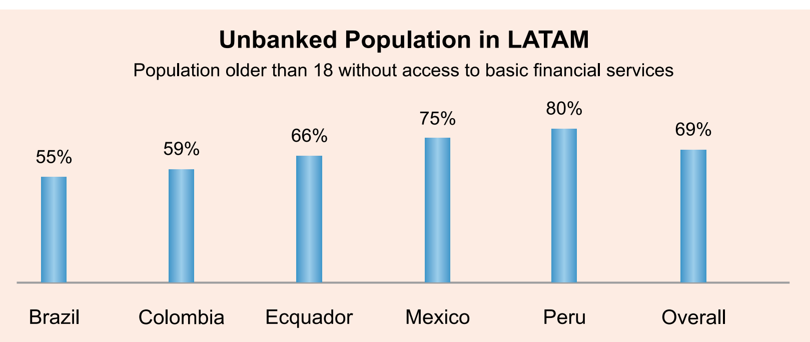
Mexico: Mexico which has gone through many severe crises situations in the past is again passing through one more with the onset of the global financial crisis and lately the swine flu pandemic. The steady influx of FDI in the past few years has improved the overall situation but there is no denial that a lot more needs to be done. Today, foreign banks control 80 percent of Mexico's retail banking assets. Several initiatives introduced by these banks to streamline processes have cost some jobs, but product offerings and quality have remained unchanged. Foreign funds achieved good returns for investors. However improvements for consumers, while positive, have been below expectations. While cards, bill payments and credit products form the mainstay of many banks, several others are diversifying by offering private banking and investment banking products to the increasing number of wealthy clients.

Regulations introduced by the central bank also stipulate lending at hugely discounted rates to low income individuals and small businesses.

Argentina: After a dramatic debt default in the early 2000s, Argentina has recovered miraculously to emerge as a strong economy with steady growth and is now the favourite destination for foreign investment. However, many international banks operating here are still leaning towards investment banking and private banking, while retail banking is still in the clutches of domestic banks. Argentina's banking system has been profitable and isolated from the financial failures that have hit other banks around the world because the economy is highly cash-based, lending practices conservative and profit largely fee-based.

Banking challenges and opportunities

Financial penetration in Latin America is one of the lowest compared to that of more advanced economies. In countries such as Peru, Ecuador and Colombia the unbanked segment is more than half the population – quite alarming when compared to that of countries such as the US and the UK where the unbanked population is in the range of 2-10 percent. Expanding the reach of banking to the large majority of the population who do not have any access to basic financial services is the challenge faced by every bank in this region.



Source: World Bank

The main reason for this situation is the prohibitive cost of banking, driven by high priced products and services, high minimum balance stipulations, restricted distribution networks for bank services and a very inhibitive set of regulations comprising high taxes, especially on transactions and caps on interest. Many banks have been quick to realize the opportunities that lie behind this segment of the customer universe and are inclined to get them under their fold. As a result some initiatives entail innovative and imaginative solutions enabled by technology and through alternate means of banking such as microfinance. Banks are offering products that are simplified and provide the minimum required fringe benefits with the backbone of electronic banking devices, such as cards and ATMs, to increase their reach. Electronic banking products such as prepaid cards, debit and credit cards are being offered on a large scale as they are found to be more efficient in terms of both usage and maintenance costs. Banks are also using alternate banking channels such as kiosks, mobile banking and supermarkets to increase touch points for the under-banked. Banks in Brazil have been spearheading efforts to increase services across various categories of the population. Increased technology spend on alternative banking channels, microfinance institutions and specific technologies to enable banking for the unbanked has been a beacon to many other countries in this region and the world. These efforts have also been actively encouraged and supported by Brazil's central bank Banco Central do Brasil which has introduced regulations that have supported the growth of micro-banking. New banks such as CrediAmigo, Banco Popular, Banco Postal, Lemon Bank and Caixa Aqui were all set up for the sole purpose of expanding reach of financial services and have been hugely successful in their agenda. Regulations introduced by the central bank also stipulate lending at hugely discounted rates to low income individuals and small businesses. Another popular product offered by these banks is the payroll loan or salary advance which enables installments to be directly debited from pay cheques of workers who have availed of these loans. Microfinance institutions are leveraging new technologies to expand services, compete and bring down costs. At the same time, dozens of purely commercial retail banks are starting to use existing branch infrastructure to go down market to tap the lower income retail clientele. Four factors are driving that: increased competition driving banks into new markets; the excellent repayment rates microfinance has demonstrated make it an attractive proposition; banks are seeking to pump more products through their infrastructure; and finally, the advent of new technologies that promise to make smaller transactions more cost effective.

Regional integration may prove challenging to banks, considering the fact that banking forces are very divergent in terms of regulations, local practices, products and services.

Technology in LATAM banking

The technology boom in many countries of Latin America is not restricted to any one sector alone but encompasses industries such as telecom, banking, infrastructure and manufacturing. The usage and investment of technology in banking has been high in the recent past due to the dynamic changes in the banking industry. Spearheading this is the mergers and acquisitions wave. As a direct consequence of this, many banks have adopted SOA as it facilitates easy integration of systems and interfaces. Major trends are also being witnessed in the adoption of low-cost and cost saving technologies such as cloud computing, grid computing and virtualization. Another area where there is a strong trend in investments is mobile banking as this channel is used by many banks in the region to increase the reach of business. Mobile banking is increasingly seen as a cheap and effective way to attract the growing population of prepaid mobile customers. Latin America's average penetration of unique mobile phone users is 57.5 percent, thus representing a significant opportunity to attract unbanked mobile phone users. Card technology is one more area where banks are investing significantly, with the nature of spends increasing in areas such as security and authentication, fraud software and anti-money laundering technologies owing to the rise in payment frauds in the region.

Conclusion

The LATAM region outlines a strong story of recovery and bounce back from deep economic crisis to being a formidable force in the global economy. The banking sector has also seen good, bad and worse times and is now on a steady and strong growth path. However, here's much to be done to bring out the hidden strengths and potential of the system that lies underneath. Regional integration continues to be an important driving force in Latin America. This may again prove challenging to banks, considering the fact that banking forces are very divergent in terms of regulations, local practices, products and services. Growing business opportunities, stable governments and an increased outlook towards prosperity will all contribute to LATAM's increasing importance and prominence in the new world order.

Author

Anuradha Mallya
Senior Product Consultant - Finacle
Infosys Technologies Limited

Crafting Success in the Retail Space

Interview with
Rasheed A Adegoke
Chief Information Officer
First Bank of Nigeria, Nigeria

Headquartered at Lagos, First Bank of Nigeria is one of the largest retail lenders in Nigeria. For over a century the bank has distinguished itself as a leading financial institution and a major contributor to the economic advancement and development of Nigeria. First Bank currently has a footprint in Nigeria, United Kingdom, France and representative offices in South Africa and China.

First Bank of Nigeria has been named the best bank in Nigeria by Global Finance magazine. The firm has solid short and long term ratings from Fitch and the Global Credit Rating Company partly due to its low exposure to non-performing loans. The firm's compliance with financial laws has also strengthened with the Economic Financial Crimes Commission giving it a strong rating.

We spoke to Rasheed A Adegoke, the Chief Information Officer at First Bank of Nigeria about his viewpoints on the path the bank has chosen to further its success streak.

In terms of key initiatives, we are focusing on the three major pillars - exploring organic and inorganic growth plans, process optimization and performance management

Q Please help us understand First Bank of Nigeria a little better. What are some of the key initiatives engaging you currently?

A First Bank is Nigeria's leading financial institution. It is also the oldest bank in Nigeria, founded way back in 1894. Today, First Bank has a balance sheet figure of 11 billion dollars, while the Group of companies has notched up 16 billion dollars. We have set for ourselves an ambitious growth target as well, which will see us widening the gap between ourselves and the number two bank in the West African sub-region. It will also deepen our footprint within the African sub-region as a whole. In terms of key initiatives, we are focusing on the three major pillars of our growth strategy. We will explore both organic and inorganic growth plans, undertaking strategic measures for acquisition to deepen our international footprint and grow business at a pace which organic growth cannot give us. The second opportunity we see is for process optimization. We are focusing on taking advantage of our scale to increase cost efficiency. Today, we have a cost to income ratio of about 70 percent and we believe that we can significantly bring that down to a Nigerian industry benchmark of about 55 percent in the short-term and under 50 percent medium-term, which would enable us to give a lot more to our key stakeholders - both shareholders and employees. The third pillar of our growth is performance management. We embarked on this journey about 15 years ago and the program was truly energized about a year back when we had the opportunity to look at the landscape post banking consolidation in Nigeria. We felt then that the time was ideal to deepen our leadership in the market, not just as a Nigerian bank, but establish a firm foothold in the rest of Africa and key global financial centers, as well. In fact, we have a representative office in South Africa and subsidiaries in both the UK and France.

Q The banking world is still grappling with what is happening in the current economic downturn. How has this impacted African Banks?

A Prior to the global economic crisis, Africa was attempting to integrate with the rest of the world in terms of establishing an economic connection. But that integration had not fully matured and it proved a blessing for the African economy, as the world reeled under the impact of a global meltdown. However, for bankers in Africa, especially Nigeria, there are points of stress though no full blown systemic crisis. Since we are not tightly integrated with the international financial market and the bubble pricked was basically the sub-prime, for us at Nigeria the market had not matured enough to even invest in derivative products, so we were not overly exposed. But in terms of the after shock, what we see is that banks enjoying foreign lines to finance international business and projects, find these lines basically drying up or even withdrawn. So that affected their scale of business. There has been some scaling down, but then there was a crash in the local stock market in

We have looked at people and internal re-organization of the IT function to align people more effectively to the changed scenario.

Nigeria, which again was a reaction to the aftermath of the meltdown, as foreign investors in our market felt the need to scale down, especially in the first quarter of 2008. There were some banks actually exposed to the capital market by way of margin lending and to the oil and gas business. With oil prices peaking to about dollars 160 then and plummeting to about dollars 60 a barrel today, some level of provisioning within the banks' books has been created. But this stress has not been uniform across the African banking industry.

Q You mentioned that mergers and acquisitions would be key to FBN's growth plans. I am sure this throws up some interesting technology challenges. What are your plans to counter this?

A Well, we recognize that if we are going to be having a number of mergers and acquisitions transactions, integration will be key. You could put a lot of measures on paper, but if you are not able to integrate people, technologies and processes, these measures will not succeed. So, ahead of time, we are thinking of integration as part of the planning process. We have looked at the integration point and that area of IT infrastructure specifically. We are investing in infrastructure that is scalable so that when we do actualize major transactions, we can scale to support the new levels of business.

In the banking landscape today, especially in our sub-region, the likely three big applications that are used as core banking systems would be Finacle, Flexcube and Globus. So, now we have actually analyzed several scenarios where an acquisition could entail that we merge with an organization using Finacle, Flexcube or Globus. We would perhaps have to consider dual phase integration where the first phase is quick, ensuring that front line services are available, and then a full integration of the core processes of the system can happen over a longer period of time.

IT is like an organization, so it is also about people who manage this infrastructure and application. That's why, we have looked at people and internal re-organization of the IT function to align people more effectively to the changed scenario. This will give us the flexibility to respond quickly and effectively when there is rapid growth.

Q What are some of the key strategies in the growth agenda of FBN?

A Growth in itself for us will be driven by both organic and inorganic means. Process excellence will play a pivotal role in the strategy as well. This will positively impact cost optimization and also improve service delivery. There are two big initiatives that we are working on right now. We are setting up a shared service center which will centralize back office processing within our delivery channels, freeing up branches to focus more on sales and service delivery, which will in turn impact the top line. This will drive down the cost to income ratio, which is a key pillar of our cost optimization measure. Internally, we have also done a lot of work, especially in terms of business performance management, in the last 9 months, to transparently reward high performers in the business segment. The back office staff are in turn coming up with balanced score card measures that are transparent and are more or less automated in terms of measurement. All this will play a big role in driving up service efficiency. At First Bank, we are seeking to vie with smaller banks that are also perceived to be faster with transactions. But we have truly looked into this and believe that we can certainly improve our service delivery to match the best in the business.

So beyond the shared service centre we are also putting into place a robust alternate delivery strategy. We are setting up an international scale contact center, as one of the alternate channels for retail service delivery. This will enable us to offer premium services even to the retail segment of our customers. This will be of tremendous help to drive growth within the retail segment of the market.

Q **What, in your opinion, are the key factors that differentiate a prefered technology partner?**

A One of the most important factors is that the partner must offer true value for every dollar spent in technology investments. We look very keenly at the costs of technology operations, to optimize investments in our portfolio of IT assets. We are keen to minimize recurring maintenance costs and seek to re-channel these investments into innovations. While a technology-led transformation journey certainly means expenses, we are looking at ways by which we can optimize these expenses and free up enough money to re-invest, apart from generating fresh profits. We look forward to our technology partners sharing their long term strategy with us, as we would also walk them through our strategy. We seek from them a facilitation of ideas cross-fertilization to draw up win–win solutions. We clearly want First Bank to have the best IT infrastructure and service delivery within the West African banking industry. We are building capabilities in terms of the talent pool and the necessary capacity within our core technology infrastructure and applications. We look for the long term mindset in our partners. I am happy to state that this is exactly how we connect with all our technology partners currently, including Infosys.

tECH WATCH

Cloud Computing: Relevance to Enterprise

Enterprises need to do more with less than ever before making cloud computing especially relevant in today's time. Cloud computing is still at a nascent stage for full fledged enterprise adoption. This article encompasses within its scope the evolution of cloud computing, key cloud providers and introduces us to some early adopters among enterprises.

Enterprise challenges

- The worldwide recession, has compelled enterprises to explore alternate and innovative means of driving business with maximized cost efficiency
- Enterprises need to conserve capital, and raising capital in current markets is no mean challenge. There is a definite need to reduce capex
- Enterprises need to respond with agility and improved flexibility to market conditions

In search of a solution

Cloud computing is indeed taking those first critical steps to address few of the enterprise needs articulated above.

A Google search on "Cloud Computing" throws up 12 million page links, where as search over a year ago resulted in only 2 million page links. This is a clear indication of the current interest and momentum around cloud computing.

The following sections provide a high level view of how enterprises have started to leverage cloud computing.

What is cloud computing?

i) Applications in the cloud (for example : Salesforce.com – CRM application)

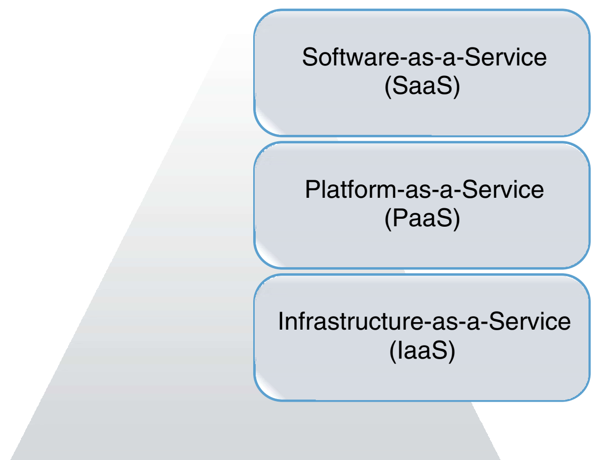
ii) Infrastructure in the cloud (for example : Amazon AWS – Infrastructure service through Web-service interface)

iii) Application platforms in the cloud (for example : Microsoft Azure - .net Platform, SQL data services)

All of these are different aspects of cloud computing. These vary in both approach and implementation. But, they do have one common tenet – payment based on usage and leveraging of IT using the Internet. These services typically can be provisioned rapidly with higher elasticity, scaling up and down based on need.

Typical cloud computing stack

A typical simplified cloud computing stack



Source : Infosys Technologies Limited

Cloud computing is yet to effectively present resolutions for queries around business and technology challenges.

Software-as-a-Service (SaaS) has been in existence for the past three years. Some notable examples are

a) Salesforce.com CRM applications

b) Infosys SaaS offerings – Social platform and e-Commerce

Emerging services in the cloud now also include Infrastructure-as-a-Service (IaaS) and Platform-as-a-Service (PaaS).

The focus of this article is the PaaS and IaaS space.

Key players in the cloud

Several large technology companies offer or plan to offer cloud computing platforms to enterprises.

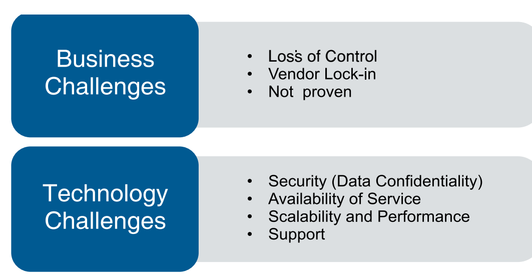
Company	Offering Name	Year of Launch	Key Offerings
Top 3			
Amazon.com	AWS (Amazon Web Services)	2006	Infrastructure-as-a-Service (Storage, Computing, Message Queues, Datasets, Content Distribution)
Microsoft	Azure	2009	Application Platform-as-a-Service (.Net, SQL Data Services)
Google	Google App. Engine	2008	Web Application Platform-as-a-Service (Python Run time Environment)
Next			
IBM	Blue Cloud	2008	Virtualized Blue Cloud Data Center (e.g. Wuxi China Center)
Salesforce.com	Force.com	2008	Proprietary 4GL Web Application Framework as an On Demand Platform

Start-ups in this space are on the rise as well. Some notable examples are Engine Yard, Appirio, Heroku, Coghead, Rightscale and so on.

Some of these are value-added service providers leveraging a large cloud service provider's infrastructure. Heroku providing Ruby on rail platform service on top of Amazon Web services, is a notable example.

Cloud concerns and challenges

Cloud computing is yet to effectively present resolutions for several queries that abound around it.



Source : Infosys Technologies Limited

Cloud sourcing

Enterprises can 'cloud source' to tap into services through the Internet. Small and Medium Enterprises (SME) were the early adopters of cloud sourcing. However, there are a few adoptions by larger enterprises for select needs.

Enterprise	Scenario	Usage and Benefit
Eli Lilly	R&D High performance computing	**Usage:** Use of Amazon – Server and storage cluster for drug discovery analysis and modeling **Benefit:** Quick deployment time at a lower cost
New York Times	Data conversion	**Usage:** Conversion of archival articles (3 Million) into new data formats using Amazon elastic compute services **Benefit:** Rapid provisioning and higher elasticity on the infrastructure resources.
Pitney Bowes	B2B Application	**Usage:** Few of Pitney Bowes clients wanted a hosted model mail printing application. Uses MS Azure .net & SQL services for the hosted model option (2009 Go live) **Benefit:** Flexibility at a lower cost and new biz opportunity

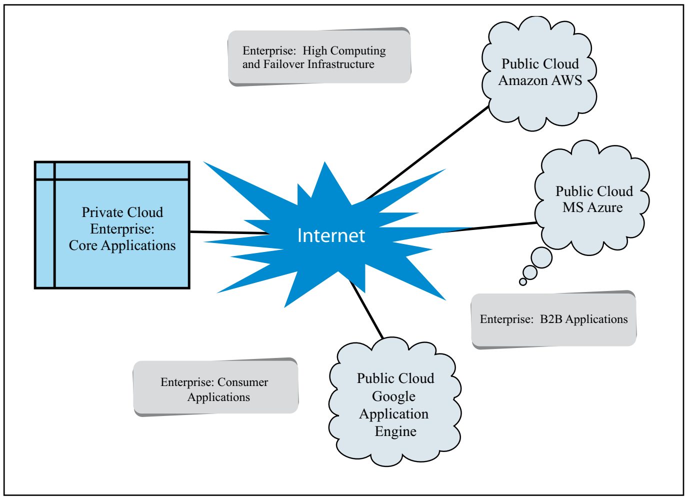
Recently, Infosys is piloting an auto dealer B2B application leveraging the MS Azure platform.

Imagining cloud computing

Drawing inspiration from the external service clouds (public clouds), CIOs are interested in provisioning their internal infrastructure and applications seamlessly through 'private clouds'.

This operates like a distributed hybrid cloud environment with a mix of private and public clouds.

This is an illustrative view of how cloud computing could be structured for an enterprise



Source : Infosys Technologies Limited

Relevance to global banking industry

Cloud computing can help banks significantly save cost and gain response agility. This could translate into clear advantages in terms of improved go-to-market and enhanced SLAs for service delivery. Adoption is slowly gaining momentum, especially in these times of increased cost and efficiency consciousness. However, enterprises are cautious and seek to engage with proven technology partners.

Cloud Asset	Utility
Private Cloud	Provisioning of internal infrastructure and applications, similar to the external cloud model.
Software-as-a-Service (SaaS)	Utilization of SaaS offerings for non-critical and new market/channel functions (like Social Platform)
Public Cloud (Infrastructure-as-a-Service)	Handling high computing workloads for short span (For example, Risk Analysis), back-up/fail-over needs, non critical external web applications and so on, leveraging external clouds.
Public Cloud (Platform-as-a-Service)	Deploying applications in Google application engine (consumer applications), MS Azure (B2B applications) and so on.

IT security would be the highest challenge for banks seeking to adopt cloud computing. Current public clouds are based in the US and have recently started to spring up in several parts of Europe as well. Banks would do well to closely scrutinize Internet and cloud network latency as part of the evaluation process.

Way forward

As a part of their innovation agenda, for select work loads banks could look closely at the merits of the Software-as-a-Service and Infrastructure-as-a-Service model. In addition, enterprises that seek to think and work outside-of-the-box could consider re-architecting their IT infrastructure as private clouds for seamless provisioning and efficient usage.

The mood of the moment, at most enterprises, however, is one of 'wait and watch' when it comes to leveraging the Platform-as-a-Service model ▪

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Author

G Lakshmanan

e-Commerce Research Lab, E&R

Infosys Technologies Limited

Infosys in the news

Q1 Revenues Declined by 2.9% YoY; Sequentially Grew by 0.1%

Infosys Technologies Limited announced financial results for its first quarter ended June 30, 2009. Revenues for the quarter aggregated $1,122 million, down 2.95 percent from $ 1,155 million for the quarter ended June 30, 2008. Net income was $ 313 million for the quarter ended June 30, 2009 ($ 308 million for the quarter ended June 30, 2008)

Infosys Cited as Leader in North American SOA Systems Integration Services Market by Independent Research Firm

Infosys Technologies Limited was named a leader in the North American Service-oriented Architecture (SOA) integration services market in the May 2009 Forrester Research report, "The Forrester Wave™: North American SOA Systems Integrators, Q2 2009. The Forrester report stated that "Infosys had the highest satisfaction scores from its reference clients, and this high level of satisfaction has earned the firm a place as one of the 'Leaders' in this Forrester Wave."

Finacle – The Universal Banking Solution from Infosys

Finacle™ positioned in Leaders Quadrant in Magic Quadrant for International Retail Core Banking 2009

Gartner, Inc. has positioned Finacle™ core banking solution in the Leaders Quadrant of the recently released 'Magic Quadrant for International Retail Core Banking (IRCB)' report **.

The Gartner Magic Quadrant IRCB report "assesses the suitability of core banking system providers and their product offerings to address the impact of these and other trends in the IRCB market."

Magic Quadrants depict markets using a two dimensional matrix that evaluates vendors based on their completeness of vision and ability to execute. The evaluation began with 39 candidates for the IRCB Magic Quadrant for 2009 and resulted in a qualified group of 23 combinations of vendors and products that represent the major movers in retail core banking systems.

*** Gartner, Inc. "Magic Quadrant for International Retail Core Banking" by Don Free, July 8, 2009*

Finacle™ from Infosys Launches Direct Banking Solution to Enable Rapid Global Expansion And Customer Acquisition

Infosys Technologies Limited announced the launch of Finacle™ Direct Banking Solution, a comprehensive solution that supports the full-fledged branchless delivery of a range of assets and liabilities solutions, through the Internet, mobile or call centre channels. Infosys also offers complete operational partnership along with the solution including consulting, implementation, and BPO. Two leading global banks have already chosen Finacle™ Direct Banking Solution to take advantage of the disruptive direct banking business paradigm.

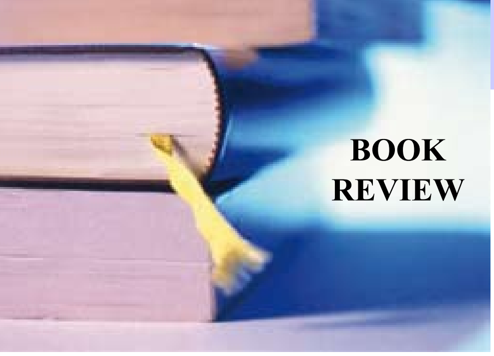
As more banks across the globe realign their business strategy towards low cost customer acquisition, Finacle™ Direct Banking Solution along with surround services presents banks a cost-effective entry strategy for business expansion into new geographies, and network expansion in existing markets. It is also an effective engine for demand generation through online sales enablers, to drive customer acquisition and extend the branchless bank's outreach.

Analyst Speak

"Through process-oriented methodologies, Infosys Technologies uses varied input sources, such as primary research, industry experts and consulting organizations, to build and validate short- and long-term business plans. Starting with established product principles, Infosys deploys effective buy, build and alliance processes to translate market requirements into technology solutions."

Don Free

Gartner Magic Quadrant for International Retail Core Banking



FIRST**LOOK**

Rudolf Duttweiler

Managing Liquidity in Banks

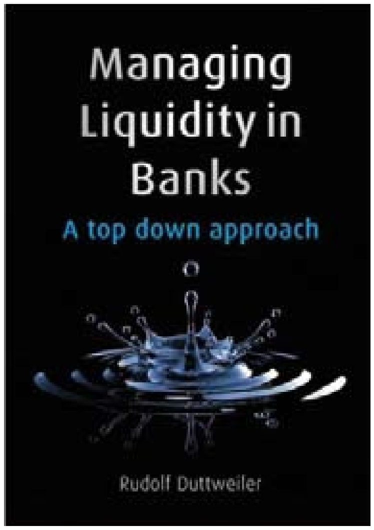
A top down approach

Good timing is what makes a great treasurer – and this book is right on time! Just what the world, struggling to emerge from a subprime crisis, brought on by underestimating liquidity risks, needs.

Liquidity risk management has gained importance in recent times and particularly in the last year, as major bank failures have led to a re-evaluation of the significance of liquidity in stressed market conditions. Liquidity risk is closely related to market risk and solvency, suggesting its significance in times of volatile and 'bear' markets, where a single bank's failure can have dramatic effects on market liquidity.

There are, in essence, two points that this book seeks to make. The first; securing and managing bank liquidity is not merely a support or back office function, to be delegated at the first available opportunity. On the contrary, it is an integral part of the bank's strategic dimension, and needs to be addressed at the top most echelons of management. The next point made is that the function aims not to merely fulfill all liabilities completely. It must focus on preserving the bank, its reputation and thus its ongoing client and investor connections.

Rudolf reiterates that managing liquidity in banks must extend its scope to encompass examination



that includes the process of setting up the structural elements for a framework of effective liquidity management. Schemes employed by the supervisory framework for liquidity management should also be considered in order to evaluate the rationality of the concepts and processes introduced where they exceed supervisory and regulatory requirements.

He looks at quantitative methods of assessing a bank's liquidity levels, including LaR and VaR, to establish an integrated concept in which liquidity is incorporated into the framework of financial policies. He also presents methods, tools, scenarios and concepts to create a policy framework for liquidity and to support contingency planning.

The book details a rather interesting case study of Commerzbank under stress in late 2002, presenting a real world scenario to showcase effective workings of a bank under conditions of stress. The case study shows which measures and actions were successful and why.

A fact that has truly earned brownie points for this book is the provision of clear definitions and practical explanations. The book certainly will be of value to liquidity specialists, CEOs and operational unit heads, at banks.