Oct. - Dec. 09 / Vol 05 / Issue 19

FINACLE CONNECT

CONNECTING THE BANKING WORLD

ENABLING **INNOVATION**

Inside Talk
Interview
Nilsen Altıntaş
Head of Innovation
Cemal Kişmir
Head of Retail Banking
Turkish Economy Bank

Cover Story
8 Points to Ponder for Banks Seeking to Innovate

Kaleidoscope
Evolving. Enterprising. Exciting. The Business of Banking in the United States of America

A Quarterly Journal From
Finacle from Infosys®

PARTNERSHIP ACCELERATES INNOVATION, TO DRIVE AGILITY

Wilhelm Maybach & Gottlieb Daimler

Banks that think out-of-the-box partner with Finacle, to chart timely strategies and configure solutions to swiftly respond to change.

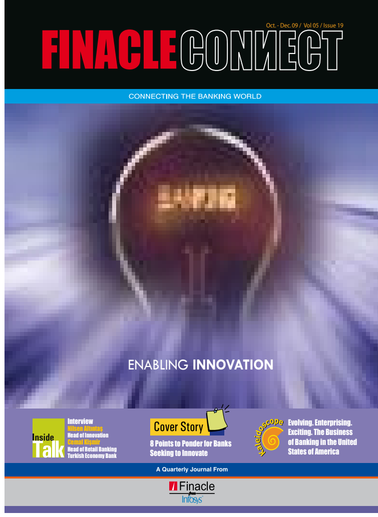
Finacle enables them to anticipate market requirements, manage dynamic compliance mandates, speed-up service delivery and launch value-added products, faster than competition.

To see how Finacle can partner with you to power-up your bank's innovation agenda, and help you accelerate business agility, visit us at www.infosys.com/finacle.

Finacle from Infosys®

YOUR INNOVATION PARTNER

Universal Banking Solution | System Integration | Consulting | Business Process Outsourcing



Contents

Oct. - Dec. 09 / Vol 05/ Issue 19

FinacleConnect is a quarterly journal on banking technology published by Infosys Technologies Limited.
For more information contact: Sumit Virmani, Infosys Technologies Limited, # 44 Electronics City, Hosur Road, Bangalore 560100, India.
Tel: +91-80-41057020 or write to us at: finaclemktg@infosys.com

Design & layout by VisualNet, www.vn4design.com

Voice from the Desk

They say, "It's the arrogance of success that deludes us into believing that what we did yesterday will be sufficient for tomorrow." But it never is; most certainly not for us in the banking business. It may be worthwhile to stop for a minute and see where exactly innovation fits in our agenda. It's not unnatural for bankers to ask, how firms can make colossal plans for ambitious makeovers that entail months of rigorous change management, when business-as-usual itself may need significant nurturing. But rethinking the business need not necessarily be an agonizingly painful period before the enterprise emerges stronger in a happier future, as several of us may well imagine. It can be as simple as developing new or even just improving existing capabilities, with a holistic view of the larger business intent, through a framework for small but strategically significant change.

A viewpoint reinforced by Deborah L. Bianucci, President and CEO of BAI, in the cover story of this issue - "There are many examples of how financial services firms have successfully altered products, processes and even delivery mechanisms through incremental innovation. And although it sounds counter-intuitive, we are seeing instances of banks going back to the basics of how businesses should be led or products managed, in an attempt to find inspiration for future innovation."

Cemal Kişmir – Head of Retail Banking at Turkish Economy Bank, also enthuses "Most ideas implemented are incremental improvements. These can be quickly implemented as lower risk improvements to existing products, services and processes. We are aiming to ensure the continuous flow of incremental improvements throughout the journey to find the golden innovation idea and, to have an impact on long-term equity and profitability." The chat we had with Kişmir and his colleague Nilsen Altıntaş – Head of Innovation, featured in this issue, will make for interesting reading.

The role of social media in banking and the changing landscape of the business of banking in the United States of America, are two other topics explored in this edition of FinacleConnect, giving forward thinking banking minds much to chew on.

Other regulars like Tech Watch featuring a quick appraisal of *RFID Technology for Banks* and a peek inside the covers of the book *Banking on Innovation* in the First Look section, complete the read.

And as it has always been for us, it's your suggestions and feedback that'll make our day.

Till next time!

Haragopal M
Global Head - Finacle
Infosys Technologies Limited

Feature

Do the New: Why Banking Innovation is such a Great Idea

Since banking is so relationship-driven, it must stay in step with customers in order to remain relevant. So, when a customer asks, "What's in it for me?" the bank had better be ready with an engaging answer.

Of course, this is not an altogether new idea. For years, banks, have tried to understand their customers' evolving needs and be the first to satisfy them. Early attempts were product focused, as banks tried to improve existing offerings and add new ones. However, this approach did not differentiate products based on the customers they were sold to or the channels they were delivered over.

> *When banks view their clients as a "segment of one", they improve their own understanding of what that customer is worth.*

Ring out product-focus, ring in customer-specificity

With the dawn of the CRM 1.0 era, the product-centric strategy made way for the customer-segment based approach wherein customers were placed in broad groups, each accorded different treatment. Thus, retail customers were segmented as senior citizens, high net-worth individuals or mass affluent, and it was assumed that all those within a particular segment had comparable if not the same needs. As the concept of customer loyalty gained currency, banks began to color-code their clients into platinum, gold or silver, depending on the monetary strength of the relationship, measured in terms of average quarterly balance. Once again, members of each category received the same privileges such as insurance cover or free cheque books and the same communication about loans and credit cards that they probably had no need for! Neither did this approach create clearer insight for banks – there was no way of telling a "gold" account holder with funds to spare from another who was struggling to keep up with the minimum balance requirement.

Clearly, now's the time to bring some innovative thinking to banking relationships. Customers no longer want "generic" treatment and pre-configured products and services. Individual expression is finding as much place in banking relationships as in any other, with customers demanding to be heard one-on-one.

Luckily, most banks are well placed to make the shift towards customer-specificity since they already have a wealth of customer information on their hands. Tacit information, received during interactions at the call centre, ATM and branch can signal customer sentiment, which is not reflected in transactional data. By leveraging this information, banks can make the next interaction with a customer more meaningful. Imagine how pleasantly surprised a bungee-jumping enthusiast would be to receive a promotional offer for sky-diving the next time he calls in, instead of the usual personal loan proposal!

While it is clear that a customer-specific approach can lead to higher customer satisfaction, what is not that apparent is that it can also propel banks towards higher profitability. When banks view their clients as a "segment of one", they improve their own understanding of what that customer is worth. This knowledge highlights the wisdom of dispensing with generic concessions and adopting a profitable pricing structure for every relationship.

Until now, banks have taken a lenient view of the profitability of individual accounts, as a result of which minority high-value customers end up subsidizing the low-value majority. Banks must do all they can to protect their top 20 percent customers who generate 80 percent of their profits – and if that means retiring the loss-leading segments, so be it. They must also rationalize the pricing terms of each customer relationship. Indeed, the telecom industry serves as a ready example of how granular pricing can be used to attract and retain every type of customer, no matter how big or small. Taking a leaf out of that book, banks too must refine their strategy so that a higher proportion of customers contribute to a higher total profit.

But that's easier said than done. Banks fight multiple pressures posed by saturated markets, limited customer resources and regulatory requirements which seriously hamper their ability to tweak the pricing mechanism. Given these constraints, it's a tall order to identify segments where there's money to be made.

This is why innovative thinking is so important. Demographic, social and technological shifts have opened new frontiers to commerce. Banks that are first off the blocks in tapping these opportunities will win the day.

Unleash the "Y" power

Take demography, for instance. It is well known that parts of the world have aged, and others are in the process of doing so. Both Japan and Europe suffer from a high dependency ratio, negatively impacting their GDP. In the wake of China's ascendancy, the fact that the nation will grow old before it grows rich (by 2027), bearing the burden of a 70 percent dependency ratio thereafter has receded into the background. In contrast, regions like India, Africa and Latin America, which will remain predominantly youthful for the next several decades will drive the world's economic growth.

'Banks need to craft an innovative strategy that delivers the right products at the right time over the right channel during every life stage of the customer.'

It stands to reason that going forward banks must focus their efforts on developing the potential of young customers. An obvious target group is Generation Y or Gen Y, a new breed of confident, communicative and digitally wired 18 to 28 year olds, largely ignored by the banking sector which deemed them "just kids with no money to spend". They may like to know that in the United States alone, Gen Y spends over US $200 billion annually, and influences buying decisions worth three times that amount. However, it is even more important for banks to understand what makes these youngsters tick before soliciting their business.

Unlike the rational older generations, Gen Y is vocal, emotional and impulsive. Since this segment attaches great value to community, peer advocacy plays a huge role in shaping their opinions. The boom in telecommunications and networking has given huge impetus to Gen Y's social connectivity: 90 percent have access to a computer, 70 percent use mobile phones, and at 80 percent penetration, SMS is clearly the most favored method of communication. You won't find them walking into a branch, as long as an ATM or the Internet is at hand. Paradoxically, the higher demand for connectivity is accompanied by a lessened need for "conversation" – while Gen Y seeks information, it wants no preamble. Nor does it ask for guidance – remember, this is an independent generation, willing to make mistakes and move on quickly.

Clearly, the needs of this segment are very different from any other, and banks which ignore this reality do so at their own peril. They need to craft an innovative strategy aimed at not just capturing this business for the moment, but retaining it through the entire life-cycle. And that means delivering the right products at the right time over the right channel during every life stage of the customer. An example will help illustrate this: When a student graduates from high school to go to college, his or her bank can play a pivotal role during the entire transition right from providing a list of potential universities, describing the curriculum, faculty and facilities at each, to tying up with real estate agents for local accommodation and of course, arranging a student loan. This example shows how through education and empowerment, a bank can progress beyond transaction banking to a more well-rounded relationship with its clients. The same concept can be extended to other personal life stages such as marriage or parenthood and to professional milestones such as job change, promotion or retirement.

Enter uncharted waters

The unbanked make for another compelling story. Regions powering the world's growth engine also have huge unbanked and under-banked populations. Two-thirds of Latin America is unbanked. Africa reports the same. And 60 percent of India's one billion plus population is at the mercy of money lenders charging stratospheric interest rates. Interestingly, these segments promise more than just business volume; at near zero default rates and high margins, they can deliver decent profits as well. Not to mention that a microcredit account of today can be a credit card or insurance customer of tomorrow.

Optimize to win

Besides venturing into green-field territory, banks must make the most of their existing businesses. However, even as the number of customers grow, it is not feasible for banks to periodically ramp up infrastructure to cater to the increasing demand. So, what is the alternative? Optimization might provide the answer.

A close examination of customer segments and specific needs within each can reveal interesting patterns of preference and behavior. Banks can use this insight to optimize their products and channels to suit individual profiles. This brings dual benefits – improved customer satisfaction and better utilization of resources. An example will make the argument clearer: A young customer is likely to use Internet or mobile banking, whereas a middle aged one would rather phone the call centre or walk into a branch. At the highest level, banking channels can be optimized to serve these segments according to their preferences. But it needn't stop at that – by visualizing a multi-dimensional grid that maps customer segments (and specific needs) alongside products, channels, Web 2.0 and life-cycle events in every transaction, banks can devise a sophisticated optimization strategy to prescribe the channel to be used by a customer during a specific interaction.

By recommending a primary and secondary channel to each of their customers, banks can not only rationalize the load on their delivery infrastructure but also direct customer traffic towards the channel of choice. Thus, a Gen Y customer can be provided information on demand deposits on mobile and asked to complete the account opening procedure online. On the other hand, a relationship manager may need to visit an older customer's residence to provide the same information, before the latter comes to the branch to complete account

By recommending a primary and secondary channel to each of their customers, banks can rationalize the load on their delivery infrastructure.

Optimizing Customer Experience

		Transaction Life-cycle Events for Gen Y				
		Information Dissemination	**Prospecting**	**Account Creation/ Boarding**	**Account Transactions**	**Services and Support**
Product Example: Demand Deposit Account	**Channels**	Internet Mobile	Internet Mobile	Internet Call Centre	Internet Kiosk and ATM Mobile	Internet Mobile Call Centre
	Web 2.0 Applications	Twitter	Blog	Internet		Blog; YouTube

		Transaction Life-cycle Events for Gen X				
		Information Dissemination	**Prospecting**	**Account Creation/ Boarding**	**Account Transactions**	**Services and Support**
Product Example: Demand Deposit Account	**Channels**	Relationship Manager Branch	Relationship Manager Branch	Branch	Branch	Relationship Manager Branch Call Centre

opening formalities. This principle applies equally to subsequent events including those related to on-boarding, transacting and servicing.

Interestingly, banks can also improve revenue by aligning their pricing structure with the optimized matrix – for instance, a Gen Y user may be charged extra for in-branch service and a *Baby Boomer* for an Internet account.

While all of this is great news for the industry, we go back to where we started – which is, what's in it for the customer? A lot, actually! Optimization can create a better banking experience for all. When a transactional life-cycle is optimized, it creates a positive impact on every element of the "4E" customer experience framework - educate, empower, embrace and extend. Optimizing the information dissemination stage improves customer education processes whereas optimization of the prospecting and on-boarding stages contributes to empowerment. Similarly, optimization of enquiry or transaction processes helps to embrace the customer and streamlining service and support processes enables banks to extend them.

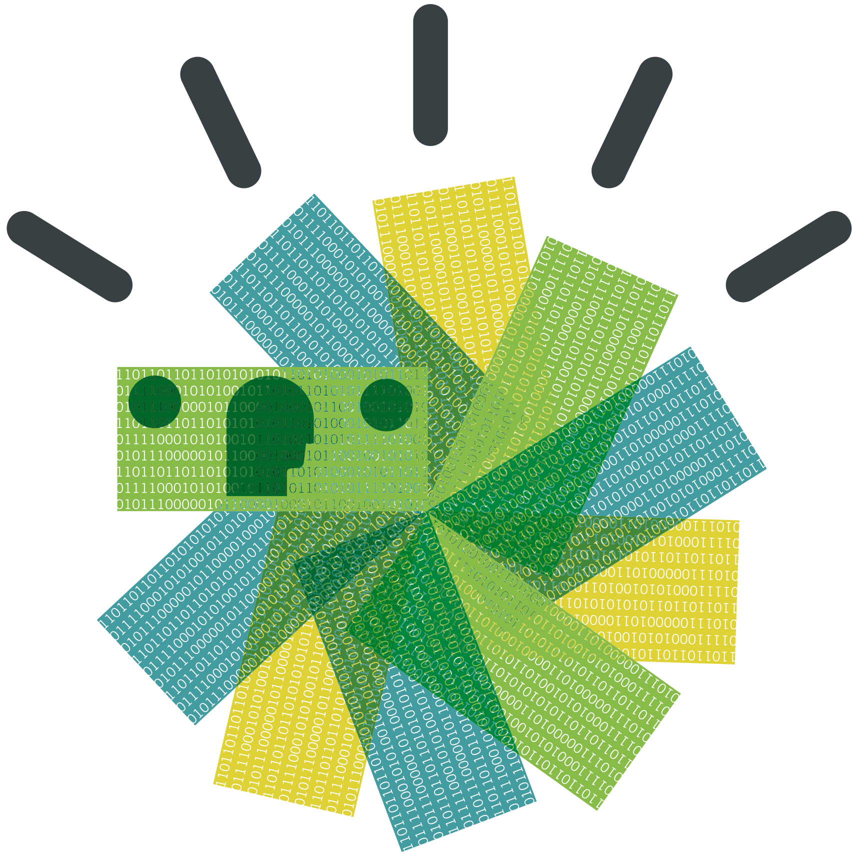
We need hardly say that banking innovation is the only way forward ▪

Author

Rajashekara V. Maiya

Product Manager - Finacle
Infosys Technologies Limited

Conversations for a Smarter Planet: 9 in a Series



Smarter money for a smarter planet.

We know that a lot of money has evaporated in the current financial crisis–but what exactly is it that has been lost? Obviously it's not hard currency, which represents only 11% of the U.S. money supply. The rest of our "money" flows from a paycheck to a bank to a store and then through the store's supply chain, only to be deposited in another business's account…to start the journey over again.

Money, in other words, has been reduced to zeros and ones. It's intangible, invisible. It's information. Which is central both to the problem we face and to its solution.

Without question, the replacement of physical money with electronic money–and the spectrum of financial innovations that have accompanied it–have helped the world's economy grow and prosper. They have also helped many more people around the world to join the middle class. But our technical and management systems haven't kept pace. They couldn't provide warning signals of risk concentrations, over-leveraging or underpricing. Banks could repackage risk and sell it, but they couldn't value an individual loan in order to unwind the debt when needed.

However, the same digitization that has helped create this challenge is now providing the means to solve it. Intelligence is being infused into the way the world works, including our financial systems. We're all aware of advances like ATMs, credit cards and online banking. But the transformation happening underneath is far more profound. Unprecedented computing power and advanced analytics can turn oceans of ones and zeros into insights, in real time. Which means we could have a safer, more transparent and intelligent financial system for a smarter planet.

We can already see it happening at the level of national governments. The new integrated information system for the Czech Republic Ministry of Finance, for instance, provides insights to help set monetary policy, and to handle state budget resources and public finance more efficiently.

We see it helping multiple interconnected institutions. The Operational Riskdata eXchange Association, a consortium of 52 leading financial institutions, uses anonymized data to help improve statistical modeling, more accurately quantify risk exposure and address regulatory compliance needs.

We even see it transforming entire global markets. Consider foreign currency exchange, the world's largest single market. Intraday settlement risk of more than \$2 trillion in volume–more than 50% of foreign exchange transactions–has been eliminated.

And through organizations like Grameen Foundation and Financial Information Network and Operations Ltd. (FINO), poor people around the world can overcome impossible odds. Thanks to technology-enabled microfinance, they can get collateral-free loans and financial services to support income-generating businesses–for a brighter future for their families and communities.

These changes are exciting, but more are needed. There is growing consensus on the need for a centralized risk utility, to help avert future crises–perhaps building on the work of the International Monetary Fund and other institutions to create an early warning system for global finance.

Of course, restoring trust and confidence is much more than a technology challenge. It's also a major policy and behavioral challenge. And no system can ever be devoid of risk. But the benefits of smarter finance are clear–for regulators, bankers, investors, companies and communities, rich and poor around the world, all of whose well-being and prosperity depend on a money system that is stable, secure and accessible to all.

Let's build a smarter planet. Join us and see what others are thinking at **ibm.com**/think

THINK IBM®

Deborah L. Bianucci
President and Chief Executive Officer
BAI

8 Points to Ponder for Banks Seeking to Innovate

Today, in the aftermath of one of the most significant economic upheavals, banks have a choice. They can insist that they will never put a dollar of capital into anything that does not come wrapped in an ironclad business case. Alternatively, they can opt to resourcefully explore the world of possibilities to capture their fair share of wealth in the new realm. Having made the latter choice, here are 8 thoughts to throw light on the way forward.

Since raising profitability is a goal integral to any innovation agenda, banks must take into account their impact on key drivers.

1. Innovation has never been more relevant

The events of the past several months have not just affected the performance of financial services organizations, but left a deep impact on their culture as well. The erosion of customer trust and confidence in the once-hallowed banking industry has forced banks to rethink what constitutes meaningful competitive differentiation. Hence, we find that banks are looking at creative means of packaging and delivering their products to set themselves apart from their rivals as well as to stay a step ahead on the path to recovery. This need also may be drawing strength from pent-up demand for innovation, generated as a result of decisions or agendas put on hold at the height of the financial crisis.

As we enter 2010, the banking sector is examining its choices – whether to introduce radical change, or take the more cautious route of incremental innovation. Regardless of the strategy, the fact remains that innovation has never been more important than it is today.

2. Incremental innovation can be highly effective

There are many examples of how financial services firms have successfully altered products, processes and even delivery mechanisms through incremental innovation. And although it sounds counter-intuitive, we are seeing instances of banks going back to the basics of how businesses should be led or products managed, in an attempt to find inspiration for future innovation. Again, they are trying to understand what matters most to customers and are using that knowledge as a launching pad for incremental innovation aimed at improving performance in the long term.

Since raising profitability is a goal integral to any innovation agenda, banks must take into account their impact on key drivers, such as balance sheet measures, brand equity and pricing structures. The latter is especially of concern. It is predicted that shifting consumer preferences and regulatory reform will exert a downward pressure on banking charges. With new regulation on the horizon, there is more and more talk about how major global banks may change the way they assess NSF overdraft fees on account. Some banks have already amended the methodology, but going forward, radical change is anticipated in pricing, which is central to the way in which customers perceive banks today.

Hence, banks will need to offset lower charges with improved products and services that fulfil the needs of different customer segments and consequently add to the profit pool.

A new online bank in the U.S. has done just that by innovating on the age-old Certificate of Deposit (CD), with great results. By changing the way they calculate interest rates, the bank is able to offer a higher return on its CDs. To top that, they charge their customers no fees

Learn more about consumer perceptions towards banks and bank executive attitudes about innovation in banking and the financial services industry in general. Send in your request to finacleweb@infosys.com for a free whitepaper from the BAI and Finacle Research Series — **Navigating in Turbulent Times: Competing for Deposits and Relationships**. The research study is currently in the field and the whitepaper will be ready by October 31, 2009.

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

and allow them to withdraw the deposit before maturity. Although this is a case of incremental innovation that required no large-scale changes to systems, processes or product features, the bank had the foresight to publicize it widely and that attracted a lot of attention.

Direct banking is an example of incremental innovation which helped rewrite the rules of Internet banking and catalyze online banking adoption. The leaders in this space weathered the downturn better because their online delivery business model gave them a high degree of flexibility, enabling them to adapt better to a changing environment.

The business of mortgage lending, which has been in the eye of the storm, is also changing by bringing more transparency and simplicity to products so they may be easily understood, trusted and consumed by customers.

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.

3. Customer interest is the acid test for innovation

Banks will face their moment of truth when the time comes to assess the impact of innovation on their customers and other stakeholders. It's only when they successfully align process, technology or channel innovation with customer expectations that they can see real results. Difficult environmental conditions force senior management to take a fresh look at their way of doing business, which in itself sparks off innovation. When banks downsize in terms of people, resources or technology, they turn to process improvement in order to maintain the same level of business. As they start to change legacy processes, they discover new opportunities to create benefits for customers, making it a win-win for all. I can recall an instance of how one large U.S. bank turned lower staffing to their advantage by re-designing branch layout and their customers' path of navigation. As a result, customers found what they were looking for — faster, and without as much personal assistance.

Others used tech-tools such as Web cameras to deliver remote personalized assistance in order to get around the problem of retaining subject experts at every branch. That suited customers just fine since they could now seek advice from anywhere.

In short, the key driver of process improvement must be customer need, and when banks approach it from that perspective, they have a great shot at success.

4. Web 2.0 is the next wave in channel innovation

If the widespread adoption of various social networking tools since 2008 is any indication, Web 2.0 technology looks set to give channel innovation new impetus. Although there was

Key findings from the BAI and Finacle Research Series—**Navigating in Turbulent Times: Competing for Deposits and Relationships** will also be presented this year at BAI Retail Delivery Conference & Expo at the Boston Convention & Exhibition Center in Boston, MA. Visit http://www.bai.org/retaildelivery for more details.

> *Banks need innovative segmentation strategies that improve their ability to satisfy the diverse expectations of their customers.*

much Web 2.0 talk within banking echelons in recent years, there was some progress on the ground. But the financial crisis of 2008 forced a new level of adoption. The downturn put severe pressure on resources, and as a result, bank executives couldn't connect quite as easily with their peers and other sources of information. Social networking platforms turned out to be one of the best alternatives, which explains the surge in the number of banking online communities of late. These platforms have also enabled retrenched bank workers seeking jobs to connect with other members of their profession, employed in various institutions. In fact, there's never been a greater need for connectivity and information, and the plethora of social networking tools fulfils it near-perfectly.

In the wake of renewed customer focus, banks are seeking to leverage social networking tools to better serve the needs of various generations of clients. While they recognize they may not succeed equally with all segments initially, that hasn't prevented them from taking a long-term view. We can see that most are committed to adapting their business to reflect the changing dynamics of an increasingly online world – as clearly Web 2.0 has arrived to stay.

5. Segmentation is in need of innovation

Related to the earlier discussion about fulfilling customer needs, banks must also focus their innovation efforts on segmentation. Defining banking segmentation is particularly tricky; implementing it even more so. Most banks group customers by the size of their bank balance, which provides no insight into the differentiated needs that exist within a segment. It stands to reason that such needs remain unmet. Relationship value has been proposed as an alternative basis for segmentation, especially in the context of loyalty programs. No doubt, relationship is very important. However, the strategy will work only when banks' perception is aligned with that of their customers. The findings of a U.S. consumer research study we conducted a few years ago, which I believe are still valid, illustrate this point. When customers were asked how important it was to them to have a relationship with their bank or its staff, only 31 percent responded positively. The rest were either sceptical or indifferent, mainly owing to their belief that the bank was incapable of understanding and fulfilling their needs. Ineffective segmentation may explain in part why many loyalty programs fail to achieve the desired results, despite being launched at great cost and effort.

Clearly, banks need innovative segmentation strategies that improve their ability to satisfy the diverse expectations of their customers. That's when banking relationships, and consequently loyalty, become meaningful to customers. At the same time, they must recognize that some customers may never be receptive to relationship building overtures.

6. Business model innovation calls for bold moves

In contrast to other initiatives, business model innovation is rarely, if ever, incremental – it has to drive fundamental and radical change, and is therefore likely to create the biggest impact on the organization and its key stakeholders. Thus far, every business model, be it that of the global, mid-sized or small bank, left a distinct imprint on the way business was conducted.

The local community banks in the U.S. succeeded because they were built on a strong foundation of customer intimacy. Now, it's the age of new start-ups in the form of direct or online banks. At the same time, banks built on legacy models are looking within to innovate on the existing set-up so they can better respond to changes in the economic and market environment.

The toughest aspect of business model innovation is that it calls for bold action. That being said, it's clearly the need of the hour, and banks that have the scale, presence and resources to make a courageous move will be stronger for it in the long run.

Innovation culture must also extend to the partner eco-system who can bring considerable expertise to the table.

7. The innovation culture starts at the top

A march towards innovation is no less than a cultural shift. For any organization to create a culture of innovation, the change must start at the top. Bank CEOs must create an environment that not only values innovation but renders it safe. This is critical for the financial industry which, having suffered the consequences of inadequate risk management has turned overly cautious. Therefore, those responsible for taking some risk to innovate must be reassured that innovation not only bears the organization's stamp of approval but is something the organization seeks.

Implementation success will depend on how well the organization communicates and aligns its innovation strategies, which is, no doubt, easier said than done. But first, banks must define the parameters of successful innovation. Although Return on Investment (ROI) is important, it cannot be the sole measure of success because it can take years to show, and in the meantime can drive banks to jump to the wrong conclusions. Hence, it is vital that banks have the right metrics in place to enable them to correctly assess the progress of innovation. For instance, the metrics could indicate the impact of innovation on brand strategy or customer confidence.

Adverse economic conditions have forced banks to cut back on internal resources and rely more on outside partners. The innovation culture must also extend to the partner eco-system. Partners such as business consultants and technology vendors can bring considerable expertise to the table. This also may give banks the opportunity to assess whether they are in partnership with the right firms. So often, vendors are focused on their own, rather than customers' needs. The right partners are those that make the effort to understand their clients' business priorities and pain points, while offering solutions that support the one and ameliorate the other. Partners must also display awareness of the pressures faced by senior bank management, by being patient in their dealings.

When partners add value by offering informed perspectives to banking executives, they put themselves in a position of strength. Senior bank executives are typically more willing to make time in their busy schedules to give such vendors a hearing.

8. Innovation is the key driver of future success

I believe the downturn has had a positive outcome in that some banks have turned adversity into opportunity. These banks have not been beaten by tough conditions; rather, they have created competitive advantage by trying to understand the changing needs of customers and finding innovative ways of satisfying them.

Others, perhaps because of their circumstances, have chosen to look inward to defend against the uncertainty that surrounds them. Unfortunately, when the going is rough, it's all too easy to abandon plans for innovation or put them on hold, at the very least. However, I have no doubt in my mind that it is innovation that will drive future success. Banks with strong customer focus, commitment and a supportive partner system will emerge winners when the dust settles ▪

Author

Deborah L. Bianucci
President and Chief Executive Officer
BAI

(BAI is a leading professional organization devoted exclusively to improving the performance of financial services companies through strategic research, information, education and training.)

Banking on Social Media

Let's start with a familiar story. A middle-aged credit card customer is incorrectly charged a late payment fee on his monthly statement. The call centre executive, after placing him on hold for what seemed like an eternity, was unable to provide a satisfactory explanation for the charges. The hapless customer is left fuming; perhaps he will tell his wife about it, and then forget the incident altogether. Replay this scenario with one change – the customer is a twenty-something executive. Rather than shrug philosophically, he will log into an online community (maybe more than one) and a thousand people will know of the incident in next to no time! Just think of the instant damage to the bank's reputation!

That's the power of social media, which has the capability to fundamentally change the way businesses interact with their customers, employees and other stakeholders. Banks, which have largely stayed away, can no longer sit on the fence. Going forward, they must have a game-plan to leverage social technology or risk being left behind.

Is social media really important to banking?

We must recognize that customers born into a digital generation, are fundamentally different from their predecessors. For one, this generation is at ease and highly dependent on technology, which is borne out by the expectation that active Internet users worldwide will climb to over 2 billion from the current 1.5 billion within the next few years. This generation is strongly influenced by the larger community that it identifies with and will often seek and express opinion within online forums.

Social banking platforms are tipped to eat into a tenth of the global retail lending and financial planning business by 2010.

Clearly, those who wish to reach out to this segment must do so on their turf, of which Web 2.0 powered social networks, blogs, wikis and communities are an integral part. With membership on social networking sites like Twitter, LinkedIn, MySpace and Facebook already ranging between 20 to 250 million the numbers do stack up.

This emerging generation, willing to spend on the instant gratification of its needs, accounts for a large proportion of the social networking market. They are as brand conscious as they are fickle – so, any product or service that's not visible in their popular hangouts, including social media, will soon be forgotten.

Analysts predict that Web 2.0 applications will ride the growth wave in the next few years, led by regions with well developed broadband and wireless connectivity. Clearly, the social phenomenon offers a compelling value proposition to most industries, banking included. Already, the lending and payments space is witnessing the entry of non-banking players via the social banking route. The news that social banking platforms are tipped to eat into a tenth of the global retail lending and financial planning market by 2010 should make established institutions sit up and take notice.

Who is online?

No doubt, some banks have heeded the signs. Perhaps the best example is that of Wells Fargo, a U.S. bank which launched a blog over three years ago. Among their notable social media innovations is Stagecoach Island, an online virtual world where you can have fun, connect with friends and at the same time learn smart money management.

Bank of America has tapped organizational tweeting by putting up an employee as the face of the bank on Twitter, complete with picture and all. The feed is aimed at listening and responding to customers.

Capital One's Slingshot is an online marketplace for local small business owners to share ideas, seek advice and grow their businesses.

The above mentioned banks and other early adopters have been quick to spot the unique characteristics of social media and understand their significance from a marketing standpoint.

> *Social media can be a valuable tool to enhance sales and customer retention.*

This platform is unmatched in viral capability – information and opinion can spread within a global like-minded community in next to no time. No other medium holds such powerful promise of word-of-mouth publicity.

By definition, social media is all about inclusion; hence, active two-way communication is its lifeblood. By making communication transparent, social technology platforms engender trust, the restoration of which is currently a huge priority for banks. Social networks and other online points of presence can build reputations in real-time – of course, the reverse is equally true. Therefore, while social media is indeed a double-edged sword, there is no denying that this phenomenon will rewrite the rules of how businesses communicate, build reputation and manage interaction with stakeholders in future.

Although the use of social technology in banking sprang from the West, the trend is now percolating to other parts of the world. Recent reports indicate that banks in the Asia-Pacific are strengthening focus on social tools and technology in a bid to capture the youth market. Some of their initiatives include integrating rewards programs with social networks and roping in youth opinion leaders to endorse their institutions.

Not just another marketing gimmick?

However, social media is more than an attractive marketing, communication and branding vehicle to be used for reaching out to Gen Y customers. It can be a valuable tool to enhance sales and customer retention especially within smaller, homogeneous enterprise communities.

Some interesting statistics about the behavior of enterprise community members is indicative of the strong value proposition underlying social networks: retention of community member customers is seen to be far longer; not surprisingly, research has shown that in some cases they spend over 50 percent more than their non-community counterparts. Social forums also enable banks to improve customer focus, bring transparency to pricing structures, reward loyalty and in the process, strengthen client relationships.

There are other compulsions as well. By threatening banking disintermediation, peer to peer lending social platforms such as Zopa and Prosper are forcing institutions to sit up and take notice of this space. As a result, a number of credit unions in the U.S. have teamed up with Zopa to offer such services.

If the above arguments aren't convincing enough about the merits of leveraging social platforms, the research findings which state that it costs U.S. \$0.25 to service customers via self-service modes (which include social media) versus U.S. \$12 in a contact centre, should seal the debate.

What's stopping it?

So, why has the banking industry not adopted social media in a big way? One reason could be that banks are traditionally cautious innovators, constrained by size, legacy systems and compliance mandates. That apart, most banks have neither the preparedness nor the mindset to take the leap just yet.

The fundamental premise of Web 2.0 interaction is instantaneity. When feedback is not followed by immediate action, the consequences can be intense and far-reaching. Several banks feel that they do not understand social media, an unstructured and unfamiliar development, as well as they should. Others are not yet ready to respond with the speed that the medium demands.

Experts emphasize that a foray into social media should become an organizational priority.

Fear of backlash is another deterrent to adoption – reputations are not just dismantled within hours by bad word-of-mouth; the Internet maintains permanent records of the damage, open for all to see! A global bank with Asian roots learnt a hard lesson even without an active online presence, when a student community on Facebook voiced outrage over the bank's decision to charge for overdraft on graduate accounts.

Also, banks are not comfortable with the idea of losing control over corporate communication, which is inevitable in the Web 2.0 space where customers not only talk back to companies but continue the conversation with other members of their network. Those organizations that have tried to curb the openness of the medium and cloak its transparency have suffered a consumer backlash.

It follows from the previous point that banks must be willing to un-package and un-structure their communication, while making it more transparent and inclusive. Communication on social media must be a case of personalized engagement rather than direct marketing-led enterprise messaging. Not many organizations are ready to make that shift just yet.

That being said, the recent financial crisis has strengthened the case for banks' entry into the social space.

Can it help recovery?

At a time when consumer confidence has hit a trough, social media gives banks the opportunity to reclaim lost trust by engaging with customers in a free, frank and fair manner. A direct outcome of this is the possibility of collaborating and co-creating with customers in real time. Of course, banks must back up these interactions by actually introducing product and service innovations, in order to win back customers.

Rarely has cost efficiency been the subject of so much focus – while visibility in the social space costs far less than in traditional media, it promises high impact, and therefore, makes a commercial proposition that is hard to ignore.

Last but not least, with a bit of foresight, banks can utilize this lean period to strengthen the foundation of their future business, which will no doubt revolve around the members of the digital generation. What better way to do so than by cementing one's place in the social sphere?

What's the winning formula?

Is there a pattern of success for new entrants to follow? Experts caution banks against taking half-measures in their social media strategy. They emphasize that a foray into social media should not be seen as a mere adjunct to the company's marketing efforts; rather, it must become an organizational priority. By dismantling boundaries between banks and their stakeholders, social platforms demand the involvement of the entire organization right from product development to marketing to customer service, in the engagement process. When such support is lacking, the strategy invariably comes apart. Therefore, banking institutions must be prepared at the outset to throw their entire weight behind the initiative.

As mentioned earlier, many banks are wary of taking the plunge before mastering their understanding of this domain, and rightly so. They can bridge that gap by intensifying their focus on analytics and consumer segmentation to specifically ascertain the needs, aspirations and behavioral patterns of the target audience.

It is equally important for organizations to embrace the appropriate etiquette which prescribes engagement of customers as opposed to bombardment with direct marketing messages. The intent must always be to help customers achieve their goals, without forcing them to accept the companies' agenda. In return for being part of the community, banks are rewarded with the chance to control the conversation about their brands and in the process, exert a gentle "push" in their favor.

Rather than having a diluted presence in mass communities, banking institutions would be better off building small enterprise groups, similar to American Express' OPEN Forum or Capital One's "Slingshot".

It may be better to align with existing financial social platforms instead of going it alone. For instance, ANZ has partnered with Smartypig to deliver a personal savings solution that enables users to display their savings goal and invite their family and friends to contribute to it. Social personal finance website, Wesabe allows financial institutions to integrate the former's personal finance management tools directly onto their websites.

Last but not least, banks must ensure that they have access to the right technology, in terms of infrastructure, solutions and partners.

What lies ahead?

While there is no denying the immensity of social technology, the jury is still out regards its significance to banking. Advocates believe that social media is integral to banking; skeptics however, doubt that any serious take off will happen after five years of little action.

Yes, there are few takers at present. However, we must recognize the importance of social technology in the lives of members of the digital generation, who are the banking customers of the future. As this segment grows in maturity and influence, their lifestyle choices will become mainstream marketing considerations for businesses of every hue. At that time, the online social world will no longer remain on the fringes ▪

References

1. Gartner Research
2. Forrester Research
3. Financial Insights Research

Author

Sumit Virmani

Global Head Marketing - Finacle

Infosys Technologies Limited

Evolving. Enterprising. Exciting.

The Business of Banking in the United States of America

Startling systemic events have shaken the financial services industry in the U.S. In fact, the very outlook to the banking world, both from the banker's point of view as well as the customer's point of view, has undergone a complete transformation. There has emerged a much stricter regime, driving at regulatory compliance. The credit business has turned very controlled and regulated, while the deposit business has taken prime position, thanks to changing customer behavior, in a dramatic turn, following long decades of financial extravagance.

Compelled by the credit and liquidity squeeze, banks are keen on conserving and building capital. This drive has brought more focus on risk management, regulations around creating greater transparency and stringent compliance. Banks are also looking at initiatives to retain profitable customers and attract more 'pop and mom' deposit accounts, in a drive to strengthen their capital base, at a lower cost.

Technology spend on Governance, Risk and Compliance (GRC) management at American banks would increase by around 25 percent in the next three years.

The imperatives driving emerging banking trends in the U.S. are:

1. **Improved risk management and control**
2. **Channel amplification:** Development and enhancement of the right mix of assisted and self-service channels, with a customer view across channels
3. **Service accessibility:** Incorporation of technologies making banking accessible for a broader base of the population
4. **Customer serviceability:** Development of a responsive, reliable and competent service model, supported by multi-channel access and a continuous feedback stream. The thrust is on understanding customer behavior to create a proactive service model to replace the current reactive one
5. **Data privacy and security:** Protection for customer identity, by ensuring that appropriate mechanisms are established to guard against internal and external misuse of customer information. This paradigm is being extended to advanced fraud prevention measures, to bolster customer confidence in the banking system

Improved risk management and control

Never before has risk and compliance figured as a key strategic initiative on a bank CEO's agenda. Regulators have increased their watch over financial activities with a series of regulations that monitor financial accounting, customer screening (KYC - Know Your Customer) and currency transaction monitoring (AML – Anti Money Laundering).

Implementing a governance risk and compliance program

More and more banks are looking to establish a governance process that takes a unified view of risk and compliance. The approach is to reduce overall business risk, ensure better compliance and thereby, create competitive advantage for the bank. Recent analyst reports predict that the technology spend on Governance, Risk and Compliance (GRC) management at American banks would increase by around 25 percent in the next three years. They will leverage technology to build platforms to automate operations to implement an effective GRC program.

Accessing unified data

The two key pain-points associated with data currently are:

- Multiple data stores across the organization with rampant duplication across functions
- Inconsistency in data used for risk management and that used for business and financial reporting

Traditionally the move towards resolving these issues has been bottom-up with focus on more volatile transactional data. However, over the last few years, the approach has become more top-down with focus shifting to master data, which relates to creating a single version of truth for the relatively static data of customers, products and assets across dissimilar systems.

Leveraging technology cost-effectively

A recent study indicates that by 2010, IT would account for about 40 percent of the total compliance cost. However, technology budgets have been mercilessly slashed in the U.S. As operating margins get squeezed, for banks, there is a clear need for a cost-effective means to leverage technology. Lately there has been increasing interest in on-demand services or the Software-as-a-Service (SaaS) model where the vendor hosts applications and platforms for customers and charges on a subscription or 'per use' basis. Banks in the U.S. are looking at this SaaS model with greater interest than ever before.

Channel amplification

The importance of banking through traditional channels such as branches, ATMs, kiosks and service drop boxes is far from lost in the U.S. However, American banks are increasingly seeing the need to transform their channel strategy with the intent of making channel banking additive, and not substitutive.

Cognizance of increased profit potential

Analyst research claims that with online banking maturing in the U.S. the total number of U.S. online banking households will increase by 22 percent in the next five years with much of the action coming in from the Gen Y segment who will adopt online banking at a rate three times higher than that of any other group. The online experience (either through Internet or mobile) is an addiction with them, and banks are seeking to make their services an integral part of that addiction.

They are looking to have a play in the financial aspects of all experiences and transactions that customers are a part of, digitally. The aim is to personalize the banking website to the extent that it accommodates the unique lifestyle needs of customers. This entails a very high degree of personalization, extension of banking portals to include partner organizations to help fulfill the individual's need, learning about customers through their social networks, extending sales reach directly through the customer (through their social networks) and proactively addressing customer needs (identified in advance, guided by observable social and financial behavior).

Mobile innovations

In the U.S., a great majority of the top 10 banks have rolled out at least one mobile banking access channel. In fact, the number of U.S. mobile banking users has grown from 400,000 in 2007 to 3.1 million in 2008, and this number is expected to hit seven million this year.

The number of U.S. mobile banking users has grown from 400,000, 2007 to 3.1 million in 2008, and this number is expected to hit seven million this year.

Increased mobile penetration and advanced handsets have proved a boon for banks in the U.S., seeking to reach out to their customers. This does not stop at enabling mobile payments, but has extended to deployment of Web 2.0 technologies to mash up applications that help banks understand where the customer is, what the customer wants, who can help meet customer needs and, where banks can play a part.

Currently though a bulk of banks' mobile offerings are around inquiries and payments, the evolution is on and mobiles will shortly double up as wallets for contactless payments and full access banking. The iPhone has been a big enabler in growing mobile finance in the U.S., with a proliferation of mobile finance applications at the Apple Store.

Service accessibility

According to a survey conducted by The World Bank, almost 500 million people worldwide have some type of disability. In the U.S. alone this portion of the population has U.S. $220 billion in disposable income. Another survey conducted by Centre of Disease Control and Prevention (CDC), states that approximately 420 million people worldwide are in the age group of 65+ and this number is only expected to grow. These senior citizens often have needs similar to people who are differently abled, and are likely to have significant disposable income from retirement investments.

By offering innovative accessibility options such as larger screen fonts or text-to-speech technology that reads Web pages aloud, having a dedicated service number for those with high hearing impairment, banks in the U.S. are creating greater accessibility options, to include diverse segments – even those marginalized – in their services fold.

Kaleidoscope

Table - 1: Service Accessibility Drivers and Trends

The Drivers	The Trends	The Examples
• Reinforce a public image of an organization with strong social corporate responsibility • Increase customer base by reaching out to new target segment • Improved customer experience • Demonstration of consumer commitment by the bank • Innovation technologies can benefit a broader audience (for example ageing customers) and therefore provide a higher return on technology investment	• Talking ATM's (speech-to-text functionality) for people who are blind or have low vision • ATMs with Braille keyboards • Provisions os statements in Braille • Interpreting services at select outlets for catering to deaf customers • Dedicated service line for customers with hearing or speech impairment • Telephone typewriter services • Settings that allow people with low vision to customize the Internet	• Most of the banks are now conscious of this social responsibility and have published accessibility statements which outline their commitment for extending their services for the disabled • **NatWest,** owned by the Royal Bank of Scotland Group has a website that meets the accessibility needs of users with visual impairment, dyslexia or those with a physical disability making mouse use difficult • **Bank of America** has already committed that 100 percent of its ATM locations in the United States would have a Talking ATM by 2009

Customer serviceability

Customers can access banking services in the U.S., 24 hours a day, seven days a week in person, over their phone, online, and in rare instances through their televisions, too. In this age of instant gratification, they switch allegiances with

Table - 2 : Branch Banking and Channel Banking examples

Branch Banking	Channel Banking
• Topic focused branches (loan shop, investment shop, provision centres) • Target group oriented branch design (thematic room, target group zones) • Value added solution offering (service packages with non-banking products) • Virtual meeting rooms for consultancy for customers • Virtual branches where customers communicate with bank staff using avatars **Some examples** • *Umpqua Bank,* a small and fast growing bank, has designed its stores to be more like Starbucks than a traditional bank branch • At *ING Direct* cafes in the U.S., customers can enjoy a coffee in a relaxed atmosphere and do their banking at the same time	• Paperless account opening. • Extension of services through ATM machines (like passbook processing, standing order maintenance among others) • Extension of services through Kiosks (like draft printing) • M-payments (for example : SMS remittance services) and Biometric payments • E-invoicing (business-to-business) and E-billing (business-to-consumer) • Financial tools for intelligent product comparison and selection • Service blogs for online customer support • Information services and news subscription for customers • **Capitec Bank**, a retail bank which makes innovative use of technology offers features such as complete paperless account applications, and no forms needed for deposits, withdrawals or transfers. Biometric control and photographic verification ensures that no one else can access your account in the branch. This system provides fast, highly accessible, secure and easy-to-operate banking. All products are delivered in real-time, making account applications, approvals and access instant

Banks are consistently imbibing in their DNA, the enablement of positive and consistent customer experience that can transform them into trusted advisers.

a click of a mouse, and yet banks must continue to serve them.

In this context, some customer serviceability trends making their mark in the U.S. banking scenario are encapsulated herein.

Data privacy and security

Reports tell us an alarming story of increasing trends in data breaches reported in financial institutions in the U.S. Apart from the financial loss, there is the additional incurred cost in terms of out-of-pocket expenses in the range of U.S. $560 for individual customers and U.S. $50,000 for business organizations to identify and track till closure of data breaches. In fact, in the U.S. the biggest impediment to adoption of mobile banking seems to be the perception around mobile banking being not so secure.

Some key remedial measures considered seriously by banks are:

- On-time implementation of government regulations of authentication processes such as FFIEC
- Biometric authentication methods, such as palm vein scanning, using "something you are" as the basis of verification, rather than something you have, like a smart card or PIN
- Multi-factor online authentication mechanisms based on advanced fraud management systems, which monitors transaction risks based on a complex set of business rules

Conclusion

The economic downturn coupled with the growing competitive environment has compelled banks in the U.S. to innovate in both product design and service delivery models. Banks are consistently imbibing in their DNA, the enablement of positive and consistent customer experience that can transform them into trusted advisers.

The focus has steadily shifted onto the Gen Y segment, and banks are seeking to make their offerings appealing to this section. This is primarily impacting their channel strategy – making it more varied, innovative and new-age.

However the right choices to future-proof banks and the pace of innovation adoption may vary from bank to bank. After all, there will always be leaders and followers even in a fast changing world ▪

References

1. Baseline Assessment Inclusion and Disability in World Bank Activities Report – June 2002.
2. Data from National Organization on Disability (www.nod.org)
3. Data from Centers for Disease Control and Prevention (www.cdc.gov)
4. Identity Theft Resource Center, 2009 Data Breach Stats (www.idtheftcenter.org)

Authors

Chandramouli Kundagrami
Principal Consultant - Product Strategy, Finacle
Infosys Technologies Limited

Sumit Srivastav
Product Consultant – Product Strategy, Finacle
Infosys Technologies Limited

Interview with
Cemal Kişmir
Head of Retail Banking
Turkish Economy Bank Inc.

Interview with
Nilsen Altıntaş
Head of Innovation
Turkish Economy Bank Inc.

When Innovation Begets Success…

Kocaeli Halk Bankası TAŞ, was acquired by the Çolakoğlu Group in 1982 and renamed "Türk Ekonomi Bankası A.Ş." ("Turkish Economy Bank Inc."). Widely referred to as 'TEB' today, the bank is the founder of and principal stockholder in most of the members of the TEB Group. TEB has pursued a policy of concentrating instead on foreign trade finance and on investment advisory and in this process, it has built up a well-known and well-deserved reputation for itself. On 10 February 2005, BNP Paribas acquired an indirect 42.13 percent stake in TEB. In the wake of its partnership with BNP Paribas, TEB became the fastest-growing bank in Turkey. In 2008 TEB booked a consolidated net profit of TRY 187 million while its total assets and total deposits rose to the TRY 17.14 billion and TRY 10.50 billion levels respectively.

Active principally in the areas of corporate, commercial, retail, and private banking as well as of treasury and capital markets brokerage, TEB delivers its extensive array of products and services to customers all over Turkey through 336 branches and alternative delivery channels. TEB continues to expand its service network and enrich its product diversity with the additional support of its social responsibility projects.

We spoke to Mrs. Nilsen Altıntaş, the Head of Innovation and Mr. Cemal Kismir, the Head of Retail Banking at Turkish Economy Bank Inc., about their viewpoints on the bank's innovation mission and its implications for the business.

Customers, technology partners, vendors, even the academic world should be considered for getting outside insights and innovative product ideas.

Q **What is the relevance of innovation at banks, specifically now, in the aftermath of one of the most difficult times for the business?**

A ***Nilsen Altıntaş***: We established our "Innovation Programme" three years ago as an initiative to drive success in increasing revenue and profit even in turbulent times. While dropping customer demand, revenues, profits and increasing regulations enforce us to rethink our business model, we need innovation more than ever to stay healthy and competitive.

Innovation expenditures seem to be one of the first to be cut during recession times, especially when innovation is managed as a stand-alone abstract project. We have managed to avoid that as innovation has almost become part of our day-to-day life. This programme has allowed us to sharpen our competitive edges through differention with innovative products, services and processes.

Our program has been acknowledged worldwide: Gartner has published a case study about TEB's innovation management approach. We have won several awards including BNP Paribas' Innovation awards. We have been recently shortlisted in 'Financial Innovation' awards in the U.K. in the *Most Effective Cultural Transformation* with our "Innovation Programme" and *Best PR and Communication Initiative* with "Creative Café" (a regular meeting where our staff meet customers to brainstorm and generate product ideas).

Q **How can banks make incremental and continuous betterment an enabler of sustainable differentiation for the business?**

A ***Cemal Kişmir***: Differentiation with continuous innovation is key to success in highly competitive markets, both in terms of profitability and long-term equity. Continuity of innovation is a must where it's hard to defend an innovation program in banking, as one-off initiatives may be easily copied quickly by competitors. Banks should define a structured approach, a governance model of innovation and embed it into the corporate culture and the business context the company is in. Customers, technology partners, vendors, even the academic world should be considered for getting outside insights and innovative product ideas.

Most ideas implemented are incremental improvements. These can be quickly implemented as lower risk improvements to existing products, services and processes. We are aiming to ensure the continous flow of incremental improvements throughout the journey to find the golden innovation idea, to have an impact on long-term equity and profitability.

Nilsen Altıntaş: At TEB, we are collecting, evaluating and implementing ideas of our staff regardless of its location, function and place in the organizational structure. So far, more than 80 percent of our employees have submitted about 27,000 ideas to our internal portal "Kıvılcım/ Spark". More than 1,300 of them were found applicable and 325 in total were financially awarded. More than 100 innovative ideas and improvements have been implemented. In addition, we have not forgotten our customers and young people from the society and have included them in our innovation ecosystem. The website of our annual "Innovation Competition" (www. icatcikar.com), had so far more than 260,000 unique visitors from 96 countries. There

> *As another first in Turkey, we have personalized IVR menu per customer based on customers' previous transactions.*

were more than 3,500 ideas submitted. We are also continously recruiting top performing creative people for every part of our business. With "Innovation Campus", we target university students and disabled young people to recruit innovative talent. Moreover, to communicate our "Innovation Programme" internally and externally, we conduct an annual "Innovation Summit" targeting our (6,000) employees, customers and partners. We invite international keynote speakers to increase awareness and deliver on the vision. There were in excess of 2,000 participants this year.

For all of these things to happen; we would say the pre-requisites are: continuous executive commitment, funding, internal resource allocation, and systems in place for prioritizing innovation projects.

Q **What are the key innovation initiatives being pursued at your bank – from a business perspective?**

A ***Cemal Kişmir***: We have launched several innovative products and services in the past two years, including some 'first' implementations locally and globally. For example, the "Payment Holiday in Consumer Loans" idea came from an employee through our Kıvılcım/ Spark Portal. This was a first in Turkey allowing customers to pause their loan repayments for an agreed period. This has resulted in 30 percent increase in consumer loan applications following the related advertising campaign.

Our SME TV (www.tebkobitv.com), a video-on-demand Internet service, is also unique with its rich content (more than 2,000 videos) and offers SMEs 24x7 access to relevant information and training. Not only has this initiative ensured good PR along with many national and international awards but also become a good source of leads as subscribers of the website are prospects for our business line.

Practical IVR is another example of an idea generated through our "Innovation Programme". The project has been awarded as the top idea at our annual "Innovation Competition" in 2008. As another first in Turkey, we have personalized IVR menu per customer based on customers' previous transactions. The system learns from the customer's previous choices to automatically offered frequently used menu items first. Currently 10 percent of the calls are answered by practical IVR.

Our Practical Internet Branch is a unique Internet interface aiming to simplify the complex set of Internet banking operations. It has been shortlisted as the most innovative application of technology from the customer point-of-view in this year's 'Financial Innovation' awards in the U.K. It offers some innovative technologies such as Security Level Indicator with Sanity Check and Usage of Real Image of Credit Cards. Thanks to this new innovative product, our monthly new Internet customer acquisition is increased by 33 percent, and the growth rate of active internet customers base increased by 104 percent.

Mobile Direct Debiting System (M-DDS) is the first mobile collection and payment system in Turkey designed for the use of corporates' mobile sales team by easing their collection processes. The mobile sales team members enter the invoice information of the retail spots into DDS via their mobile phones. M-DDS eliminates all the physical risks of carrying cash, allows sales team to focus on their major activity by transfering the liabilities of collection related processes to the bank. It saves up to 4 percent over the company turnover, and also saves the cost of POS equipment, since all mobile sales teams only use their mobile phones. This initiative has also been shortlisted as the most promising new product for banking at this year's 'Financial Innovation' awards in the U.K.

Q **What can be done to nurture the 'innovation culture' at banks? What has been your bank's strategy?**

A ***Nilsen Altıntaş***: We define innovation as one of our means to achieve sustainable competitive differentiation. We have aimed to create a corporate culture enabling "continuous and spontaneous" innovation where it is "natural and easy" to create and implement innovative ideas.

Banks should first understand the importance of continuous innovation and build up a structured approach and governance model. Some of the key steps are:

- Definition of innovation strategy and aim
- Set-up of a dedicated innovation unit
- Change management building up awareness and knowledge of innovation through training
- Funding of projects, resource and priority allocation, executives' commitment and leadership
- Recognition and reward (financial and non-financial) models
- Internal and external communication
- Building internal technical infrastructure to manage democratic innovation processes and choosing innovation champions to widespread the culture
- Definition of teams to evaluate and commercialize ideas
- Leveraging skills of key innovators through special tools and training
- Including innovation in each employee's performance balance score-card

Q **How can a technology partner help 'enable' innovation at banks?**

A ***Cemal Kişmir***: Our innovation programme is very much people-centric but the synergy with the technology partners is indispensable part of our approach. For example, on our mobile signature project (where customers sign in with their mobile digital signature saving 2.5 minutes for each login and amounting for more than 300,000 Euros cost savings) we have partnered with the leading GSM operators in Turkey. They have helped us to challenge the existing customer authentication process and come up with a new approach intersecting the banking and mobile worlds.

"Where is TEB" service is another example. It is a Location Based Service (LBS) delivered in cooperation with Turkcell (leading GSM operator) informing customer about the nearest TEB ATM and branches ▪

tECH WATCH

RFID: New Applications for a Not-so-New Technology

Consider a scenario at a large enterprise where management is attempting to take stock of progress on a quarterly basis and this process is executed manually. The costs, understandably, would be enormous. Now, consider a small change in the scenario. Introduce a means of identifying items, through a device like a bar code. The cost involved would reduce significantly.

Consider another scenario of a road network and toll paying system. During rush hour, the number of vehicles plying would be high and the time consumed by each driver to pay toll manually at the counter would be considerable. This would be the case even if commuters tender the toll amount using a credit or cash card, factoring in the card reading time.

The solution to such issues of tracking and time management can be eased with RFID devices.

What is RFID?

RFID - Radio Frequency Identification - technology is useful to identify and trace objects and people. An RFID device can store valuable information about the object or person, mapping, connected or attached to it. RFID readers decipher information from RFID devices even from behind obstructions or barriers.

RFID finds usage across industries. In recent years, it has penetrated into the banking industry as well.

Types of RFID devices

Active RFID devices contain a battery and can transmit signals autonomously. On the other hand, passive RFID devices do not contain batteries and require an external source to provoke signal transmission.

Comparable technologies

RFID will eventually replace barcodes in most applications. While a barcode can contain a limited amount of information, the RFID device can store significantly more, thereby multiplying advantages.

Industry applicability

There has been significant growth in the usage of RFID technology across industries.

- **Supply Chain Management (SCM)**

  Major retailers like Wal-Mart track inventory by RFID tagging their commodities. Every movement and sale of item automatically updates the inventory ensuring that it remains up-to-date. Tracking of items delivered from various suppliers is also thus simplified and streamlined.

- **Transportation system**

  Transportation payments, in several countries, are made using RFID technology. Vehicles are equipped with RFID tags. Motorways and crowded downtown areas have RFID scanners placed at entrances. When the vehicle goes past the scanner a certain toll is charged. Cash cards are used to collect toll.

- **Product tracking**

  RFID is used to track objects like books in a library, airline baggage, pharmaceutical items and even building access control.

- **Regulation compliance**

  The rise in usage of biometrics has ushered in the usage of RFID for documents like passports. Countries such as Norway, Japan, Ireland, U.K., Australia, U.S., Serbia and Republic of Korea have started using RFID in passports issued to their nationals.

By using RFID instead of bar code scanning, banks can cut upto 90 percent of their labor and time.

RFID in the financial industry

At banks, RFID is, today, extensively used to streamline operations, manage payments and deliver personalized services.

- **Intra-bank tracking**

  Several assets must be effectively tracked as a part of the bank's business routine. This includes physical assets such as hardware and important documents.

  - **Tracking documents**

    A leading Japanese bank has implemented an RFID-based document management system. All documents are embedded with RFID tags. Bookshelves and storage cabinets have omni-directional antennas attached. This enables real-time movement tracking of documents. The system also brings in significant improvement in workflow and inventory management.

  - **RFID tagged computer gear**

    Financial Services Technology Consortium (FSTC) has issued guidelines with relation to functional and technology requirements for using RFID, to track computer equipment.

    Wells Fargo has implemented more than 100,000 RFID tags on its IT assets, including computer servers, laptops, storage, and networking gear.

    Bank of America also leverages RFID technology to tag computer equipment.

    By using RFID instead of bar code scanning to track IT assets and perform quarterly inventories, banks can cut 80 to 90 percent of their labor and time, while automating the inventory process, from ordering and receiving through removal and destruction.

- **Contactless payments**

  Historically, payment modes have been cash and cheques. The advent of plastic technology ushered in the debit and credit cards. However, these modes of payment entailed time-consuming manual intervention.

Prime customers are provided with RFID-enabled cards. On their arrival at the bank a message is sent to the relevant relationship officer.

- **Payment by waving a wallet**

  Barclays Bank has not so long ago announced its decision to embed contactless technology into every debit card it issues. This would enable users to make purchases by simply waving their wallets!

- **Payment by flick of a wrist**

  Mastercard worldwide has launched a new technology using which consumers will be able to pay for small purchases with the flick of a wrist. This can be achieved by a wrist watch equipped with the company's PayPass contactless technology.

  The pilot project was executed with Turkey's Garanti Bank wherein users could make payments by passing their watches by an RFID reader located across Turkey, at around 600 locations, including outlets like Burger King, Starbucks, the Istanbul Ferry and the airport.

- **RFID-enabled bank cards**

  U.K.-based banks Barclays and Halifax have been issuing RFID-enabled bank cards which consumers can use to 'wave and pay'.

  PayWave allows users to perform transactions without having to enter a PIN or sign for goods less than £10. This technology is also backed by VISA. A similar technology used by Mastercard is called PayPass.

- **Payment using PDA**

  Some years ago, Palm introduced a new version of its popular Treo PDA to be used as an alternative to credit cards. Embedded with an RFID device, Treo can be used as a Mastercard PayPass contactless card. All that a consumer needs to do is wave his palm pilot past a contactless terminal placed at stores or restaurants to pay for purchases.

- **Payment using cell phone**

  Customers of Sumitomo Mitsui Bank will be able to use their cell phones to withdraw cash at their ATMs. The Japanese banking giant is retrofitting about 7,000 of its ATMs to provide cell phone cash service. To access the cash machines, customers can hold a cell phone equipped with an RFID chip near the ATM and then use a password.

- **Personalized Services**

The current trend of branch banking is all about how best services can be personalized. The concept of customers going to a branch to perform an operation is reducing by the day because most of the branch services are being offered through different channels.

- **Yes Bank uses RFID**

  Yes Bank (an Indian bank) is using the RFID-based approach at one of its prime branches in the NCR region of India to recognize prime customers and offer preferential service.

  Prime customers are provided with RFID-enabled cards and the arrival of these customers at the bank is identified by the hidden RFID antennas placed at the entrance to the branch.

  As soon as the customer walks into the branch, a message is sent to the relevant relationship officer, who then personally invites the customer in.

  The exit of the customer from the branch is also recorded. The bank uses this information, to estimate time spent by customers at the bank and to strategize ways and means to deliver on improved service levels.

RFID technology enables

- Prevention of 'out-of-stock' situations
- Ease of predicting and estimating product demand
- Streamlined inventory management
- Reduced data errors and lowered costs of human labor at distribution centers
- Reduced human intervention while tracking objects
- Larger and improved information storage

Business benefits @ banks

- Improved speed of operations at the teller counter
- Personalized customer interactions and streamlined operations
- Right-sell of products
- Satisfied customers

Concerns around RFID

Like every innovation in the business, RFID technology throws some challenges up for bankers to address. These include:

- Incompatibility of RFID tags across geographical boundaries, arising from the difference in country-specific frequencies
- Fraud prevention and security
- Implementation costs of the technology
- Physical limitations like reading through metal barriers
- Privacy concerns raised by consumers

In conclusion

RFID technology opens up a whole new world of possibilities for innovative banks. If banks learn to supplement risk-averse policies with opportunity-focused ones, they would have found a way to tap into the strengths of RFID and all that it can enable ▪

References

1. Japanese Bank taps RFID for document security by Paul Kallender [http://www.infoworld.com/t/networking/japanese-bank-taps-rfid-document-security-426]
2. Banks ordering Pre-Tagged RFID Computer Gear by Marianne Kolbasuk McGee [http://www.informationweek.com/news/mobility/RFID/showArticle.jhtml?articleID=212701234&pgno=1&queryText=&isPrev=]
3. Barclays heralds new wave of wallet waving by Bill Ray [http://www.theregister.co.uk/2009/03/03/barclays_visa/]
4. Bank turns London man into RFID-enabled Guinea Pig by John Leyden [http://www.theregister.co.uk/2008/01/27/paywave/]
5. Yes Bank uses RFID to personalize Service by Claire Swedberg [http://www.rfidjournal.com/article/view/4381]
6. American Banker

Author

Srikanth Duvvuri

Senior Technical Architect – Products

Infosys Technologies Limited

Review Acknowledgement

Ravi Venkataratna

Senior Product Consultant - Finacle Architecture

Infosys Technologies Limited

Infosys in the news

Infosys, the most admired Indian company: Wall Street Journal survey

Infosys was ranked the 'Most Admired Indian Company' in The Wall Street Journal Asia 200, an annual ranking of Asia's leading companies. The readers of The Wall Street Journal, executives and professionals in Asia rated 170 multinational companies and 40 local companies in 12 countries. The participants of the survey ranked companies on leadership attributes of financial reputation, corporate reputation, quality, innovation and vision. Infosys has been voted the 'Most Admired Indian Company' in The Wall Street Journal Asia 200 for 10 years in a row since 2000.

Infosys among world's best performing technology companies

Infosys has been ranked at No. 25 in BusinessWeek's InfoTech100, a listing of the world's best performing technology companies in 2009. This list rates technology companies that have managed to meet and exceed expectations despite the downturn. Infosys is India's only IT services company to be featured in the top 25 of 'InfoTech 100'. BusinessWeek ranked technology companies based on shareholder return, return on equity, total revenues and revenue growth.

Finacle – Your Innovation Partner

Finacle™ from Infosys Signs Strategic Agreement with Bancolombia

Bancolombia, the largest universal bank in Colombia and among the top 500 banks globally, has selected Finacle™ Universal Banking Solution to transform its operations in Colombia and its international subsidiaries. Bancolombia has a strong market share in the South American retail, corporate, credit cards, investment banking and housing loan sectors. After concluding the merger with Conavi and Corfinsura, Bancolombia embarked upon a major transformation project to modernize its technology platform for future growth, business agility and operational efficiency.

Customer Speak

"The long term strategy of Bancolombia is to maintain our leadership position by satisfying and building upon our large customer base while at the same time leverage cost optimization opportunities. Technology-led transformation is a key initiative to redefine the way we do business and serve our customers. Finacle will help increase our efficiency and strengthen our leadership position in the competitive Latin American banking industry. We chose Finacle for its global leadership in new generation banking technology solutions backed by Infosys, a strong partner with excellent delivery track record. We are confident that in Finacle and Infosys, we have found the best combination to power our business transformation."

Ms. Olga Botero Pelaez
Vice President of Information Technology
Bancolombia

FIRST LOOK

Tanai Khiaonarong
Jonathan Liebenau

Banking on Innovation

Modernization of Payment Systems

The book has a story. The story of the introduction of payment systems. The large scale standardization of systems and how innovation took hold of it all. It is also a study of how the understanding of this innovation process can help institutions acquire capabilities and adapt their practices to cope with the changes the banking world is undergoing. Changes that have been brought about by at least two unusual factors. One is the abandonment of sensible risk analysis as financial instruments have been repackaged and sold in ways that disguise their riskiness. Another is the role of information and communication technologies in assisting in the computational processes that extend these practices using the tools of financial engineering and then accelerate the knock-on effects of bad decisions.

The innovations that this book focuses on have something of the opposite effect of those that accentuated the current malady, in that they are designed to make more transparent the movement of money through the banking system. They entail leveraging tools that promote efficiency, accountability and above all openness.

The authors establish the fact that innovations underpin the growth and development strategies of a progressive financial services ecosystem. They explain that in studying capabilities, competencies, and the distinct resources that contribute towards innovation, we can extend the approach to study new ways of doing things in the services arena as well. The book details

strategic approaches for promoting payment efficiency and innovations, including the minimalist, competitive and public service approaches. Clear cases show how strategies are developed under unique environments of advanced and emerging banking systems.

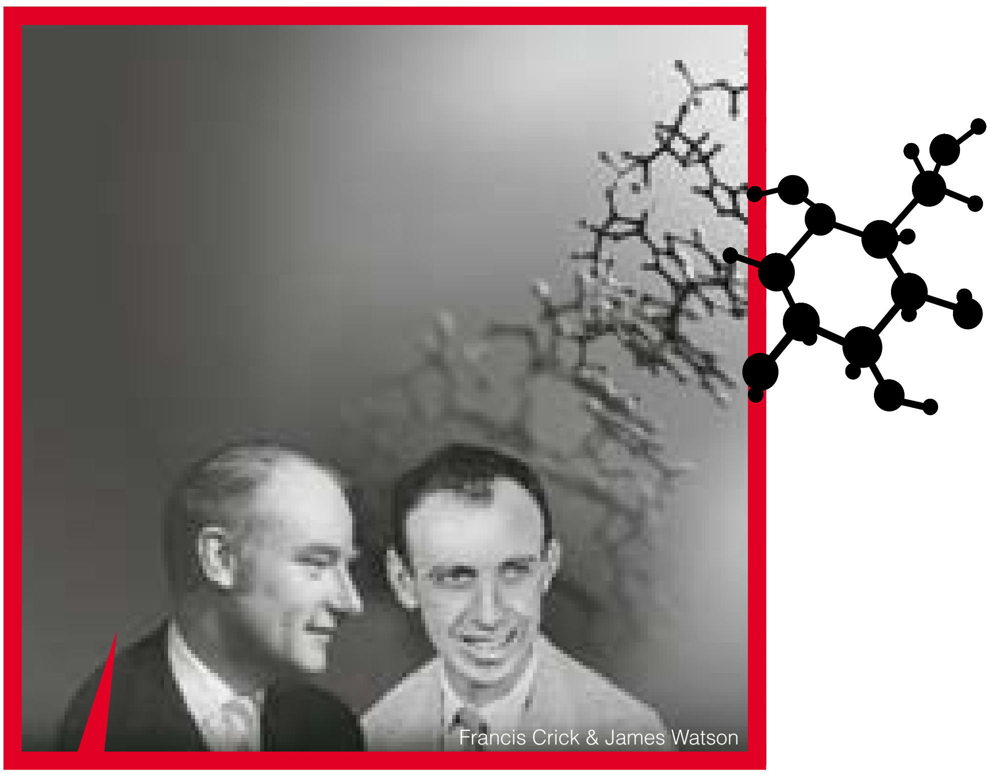
The involvement of the central bank and the private sector in payment operations is compared by illustrating how ownership, pricing policies, and cost recovery may vary, and how such factors may influence efficiency and innovation.

Tracing the modernization of payment systems the authors outline adaptation to changes in the socio-economic environment, regulatory developments and technological innovation among others. At the same time, the book cautions that the rapid pace whereby innovations are introduced may also pose risks to consumers and the wider financial system if not properly regulated and supervised.

The book concludes on a note that the challenge is to strike a balance between fostering new innovations and maintaining proper oversight of the associated risks to avoid stifling innovation itself. This is achieved with a discussion about the major forces - financial stability, financial integration, trade liberalization in financial services, and technological innovations - that will present challenges to the continuing modernization of payment systems.

An interesting read for the progressive global banker, though by know means a light one!

PARTNERSHIP BUILDS INNOVATION, TO MANAGE DIVERSITY



Francis Crick & James Watson

Banks that understand the advantage of nurturing a spring of ideas partner with Finacle, to meet diverse customer needs effectively.

Finacle enables them to bundle products and deliver on customer-specific strategies for product development, service level agreements, repayment schedules as well as relationship-based pricing.

To see how Finacle can partner with you to power-up your bank's innovation agenda, and help you manage customer diversity, visit us at www.infosys.com/finacle.

Finacle from Infosys®

YOUR INNOVATION PARTNER

Universal Banking Solution | System Integration | Consulting | Business Process Outsourcing