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Inside Talk

Interview

Anurag Saxena

Executive Director and COO

First City Monument Bank

Cover Story

10 Innovative Ways to Achieve Greater Agility in 2010

Kaleidoscope

How the English are Banking on Tomorrow

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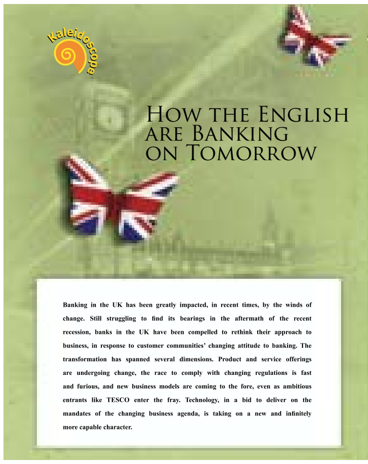
Banks continue to have difficulty harnessing Web 2.0 and the possibilities it represents. A simple term created in a technology conference brainstorming session in 2004 by Internet pioneers Dale Dougherty and Tim O'Reilly, Web 2.0 has become a catch-all phrase for anything new on the Internet, or any new technology innovation. The term wasn't perfect, and its definition lacked precision, but the identification of the significant shift in consumer behavior and Internet usage was profound.

Celent defines Web 2.0 as the tipping point in the evolution of the Internet, where consumer behavior and activity and its enabling technology emphasize the user experience and capabilities as engaging, interactive, and collaborative. Web 2.0 represents a departure from the aspects of much of the Internet's legacy roots of one-way communication and static, desegregated data. Absent the hype and technobabble, Web 2.0 might simply be characterized as "the dynamic Internet" or "the interactive Internet."



Banking in the UK has been greatly impacted, in recent times, by the winds of change. Still struggling to find its bearings in the aftermath of the recent recession, banks in the UK have been compelled to rethink their approach to business, in response to customer communities' changing attitude to banking. The transformation has spanned several dimensions. Product and service offerings are undergoing change, the race to comply with changing regulations is fast and furious, and new business models are coming to the fore, even as ambitious entrants like TESCO enter the fray. Technology, in a bid to deliver on the mandates of the changing business agenda, is taking on a new and infinitely more capable character.

First City Monument Bank Plc (FCMB) is a universal banking institution headquartered at Lagos, Nigeria with a nationwide network of about 150 branches and several subsidiaries. FCMB is the flagship company of the First City Group, one of Nigeria's leading comprehensive financial services provider. Since FCMB's establishment as First City Merchant Bank Limited in 1982, the bank has distinguished itself in the provision of superior financial services to a broad clientele. Following a universal banking license in 2000, the bank's name was changed to First City Monument Bank Plc, retaining its popular acronym, FCMB. Today, the bank has emerged as one of the leading and most respected financial services institutions in Nigeria with an exceptional management team, a good network of over 250 service points, an array of unique financial products and services as well as a strong brand.

We spoke to Mr. Anurag Saxena, Executive Director and Chief Operating Officer at FCMB about his viewpoint on the role innovation plays in fostering organizational agility. Mr. Saxena joined the board of FCMB with over 20 years' experience in all aspects of banking including retail banking, commercial banking, transaction banking, distribution, marketing, product development, strategy, IT, service quality and operations in Asia, Africa, Middle East and Europe.

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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

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Voice from the Desk

It's the end of yet another action-packed year. A year that no banker will forget for a long time to come. Regulatory and compliance mandates, demanding customers, commoditization of products and reducing margins – some of these challenges we have hurdled to a significant extent and yet so many still loom large. At such times, I firmly believe the focus should not be on 'quick fix' techniques but rather long term sustainable strategies. Innovation, today, is critical to future-proof every business. With this issue we bring to your desk interesting perspectives about how banks can be agile innovators, while providing maximum value to their customers.

The cover story presents banks with 10 ways to innovate, to stay agile and productive in 2010. Exploring an interesting approach to agility, the author states that agility is not about "fastest finger first". It is all about the right attitude and value system and, willingness to be nimble of mind as well as quick of body.

Anurag Saxena, Executive Director and COO, First City Monument Bank reiterates the importance of agile innovation in Inside Talk. When quizzed about the role of innovation he says that in the banking industry nothing remains new for long. According to him innovation can be a process today, a product tomorrow, a new application or even a novel way to take products to customers. All of these increments add up to the bank's innovation agenda.

Travel to the United Kingdom with this issue's Kaleidoscope. Banks are responding to the changing business environment by transforming their product and service offerings. New business models are coming to the fore and technology, increasingly, is taking on a new and infinitely more capable character.

Treasury systems, which are key to a bank's operations, are striving to keep pace with the constantly evolving business environment. Tech Watch details how, given the complex nature of operations, agile technology can enable treasurers to work on real time information to make faster and better decisions.

Other regulars like the Feature detailing why *Web 2.0 is A Quantum Leap for Banking* and a peek inside the covers of *Innovation and the Future Proof Bank* in the First Look section, complete the read. One that I trust you will enjoy.

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

Wishing you a happy and agile new year!

Haragopal M

Global Head - Finacle

Infosys Technologies Limited

WEB 2.0: A QUANTUM LEAP FOR BANKING

Banks continue to have difficulty harnessing Web 2.0 and the possibilities it represents. A simple term created in a technology conference brainstorming session in 2004 by Internet pioneers Dale Dougherty and Tim O'Reilly, Web 2.0 has become a catch-all phrase for anything new on the Internet, or any new technology innovation. The term wasn't perfect, and its definition lacked precision, but the identification of the significant shift in consumer behavior and Internet usage was profound.

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> *By understanding the experiential aspects of Web 2.0, banks can better understand the evolving expectations of consumers, both online and offline.*

Banks can realize the untapped opportunity Web 2.0 provides by:

- Realizing Web 2.0 is not a specific technology; rather it is a shift in consumer behavior (largely online) and the technology supporting it
- Understanding the drivers of the behavior shift as well as the behavior and expectations of the post-Web 2.0 consumers
- Recognizing that the gap between traditional banking products and services and the expectations of a post-Web 2.0 consumer is significant, and it grows every year the bank does not evolve
- Creating a roadmap to transition the bank's products, services, and marketing and sales methodologies to remain relevant to a rapidly evolving consumer population
- Accepting that — though some banks will not change, and still continue to exist — those that can evolve their product and services offerings, to be on par with and relevant to an evolving consumer population, will see the greatest returns
- Applying a smattering of pixie dust in the form of add-ons or visual cues such as charts, or participating in a social network, will move the needle. But decades of consumer evolution requires looking at the bank's product and services in a new way

The Essence of Web 2.0

The essence of Web 2.0 is captured in two major categories: experiential and technical. It is essential that banks contemplate and understand both categories.

The experiential aspects will be the most important and most challenging for banks to embrace: a user experience based on rich information, designed for interaction and engagement. As banks navigate the possibilities, enabling technologies will become the next hurdle — a non-trivial obstacle, but one banks will be able to surmount.

By understanding the experiential aspects of Web 2.0, banks can better understand the evolving expectations of consumers, both online and offline. This understanding will put them in a position to retain and deepen relationships with existing customers and, just as important, this understanding will support the business as it seeks to build relationships with the next generation of consumers: Generation Y, which not only is more tech-savvy than the bank's other segments but also has greater expectations from the retail experience.

As a bank seeks to learn from Web 2.0, it will need to evaluate its position not only against its peer group, but also, more importantly, against leading retailers outside the financial services industry, particularly ones with strong online offerings as well as the other domains where consumers concentrate. Obviously financial services are very different from social networking or book or office supply sales, but a few of these organizations have created very effective user experiences that can be learned from. When we look beyond the banking vertical, we see opportunities for the bank to reconsider its retail approach; this is extremely important because a number of retail industries are able to stay on the leading edge even in times of great change.

Banks have not been on the leading edge of online consumer sales. While consumer expectations advance at a faster pace than what banks can support, the gap between expectations and delivery grows, threatening many banks' bottom lines (while creating a great opportunity for those banks able to look at the retail experience in new ways). Worse still is competition from non-banks; recall non-bank PayPal's success in person-to-person payments. Without a change in strategy, this delivery gap will begin growing at a faster pace, particularly as Generation Y — which will include 84 million U.S consumers in 2010 — becomes a more important market segment for banks. Combined with the following generation, dubbed Generation Z, these groups will represent over half (53 percent) of the U.S population in 2020 and nearly two-thirds (64 percent) in 2030.

Many aspects of the underlying themes of Web 2.0 run counter to legacy bank philosophy.

Generation Y's expectations of the retail experience (online and offline) have been shaped by the Internet. The wise retail banker will look at this segment's needs and begin a transition plan to ready the bank to serve them. While it will take time to change the bank's strategy and market approach to address Generation Y's expectations, the bank can expect to see early wins with less expectant segments (Boomers and Generation X) as its migration plan plays out. In 2008, a few banks (including top tier banks) unveiled offerings that were distinctly different from any previous bank offerings.

Although Web 2.0 will have the greatest impact on the bank's marketing and sales strategy, the impact of the enabling technology of Web 2.0 will be great. Addressing consumers' broadening expectations will require a cultural shift within the bank, but also a technical one. Where the experiential side of Web 2.0 presumes information transparency and richness as well as collaboration, it will impact system design and system integration (and in some cases, core infrastructure). The shift in design patterns and methodologies will benefit the end consumer and internal bank staff, and in time will help the bank deliver new products and services faster and at lower costs (based on the increasing share of standards-based development).

The bank's challenge - Harnessing Web 2.0

Extracting value from Web 2.0 is about understanding how consumers are impacted by it so as to understand their evolving needs and expectations. From this vantage point, the bank can put itself in the best position to serve its current and prospective customers. Many aspects of the underlying themes of Web 2.0, as well as the means in which other verticals have profited from behavior shifts coinciding with Web 2.0, run counter to legacy bank philosophy. It isn't the profit areas that have been incongruent with legacy bank strategy; usually it is the methods and means of getting there.

Table 1: Primary Profit Pools of Web 2.0 Mired in Challenges Stemming from the Bank's Legacy

Profit Potential	Examples of Techniques	Potential Bank Challenges
Advertising revenue	• Placing (targeted) ads on an Internet site marketing third parties using tools such as Google AdSense, Yahoo! Content Match	• Banks don't advertise or promote third parties • Brand dilution. Note that Google was ranked 10th best global brand by Interbrand; Google achieved this by being an industry leader that not only doesn't have a large advertising budget but also makes money by advertising other brands
Increased sales to new clients	• Participating with targeted search engine marketing to draw customers to the bank • Providing easy to use product search, selection, and "checkout" • Aggressively market and sell beyond the traditional footprint (but within legal boundaries)	• Many have been leery of investing in online advertising (and many don't realize the ability to target ads) • Willingness to pay third parties (especially startups) for warm leads (For example, new services such as MoneyAisle, FindaBetterBank, or CheckingFinder) • Exposure to risk associated with account opening (over and above book sales) • Historical bias for branch support limits appeal of online selling schemes
Increased up-sell and cross-sell rates	• Mining customer data to understand a prospect's particular profile and suggest products based on the prospect's and other customer's experience / profiles • Working with the client seamlessly across product lines and channels / access points	• Analytics performed at banks rarely translate to real time product promotion or pricing (beyond possibly a few product combinations or customer segments) • Banks rarely access customer transaction data (at the customer or bank level) to understand consumption behavior as it relates to potential financial product needs • Banks rarely use one customer's data (even if anonymous) to market / sell products to another customer • Channel integration costs, silo ownership (either in product or business function) • Over-emphasis of the bank's product set against the offerings of Amazon or Apple (to support a no-change strategy given banks are "different")
Decreased development and IT support costs	• Building applications on most current programming paradigms	• Banks are slow to adopt new technologies • Absorbing a new technology rarely results in retiring others; often results in increased costs • Benefits from leveraging the latest technology take longer to realize because of the breadth of the existing systems • Many banks rely on third parties for development, and savings aren't realized (either financially or by observation) • A history of proprietary development not only slows development, it also makes the shift to "open" methodologies a much more significant initiative
Increased customer satisfaction, customer retention, and deeper customer relationships	• Leveraging customer data to make suggestions to clients • Drive customers to use features that require significant interaction and return use (For example, bill payment and presentment, budgeting) • Design the online experience to be in a natural flow instead of legacy online banking design	• See analytics discussion above • Difficulty in proving the return on investment (ROI) with individual features or capabilities • Dependence on third parties to enhance the web experience • Lack of desire to be the first bank with a materially different user experience (and the lack of compelling new online banking user experience) • The risk of adding new features is far less than a wholesale change

Source: Celent

In time, the attention Web 2.0 drew will be seen as a great thing for banks. Bankers (and those that serve them) will be drawn back to the consumer and the consumer's needs — and away from the ways things have always been done. Few of the highlights of the Web 2.0 phenomenon are:

- Banks making waves (For example - BBVA, Bank of America, and PNC)
- Banks supported by a vendor community looking to tap new consumer opportunities
- Non-bank providers, without legacy concerns and overheads, eager to step in and meet unmet needs (partnering with banks or otherwise)

Banks are at a critical juncture with the significant market turmoil being encountered, but the consumer finance experience, if left untouched, may be even more significant over time. Banks don't just have a seat at the table, they are the table. Banks missed opportunities as deposits migrated to other financial services providers over the years (particularly long-term investment accounts). Although the banking community must deal with the credit crisis, it remains in the best position to take the bold steps required to attract and retain customers; almost no other financial services provider is poised to do that, for the next several years ▪

Author

Jacob Jegher
Senior Analyst
Celent

10 Innovative Ways to Achieve Greater Agility in 2010

It is the end of another eventful year and it's time to make our new year resolutions. I think that for most banks 2010 will be about innovating more and better to create sustainable advantage. I would like to add agility to that wish list.

The word agility usually evokes images of quick-fire action; a race in which getting off the starting block is everything. A scan of the various definitions of this word showed that it means different things to different people, from nimbleness to the ability to avoid damage. But the one that caught my attention says that agility is a "perpetual state of innovation, moving quickly yet thoroughly through product and process development that creates competitive advantage and increases stakeholder value."

Market share, profitability or shareholder value are under constant threat from rival organizations, and a bank that maintains status quo will not reign for long.

So, it's not "fastest finger first", after all. Rather, agility is an attitude, a value system, a willingness to be nimble of mind as well as quick of body. And as the definition says, all it takes is some innovative thinking. Here is my "top ten" list featuring the new significance of banking agility and how to attain it through innovation:

1. ***An agile bank creates value.*** In 2010, the focus must be on creating lasting and compelling value for customers. Emerging economies have youthful populations that make a dynamic consumer base, constantly evolving in taste, preference and behaviour. Any organization hoping to retain such customers must deliver a value proposition that adapts to their changing expectations and when unsuccessful, compensates for churn by attracting new customers. How will this happen? By creating an innovation cycle to critically examine every element in the banking eco-system and reworking on them, as necessary.

2. ***More with less in an agile bank.*** The financial crisis trained the spotlights firmly on conservation and efficiency. Now, as banks chase new growth, they must do away with traditional thinking which says that this can come only by deploying extra resources. Rather, all of banks' properties must become more nimble, flexible and extensible, in other words, more agile. Thus, there should be higher productivity with fewer people, more profitability from a smaller product suite and higher revenues even if the customer base is unchanged. Banks must direct their innovation energies towards finding ways to leverage existing resources fully before investing a single dollar in new ones.

3. ***People drive agility.*** An organization is only as strong as its people. They draw their power from an environment that facilitates commitment, adaptability, progress and clear thinking; one in which there are no boundaries to achievement. Organizational support by way of training and empowerment is its very foundation. By providing this support, people become more agile in their thinking, willing to explore new limits of performance and commitment.

   Each of the above plays a unique and important role. Training is essential in order to impart information about products, processes and systems on an ongoing basis to all those who need to know. Empowerment creates a breed of confident and capable leaders who can make decisions that count. But, before the bank empowers its employees, it must enable them with "decision making wisdom", so that they not only understand the possible outcome of their action, but also know what protocol to follow and whom to consult before taking it.

4. ***There's no place for status quo.*** It is easy for an organization to turn complacent when it reaches the pinnacle of success, and that is when it is most vulnerable. Market share, profitability or shareholder value are under constant threat from rival organizations, and a bank that maintains status quo will not reign for long. It must constantly question existing ways of doing things to find a better way. It must aim not for "getting it out", but getting it right, each time. And when faced with an issue, it must uproot

the problem rather than apply a quick fix. Today, the customer service desk works with a bound script, going through a pre-programmed routine for each call, regardless of the caller's requirement. How about giving the customer a bit more elbow room? Wouldn't it be better to include the customer into the sales "drill" by paying closer attention to what he or she really needs? Clearly, we're talking of a total mindshift here, which can only come about with original and innovative thinking.

5. ***Agility is about fitting rather than fighting***. Remember the time when the music industry was up in arms against the MP3 invasion? Apple showed the world how innovation and agility can win the day. Rather than fight the download phenomenon, which would have been in vain anyway, they recognized an opportunity in the strong consumer demand for "playlist music" and went after it. The iPod became an instrument that allowed consumers to easily and legally access their choice of music using iTunes, and in this way, connected service providers with end users. The rest, as they say, is history. Banks are no different and face similar pressures from regulators expecting greater conformance, customers demanding better performance and rivals looking to wean away their customers and their employees. It is probably more prudent for them to find innovative ways to fit into the ever changing environment rather than fight the elements.

6. ***An agile bank acts, not reacts.*** Banks spend millions in gathering customer information through field research, surveys, direct marketing or other means. No doubt, these activities read the market pulse and at times enable banks to mount a swift response. Yet, their insight will always be second-hand. But what if banks could act beforehand, rather than once an event has passed? Wouldn't that be true agility? It is indeed possible to do so, and what's more, it's customers that can make it happen. Introducing the "sellsumer"- the buyer who sells your services. A "sellsumer" is a customer who is also a participant in the sales process – for instance, someone who leases out space on owned premises for the bank's billboard. Even as "sellsumers" earn some monetary compensation for their contribution, they can provide firsthand feedback to the bank in the course of this dual relationship. Contrast this situation wherein the customer directly tells the bank what to expect, with one in which a research firm informs them about something that has already happened.

7. ***An agile bank anticipates latent aspirations.*** With consumers of today turning more individualistic, the industry has made efforts to personalize its offerings. The agile bank is a step ahead, enabling customers to retain their individual identity. This is a departure from the usual practice of assigning identical individuality to all customers grouped together in a market segment. But we know how ineffective that approach can be. Economy travellers think of themselves as business class passengers-in- waiting. Likewise, a silver credit card holder desires many privileges offered only to platinum members. An agile bank is smart enough to spot these latent aspirations. By innovating on its

"The agile bank enables customers to retain their individual identity. This is a departure from the usual practice of assigning identical individuality."

Legacy systems, outdated processes and complex policies act as deadweight. Agile organizations have simplicity built into their DNA.

segmentation strategy, the bank can refine its understanding of individual needs and cater to customers' uniqueness.

8. ***Agility is being open. No bank is an island.*** This business derives its energy from a vast eco-system comprising partners, customers, regulators and investors. Businesses in general have turned more collaborative, leveraging the expertise, opinion and efforts of different elements in the eco-system to great advantage. Banks can learn much from other industries such as telecom or retail which have mastered the art of listening and reaching out to customers. For instance, they can improve delivery by mobilizing more aspects of banking through what I call "adaptive mobility". People, products and services should reach out to customers in as many ways as possible – physically, on phone or virtually – depending on the customers' location or preference. By innovatively improving the outreach of their channels, banks can reduce the time lag between need and fulfilment. What is agility if not this?

9. ***Agility is simplicity.*** Legacy systems, outdated processes and complex policies act as deadweight. Agile organizations have simplicity built into their DNA. Ease of use, customer friendliness and transparency are accorded high priority in all that they do – right from designing products, on-boarding customers or communicating with the world. Such organizations will be able to make bigger promises to customers and keep them.

10. ***Agility looks at how far, not how fast.*** While I won't go so far as to cite the hare and tortoise story, agility is more akin to endurance than speed. Take Toyota for example – the car manufacturer took several decades to enter the luxury segment. They took their time to assess needs and wanted to launch a product that would stay relevant for a length of time. Result – when they introduced the Lexus, it vaulted to the top of the rankings very quickly!

    Apple does the same thing. They launch very few products compared to their rivals – however, each new product is packed with substantial innovation, intended to last some distance. Thus, the iPod is a one-time (or at least a longer term) investment that is extensible with new applications and functionalities through downloads.

    Likewise, banks must pack their products, services, channels and other offerings with lasting power. This is not to say that these must remain static. Rather, they must be inherently robust so that their core proposition remains valid despite changes in market needs or regulations and flexible so that they can be innovated upon from time to time.

Finally, I'd like to say a word on the big questions that dog innovation decisions. Entailing investment, change and risk, these choices are never easy.

Should one go for what seems right or that which is correct? The right choice may be an expedient approach, but incorrect from a long-term perspective. An innovation that works for the marketing team may be all wrong as far as the auditors are concerned. A correct innovation decision is one that benefits the entire organization in the long run although it might not generate quick wins in the short.

True agility comes with openness, commitment and above all, a desire to provide maximum value to customers.

It is important not to confuse innovation for invention. The latter implies a breakthrough development, which only comes by once in a while after substantial expenditure of resources. In contrast with the big leap of invention, innovation usually takes small steps, yet, the banking industry has benefited hugely from it. Therefore, to achieve agility, banks must maintain a reasonable balance between the two.

Related to the above, is the choice between disruptive and incremental innovation. Unlike other industries such as telecom or entertainment, the banking industry has experienced little disruptive innovation. However, the emergence of new business models such as direct banking and peer to peer lending could become a force for traditional players to reckon with, and hence ignored at one's own peril. Recognizing this, several credit unions in the U.S have allied with social lending platforms. So, even as banks carry on with their incremental innovations, they must keep a close watch on bigger developments.

Where possible, innovation must favor collective growth over individual. Working in isolation, a bank can only go so far. However, if banking growth can piggyback on that of other businesses, it can gather huge momentum. For instance, an automotive boom provides banks the opportunity to expand their vehicle finance portfolio. By innovating on their loan products through bundling and other measures, or on distribution through exclusive tie-ups with manufacturers, they can not only grow their own asset book but lend impetus to automobile demand as well. No doubt, this creates a more sustainable opportunity.

Banks looking to acquire greater agility in 2010 must start by redefining the term. True agility comes with openness, commitment and above all, a desire to provide maximum value to customers. That being said, it takes more than out-of-the-box thinking to create a truly agile and innovative organization. Ideas must be backed on the ground by out-of-the-box execution ▪

Author

Rajashekara V. Maiya
Product Manager - Finacle
Infosys Technologies Limited

How the English are Banking on Tomorrow

Banking in the U.K has been greatly impacted, in recent times, by the winds of change. Still struggling to find its bearings in the aftermath of the recent recession, banks in the U.K have been compelled to rethink their approach to business, in response to customer communities' changing attitude to banking. The transformation has spanned several dimensions. Product and service offerings are undergoing change, the race to comply with changing regulations is fast and furious, and new business models are coming to the fore, even as ambitious entrants like TESCO enter the fray. Technology, in a bid to deliver on the mandates of the changing business agenda, is taking on a new and infinitely more capable character.

The key trends in this space can be effectively reviewed, from the following perspectives:

- Business
- Technology

Business trends

These are not easy times for banks in the U.K. They have been quite severely hit by the world economic depression. Major players like Lloyds and RBS have received fund injections from the government to stay afloat, after their unprotected exposure to the crises. It's not just the big banks that have been signed. Big and small building societies have had to handle their share of the problem as well. While the future looks challenging for U.K's financial institutions, progressive players are already tweaking their game plan, for success in the new world.

"Undoubtedly banking consumers in the U.K are net savvy and yet lesser than half are comfortable using Internet banking services."

Demand for deposits

Deposit accrual has become a very important part of banks' offerings to customers. In line with the worldwide trend, there is a significant step-up in their aggression to acquire deposits. Deposit rates have been quite low with bank rates dipping to its lowest ever, succumbing to the deflationary pressures of the economy. This has led to new disruptive models of deposit taking. One that has gained momentum is the branchless model to garner deposits. Setting up a direct bank, to acquire deposits through the Internet, is a trend clearly gaining popularity. Some banks are leveraging innovative pricing mechanisms to pass on the cost advantage gained through the direct model to their customers, by offering a higher deposit rate. ICICI Bank, U.K, for instance, has successfully offered one of the highest rates in U.K for deposits through the HiSave product. Thus newer and cheaper models of product delivery are emerging in the U.K, with multi-channel offerings pushing the delivery model to a distinctly self-service mode.

Focus on multi-channel strategy

While it is in banks' interest to push to popularize online self service channels, in the U.K the uptake of Internet banking has been far from encouraging. With the dip in customer trust, created by the recent meltdown, the forecast for growth of self-service channels, in the immediate future, is rather bleak. Recent research notes that only 31 percent of adults use Internet banking in the U.K, where as 74 percent shop online. So, undoubtedly banking consumers in the U.K are net savvy and yet lesser than half are comfortable using Internet banking services. Currently online banking as a channel ranks third in popularity after the ATM and the branch. Mobile banking and mobile payment facilitation is another facet of the channel strategy that banks in the U.K are seeking to popularize. Players like Monilink, wooing customers with mobile banking services, are being watched with much interest.

Familiar names in unfamiliar turf

New big names are infiltrating the banking arena in the U.K. TESCO – U.K's largest and most widely spread retailer - is a case in point. TESCO has leveraged its modest personal finance division, to launch a full fledged bank. Popular expectation is that TESCO will leverage its understanding of retail best practices to transform banking in the U.K. Some examples of how this will change the scenario, include:

1. Showcase of banking products in retail outlets
2. Door-step delivery of banking services from a retail point of view; premium doorstep banking becoming popular and wide-spread
3. Leveraging data about consumer spend patterns, to arrive at context-specific banking

offerings to match spend patterns. For example, cards with specific loyalty programs based on the customer's spend behavior

This is also in line with the trend spreading across Europe where branches are being re-discovered and revamped as strategic channels, redefining customer experience positively. Other players from across verticals making a beeline to usurp the banking space in the U.K include institutions like Virgin Money. Each such organization is expected to bring in its own disruptive model into the business, redefining the conventional tenets of banking in the U.K.

Banks will use the concept of a stored value account on the mobile to provide limited banking services to customers who are unable to maintain minimum balances.

Agility driven innovation

The recent agreement wherein two of U.K's banking majors decided to sell a part of their branch network, along with the associated assets, to finance part of the funds injection is a landmark decision. This is expected to pave the way for smaller and more agile players to grab their share of the market, till recently wholly dominated by the big boys. This is expected to result in more innovations, in terms of products, services and delivery mechanisms. A new breed of products like Shariah compliant offerings will possibly start grabbing shelf space at banks, thanks to U.K's population diversity. Notably, the profit potential of these products will be the primary driver of adoption, as opposed to their religious significance.

Payments revolution

Payments in the U.K, have seen some major changes in the last few years. The introduction of U.K Faster Payments and changes in credit card usage regulations for making payments are notable examples. Usage of cheque as an instrument of payment has dropped by more than 60 percent from the mid nineties. There is speculation around cheques being completely phased out by the end of the decade. On the other hand, plastic modes of payment have doubled in the last ten years. While credit card issuance has recorded negative growth, debit card issuance is soaring. Electronic payments are rapidly gaining popularity, and it is expected that closer integration with Payment Services Directive (PSD), will give further impetus to this trend. The mobile as a channel will become one of the instruments that will compete with plastic for small value payments. This provides an opportunity for mobile technology providers to become part of the banking service providers network, where these services will be consumed directly by end customers, or used by the bank to enhance their mobile banking offerings. Banks will use the concept of a stored value account on the mobile to provide limited banking services to customers who are unable to maintain minimum balances – and these stored value accounts will be delivered through mobiles.

Tightening regulations

Regulatory authorities in the U.K are keen to give a new lease of life to the banking arena. Stringent regulations are making way into the system. By the end of this fiscal year, the last of the self-regulated retail banks in the U.K will come under the regulatory jurisdiction of the Financial Services Authority (FSA), through introduction of the Banking Conduct of Business Sourcebook. Clear transparency norms on offerings and SLAs related to services rendered are the expected outcome. Regulations will empower banking consumers to challenge banks in the court of law, in terms of their market dealings and exposure. If customers perceive that their deposits are being risked by banks indulging in market activities that could endanger the liquidity of the business, customers can challenge these institutions. Banks that have benefited from state funds for their recent bail out would have to insure their deposits – thus pushing up the cost of deposit offerings. While caution through regulations is a welcome change, U.K's bankers are keen to ensure that this does not affect the viability of the business of banking.

Technology trends

The most strategic technology trend in the U.K is the move towards greater outsourcing by its financial institutions, as a means to improve cost efficiencies. All major players are leveraging outsourcing in some measure to drive their current operations. Interestingly, the forecast is that a shared services model is expected to gain popularity, and smaller players will move into this outsourcing model in a big way.

Several of U.K's banks have legacy systems at the heart of their operational engine and before the recession drove them to step on the brakes, they had begun to seriously consider adoption of next generation platforms. As newer players make inroads into the business, competition will build a strong case for these banks to once again review their technology transformation plans. There is bound to be more consolidation as the new economic regime unfolds, which will also provide a stimulus for banking platform upgrade and replacement.

In summary

Banking in the UK is undergoing a metamorphosis not dissimilar to that witnessed in other advanced markets, of the world. Newer banking models promising innovative products, service offerings and delivery models are what the world has come to expect. New entrants are adding to the excitement and intrigue. Greater transparency in the banking system, driven by new regulations, protects consumer interests. The state of flux may indeed churn up a whole lot of good….both for the business and the consuming segments.

Author

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

Anurag Saxena
Executive Director and COO
FCMB

"Innovation can be as simple as 'new to the market' if not really 'new to the world'."

Innovation: Driven by the Organizational Mindset. Enabled by Technology.

First City Monument Bank Plc (FCMB) is a universal banking institution headquartered at Lagos, Nigeria with a nationwide network of about 150 branches and several subsidiaries. FCMB is the flagship company of the First City Group, one of Nigeria's leading comprehensive financial services provider. Since FCMB's establishment as First City Merchant Bank Limited in 1982, the bank has distinguished itself in the provision of superior financial services to a broad clientele. Following a universal banking license in 2000, the bank's name was changed to First City Monument Bank Plc, retaining its popular acronym, FCMB. Today, the bank has emerged as one of the leading and most respected financial services institutions in Nigeria with an exceptional management team, a good network of over 250 service points, an array of unique financial products and services as well as a strong brand.

We spoke to Mr. Anurag Saxena, Executive Director and Chief Operating Officer at FCMB, about his viewpoint on the role innovation plays in fostering organizational agility. Mr. Saxena joined the board of FCMB with over 20 years' experience in all aspects of banking including retail banking, commercial banking, transaction banking, distribution, marketing, product development, strategy, IT, service quality and operations across Asia, Africa, Middle East and Europe.

I have seen the incremental test approach – testing of different segments, different markets, and different products – work well to keep innovation alive at the bank.

Q **What is the role of innovation in nurturing organizational agility?**

A Banking customers, today, are aware of all that's happening around the world. Since, everything is changing so fast, so are their needs. Just some time ago customers were thinking about capital appreciation, but now their needs are so different. And the only way a bank can keep up with these changing requirements is through true organizational agility. In our case, we started as a mid-sized bank, before we became the top-tier bank, we are today, and this was made possible by an organizational culture that truly supported both agility and innovation. We have made substantial investments in technology, allowing us to respond to change innovatively as an organization. Take for instance, the products we have on offer. We have innovative products both for the long and short terms. I also think it is critical to have the best people, who can support and nurture this spread. The other important innovation that we as an organization have invested in to positively impact agility is the metrics-driven approach We have taken to test and measure product success. This very focused approach allows us to constantly review our offerings and nurture or kill a line of product or service, based on the newest customer need or reaction. Technology allows us the agility to make that possible on the ground.

Q **What play does the customer have in 'innovating for organizational agility'?**

A We have recently been nominated one of the most innovative banks in Africa along with ABSA Bank, a big South African bank. For us, innovation is determined by how effectively and creatively we meet customer needs, optimally. The need itself may be far from creative, but the solution offered can certainly be innovative. For example, ten years ago the market had not even heard of the mobile phone, but the moment mobile banking was on offer, the idea was accepted instantaneously. Sometimes innovation is met with initial resistance from customers. But education can change that. A case in point is the Point-of-Sale (PoS)units.

In Nigeria, we launched innovative electronic banking, and today we have over 8,000 delighted customers leveraging this service. Another example of a popular innovation we launched is that of the 'All-in-one Account' – first of its kind in the country. Customers were happy not to have to track their current, savings and fixed accounts, separately. All this was made possible by an organization culture that believed in remaining agile and responsive to changing customer needs.

Banking products are becoming very commoditized and every progressive bank must innovate to differentiate. And the customer is most often the driver of this innovation. Innovation can be as simple as 'new to the market' if not really 'new to the world'. The last thing I would want is for my customer to move his business to another bank, so if we can remain agile enough to surprise and delight him with relevant innovation, the strength of the relationship improves. And, this in turn increases opportunities for cross-sell.

Q **Do you think innovation is an incremental process?**

A I have seen the incremental test approach – testing of different segments, different markets, and different products – work well to keep innovation alive at the bank. And

Having the right technology platform is very critical as a lot of innovation otherwise would be wishful thinking.

these innovations can be small but significant. For example, today if I can remove one process out of the system without depreciating the operational flow, then that is innovation. If the customer doesn't have to visit the branch, but the branch goes where the customer is with direct banking, then that is innovation. If the innovation brings more value for the customer and doesn't cost much to the bank, it's a win-win situation.

In the banking industry nothing remains new for long. What I do today will be copied by someone tomorrow. So, if I don't keep innovating constantly and incrementally, it's not easy to stay ahead. It can be a process today, a product tomorrow, or a new application or even a novel way to take products to customers. All of these increments add up to the bank's innovation agenda.

Q Is IT the sole enabler of organizational agility? What are the other factors that have critical play?

A I think strategy and leadership are most important. You have to have an organizational strategy that can adapt to constant change. You have to have a strategy which is not carved in stone, but allows free thought aligned to changing need. It takes the organization leadership, culture and an enabling environment to work together, to set the foundation for true organizational agility. Of course, partners are critical too. While an environment that stimulates is important, the bank needs tools that deliver as well. Tools driving the operational framework, helping with analytics, and mining customer data are critical. Another thing that figures prominently in the equation is effective information management. All of these together impact organizational agility and the bank's ability to innovate in the space.

Q What do you think is the role of an 'innovation partner'?

A An innovation partner, as you term it, can certainly help a bank add value to its innovation agenda. For example, if we did not have the technology backbone and support from our technology partners, our ambitions of achieving organizational agility would never have been translated into reality on the ground. All of the earlier discussion would have remained purely academic without the right technology partners to support our innovation plans. Having the right technology platform is very critical as a lot of innovation otherwise would be wishful thinking and at the end of the day having the flexibility to do it all is very important. There are always environmental changes one might not have prepared the business for, but investing in the right platform and the right partnership can help the bank respond to it all effectively. The value of a good innovation partner, especially from a technology perspective, can never be underestimated ■

tECH WATCH

Agile Treasury Technology for the Emerging Financial World

At the peril of sounding rather clichéd, I am tempted to begin this article with a quote that seems to describe our times so aptly - “Nothing is permanent except change.”

With the recent financial crisis having altered the global financial canvas forever, the acid test for any organization seeking to thrive in this space today is its ability to respond to change meaningfully and with agility. Agility in identifying opportunities amidst the challenges. Agility in decision making. Agility in redefining business goals. Agility in developing strategies. Agility in adapting new technology. Logically, this extends to the bank’s treasury operations and technology as well.

Treasury: Changing with the changing banking landscape

Soaring customer expectations have not only transformed retail banking but have also influenced the way bank treasuries operate. Plain vanilla FX and money market deals are but hygiene today. Treasurers are busy structuring complex deals for their customers; exotic options are commonly found and plain vanilla American and European options are getting rarer. Credit derivatives along with energy and carbon trading are in vogue. Algorithmic trading has witnessed multifold increase in trading volumes, and 24X7 trading is no longer a dream. The focus on risk management is growing and treasurers are striving to comply with global mandates.

Technology to keep pace

Treasury technology has striven to keep pace with the constantly evolving business environment. IT heads seek to establish state-of-the-art trading floors embellished with Reuters, Bloomberg, dealing screens, best of breed management systems, algorithmic trading platforms, dedicated hotlines, flashy LCD screens and possibly every other modern day gizmo that can fit into the treasury landscape. There is also increased focus on leveraging technology to manage risk and regulate markets. Intuitive dashboards, complex

SaaS as a delivery model can help corporate treasuries to efficiently reduce their total cost of ownership and at the same time gain in agility.

pricing, structured deals and VaR calculations are all being driven by technology.

Given the complex nature of operations, treasurers depend on real time information to take informed decisions. From technical charts to macroeconomic indicators such as the inflation index, CPI and PPI numbers, employment data and intelligence driving technology is key. Treasurers also rely on decision support systems and analytical tools to enable agile decision-making. Technology has proven invaluable for market research and to develop mathematical models.

From DOS-based applications and client server machines then to Web-based technology today, treasury operations have seen it all. However selecting an appropriate technology is not always easy. The decision is influenced by budget, requirements and organizational goals.

Technology for agility

Bespoke treasury

Till recently, solution vendors offered pre-configured products to treasurers and these found a place in dealing rooms. Not so anymore. Today, treasurers dictate what they need to drive agile operations. Systems are tailor-made based on specific requirements. Pre-configured systems generally run a risk of being too simplistic and region-specific which may not suit banks looking for flexibility and agility. Bespoke applications allow banks to be at their agile best, in terms of deploying new functionalities. Legacy applications often fail to deliver on the business' current mandates and bespoke treasury solutions are the need of the hour. They allow banks to leverage components they need and pay just for these. That's why, modularity of the treasury solution is critical.

SOA architecture

Treasurers have long since recognized the merits of leveraging specialized solutions for functions such as pricing, risk, simulation, trading and reporting. Yet building and maintaining multiple interfaces have posed untold hassles. Creating seamless integration among multiple systems for treasury operations can pose a significant challenge. The need to ensure that security remains uncompromised is another mandate. However banks are now increasingly using architecture that is open and modular. IT heads of agile organizations have found an answer in Service Oriented Architecture (SOA) which is open and can easily coexist with legacy applications. SOA provides a means to deploy and quickly reconfigure applications, databases and other infrastructure hosted at data centers. It enables effective interconnection between applications such as trading platforms, risk engines, central position keeping applications, data warehouses and enterprise GL systems. It also allows bank treasuries to get the most out of their existing software without having to consider expensive new technology investments.

SaaS as a delivery model

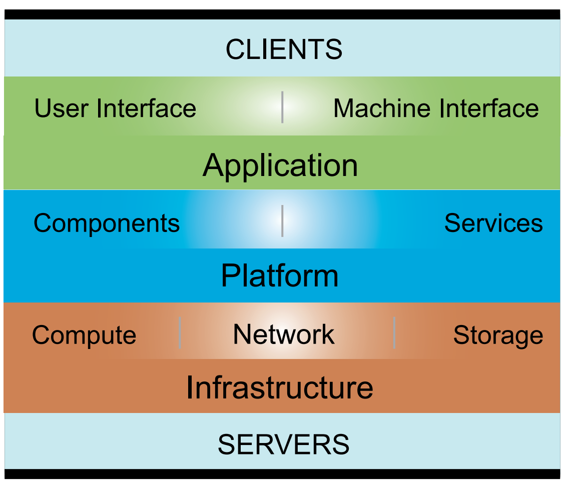
SaaS as a delivery model has picked up pace in recent years and banks have started to appreciate its benefits. It can help corporate treasuries to efficiently reduce their total cost of ownership and at the same time gain in agility. One pain point for banks embarking on a treasury transformation venture is the solution selection process that can be both painstakingly slow and cost intensive. The SaaS model very precisely addresses this issue and delivers a sound value proposition for both corporate houses as well as bank treasuries. It drastically reduces capital and support costs besides improving operational efficiency. The model requires the solution provider to not just provide the software but also maintain it, thereby driving down significantly the costs of hardware acquisition.

Corporate treasuries, in particular, have benefitted by the SaaS model. They need real time access to their cash positions, overall receivables and payables, while adhering to regulatory requirements and complying with SOX mandates. This model can make life easy for treasuries operating across multiple geographies. Various entities can key in data directly into the solution without having to maintain multiple spreadsheets thereby increasing transparency and ensuring accessibility. Organizations often cite flexibility and integration as two major drivers for selecting this delivery model.

Cloud computing

Cloud computing is yet another next-generation disruptive technology. It essentially uses the Internet and remote servers to maintain data and applications. Cloud computing allows banks to use applications without having to install them. As the servers are remotely placed, this technology brings in efficiency by centralizing storage, memory, processing and bandwidth. People often mistake cloud computing for SaaS but the cloud is a larger concept. SaaS, in fact, is merely a part of the cloud.

'Besides selecting the appropriate technology, it is critical for the bank to use it appropriately to achieve the desired business outcome.'



Besides reducing cost and bringing in agility, cloud computing can be extremely beneficial for treasury operations as sophisticated treasuries have their internal risk models, grid infrastructure for risk analysis and pricing engines often hosted on external data centers, but will need to add capacity sporadically, at critical points, when executing the application. Adding capacity often means massive investments and may well prove a hindrance for many banking organizations. This is where cloud can help these banks in creating capacity, without having to invest heavily in infrastructure. Cloud computing also spares the bank's IT department the hassles of constant upgrades, allowing them to concentrate on core functional areas.

In summary

Treasury operations by their very nature are extremely complex and in a state of constant flux. The key is to have the best brains maneuvering treasury operations, enabled by the best technologies. Today banks are not lost for options with bespoke treasury software, SOA, SaaS and cloud computing on the scene. However, besides selecting the appropriate technology, it is critical for the bank to use it appropriately to achieve the desired business outcome. Using SOA alone or in combination with SaaS and the cloud is a decision that lies before banks' IT heads. Banks have no choice but to adopt leading edge technologies that can help them gain the agility so critical to conduct business in today's hyper-competitive market. Technology could make that vital difference between agile and docile treasuries in the days ahead! ▪

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Author

Sanjeev Kumar Nargotra

Lead Consultant – Finacle Treasury

Infosys Technologies Limited

Infosys in the news

Infosys among Asia's Most Admired Knowledge Enterprises

Infosys Technologies Limited (Infosys) has been recognized amongst the top 16 Asian companies to be listed in the prestigious Most Admired Knowledge Enterprises (MAKE) study, 2009. Infosys has won the Asian MAKE award six times in the past and is one of the five Indian companies amongst the leading Asian corporations to have won the award this year. The 2009 Asian MAKE panel has recognized Infosys for developing new products / services / solutions, and enterprise knowledge sharing and collaboration.

Infosys Launches Flypp™ Mobile Application Platform

Infosys Technologies Limited announced the launch of Flypp™, an application platform which will empower mobile service providers to delight digital consumers through a host of ready-to-use experiential applications across the universe of devices. Flypp™ from Infosys is a 'Ready to Launch' Application platform for mobile operators. This "operator-centric" platform enables mobile operators to offer a bouquet of applications, including third party ones to its subscribers with a rich and engaging customer experience. The platform can be easily integrated into operators' current technology environment and can also plug-and- play with their existing on-deck applications.

Flypp™ also provides Independent Software Vendors (ISVs) a viable and attractive channel to showcase and monetize their proprietary applications across multiple regions and service providers. The platform also includes an Application Toolbox to test and certify the satisfactory operation of applications on service provider environments.

Finacle – Your Innovation Partner

Finacle Unveils Innovation Research Reports

Infosys Technologies Limited unveiled three significant reports on banking innovation from surveys among senior bankers in US, Europe and India.

BAI and Finacle Research Series - **Navigating in Turbulent Times: Competing for Deposits and Relationships** - surveyed over 116 senior bankers from over 100 financial institutions across the U.S. The whitepaper reports that four out of five bankers rate innovation initiatives as extremely or very important for their pursuit of growth and for improving future efficiencies. Further, close to nine out of ten believe that IT will be extremely or very important to innovation efforts.

Infosys joined hands with European Financial Management & Marketing Association (EFMA) for a survey on **Innovation in Retail Banking** among banks across Europe. Senior management from 89 banks in 26 countries across Europe contributed to the research. 78 percent of the banks in the survey believed that the importance of innovation was high or very high for both growth and efficiency. Inflexible IT systems and bottlenecks in IT development were the top 2 barriers to innovation across all 3 regions.

The Banking Survey 2009— Innovation Perspectives, an Economic Times and Finacle research report showcased perspectives from 70 C-level executives across 33 leading banks in India and their perception of innovation in banking. The findings suggested that 77 percent of respondents are pursuing both strategic and incremental innovations and 83 percent banks are increasing investment on innovation.

Infosys Launches Finacle Advizor™

Infosys Technologies Ltd. announced the launch of Finacle Advizor™, an integrated platform which empowers banks to deliver products and services through a fully assisted self-service channel using existing Internet banking capabilities.

The patent pending solution provides banking customers a self-service channel, like the Internet, kiosk and ATM, for real-time access to their bank relationship, such as account inquiries, fund transfers, credit card and mutual fund payments and remittances. In addition, Finacle Advizor™ enables bank customers using the self-service channel to experience the comfort of interacting with a bank representative who can help with transaction assistance and remote advisory functions. This not only enhances the customer experience but also increases the efficiency of the bank staff, improving the return on investment for the bank from the channel.

FIRST LOOK

James A Gardner

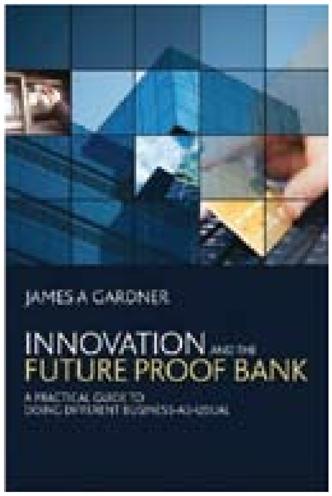
Innovation and the Future Proof Bank

A practical guide to doing different business-as-usual

Innovation. A subject that is relevant but expounded upon over and again. Possibly, once too often. A subject that's so vast that it's really quite impractical to expect a book to say it all. After all, haven't we all read about innovation tips, guided steps to profitable innovation, the merits of disruptive innovation over incremental innovation and vice versa? Right. But Gardner proves us wrong, with this book – probably an innovation in itself – because it does not just address the intricate components of innovation, but defines the innovation process and how to lead an innovation initiative successfully as well.

The conversion of the 'new' to business-as-usual, is a very special business process, Gardner explains. It is the business process able to reprogram all others. Creating the practices that make this process work is a key challenge for all in the financial services business, worried today about their ability to respond to the future. When an institution can identify things that are outside its present practices and convert them, production line style, into products, processes, cultural changes, or new markets, it will never be outpaced by internal or external change again. That's how Gardner directs the institution towards becoming "Future-Proof".

This is a book about those practices in banks. It explains, using examples from institutions around



the world, what it takes to create an innovation culture that consistently introduces new things into undifferentiated markets and internal cultures. It shows how banks can leverage the power of the new to establish unexpected revenue lines, or make old ones grow. And it provides advice on the social and political factors that either help or hinder the germination of innovation at banks.

It is undoubtedly a book any banker considering flirting with innovation or dedicating a lifetime to it, must read with as much reverence as a pastor his bible. However, one would have thought the book would throw greater light on the typical barriers to innovation, and how banks can hurdle them. While Gardner does touch upon this subject, the lack of lucid examples that tell the story is a small dampener.

Indeed it's a valuable resource for bankers. But then again it's as relevant for any true leader. After all, *Innovation and the Future Proof Bank* provides the diagnostic tools to guide benchmarking and investment decisions for the innovation function. And for innovation practitioners, the book lays out everything needed to make sure that converting the 'new' to business-as-usual is predictable, measurable, and profitable. Surely, that's ammunition for any business, worth its top and bottom lines!