Jul. - Dec. 2011/ Vol 06/ Issue 23

FINACLE CONNECT

Connecting The Banking World

Optimizing Efficiencies

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FinacleConnect is a journal on banking technology published by Infosys Limited. For more information contact: Manasa Dhanapal Ananth, Infosys Limited, # 44 Electronics City, Hosur Road, Bangalore 560100, India. Tel: +91–80–41057541 or write to us at: finacleweb@infosys.com

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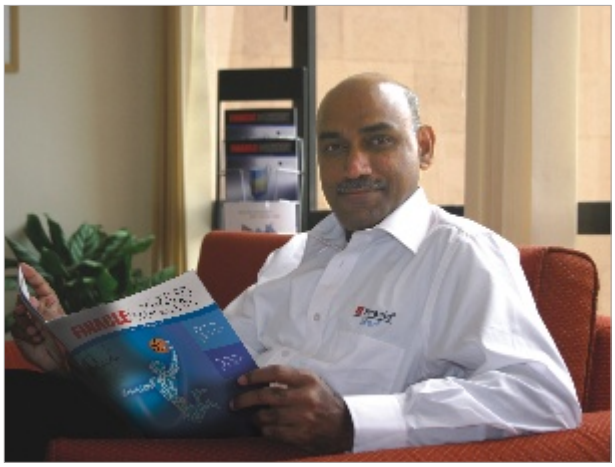
Voice from the Desk



Decades after they first embraced modern core banking solutions, in pursuit of cost efficiency, banks have come full circle. In the years leading up to the financial crisis when the industry was going through a purple patch, growth, market share and innovation were the center of attention. Banking turned flamboyant – this was the age of complex products, café branches and multimillion dollar pay packages. The subprime situation and all that followed forced a hard reality check and brought focus firmly back to the old fashioned banking values of conservation, efficiency and circumspection. But, it's not as though the growth agenda has been abandoned. Growth and innovation are still important, as long as they come from doing the right things right. With this realization, banks have once again set out on a quest for a new kind of efficiency, which aims not to cut, but to optimize. The kind that frees up resources for strategic transformation and innovation. Fittingly, **'Optimizing Efficiencies'** is the theme of this issue of **FinacleConnect.**

Our **Cover Story** talks about how technology can bring higher efficiency to a bank's product-customer equation, operational workflows, innovation activities and channels. **Big Bet** travels through time to trace the evolution of banking down the ages, and suggests that the road to future efficiency lies in 'supply chain management style' financial engineering. Another story sagely reminds us that there is no magic bullet for achieving business process efficiency, but rather what it calls for is a comprehensive approach built on a foundation of the right people, processes, systems and technology.

Kaleidoscope takes a trip down under to understand what the robust and cash-rich Australian banks hope to achieve with their new technology investments. This edition's **Case Study** is also set in another island nation - Sri Lanka - and turns the spotlight on the success that one of the country's oldest private banks is experiencing with core banking replacement.

In **Inside Talk,** Sulaiman Al Harthy, Deputy General Manager - Consumer Banking, of BankMuscat shares his belief that 'emerging technologies will change the way we do business in future' and comments on a range of issues facing banks today.

Authors Deborah Ancona, Thomas W. Malone, Wanda J. Orlikowski, and Peter M. Senge dismantle the alluring myth of the complete leader in their article, **'In Praise of the Incomplete Leader'** and suggest that instead of trying to be perfect, business leaders must accept their humanness.

We hope you will enjoy this edition of FinacleConnect as much, if not more than you have done in the past. As always, we look forward to your feedback, which is our compass in this journey of shared learning.

Till next time!

Haragopal M

Global Head - Finacle

Infosys Limited

A Quick Look at Business Process Efficiency

Précis

Banks are constantly in search of process efficiency. In a business like banking, which is built on processes, achieving process efficiency is a major concern, and a challenge that the industry has grappled with since a long time. With banking processes being as varied and complicated as they are, there's no silver bullet to improve their efficiency. Instead, what is required is a comprehensive approach built on a foundation of the right people, processes, systems and technology.

The origins of the BPE concept

The manufacturing industry, led by companies such as General Electric and Toyota, pioneered the use of business process / supply chain models to improve efficiency and cash flow. Starting with 6 Sigma, they moved to Lean Methodologies, which circumvented many of the limitations of the former by defining processes afresh, after removing the 'muda' (Japanese for muck) in them. The Lean approach was also broader in scope, considering new aspects such as finance planning and regulatory compliance in addition to pure manufacturing. It benefitted from collaboration between experts in each of these fields.

Meanwhile, banking, which was equally dependent on processes in every aspect of its business – cashflow management, financing, regulatory compliance, and taxation, to name a few – was trying to find its way, in the absence established global best practices. It was in the early 2000's that the industry, which was well entrenched in the Business Process Outsourcing business, began to focus on Business Process Management (BPM). Technology vendors like TIBCO and IBM created BPM application tools and templates that made it possible to capture data, have automatic workflows, authenticate transactions and integrate all the above with banks' core systems to achieve Straight Through Processing devoid of manual intervention.

This took banking processes to a higher level of productivity and efficiency.

Credit must also be given to the back offices of international financial giants, as well as third party outsourcing firms, for thinking out of the box about how to enrich their proposition in the wake of eroding cost arbitrage advantage. They did that by combining BPM with their Business Process Outsourcing (BPO) services to create a new dimension, namely Business Process Efficiency (BPE), which combined people, processes, systems and technology to show improvement in operating cost to the tune of 25%.

BPE, a combination of people, processes, systems and technology

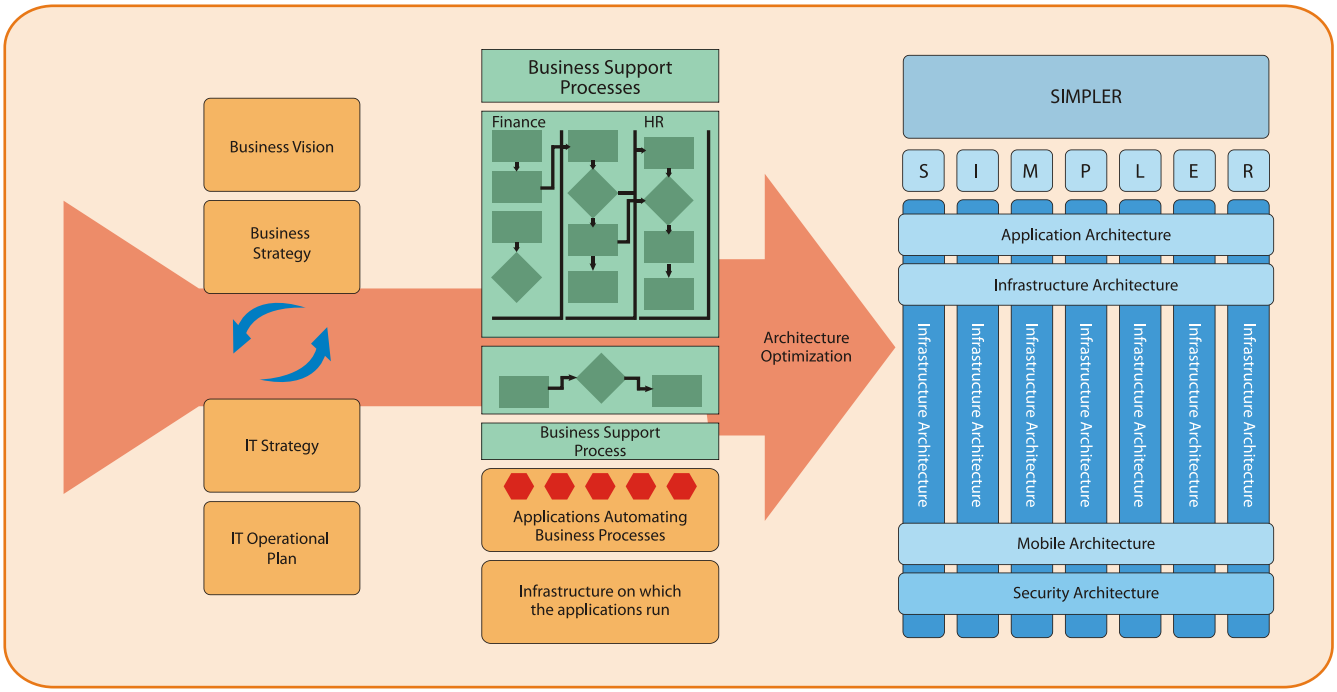
It is important to underline that process efficiency cannot be achieved by technology alone. It needs people from different domains - from technology, to risk management to operations - with the right knowledge and a 'can do' attitude to make it happen.

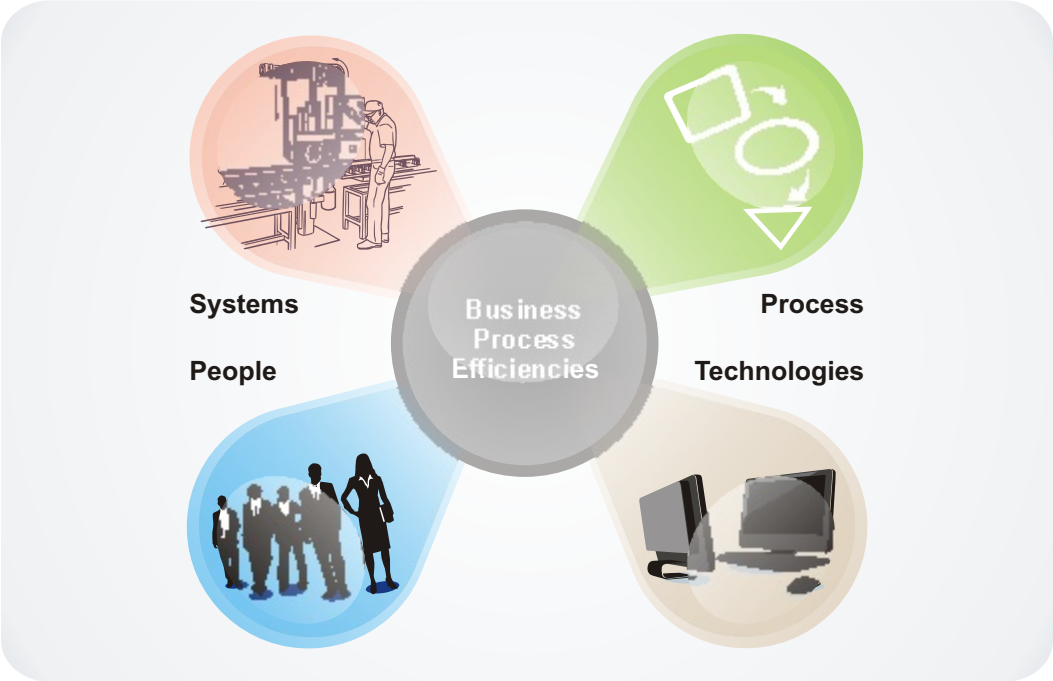
When all these elements fall into place, a bank can hope to achieve improvement in efficiency in the range of 28-30%. This is better visualized in real terms, as a four to five-fold jump in the number of transactions handled daily, without any increase in manpower! Looked at from an equally important outside-in perspective, this could mean that a customer would be able to open a Letter of Credit within one day instead of say, seven.

Integration, a key success factor

Channel integration goes hand in hand with BPE. In the banking context, it is critical that all channels from branches, to ATMs, to online and mobile banking, be integrated such that product creation, distribution and service are rendered from a single platform. This gives the bank uniform visibility into customer information and activity regardless of the touch point, and enables customers to transition seamlessly across channels. Asia Pacific banks, which have adopted STP and real-time integration of data and processes, have achieved levels of profitability unheard of in the West.

The case of a leading bank illustrates how much there is to be gained. The bank adopted BPM in the areas of Trade Finance and Corporate Loans, both of which are very process-oriented and documentation intensive, and highly





demanding from a risk management, channel and customer service management, and system integration perspective.

The bank partnered with a System Integrator to embark upon a yearlong enterprise-wide integration exercise. This had a profound impact on the business.

Business volumes more than doubled; fee income and margins improved significantly; and risk reduced. The bank gained access to real time information. The time taken to disburse corporate loans came down to 5 days from 15.

The impact on customers was equally encouraging. Customers were able to receive real-time updates and alerts. They could access accounts anywhere, at any time, across all channels. Waiting time for certain transactions came down drastically.

Future Outlook

BPE is gathering momentum in the banking arena. Standards such as those issued by American Productivity and Quality Center (APQC) have given the industry process efficiency benchmarks for about 20 important transactions. These benchmarks are being scrutinized by banking institutions – which are seriously contemplating adopting them – and technology vendors alike.

Indeed, the technology leadership within banks is not as interested in comparing one solution with another, as it is in the potential impact of BPE on their business' bottom-line. Their focus is solely trained on the business value to be derived by adopting new processes and technology. Process consultants and domain experts spanning traditional information technology and management consulting firms are therefore proposing outcome-based models in this space.

All are subscribing to the new paradigm, which is:

Process + People + Technology = Increase in 30% bottom line growth.

Can banking institutions, struggling to cope with shrinking margins, rising costs and other onerous challenges, afford to ignore this massive opportunity? ■

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Also Read

The Context and Need for Optimizing Banking Operations

It may have come to the forefront in the aftermath of the Global Financial Crisis, but optimization is hardly a new concept. Banks have been optimizing their operations - a series of processes that have basically stayed the same, yet evolved over time - since decades. However, in the last few years, the banking context has changed suddenly, dramatically, to underscore the need for operational excellence.

And it's not just economic conditions that have changed. Customers have evolved into informed buyers, and consequently raised their expectations from financial service products and providers.
http://www.infosysblogs.com/finacle/2011/06/the_context_and_need_for_optim.html

Optimizing Efficiencies

Précis

Banks go through cycles of change that ebb and flow with the cycles of the markets. During the boom years, innovation was the key. Now, the mantra is all about operational excellence and optimizing efficiency. But what does optimizing efficiencies mean and where are the best practices in this space? In this overview, we'll take a look at how to find those banks with the best practices in optimizing efficiency in their operations and processes.

What is the process of efficiency?

For many years, banks have focused upon efficiency in their infrastructures, processes and automation. It is for these reasons that banks are leaders in applying technology to their operations from the 1960s, when accounts were being automated in order to eradicate the legions of back office clerks and administrators to the 2010s where internet self-service is lowering the costs of branch operations.

Equally, it is why banks are major exponents of best practices in process improvement from traditional re-engineering methods through Six Sigma and LEAN.

But these are all approaches that rely upon theory, and we would rather look at practice in this overview. Therefore, what are the practices of efficiency and where are best practices found?

Best practices in efficiency

As banks gain efficiencies, the focus has historically been upon improving cost-income ratio, a key measure for any bank of their structure and competitiveness.

However, this is one area that has changed of late, as banks no longer measure themselves purely on cost-income ratio but bring in many other measures to ensure that their approach is correct.

This is because cost-income ratio does not incorporate the element of risk involved in a banks operations underlying these developments.

For example, Northern Rock were thought to be one of Britain's' best run banks in the early 2000s. This was down to very low cost operations – most of their sales were being made through direct channels – and very high income due to high margin products loaded with risk – mortgages funded through wholesale market derivatives.

We all know in hindsight that this approach was wrong, but that is the easy benefit of hindsight. With foresight, we should have seen an issue with liquidity risk. However, as Sir Derek Wanless who Chaired Northern Rock's Risk Committee stated, the bank modelled all variations of risk in the housing markets and the potential collapse of demand. What they did not model was the collapse of funding to the bank.

This means that efficiency is based upon far more than financial models of cost-income and return on equity, as it is wholly intertwined with risk.

Risk in efficiency

There are an inordinate range of risks in a banks' operations that can be exposed through inefficient processes. Some are managed and understood well, such as market and credit risk where banks can use metrics that are well tried and tested, whilst others are not understood at all even though banks would claim they are under control, such as operational and liquidity risks.

The example of Northern Rock is one that shows us liquidity risk in action. The bank ended up with almost £26 billion of emergency loan funding from the Bank of England and had to be nationalized in February 2008. This was based upon one of Britain's most efficient and effective banks, with a £5 billion market capitalization in 2006 and a cost-income ratio of less than 30 percent.

The bank was falsely inflated by irrational lending based upon unlimited funding in the wholesale markets. When that funding was removed and the bank had to rely on short-term renewals of their loan book, the bank collapsed.

There was an inefficient process.

Another example of an inefficient process is Jérôme Kerviel at SociétéGénérale.

Like Nick Leeson of Barings Bank, Jérôme Kerviel was trading irrationally and lost his bank a fortune. Luckily not enough to bust the bank, as Leeson did, but enough to badly damage the bank's image and reputation. Oh yes, and its balance sheet.

Apparently, Kerviel managed to trade almost €50 billion in unauthorized deals during 2006 and 2007, resulting in losses of €4.9 billion when these were discovered in January 2008.

The issue in both instances was lack of operational controls that allowed back office and front office operations in an investment bank to be mixed and muddled.

Like letting your best salesperson run their own sales lists, administer their own orders and pay their own commissions, the blurring of controls and loss of delineation of order and process were the issue in both cases.

What these cases really show is how processes can appear to be appropriate and efficient, when they are not.

So it is not surprising that, when looking for efficient processes, it is well worth looking towards banks that have suffered failed processes.

Efficiency through failure

Failure is the best way to learn.

Therefore, banks that have suffered failed processes are also the ones that now have the most efficient processes of all.

This is because they implement best practices to avoid such failures ever again. For example, post Jérôme Kerviel, SociétéGénérale implemented an enterprise risk management system that would have been untenable before due to the barriers internally to change.

The system is not only enterprise-wide, but manages and assesses risk and compliance which the bank believes will "potentially be a benchmark in the industry for how complex compliance challenges can be managed effectively."

Such wholesale change is only possible as result of a crisis.

Similarly, Northern Rock provided many lessons in not only how to manage the risk of liquidity failure, but also the overall way in which banks should be regulated. This resulted in a restructuring of the UK regulatory regime, the end of the Financial Services Authority (FSA) and the reuniting of regulatory controls under a single operation controlled by the Bank of England.

Efficiency through success

But optimizing processes is not always going to be the result of failure. Failure is a great way of optimizing processes as a burning platform – a crisis – is the greatest motivation for change. However, change can occur on a continuing basis if the bank wants such change.

This was the mantra of Jack Welsh at General Electric, who used to ask for 10% of all personnel to be exited each year to improve efficiency. In other words, one in ten employees had to be made redundant each year. This made everyone work harder, smarter and more focused, he claims.

We see this approach taken by some banks, but equally more interesting approaches through continual improvements rather than the fear of exit.

For example HSBC, a bank that is admittedly making redundancies and rationalization right now to improve business results, have had an interesting approach to technology. Under Ken Harvey, the recently retired Chief Technology and Services Officer of the bank, stated that the bank's "aim is to reduce IT costs by at least 10% per year and, in 2007, we achieved a 14% reduction with the extra 4% then used to invest in innovation."

In other words, a bank that can optimize processes through incremental improvements can use their improvements to achieve both efficiency and innovation.

Improvements of ten percent per annum may be the target but, in HSBC's case, any improvements above this level are then invested in innovation.

That is a fundamental difference in approach and one that all of us can take on board.

Conclusion

For many years, banks have been using business process improvement, Six Sigma, LEAN and other management approaches to the improvement and optimization of processes. Often these programmes result in the implementation of new systems, new technologies, new structures and new operations.

These are all good, but when looking for best practices in process optimization it would do no harm to first look at failure. When processes fail, the businesses that suffer such failure are often the ones that now have the best practices.

Equally, it would do not harm to set targets that encourage improvement for optimization over and above the cost savings. Far too often, we focus upon just the bottom-line but, as in HSBC's example, if you focus upon the bottom-line and then allow the latitude to change beyond this to invest in the top-line, then you get the best of all worlds.

This would be the ultimate message for process optimization: learn from failure, deliver efficiencies and invest for expansion through innovation ■

Author

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The Do More with Less Mantra

Précis

In a tough post-financial crisis world, optimizing efficiency is no longer optional for banks, but the key to survival. Given the scale and complexity of the business, banks have many opportunities to find a better way to do things. That being said, efficiency improvement initiatives mainly target the products per customer equation, operational workflows, innovation activities and channels.

Technology is the common thread that runs through each of these, and which enables the sale of more products per customer, improves process throughput and turnaround time, creates a unique plank of differentiation or affords ubiquitous reach. Banks can leverage a range of technologies ranging from CRM to core banking to analytics to enterprise workflow to enterprise STP, to help them achieve their efficiency goals. But above all, they need to nurture a culture of efficiency, which not only enables their people to perform better, but also rewards them for it.

The simplest, and dare I say most efficient definition of efficiency improvement is "today's job done with less effort tomorrow".

Optimizing efficiency, or finding a way to do more with less is an evergreen pursuit of every organization, including banks. The financial crisis widened the banking industry's cost-driven perspective of operational efficiency to one that looks at optimizing efficiency whilst managing costs in an environment in which changes in regulatory compliance requirements, stringent risk control and uncertain consumer spending are colluding to put earnings under pressure.

That being said, banks measure efficiency along many dimensions – Cost to Income Ratio, number of customers per product, cross-selling effectiveness, level of service performance in terms of response time, minutes in queue etc. – to try and drive improvement in each. Their reasons are obvious – an improvement in any of these parameters delivers direct business benefit in terms of higher customer satisfaction and therefore, stickiness or more products per customer; better resource utilization resulting in higher productivity; greater agility and consequently, greater competitiveness; and so on. In the final analysis, all of these contribute to what counts most, the banks' bottom-line.

Approaches to optimizing efficiency

There are many ways for banks to arrive at higher efficiency, some of which are listed below:

Products per customer perspective: Banks incur significant cost towards advertising, seeking referral, initiating direct interaction or extending an existing relationship, to get each customer on board. Having acquired a customer, they look forward to recovering their investment and increasing the intensity of the relationship by selling more products to the same person. Wells Fargo Bank, the acknowledged leader in this aspect, boasts a 'products per household' ratio of over 6, which is much higher than that of other institutions, and has now set its sights on a figure of 8.

Right-selling ability is a key success factor here; hence, banks must know when to approach a customer, and with which product. Thankfully, they don't have to rely on instinct, second hand wisdom, or a sixth sense. To a greater or lesser degree, a variety of technologies including CRM, core banking and analytics can provide insight into customers' preferences and behavior, as well as predict what they might need on the basis of their past pattern of activity. For instance, the customer experience management module of a core banking platform might prompt a service executive to recommend a travel card or hotel to a customer calling in to buy foreign exchange.

By deploying these technologies, banks can lay claim to the humongous quantity of structured and unstructured data generated at multiple touch points, over multiple channels, which they would never have been able to gather or process manually. These solutions have the capability to collate raw data gathered over the history of a customer's interaction, make sense of it, create actionable insight and make it equally accessible to all those who need it within the organization. For instance, a call centre executive could use this insight to respond faster, or make informed product suggestions to customers instead of delivering a rehearsed, but irrelevant spiel. At the same time, a relationship manager could deploy the same knowledge into a client presentation.

In the absence of such savvy, banks risk losing customers to their more efficient competitors. On the flip side, those that are able to proactively suggest the right product to a customer just as he is reaching out to them, would have taken a quantum leap in improving cross-selling effectiveness, and consequently efficiency.

Operations perspective: The size and complexity of banking operations provide many opportunities for improvement. Take the example of a branch, which fulfills certain sales and marketing activities, besides juggling myriad processes related to the teller function, account maintenance, loan and deposit processing, and so on. A decade ago, each branch had its own front and back office to take care of customer facing and behind the scenes activities respectively. But now, back office operations have been centralized to serve the back office needs of all branches from a single location. The result is a leaner, cost effective and efficient back office organization.

While this is one way of optimizing efficiency, banks are always on the lookout for other means to reduce the number of layers and steps in various business operations. Thus, their quest for efficiency is not a one-time journey but a continuous pursuit of operational excellence.

Once again, technology has a central role to play in increasing operating efficiency, this time by streamlining workflows, improving throughput and enabling Straight Through Processing (STP). Together, these techniques enable the same workforce to handle a greater volume of work by reducing handoffs, eliminating unnecessary approval processes and replacing manual intervention with automation, *without compromising control or due diligence.*

The principle behind this is that the large majority of transactions that are regular and predictable, do not need the degree of manual intervention, checks, balances and controls that they are subjected to, which are only required for exceptional transactions. Therefore, the workflow pertaining to predictable transactions can be easily redefined such that the flow is seamless and devoid of manual control. By deploying technologies such as enterprise workflow systems, enterprise STP and enterprise automated controls in regular transactions, banks can vastly improve efficiency and scale up their activity at the same level of resources. Only in the case of suspect or abnormal activity, must they resort to manual intervention and further investigation.

It is important to point out that these technologies are quite capable of fulfilling Anti Money Laundering (AML), Know Your Customer (KYC), and other compliance mandates. Core banking platforms come with rule engines and exception processing capability, using which banks can define standard rules and exception triggers to ensure compliance - for instance, investigate the source and destination accounts involved in funds transfer above a threshold limit. These rule and exception systems can also be interfaced with external AML/KYC applications. When transactions are pushed on to these systems, they respond by indicating whether they are normal (and hence, can go straight through) or require additional investigation. The end result is plain to see – less effort, better throughput and faster turnaround, in other words higher efficiency.

Innovation perspective: Given that banking products are highly commoditized and that most banks offer pretty much the same services, innovative customer experience is the only (or the most important) differentiator. A smaller private bank in India has hit upon the idea of providing a differentiated customer experience built on efficiency. They are promising that they will 'get it right the first time' that they attend to a customer and will neither make him navigate their organization nor ask him to come back later.

They are also differentiating their ATM experience by allowing customers to specify the denomination in which they would like their cash, something that no other bank is doing.

The Bank is able to base such a compelling proposition only on a strong foundation of innovation.

Channel perspective: Banking channels provide much scope for efficiency improvement. Since channels are the customers' windows into the bank, any enhancement in them translates into higher customer satisfaction. The arrival of electronic channels like Internet and mobile banking has dismantled the limitations of branch banking (less reach, fixed hours, few staff, infrastructure costs) in one stroke to enable true anywhere, anytime accessibility, and the low cost per transaction on these channels has made a huge impact on banks' bottom line.

Banking institutions can reap further gains if they improve the adoption of these channels by making them totally secure, reliable and easy to use. That would result in a win-win situation - customers would be happier because they can bank at their own convenience, and banks would be able to serve a much larger number of customers without investing in expensive branch infrastructure.

In fact, innovations in mobile technology are set to take customer convenience to a new level, for example, by enabling data exchange between two mobiles by simply bumping them together. These advancements will further encourage mobile adoption across different sections of society, and banks need to ride this trend such that it results in increased mobile banking adoption as well.

Creating the right conditions

A culture of efficiency optimization is a prerequisite for the success of any of the above

approaches. In the current tough environment, efficiency improvement is not merely nice to have; it is the key to survival. Banks, which do not continuously improve the way they do things, are likely to be upstaged by others that do, and will soon find themselves on a slippery slope of rising costs.

They must therefore create an environment that supports the improvement of not only work/process productivity through technology but also human productivity through training and empowerment. As a follow up measure, they must reward higher productivity through a fair and transparent incentive mechanism.

Last but not least, they must continuously measure key performance parameters such as reduction in the number of complaints, time taken to complete different processes, customer wait times etc. in order to assess the effectiveness of all their efficiency improvement efforts, including but not limited to, technology deployment, process redesign, training and enablement.

Only then can they support business growth without a linear increase in resources to improve bottom line, return on investment and shareholder value. This is the ultimate goal of efficiency optimization ■

Reference:

Wells Fargo Pushes Cross-Sales to Replace Lost Growth (Update1), June 22, 2010, Bloomberg Businessweek

http://www.businessweek.com/news/2010-06-22/wells-fargo-pushes-cross-sales-to-replace-lost-growth-update1-.html

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Innovation in Banking

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An interview between Chris Skinner and Ian Buchanan, Global CIO at SociétéGénérale Corporate and Investment Banking.

SociétéGénérale hit the headlines just before the financial crisis hit the markets when a trader lost over €5 billion in a disastrous period of trading. Since then, the bank has restructured, implemented new systems for risk control as well as new processes keeping in mind innovation in its very heart and soul. How is the bank looking towards the future and what does innovation mean to them? Chris Skinner, Chairman of the Financial Services Club, finds out in this interview with Ian Buchanan, Global CIO at SociétéGénérale Corporate and Investment Banking.

Q **What are the priorities you see in the banking world today from a banking perspective?**

A Most banks are seeing the most challenging period they have had in a very long time, ie post crisis context, with an increased focus on balance sheet capital. This is going to drive even more focus upon operational efficiency and the effectiveness of the use of scarce resources.

Secondly, for the banks that overcame the crisis with strong balance sheets, there are clearly opportunities for growth. Technology has a clear role to play here.

The third dimension we are all facing is the uncertainty we see with the regulatory environments (Basel III, MIFID II, etc). We are facing an unprecedented level of change, and in many cases we are not completely clear of the full implications for our businesses.

So given these business challenges, we can see a number of challenges for technology in banks.

Firstly, we have to deal with efficiency and banks will be even more focused upon their long-term prospects. We can expect more projects which are focused upon lowering costs and the unit cost of transactions; these are typically larger scale programmes for many banks.

Clearly if you are in the growth area, then there is the challenge of how to enter and grow in new markets. As an investment bank, we have a significant presence in Europe with a global reach, That means there is a big push on technology to enable our businesses to get into new markets.

On the regulatory side, it's all about the unknowns today, and some of the impacts could be quite massive. If you look at what's happening in investment banking around the moves in OTC products from Over-the-Counter to Exchange-Traded, there's a whole shift in businesses there that were not electronic which must now be electronic.

On the consumer-facing side, there has been a significant consumerization of banking. People are used to getting access to technology with so many tools we have at home today, and there is an expectation that banks will have to adapt to that in both providing services on those channels and making it much easier to do business with banks.

Q Where does innovation fit? Is it still a priority?

A Absolutely. We have three values at SociétéGénérale: Professionalism, Teamwork and Innovation. Innovation is at the heart of our business. We are a universal bank operating in diversified sectors: retail banking and investment banking insurance, private banking. Innovation is important whether that is innovating in terms of new products or working out how to finance our clients' projects or whether it's being able to access markets quicker and in faster ways. It's what we encourage all of our staff to do. It's part of our DNA.

It doesn't matter whether you are in good times or more challenging times, innovation can be a key tool to help a bank work more effectively with customers, its employees and ultimately for the shareholders

Q How do you define innovation?

A Innovation is about improving what we do already, or coming up with completely new ideas. It can play a role in improving and generating greater organizational efficiency or it can be breakthrough innovations that allow you to leapfrog the competition or do something in a radically different way. I have seen examples of both: improvement innovation and breakthrough innovation.

More of our innovation probably goes into the area of continuous improvement, and the challenge is how to apply ideas to existing operations and projects. It is also about getting a great idea picked up from one area and used elsewhere through a lateral approach or more simply by replication of those ideas.

On the breakthrough side, it's picking up on the gem of an idea that comes from your teams and making sure something happens with that. Our business does it all the time in investment banking. Our front officers are always looking for great new ideas for clients, and then looking to apply those in a well-controlled way.

Leading a technology group inside a bank is really all about working out how to bring innovation to the banks' ability to process your business, and to engage better across your employees and clients.

Q How is technology impacting innovation here?

A Within SociétéGénérale we have many examples. On the corporate and investment banking side, for instance, we have just launched an app for our clients to get access to our global research capability online and also to access it offline.

A lot of our business is done electronically with clients and so innovation in technology always has a role to play, whether that's speed to market of making use of new channels. Today

we are building out a new e-commerce platform, Alpha, where our teams have come up with an innovative user interface to deliver a lot of information to our client's workstations. It's a way of standing out from the competition.

Q **Does cloud computing sit on the radar here as well?**

A The cloud is not something I personally see coming to financial services as fast as it might come elsewhere. This is partly because financial services tend to be more conservative and have a strong focus on confidentiality and information security. We are not so ready to take risks when it comes to pushing our data out into a cloud that we don't fully control.

The concept of cloud as a private cloud has more relevance as a concept however, and many banks have been running private clouds for quite a while, consolidating our data and processing in large data centres, although we might not have been calling it that.

So cloud is more likely to be something that is around commoditizing what we were already doing internally, rather than embracing clouds externally for the reasons of security and confidentiality.

Q **So what things would you pick up on for innovations in banking over the next few years?**

A Firstly on the Innovation process itself, we are continuing to look at the ways in which we can embed innovation in everything we do. We have individuals whose primary job is to orchestrate innovation; they animate the whole process of identifying innovations, celebrating success and so on. There's then a network of dedicated staff within business units. We also celebrate success a lot, give awards, all with a strong commitment from the CEO downwards; it is all part of building and embedding the process of innovation.

We also want to make innovation relevant to what we are doing as a business. The question is how you can manage innovation against a set of objectives, of how and what innovation you want to be delivered? That might seem at odds with the notion of creativity, but is necessary.

We pay specific attention on how an innovation relates to the business strategy and challenges we face. This is to encourage people to think of innovation in our business context, and reward the ones that have the most impact on the challenges we face even though we make sure not to kill breakthrough innovations that might come up. Specifically, if you look at the areas where we've seen the quickest take up in the last year, it tends to be where there is an emerging technology. The whole area of collaborative working tools for the business is key here. We have thousands of people around the world who work in very different countries and we are always looking to improve how they work together. We are doing a lot to deploy a range of technologies which are closer to the experience our staff have with Skype and social networks into the workplace to help here.

Q **Finally, how would you see banking changing in the longer term as a result of technology? Do you think it could just push banks into being pure managers of data?**

A I don't think you can simplify banking down to purely managing data. But of course managing the data is a key part of what we have to do every day. Banking, and especially investment banking is all about the value you can bring to the customer. Just managing data itself is not as important as the value the bank brings to the client. In terms of IT, a key part of our role is to make sure we have the right systems and platforms to manage the processing of our transactions and our customer data in a secure a manner. Technology has key roles to play here as many banks are still a long way from being optimized in terms of their processes. There are a lot of possibilities for automation as

processes continue to be industrialized, in order to improve efficiency.

Technology and innovation can also help breaking silos of data some organization may have in virtually every geography, and therefore play a key role in helping banks become customer focused. Whether that's through deploying really effective tools to understand the client, or where you are adding value to the analytics you have on customers to help them receive improved solutions, that is what we shall see ■

Also Read

Banking Innovation 2011: What's Hot, What's Not

Not just a new year, but a brand new decade as well to keep the soothsayers busy. We add to the predictions with our list of the hits and misses in banking innovation in 2011. It looks like a sunshine year for mobile banking, with banks across the spectrum innovating on their standard offerings to create an element of differentiation. Emerging market banks will stick to their inclusion agenda over the mobile, while those based in the mature markets of high growth regions - such as Hong Kong or Korea - will brace themselves against mobile-led competition from non-banking newbie players. We think Europe will finally see some action at the higher end of smartphone-based banking.
http://www.infosysblogs.com/finacle/2011/02/banking_innovation_2011_whats.html

Incremental Innovation: 7 Small but Sure Steps to Success - *Whitepaper*

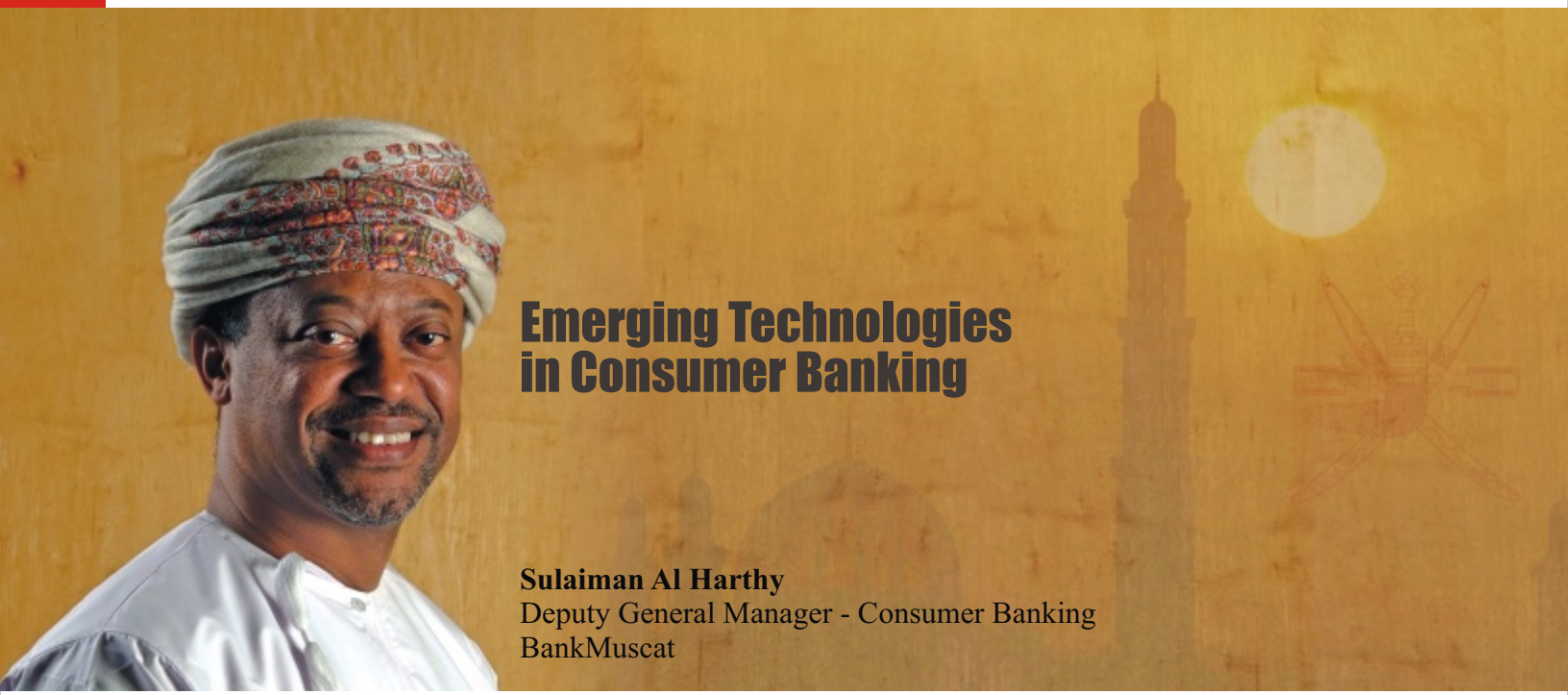
Innovation is a powerful weapon of differentiation for financial institutions. In recent years, banks have innovated on their products, processes and channel infrastructure to achieve multiple objectives such as raising operational efficiency, improving customer convenience and accelerating business growth.

So how do banks decide what and how much to innovate? The following list of incremental banking innovations propose some answers...
http://www.infosys.com/finacle/solutions/thoughtpapers.asp

Deploying Insights from Online Banking Analytics in Incremental Innovation - *Whitepaper*

In its 2010 report on the state of online banking in the United States, a leading 'digital universe' research firm said that nearly 60 percent of all Internet users visited at least 1 of the top 20 financial institution websites every quarter. Another telecom research and consulting organization predicts that the number of mobile banking users will touch 400 million worldwide by 2013.

Clearly, customers have responded to the banking industry's call to move more of their routine financial activity online, by conducting billions of transactions over alternate channels, through online banking sites, mobile phones, other handhelds and kiosks. As a result, a mountain of structured data is available at online touch points in the form of customer/account details and interaction history, increasingly supplemented by a wealth of unstructured data contained in social media conversations. Analytics can convert this raw data into information, and analyze that to create insight into customers' online activity. Over the years, the banking industry has become one of the highest spenders on analytics, using it to build a knowledge repository of customer behavior and deploying their improved understanding of customer needs to enhance offerings and customer experience.
http://www.infosys.com/finacle/solutions/thoughtpapers.asp



Emerging Technologies in Consumer Banking

Sulaiman Al Harthy
Deputy General Manager - Consumer Banking
BankMuscat

BankMuscat is the leading financial services provider in Oman, with over USD 15 billion in assets, more than 1 million customers and the largest network. It offers a full range of services including Corporate, Retail, Investment and Private Banking, Treasury and Asset Management. BankMuscat currently owns 49% stake in Bahrain's BMI Bank. It has received numerous accolades, and was voted by the Banker, FT London as Oman's best bank for 7 years in a row.

Recently, we spoke to Sulaiman Al Harthy, Group DGM - Consumer Banking, Bank Muscat on a range of issues surrounding banking innovation. Emphasizing the role of technology in driving innovation, Mr. Al Harthy said, 'Emerging technologies will change the way we do business in future'. He also stressed that banks must embrace new technologies in order to stay relevant to a young, tech-savvy and highly demanding generation of customers.

Q **The banking environment is seeing a strong demand for innovation, a lot of which is driven by customers' need for new products, channels and ways to transact. How can banks use technology to deliver this innovation?**

A I think the role of technology in innovation can never be overstated. And the ongoing political events in our neighborhood only reinforce this point. Could you have imagined that Facebook would play such a big part in creating a people's movement in so many countries?

Today's youngsters are heavy users of technology, therefore, will only be satisfied with innovative products and services meeting their expectations of speed, convenience, ubiquity, social enablement and 'cool'. That's a pretty clear mandate for emerging technology, and the way I see it, in some years we will go about our business in totally different ways.

Q **You mentioned Facebook. Can banks leverage social media to cross-sell or profit in any other way?**

A Yes, because the younger consumers would rather listen to what their social group – and not their bank – has to say about a financial product. I read a statistic that says that 85% of

consumers trust peer product reviews, whereas less than 15% believe company advertisements! Public opinion is no longer under the organization's control because it's being constantly shaped and reshaped in social forums. Therefore, it is important that banks participate in these conversations in order to know what their customers are saying about them, understand their deepest needs, solve problems and generally engage them at a personal level. Social media has immense potential to generate customer advocacy, which traditional media can never match.

But, barring a few exceptions – like Wells Fargo with its famous social financial education tool "Stagecoach Island" – there aren't that many instances of creative social media usage in banking. I am hopeful that will change soon.

I also foresee the growth of social commerce and money transfer both within and across borders, in future. Already, there are several instances of P2P lending. A third P2P lender called Peerform was launched recently in the U.S. market, dominated for years by Prosper and Lending Club. I understand Mexico is another country that is seeing some activity in this space.

Q The criticism of technology is that it has eroded the human touch of branch banking. Is there a way to make electronic channels less impersonal, without compromising convenience or cost?

A Well, we will always have customers, most probably from the senior generation, who would rather walk down to the nearest branch than use phone banking or the Internet. But for the most part, customers welcome the efficiency, convenience and overall experience of multi-channel banking. I don't see that changing, because people are so much on the move nowadays, and therefore expect all services to be available to them regardless of time and place. So the thing to do is to add a human element to technology, by deploying voice and video banking, for example. In fact even a CRM solution can be made more personal, because using ita bank can send tailor-made communication to customers along with the resolution of their query.

Q How will innovations in mobile technology impact banking?

A Mobile technology has taken longer than expected to take hold, but it has made a strong comeback in recent years. The development of smart phones - with their superior web capability, user-friendly interfaces, and supported apps - can take much of the credit for the rise of mobile banking. Different analysts predict that in another 4 years, around 1 billion people will conduct financial transactions over their mobile phone.

Now, other mobile-enabled devices are entering the picture. I was surprised to learn that more than half the sales of many online retailers are already originating over a tablet! Mobile money transfer has been very successful in many developing markets such as Kenya, and will only grow, along with mobile commerce. The future is not only about mobile banking, but full mobility, which means that banks will follow customers wherever they go. Hence, most bankers will tell you that they are investing in mobile technology and innovation.

Q With there being so many channels, how can banks unify customer experience on each?

A While the proliferation of banking channels is a good thing, there's a real danger of it confusing the customers if each channel behaves differently. I think it's fair to say that the quality of multi-channel experience is still not up to customer expectations.

The most important thing for a bank is to be consistent and reliable across all access modes. For example, if a customer applies for a product through phone banking and in the few

minutes it takes to serve him, receives an SMS confirming the status of his request, he should get the same level of service over Internet, kiosk or mobile banking. Moreover, both, a bank's Internet banking portal and mobile banking site should work similarly, include similar customer processes and have a similar interface to the extent possible. Also, all products should be available on all channels.

This kind of seamlessness across channels will give the customer the confidence to use more than one.

As a next step, banks must enable a single transaction to be carried across channels, so that a customer who may have dropped out of a transaction midway can continue from where he left off on a different channel. He should 'see' the same information on every channel.

Obviously, banks need to have a robust technology engine along with 360-degree visibility into all user transactions, to deliver a unified cross-channel experience to their customers.

Q **Do you know of an instance of a bank using technology to enhance customer experience or build trust?**

A I'd like to cite the example of Akbank in Turkey, who are doing some amazing work. Turkey is an extremely competitive market, so banks need to have cutting edge technology in order to give their customers the very best. For instance, Akbank guarantees that they will respond to a customer's SMS request within a matter of seconds, and should he not be satisfied, they will compensate him in a certain way. It is their strong technology engine, having both sales and service capability, which enables them to make such promises.

A couple of months ago, FirstBank of Nigeria was in the news for rolling out an ATM with biometric authentication, apparently the first of its kind in that country. The bank was hopeful that this ATM – which would soon be replicated at other locations – would reduce fraud and increase customer confidence in electronic channels.

I also see that many banks are leveraging social technology to open up to customers and reclaim their trust. A major Australian bank sent out Twitter updates to pacify customers when their online banking channel broke down some time back. Such measures are only to be expected, because increasingly, reputations are being built (and destroyed) inside social communities, and therefore that's where you need to go first when you want to reach your customers ■

Also Read

The impact of emerging technology on retail banking

If there were ever any questions about the transformative impact of technology, the recent political developments in the Middle East and Africa would have effectively silenced them. Who could have imagined, even a few years ago, that a revolution could be driven by youngsters through Facebook?
http://www.infosys.com/finacle/solutions/innovative-banker-retail-banking.asp

Online Digital Passport for Easy Identity Management

James Varga
Founder and CEO
miiCard

An interview between Chris Skinner and James Varga, Founder and Chief Executive Officer with miiCard.

James Varga founded miiCard, an online digital passport for easy identity management, in 2010 after running Money Dashboard for almost three years. miiCard is seen to be a highly innovative and different way of tackling that age old issue of online identity management.

Q **I wonder if you could give me some background on miiCard first, as many people may be unfamiliar with the service.**

A My background is start-ups and technology and I've been involved in the internet for a long time from 300 baud modems and the internet boom and bust. Now the internet has grown up and the internet economy is going to be around seven percent of global GDP this year, with forecasts that it will grow to thirteen percent within the next four years. So the internet is starting to grow up and, about a year ago, we saw that it was constrained as to what could be done on the internet due to limitations of trust, especially from a financial services point of view.

The challenge of proving you are who you say you are so that you can get on and complete transactions is particularly acute infinancial services due to the regulations involved. The Know Your Customer (KYC) and Anti Money Laundering (AML) requirements force this issue for both complex transactions and simple transactions from applying for a credit card and complying with the consumer credit act through to the more regulated and higher risk areas of loans, mortgages, investments and insurance products that require full AML checks.

Because of these regulatory requirements and that lack of trust, you cannot do these transactions easily online without a state-issued digital identity. Some countries have done this – but the vast majority of territories don't.

That's what gave birth to miiCard – how do you provide that level of assurance that you are who you say you are in a purely online world without having to require people to show up at a branch and show their driving license or passport to complete that transaction.

Even outside of the financial services world, how do you establish trust either between people or between people and the vendor in a purely online world?

Q Is this just about identity management?

A There's an enabler here though, a catalyst. The financial industry does a huge amount to protect itself against risk, to manage its fraud, to meet the regulatory requirements and to do those things in such a way that they can do business online. But there's a limitation on that in the USA and UK, as you just can't prove you are who you say you are with any level of assurance such that you can complete those transactions online. This means that there are processes that require a primary identity check – a driver's licence or passport – and it forces these processes to go offline. The result is that there's been a big push and pull (between the vendor and the regulators) between trying to do more online, and managing the risk of doing more online with the same set of technologies that are currently out there. And there's a lot more technology from the likes of Experian and Equifax and other providers, around identity checking or verification services, but they all focus upon information about you, whereas we focus upon knowing that you are who say you are. This shortcuts the issue as we then don't have to worry about validating the information about you.

Q But identity has been tackled many times before hasn't it?

A I've been involved in the internet for a long time and although not specifically in financial services, I've dipped in and out of the industry several times over the last decade and there have been lots of limitations there. First, how do you prove someone is who they say they are? That's why the identity management issues have continued to come around a lot over the past ten or fifteen years. Because people cannot prove they are who they say they are, there have been some heavy technology solutions like biometrics and voice imprinting which require a physical association between the individual and whatever device is being used, even down to the widget like a key generation tool out to the consumer and the consumer to use that with a pre-created identity. That's all very costly and labour intensive and there's a delay involved. We know that the things that do take off - like twitter and Group on - that become market leaders, do so because they change preconceptions and enable consumers to have something that's convenient. They get a benefit that wasn't there before and I don't think I've ever seen an identity solution that's ticked those boxes. That's what we are trying to solve with miiCard. There are other identity services that are coming about, like single sign on and using your twitter account to sign into to Open ID, so the internet is trying to solve this from a few different angles. The enabler for the financial institutions that provides an identity service that is user centric is known by everyone and is becoming recognized right now. So how do you take that and do something with it. Where's the business value? What are consumer going to get out of it and what are the vendors going to get out of it?

Q And how do you tackle this that's different?

A We realized that there aren't that many ways to validate that you are or you are not Chris Skinner, so we use your previous primary identity checks that have already been done through your online bank accounts to triangulate your new identity and to use those as reference points. As long as you currently bank online, which 25 million people in the UK do, we can use access to those secure accounts which is information you wouldn't share with anyone else. It wouldn't show up in your trash or email. It's information that's private and personal. So we can use access to those online secure accounts, because they are secure accounts, to validate identity with the traceability required from a regulatory point of view.

Q **Isn't that what PayPal does?**

A Essentially at a low level yes. PayPal and ING use source of funds to link the source account with the new account but this only establishes that an account with that name exists, not that you are that person. For that you need more than just an account number and sort code

Q **So what is the innovation here?**

A Well, PayPal use the depositing of funds to allow you to create a PayPal account. As long as you can put funds into PayPal from a debit card or whatever, you can create a PayPal account with that name on it. We are not just relying on just something you have – a card – but we are relying on the fact that you can login to a secure online account which proves you have an online identity. We are relying on the secure login access here, and changing the whole model away from what happens today for me going to someone like PayPal to create an account, by creating an identity service that does all this and allows it to happen with assurance as just a pure checkbox action - because you have miiCard. The consumer then has their own identity and manages their own identity, and the financial institution can then access that.

Q **And the USPs here would therefore be …**

A Everyone agrees, including people like PayPal, that if you are going to have an identity service to solve this issue in the industry then it has to be user-centric. It has to be an independent and trusted third party that you can rely on. That's not an innovation but that's how we set up miiCard. It's a VeriSign in the model. It's not HSBC doing it for HSBC and Citi doing it for Citi and so on. The innovation is in what we then enable institutions to do. We are the only worldwide proposition that can provide a checkbox to show you are who you say you are and replace the need for a driving licence or passport and the Class 2 primary identity checks you need for AML and KYC. That's the core of the innovation: we can enable e.g. HSBC to sell an investment product without ever having to meet the person.

Q **Does that mean that this is an innovation required because the regulatory restraint in finance is so great that it handcuffs the industry?**

A Absolutely. There's a big push and pull from that perspective as well, with the FSA trying to protect consumers due to fraud and identity theft being on the increase. The regulators are putting more and more pressure on the industry to reduce these numbers whilst the industry is trying to do more and more online but just cannot due to these regulatory barriers.

Q **And your innovation is to overcome those barriers?**

A Absolutely. To take that pain away by creating a level of trust in that online world through a digital passport, as we call it, so you can do things when travelling the internet from a consumer point you could not before. This gives a double benefit: the consumer gets more convenience and the institutions can sell more online and get higher conversion rates and reduce fraud. It gives real tangible benefit by having access to that trust which isn't there in a purely online world. That takes miiCard as a proposition outside financial services and into many other arenas as this issue of trust in a digital economy is becoming a very hot topic.

For example, there was a bit of guidance issued recently about consumers having access to and control of their own data. We've seen the NSTIC in the USA trying to solve this identity issue: how do you do more online, how do you trust people, how do you enable the industry to grow from this seven to thirteen percent of GDP.

Q **Looking wider, what else do you see as innovative out there?**

A I think mobile payments and mobile transactions are hot but are they innovative?

Not necessarily. They are purely reincarnations of ewallets and online payment providers. The digital currencies are going to become really interesting as we talk about Facebook Money and see what happens there. In terms of technology, NFC has dramatic effects, as you can take a device and travel with it on and offline and that's going to be a really interesting concept. It plays back into the on and off line debate, and the boundaries of on and off line continuing to breakdown. It's illustrated by Microsoft's approach and theme towards anytime, anywhere, which Apple is into as well. The underlying technologies of fraud detection are really starting to accelerate too, with learning engines and increasing AI in fraud detection based upon online behavioural interactions to identify fraud. You can then look at things about semantic web. Is that ever going to come about? I'm not sure. Profiling user experiences: will that come about? Yes, I think so. Whether it's PFM or Lloyds Money Manager, everything will become more personalized for the individual, although it may be a little ways off.

Q **And how do you see the long-term landscape for identity management?**

A I think the whole model is going to change. It's going to move from validating identities on a per transaction basis where everyone is doing it themselves to a centralized set of services. There's going to be a few people doing this, and there will be competition. We've seen PayPal in the States try to take a step towards this by offering their PayPal identity up for use to be shared in the Open Identity Exchange. In the next five years, this means that consumers will take back control of their identities and will be able to manage and administer their own information. If you change your mobile number, all of the services that you use will move across to your new mobile number because it comes from you via that centralized repository.

Q **Like the idea of a portable bank account, with movable account numbers?**

A Absolutely, as that's all about consumers taking control again. You can port your mobile telephone number between carriers, why not your bank account number? That's about the industry getting to a point where, in a product life cycle perspective, it's right at the end of the process. Everything becomes too competitive and consumers not getting what they need, so regulators turn around and tell the providers what to provide. They tell them that consumers need a certain amount of control and convenience because these things belong to the consumer. My bank account number belongs to me and I should be able to take that regardless of what financial provider I'm using and move that around. I should have control. I should be able to change my email address or update my mailing address with that product provider myself. I shouldn't have to go into branches, I shouldn't have to do this and I shouldn't have to do that. I think consumers are going to get a lot more control of these areas over the next five years ■

Making Banking Relevant to the New Consumer

Précis

"Screenager", the new demographic segment

Nielsen's 3 Screen Report for the 1st quarter of 2010 shows that the average American consumer is spending more time than ever in front of various screens. Television viewing has gone up by 2 hours per month to about 158.5 hours; 1 in 4 households now own a smartphone, which they use to 'place shift' and watch video; and people are using the Internet and television simultaneously in their homes for nearly 4 hours each month.

The U.K. is no different, with 45% of its residents spending 4 hours a day staring at a glowing rectangle.

While much is made out of statistics such as "Americans will have spent 30,000 hours in front of a screen before the age of 20", or "Over 80% of 10 year olds in the U.K. will receive a mobile phone on their 11th birthday", screen viewership is not exclusively about teen viewership.

In fact, studies show that older demographic segments – traditionally heavy users of television – have also increased their exposure to other devices. A 2010 survey of more than 30,000 people in 7 mature and 6 emerging economies showed that 45% of respondents aged between 50 and 59, and 32% of those over 60 were 'instrumented', that is, willing to use at least two types of digital technologies to do their shopping.

The growing comfort with technology among all ages is leading to a modified definition of future digital consumers. Dan Bloom popularized the term 'screenager' for teenagers who were increasingly reading on screens. In this article, we borrow that term and extend it to heavy screen users of all ages, a group of people who will be of high significance to marketers over the next 5 to 15 years.

The screenager profiled

As mentioned above, screenagers are characterized by their **dependence on a variety of digital devices.** They seamlessly transition between screens through the day. In his book, "Future Minds", Richard Watson describes a typical 24 hour student calendar, which reads somewhat like this:a wake up alarm (on the mobile, of course!), followed by a quick check of text messages; a television news roundup at breakfast; a short educational video on the bus trip to school; Internet powered lessons on the PC; a bout of online gaming after class; homework completed with the help of Google, Wikipedia and Facebook friends, nicely rounded off by a few hours of pure digital entertainment!

Equally strong is the **desire to stay connected.** In Europe, young Spaniards were found to be the most socially networked, and had spent an average 11 hours each day on this activity in the month of December 2010. Their British and Italian counterparts ranked next. But here is the irony. Even as these people along with their older brethren connect with communities across the world to learn, exchange, collaborate or simply socialize, they are losing touch with their immediate surroundings.

Close ties still rule with screenagers. In the survey mentioned earlier, 45% of respondents said they turned to family and friends for advice for arriving at a purchasing decision; another 37% said they consulted with external sources including other consumers and independent experts. These findings are echoed by hundreds of similar studies conducted around the world, which show beyond doubt that the new consumer is relying increasingly on an 'inner circle', while tuning out the marketers.

They are insatiably **hungry for information.** A University of California study says that compared to 1960, the average person received 3 times more information in 2008. Unfortunately, this has not translated into a corresponding increase in knowledge; juggling with so much data and gadgetry, the new consumer lacks both the attention span and the desire to analyze, which make up the foundation of wisdom.

They **don't want to be told, but want to** be listened to. Armed with information from trusted sources, and of course the Internet, these consumers already know what they are going to buy at the time of actual purchase. Therefore, their interest in engaging with marketers and their brands is not to develop knowledge or affinity, but to secure a better deal. That being said, marketers must encourage these conversations from which they can gain valuable insight into consumer preferences, payment patterns and service expectations.

They believe only in **instant gratification.** The members of the screen generation are not long on patience. There was a thumb rule that said that websites that took more than 8 seconds to load would lose a third of their visitors! Now, the acceptable wait time has shrunk to anywhere between 4 and 2 seconds. A 2007 study showed that Amazon lost 1% of sales for every 100-millisecond delay in the loading time of its site. With the arrival of broadband and faster technologies, user tolerance for delay, unreliability or procedural complexity will go down further.

Banking the screenager

What does the screenager phenomenon imply for the banking business over the next decade or so?

For one, banks will need to rewrite the existing rules of engagement if they wish to catch the attention of this new consumer. And that is easier said than done considering that there are many signs pointing to a decrease in visibility and relevance of banks among the young 'yet to be banked'. Studies show that this group engages far less with financial brands than say, with digital ones. One only needs to compare the number of 'likes' on the Facebook page of Fidelity with those for Apple iTunes, for

instance, to get the picture. Another point worth noting is that these youngsters have a different notion of money, having dealt at an early age with prepaid mobile currency, virtual credits and loyalty points as a medium of exchange for digital goods. To them, a telecom or online retailing firm is therefore as much a financial service provider as a regular bank. Therefore, banks are faced with a difficult challenge of proving their relevance to a somewhat 'uninterested' group of consumers.

These consumers of the future have little patience with complexity, rigidity or a forced way of doing things. To make customers out of them, banks need to play by *their* rules. Hence, rather than reach out on their own, or through traditional channels, they should piggyback their offerings on to those goods and services that are already popular with this segment. So, if smartphones and other mobile-enabled devices are the current fashion, it is vital that banks be accessible over all of them.

Screenagers, who have been brought up on a diet of immediate fulfillment, will have the same expectation from financial products. Therefore, banking will also need to go down the unfamiliar route of instant gratification. It will take a tightrope act to meet this demand while ensuring full compliance with rules and regulations.

Finally, the emotional nature of screenagers could cut both ways. On the one hand, they might bring bigger business to a bank that they are emotionally engaged with, but on the other, they might expect a higher premium or 'royalty' in return for their loyalty.

Making the shift

Catering to the above expectations may call for some fundamental changes to the banking mindset.

One of these is a shift from 'slow and meticulous' to 'fast forward'. Impatient consumers of the digital world are always seeking short cuts so that they can: jump to a scene in a movie DVD, save log in information on favorite websites, access frequently used numbers with one click on their smartphones, read a news digest of RSS feeds, say their piece using SMS language and 140 character tweets, and so on. In comparison, banking transactions are still on the slow track, riddled with protocol and procedure. While they obviously cannot throw caution to the winds or compromise the security of their operations, banks must look at leveraging emerging technology to further innovate upon their processes, in order to enhance speed and reduce clutter.

Banking must also draw parallels from other industries such as manufacturing, retailing and telecom, which have successfully ridden each wave of technology evolution. With every successive technology diffusing at least twice as fast as its predecessor – it took the telephone 50 years to acquire 50 million subscribers, whereas the Internet, mobile and Facebook managed that in 7, 5 and 2 years respectively! – it has meant an exponential increase in reach for all these businesses. Being part of the same environment, banks cannot afford to lag behind, sticking only to tried-and-tested methods of distribution; they too need to absorb new technologies at the pace at which they diffuse.

In future, banking institutions must also be prepared for higher collective bargaining power of groups of customers with common requirements coming together over social platforms to drive down interest rates or secure better terms.

Last but not least, banks will need to soothe generational conflict between their own employees who are trapped in the 'analog' era and customers from the digital generation whom they are expected to serve. It will take years and much effort to align the quintessential banker – methodical, deductive and cautious – with the screenager customer, who is brash, multi-tasking and intent on immediate gratification. But it must be done.

Push and pull banking

Such efforts to make banking more relevant to the new consumers' needs may lead to two distinct customer-centric approaches, one based on industry push and the other on customer pull.

The first will offer an exhaustive 'cafeteria-like' menu of financial products accessible to every customer in every segment. This model of banking will be comprehensive, enabling customers to buy everything from mortgages to mutual funds, but will not allow much customization. Customers will have to choose predefined offerings, albeit from a wide range, that the banks will try to push.

In contrast, under the second approach, banks will offer customizable but not comprehensive products. This concept is much like that of an ice cream stall, where each customer can choose the combination of flavor, receptacle, topping and frills, but all customers basically consume the same product. Under this model, the bank will offer that product for which there is customer pull.

In conclusion

These are the currents that banks will have to navigate over the next 15 years, as more screenagers enter the consumer base. The new reality of banking will be about satisfying the unique expectations of this demographic, without compromising on compliance, efficiency, competitiveness and other key business priorities ■

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Driving Operational Efficiencies: Technology and Business Process Redesign

Précis

The quest for ever improving operational efficiencies will likely remain a priority for most financial institutions. While technology is a key enabler, Celent research finds that banks see a greater return on technology spend when business processes are optimized along the way.

All too commonly, technology projects get short changed when organizations are overly prescriptive with requirements based on legacy business processes. The result is "you're mess for less". But, when business processes are rigorously examined as part of technology initiatives, banks can find unexpected operational efficiencies that result from both technology and process improvement. Said another way, business process re-design and technology investment ought to be viewed as inseparable. Do one without the other and the results will likely disappoint.

Each year, Celent profiles a number of financial institution initiatives that serve as model examples of effective use of technology in banking. The several examples that follow are drawn from among Celent Model Bank 2011 winners. All three happen to be retail bank examples, but the message applies to front line and back-office processes alike. In each case, the operational efficiency improvements realized were a result of concurrent investments in both technology and business process re-design.

Bank of the West: Retail Operating Model Re-design

Bank of the West began its Future Bank initiative in 2007. The purpose of the project was to create a new retail operating model by reengineering systems and processes that would allow reallocation of local resources. The vision was to create a superior sales and service experience in which every interaction with a current or potential customer is both relevant and satisfying for the customer, and efficient and productive for the bank. The

new retail operating model was facilitated by a significant technology change which it implemented alongside comprehensive business process redesign over a period of three years.

One component of business process redesign was its Project DART. Through its Project DART, Bank of the West analyzed all use of paper in its branch network and designed more efficient workflows. Paper was either eliminated or streamlined with branch scanning using multi-function devices and routed to the back office via a new enterprise content management solution. Its sales and service platform provided a 360 degree customer view including non-bank products, and created a closed-loop sales process managing sales leads from origination to closure.

The improved retail operating model resulted in an improved customer experience and significant workflow efficiencies leading to cost savings as well as elimination of administrative tasks, which allowed a redistribution of branch and back office staff effort. The latter in concert with precise sales lead tracking capabilities drove significant sales results (table reference).

The reengineering of the retail operating model provided enhanced and automated business processes that were previously manual and paper-based. Doing so reduced transaction time and errors, improving the customer experience and ultimately leading to more time for customer contact and sales. The aggregate effect on branch staff effort allocation is reflected in Fig 1.

Fifth Third Bank: Remote Currency Manager

Some technology initiatives encompass innovative business process redesign. One such example involves an evolution of the decade old currency validating safe (a.k.a. smart safe) concept used in many retail environments where cash usage persists. Cash doesn't carry an interchange fee as do card payments, but does impose costly processing, transportation and security challenges for merchants. Smart safes addressed some of those challenges by validating, counting and safely storing cash for merchants. The result was improved security and reduced end of shift reconciliation efforts. But, because cash was idle within the safes, merchants maintained costly armored courier pick up schedules. Opportunity remained. Fifth Third Bank, headquartered in Cincinnati, Ohio was an early-mover among US banks offering an improved solution commonly referred to as remote cash capture.

Fifth Third Bank launched a remote cash capture solution, Remote Currency Manager. The solution helps retailers manage their cash efficiently and reduces the costs associated

	Success Metrics
Platform operational efficiency	• 14.5 hours saved per branch per month to reallocate proactive sales and service activities • 100% elimination of dual entry between account opening and back office fulfillment
Sales effectiveness	• "Next Best Product" reactive prompting has experienced an 18% closing ratio • Daily sales leads completed increased 610% in the first year • Daily Core Sales per Banker increased by 128% in the first year
Teller operating efficiencies	• 15,000+ hours saved monthly (23 hours per branch per month on average) • Savings of over $3 million per year in transportation costs
	Source: Bank of the West

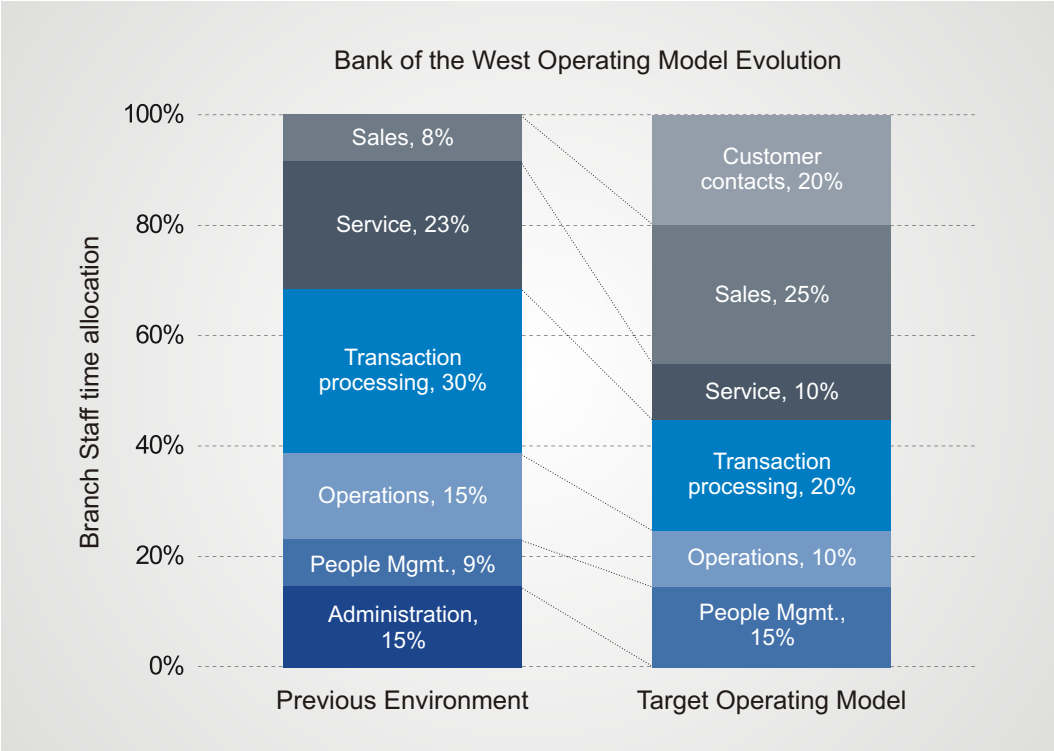

Fig 1: The aggregate effect on branch staff effort allocation

with delivering the cash to the bank. The bank observed that multi-unit operators such as restaurants, convenience stores, specialty retailers, insurance agencies, and government offices were using traditional bulk credit methods, which would occur on a twice weekly basis and cause delays in the availability of critical funds. Or they were paying high armored courier costs for daily pick-ups. As a solution to this, the Remote Currency Manager was launched to automatically track cash deposits for fast balancing and reconcilement.

The solution works in coordination with smart-safe technology and independent armored couriers. At store locations, a reader within the safe verifies the authenticity of the currency, tabulates the deposit amount, and electronically transmits the information to the safe provider, which in turn provides a report to Fifth Third. Thus, the retailers gain provisional credit to their bank accounts, while cash remains in the safe enabling daily use of funds rather than remaining idle cash as in the old model. On a pre-determined and less frequent schedule, the armored courier transfers the cash from the safe to the bank. Remote Currency Manager also provides Fifth Third customers with a web-based information reporting tool through which they can monitor their smart-safe activities.

Refer to Fig 2: Multiple Interconnected Systems Deliver Remote Cash Capture

Overall, to utilize the smart-safes better, Fifth Third Bank:

- Developed a provisional daily credit process, allowing retailers to speed up access to their cash.
- Transformed the bank's paper-based internal reconciliation processes to automated, electronic processes.
- Created an information delivery system that allows clients to view deposits at the store level for reconciliation purposes.

Fifth Third bank launched the solution in 2007. Its ability to seamlessly handle logistics coordination with multiple

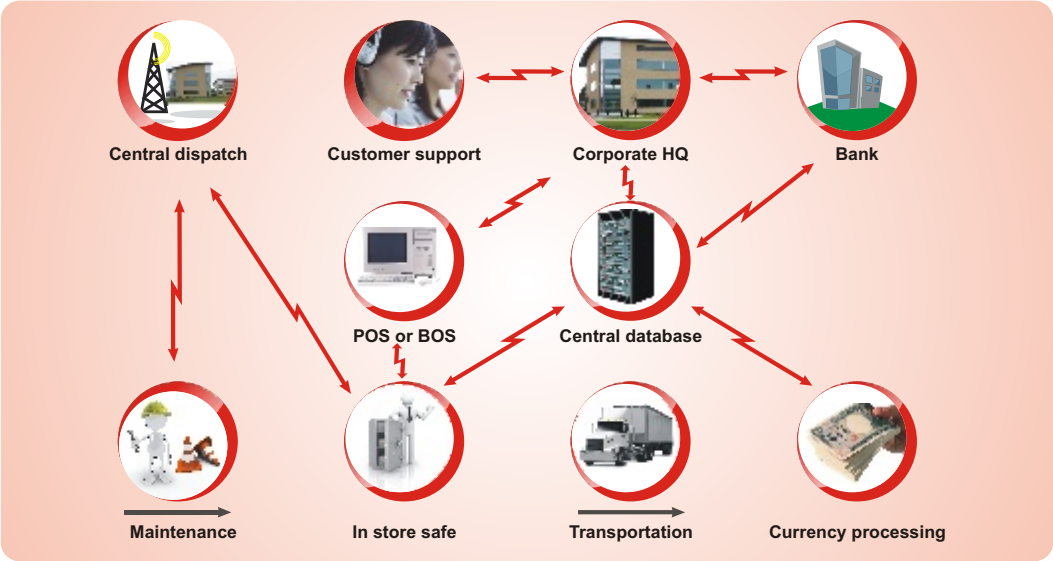

Fig 2: Multiple Interconnected Systems Deliver Remote Cash Capture

safe providers/couriers and offer a consistent product has distinguished Fifth Third among its peers. The solution has been implemented in over 3,400 client stores and processes more than $3.3 billion annually. The back end processing capabilities, which integrate the data collected in the smart-safes at the customer's retail locations, were developed by Fifth Third Bank's own IT team.

BB&T: Teller Automation Value Optimization

BB&T deployed two complementary technologies to increase retail branch efficiency: a workforce optimization solution (for use by region and branch managers) installed in 2008 and teller cash recyclers (for use by tellers) installed in 2003. In 2009, BB&T suggested that its two vendors form a development partnership and today reaps benefits from that partnership that exceed the efficiencies gained from the separate technologies. Workforce optimization provides automated staff allocation based on analysis of teller system transaction detail and facilitates easy staff scheduling among BB&T's 1,783 branches. Said simply, it gets the right number of people in the right place at the right time. Too many or too few are problematic. The development partnership results in teller automation value optimization (TAVO), ensuring the full benefits of teller automation are realized through more precise staff modeling and highly effective reporting that spotlights training needs and equipment problems.

BB&T had been using teller cash recyclers and dispensers in several hundred of its smallest and cash-heavy branches for nearly a decade. During much of that period, BB&T grew through acquisition. More recently, it sought to grow organically, which required a renewed focus on the branch channel. Teller efficiency and effectiveness became more important along with improving the customer experience while simultaneously reducing branch staffing costs.

BB&T installed over 300 teller cash dispensers (TCDs) and a similar number of teller cash recyclers (TCRs). TCD investment was largely based on efficiency gains at drive-through teller stations with their heavy cash withdrawal transaction mix. TCRs were installed in cash-heavy branches as well as in BB&T's smaller de novo branches based on security and efficiency objectives. To manage its capital investment, BB&T sought to limit the number of TCRs it installed. Some financial institutions install one

TCR for every two teller stations in affected branches. BB&T chose to install fewer TCRs, typically one per branch. TCRs thus operate in both online mode (connected to two adjacent teller stations) and offline mode (to serve the balance of the teller stations). The approach requires less investment (fewer TCRs), but presents a training challenge to maximize offline TCR utilization.

Workforce optimization software allowed BB&T to take advantage of the theoretical FTE savings from TCR implementation. Many banks estimate attainable branch staff reductions based on the presence of TCRs. At BB&T, staffing needs are calculated both at a macro level (enterprise and region wide FTE staffing levels) and a micro level (number of tellers needed at each branch by 1/4-hour increments). Staffing needs are derived from TAVO modeling. A secondary benefit of the approach allows BB&T to pinpoint the branches that will benefit from an increased investment in teller cash recyclers. This supports the business case for a substantially increased investment in TCRs going forward.

On its own, workforce optimization technology enabled a 5% reduction in teller staffing costs including a reduction of overtime expenses of 50% - and at the same time increased BB&T's customer satisfaction scores. BB&T implemented the workforce reduction gradually through attrition without any lay-offs. Additionally, as branch transaction volumes have reduced and branch efficiency has increased, the effective scheduling of fewer resources over the same hours is an increasingly tough job. The technologies used by BB&T save each branch considerable time in the scheduling process. On their own, TCRs have reduced the processing time for customer transactions including cash. This has had two benefits: further reduction in FTE requirements and increased time for sales referral conversations. Through the on-going monitoring of utilization, teller use of TCRs has grown 33% in 2010 ■

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In Praise of the Incomplete Leader

Précis

Have you ever feigned confidence to superiors or reports? Hidden the fact you were confused by the latest business results or blind sided by a competitor's move? If so, you've bought into the myth of the complete leader: the flawless being at the top who's got it all figured out.

It's an alluring myth. But in today's world of increasingly complex problems, no human being can meet this standard. Leaders who try only exhaust themselves, endangering their organizations.

Ancona and her coauthors suggest a better way to lead: Accept that you're human, with strengths and weaknesses. Understand the four leadership capabilities all organizations need:

- Sensemaking—interpreting developments in the business environment
- Relating—building trusting relationships
- Visioning—communicating a compelling image of the future
- Inventing—coming up with new ways of doing things

Then find and work with others who can provide the capabilities you're missing.

Take this approach, and you promote leadership throughout your organization, unleashing the expertise, vision, and new ideas your company needs to excel.

Incomplete leaders find people throughout their company who can complement their strengths and offset their weaknesses. To do this, understand the four leadership capabilities organizations need. Then diagnose your strength in each:

We've come to expect a lot of our leaders. Top executives, the thinking goes, should have the intellectual capacity to make sense of unfathomably complex issues, the imaginative powers to paint a vision of the future that generates everyone's enthusiasm, the operational knowhow to translate strategy into concrete plans, and the interpersonal skills to foster commitment to undertakings that could cost people's jobs should they fail. Unfortunately, no single person can possibly live up to those standards. It's time to end the myth of the complete leader: the flawless

Capability	What it means	Example	Look for help in this capability if you...
Sensemaking	Constantly understanding changes in the business environment and interpreting their ramifications for your industry and company	A CEO asks, "How will new technologies reshape our industry?" "How does globalization of labor markets affect our recruitment strategy?"	• Feel strongly that you're always right. • Frequently get blindsided by changes in your company or industry. • Feel resentful when things change.
Relating	Building trusting relationships, balancing advocacy (explaining your viewpoints) with inquiry (listening to understand others' viewpoints), and cultivating networks of supportive confidants	Former Southwest Airlines CEO Herb Kelleher excels at building trusting relationships. He wasn't afraid to tell employees he loved them, and reinforced those emotional bonds with equitable compensation and profit sharing.	• Blame others for failed projects. • Feel others are constantly letting you down or that they can't be trusted. • Frequently experience unpleasant, frustrating, or argumentative interactions with others.
Visioning	Creating credible and compelling images of a desired future that people in the organization want to create together	eBay founder Pierre Omidyar envisioned a new way of doing large-scale retailing: an online community where users took responsibility for what happened and had equal access to information.	• Often wonder, "Why are we doing this?" or "Does it really matter?" • Can't remember the last time you felt excited about your work. • Feel you're lacking sense of larger purpose.
Inventing	Creating new ways of approaching tasks or overcoming seemingly insurmountable problems to turn visions into reality	eBay CEO Meg Whitman helped bring Omidyar's vision of online retailing to life by inventing ways to deal with security, vendor reliability, and product diversification.	• Have difficulty relating the company's vision to what you're doing today. • Notice gaps between your firm's aspirations and the way work is organized. • Find that things tend to revert to business as usual.

person at the top who's got it all figured out. In fact, the sooner leaders stop trying to be all things to all people, the better off their organizations will be. In today's world, the executive's job is no longer to command and control but to cultivate and coordinate the actions of others at all levels of the organization. Only when leaders come to see themselves as incomplete — as having both strengths and weaknesses — will they be able to make up for their missing skills by relying on others.

Corporations have been becoming less hierarchical and more collaborative for decades, of course, as globalization and the growing importance of knowledge work have required that responsibility and initiative be distributed more widely. Moreover, it is now possible for large groups of people to coordinate their actions, not just by bringing lots of information to a few centralized places but also by bringing lots of information to lots of places through ever-growing networks within and beyond the firm. The sheer complexity and ambiguity of problems is humbling. More and more decisions are made in the context of global markets and rapidly — sometimes radically — changing financial, social, political, technological, and environmental forces. Stakeholders such as activists, regulators, and employees all have claims on organizations. No one person could

possibly stay on top of everything. But the myth of the complete leader (and the attendant fear of appearing incompetent) makes many executives try to do just that, exhausting themselves and damaging their organizations in the process. The incomplete leader, by contrast, knows when to let go: when to let those who know the local market do the advertising plan or when to let the engineering team run with its idea of what the customer needs. The incomplete leader also knows that leadership exists throughout the organizational hierarchy — wherever expertise, vision, new ideas, and commitment are found.

We've worked with hundreds of people who have struggled under the weight of the myth of the complete leader. Over the past six years, our work at the MIT Leadership Center has included studying leadership in many organizations and teaching the topic to senior executives, middle managers, and MBA students. In our practice-based programs, we have analyzed numerous accounts of organizational change and watched leaders struggle to meld top-down strategic initiatives with vibrant ideas from the rest of the organization.

All this work has led us to develop a model of distributed leadership. This framework, which synthesizes our own research with ideas from other leadership scholars, views leader-ship as a set of four capabilities: sense making (understanding the context in which a com-pany and its people operate), relating (building relationships within and across organizations),visioning (creating a compelling picture of the future), and inventing (developing new ways to achieve the vision).

While somewhat simpli?ed, these capabilities span the intellectual and interpersonal, the rational and intuitive, and the conceptual and creative capacities required in today's business environment. Rarely, if ever, will some one be equally skilled in all four domains. Thus, incomplete leaders differ from incompetent leaders in that they understand what they're good at and what they're not and have good judgment about how they can work with others to build on their strengths and off set their limitations.

Sometimes, leaders need to further develop the capabilities they are weakest in. The exhibits throughout this article provide some suggestions for when and how to do that. Other times, however, it's more important for leaders to ?nd and work with others to compensate for their weaknesses. Teams and organizations — not just individuals — can use this framework to diagnose their strengths and weaknesses and find ways to balance their skill sets.

Sensemaking

The term "sensemaking" was coined by organizational psychologist Karl Weick, and it means just what it sounds like: making sense of the world around us. Leaders are constantly trying to understand the contexts they are operating in. How will new technologies reshape the industry? How will changing cultural expectations shift the role of business in society? How does the globalization of labor markets affect recruitment and expansion plans?

Weick likened the process of sensemaking to cartography. What we map depends on where we look, what factors we choose to focus on, and what aspects of the terrain we decide to represent. Since these choices will shape the kind of map we produce, there is no perfect map of a terrain. Therefore, making sense is more than an act of analysis; it's an act of creativity. (See the exhibit "Engage in Sensemaking.")

The key for leaders is to determine what would be a useful map given their particular goals and then to draw one that adequately represents the situation the organization is facing at that moment. Executives who are strong in this capability know how to quickly capture the complexities of their environment and explain

them to others in simple terms. This helps ensure that everyone is working from the same map, which makes it far easier to discuss and plan for the journey ahead. Leaders need to have the courage to present a map that highlights features they believe to be critical, even if their map doesn't conform to the dominant perspective.

When John Reed was CEO of Citibank, the company found itself in a real estate crisis. At the time, common wisdom said that Citibank would need to take a $2 billion write-off, but Reed wasn't sure. He wanted a better understanding of the situation, so to map the prob-lem, he met with federal regulators as well as his managers, the board, potential investors, economists, and real estate experts. He kept asking, "What am I missing here?" After those meetings, he had a much stronger grasp of the problem, and he recalibrated the write-off to $5 billion — which turned out to be a far more accurate estimate. Later, three quarters into the bank's eight-quarter program to deal with the crisis, Reed realized that progress had stopped. He began talking to other CEOs known for their change management skills. This informal benchmarking process led him to devise an organizational redesign.

Throughout the crisis, real estate valuations, investors' requirements, board demands, and management team expectations were all changing and constantly needed to be reassessed. Good leaders understand that sensemaking is a continuous process; they let the map emerge from a melding of observations, data, experiences, conversations, and analyses. In healthy organizations, this sort of sensemaking goes on all the time. People have ongoing dialogues about their interpretations of markets and organizational realities.

At IDEO, a product design firm, sensemaking is step one for all design teams. According to founder David Kelley, team members must act as anthropologists studying an alien culture to understand the potential product from all points of view. When brainstorming a new design, IDEO's teams consider multiple perspectives — that is, they build multiple maps to inform their creative process. One IDEO team was charged with creating a new design for an emergency room. To better understand the experience of a key stakeholder — the patient — team members attached a camera to a patient's head and captured his experience in the ER. The result: nearly ten full hours of film of the ceiling. The sense-making provoked by this perspective led to a redesign of the ceiling that made it more aesthetically pleasing and able to display important information for patients.

Engage in Sensemaking

1. Get data from multiple sources: customers, suppliers, employees, competitors, other departments, and investors.
2. Involve others in your sensemaking. Say what you think you are seeing, and check with people who have different perspectives from yours.
3. Use early observations to shape small experiments in order to test your conclusions. Look for new ways to articulate alternatives and better ways to understand options.
4. Do not simply apply existing frameworks but instead be open to new possibilities. Try not to describe the world in stereotypical ways, such as good guys and bad guys, victims and oppressors, or marketers and engineers.

Relating

Many executives who attempt to foster trust, optimism, and consensus often reap anger, cynicism, and conflict instead. That's because they have difficulty relating to others, especially those who don't make sense of the world the way they do. Traditional images of leadership didn't assign much value to relating. Flawless leaders shouldn't need to seek counsel from anyone outside their tight inner circle, the thinking went, and they were expected to issue edicts rather than connect on an emotional level. Times have changed, of course, and in this era of networks, being able to build trusting relationships is a requirement of effective leadership.

Three key ways to do this are inquiring, advocating, and connecting. The concepts of inquiring and advocating stem from the work of organizational development specialists Chris Argyris and Don Schon. Inquiring means listening with the intention of genuinely understanding the thoughts and feelings of the speaker. Here, the listener suspends judgment and tries to comprehend how and why the speaker has moved from the data of his or her experiences to particular interpretations and conclusions.

Advocating, as the term implies, means explaining one's own point of view. It is the flip side of inquiring, and it's how leaders make clear to others how they reached their interpretations and conclusions. Good leaders distinguish their observations from their opinions and judgments and explain their reasoning without aggression or defensiveness. People with strong relating skills are typically those who've found a healthy balance between inquiring and advocating: They actively try to understand others' views but are able to stand up for their own. (See the exhibit "Build Relationships.")

We've seen countless relationships undermined because people disproportionately emphasized advocating over inquiring. Even though managers pay lip service to the importance of mutual understanding and shared commitment to a course of action, often their real focus is on winning the argument rather than strengthening the connection. Worse, in many organizations, the imbalance goes so far that having one's point of view prevail is what is understood as leadership.

Build Relationships

1. Spend time trying to understand others' perspectives, listening with an open mind and without judgment.
2. Encourage others to voice their opinions. What do they care about? How do they interpret what's going on? Why?
3. Before expressing your ideas, try to antici-pate how others will react to them and how you might best explain them.
4. When expressing your ideas, don't just give a bottom line; explain your reasoning process.
5. Assess the strengths of your current connec¬tions: How well do you relate to others when receiving advice? When giving advice? When thinking through difficult problems? When asking for help?

Effective relating does not mean avoiding interpersonal conflict altogether. Argyris and Schon found that "maintaining a smooth surface" of conviviality and apparent agreement is one of the most common defensive routines that limits team effectiveness. Balancing inquiring and advocating is ultimately about showing respect, challenging opinions, asking tough questions, and taking a stand.

Consider Twynstra Gudde (TG), one of the largest independent consulting companies in the Netherlands. A few years ago, it replaced the role of CEO with a team of four managing directors who share leadership responsibilities. Given this unique structure, it's vital that these directors effectively relate to one another. They've adopted simple rules, such as a requirement that each leader give his opinion on every issue, majority-rules voting, and veto power for each director.

Clearly, for TG's senior team model to work, members must be skilled at engaging in dialogue together. They continually practice both inquiring and advocating, and because each director can veto a decision, each must thoroughly explain his reasoning to convince the others' that his perspective has merit. It's not easy to reach this level of mutual respect and trust, but over time, the team members' willingness to create honest connections with one another has paid off handsomely.

Although they don't always reach consensus, they are able to settle on a course of action. Since this new form of leadership was

introduced, TG has thrived: The company's profits have doubled, and employee satisfaction levels have improved. What's more, TG's leadership structure has served as a model for cooperation throughout the organization as well as in the firm's relations with its clients.

The third aspect of relating, connecting, involves cultivating a network of confidants who can help a leader accomplish a wide range of goals. Leaders who are strong in this capability have many people they can turn to who can help them think through difficult problems or support them in their initiatives. They understand that the time spent building and maintaining these connections is time spent investing in their leadership skills. Because no one person can possibly have all the answers, or indeed, know all the right questions to ask, it's crucial that leaders be able to tap into a network of people who can fill in the gaps.

Visioning

Sensemaking and relating can be called the enabling capabilities of leadership. They help set the conditions that motivate and sustain change. The next two leadership capabilities — what we call "visioning" and inventing — are creative and action oriented: They produce the focus and energy needed to make change happen.

Visioning involves creating compelling images of the future. While sensemaking charts a map of what is, visioning produces a map of what could be and, more important, what a leader wants the future to be. It consists of far more than pinning a vision statement to the wall. Indeed, a shared vision is not a static thing — it's an ongoing process. Like sensemaking, visioning is dynamic and collaborative, a process of articulating what the members of an organization want to create together.

Fundamentally, visioning gives people a sense of meaning in their work. Leaders who are skilled in this capability are able to get people excited about their view of the future while inviting others to help crystallize that image. (See the exhibit "Create a Vision.") If they realize other people aren't joining in or buying into the vision, they don't just turn up the volume; they engage in a dialogue about the reality they hope to produce. They use stories and metaphors to paint a vivid picture of what the vision will accomplish, even if they don't have a comprehensive plan for getting there. They know that if the vision is credible and compelling enough, others will generate ideas to advance it.

In South Africa in the early 1990s, a joke was making the rounds: Given the country's daunting challenges, people had two options, one practical and the other miraculous. The practical option was for everyone to pray for a band of angels to come down from heaven and fix things. The miraculous option was for people to talk with one another until they could find a way forward. In F.W. de Klerk's famous speech in 1990 — his first after assuming leadership — he called for a nonracist South Africa and suggested that negotiation was the only way to achieve a peaceful transition. That speech sparked a set of changes that led to Nelson Mandela's release from Robben Island prison and the return to the country of previously banned political leaders.

Create a Vision

1. Practice creating a vision in many arenas, including your work life, your home life, and in community groups. Ask yourself, "What do I want to create?"
2. Develop a vision about something that in-spires you. Your enthusiasm will motivate you and others. Listen to what they find exciting and important.
3. Expect that not all people will share your passion. Be prepared to explain why people should care about your vision and what can be achieved through it. If people don't get it, don't just turn up the volume. Try to construct a shared vision.
4. Don't worry if you don't know how to accomplish the vision. If it is compelling and credible, other people will discover all sorts of ways to make it real — ways you never could have imagined on your own.
5. Use images, metaphors, and stories to convey complex situations that will enable others to act.

Few of South Africa's leaders agreed on much of anything regarding the country's future. It seemed like a long shot, at best, that a scenario-planning process convened by a black professor from the University of the Western Cape and facilitated by a white Canadian from Royal Dutch Shell would be able to bring about any sort of change. But they, together with members of the African National Congress (ANC), the radical Pan Africanist Congress (PAC), and the white business community, were charged with forging a new path for South Africa.

When the team members first met, they focused on collective sensemaking. Their discussions then evolved into a year long visioning process. In his book, Solving Tough Problems, Adam Kahane, the facilitator, says the group started by telling stories of "left-wing revolution, right-wing revolts, and free market utopias." Eventually, the leadership team drafted a set of scenarios that described the many paths toward disaster and the one toward sustainable development.

They used metaphors and clear imagery to convey the various paths in language that was easy to understand. One negative scenario, for instance, was dubbed "Ostrich": A nonrepresentative white government sticks its head in the sand, trying to avoid a negotiated settlement with the black majority. Another negative scenario was labeled "Icarus": A constitutionally unconstrained black government comes to power with noble intentions and embarks on a huge, unsustainable public-spending spree that crashes the economy. This scenario contradicted the popular belief that the country was rich and could simply redistribute wealth from whites to blacks. The Icarus scenario set the stage for a fundamental (and controversial) shift in economic thinking in the ANC and other left-wing parties — a shift that led the ANC government to "strict and consistent fiscal discipline," according to Kahane.

The group's one positive scenario involved the government adopting a set of sustainable policies that would put the country on a path of inclusive growth to successfully rebuild the economy and establish democracy. This option was called "Flamingo," invoking the image of a flock of beautiful birds all taking flight together.

This process of visioning unearthed an extraordinary collective sense of possibility in South Africa. Instead of talking about what other people should do to advance some agenda, the leaders spoke about what they could do to create a better future for everyone. They didn't have an exact implementation plan at the ready, but by creating a credible vision, they paved the way for others to join in and help make their vision a reality.

Leaders who excel in visioning walk the walk; they work to embody the core values and ideas contained in the vision. Darcy Winslow, Nike's global director for women's footwear, is a good example. A 14-year veteran at Nike, Winslow previously held the position of general manager of sustainable business opportunities at the shoe and apparel giant. Her work in that role reflected her own core values, including her passion for the environment. "We had come to see that our customers' health and our own ability to compete were inseparable from the health of the environment," she says. So she initiated the concept of ecologically intelligent product design. Winslow's team worked at determining the chemical composition and environmental effects of every material and process Nike used. They visited factories in China and collected samples of rubber, leather,

Cultivate Inventiveness

1. Don't assume that the way things have always been done is the best way to do them.
2. When a new task or change effort emerges, encourage creative ways of getting it done.
3. Experiment with different ways of organiz-ing work. Find alternative methods for grouping and linking people.
4. When working to understand your current environment, ask yourself, "What other options are possible?"

nylon, polyester, and foams to determine their chemical makeup. This led Winslow and her team to develop a list of "positive" materials — those that weren't harmful to the environment — that they hoped to use in more Nike products. "Environmental sustainability" was no longer just an abstract term on a vision statement; the team now felt a mandate to realize the vision.

Inventing

Even the most compelling vision will lose its power if it floats, unconnected, above the everyday reality of organizational life. To transform a vision of the future into a present-day reality, leaders need to devise processes that will give it life. This inventing is what moves a business from the abstract world of ideas to the concrete world of implementation. In fact, inventing is similar to execution, but the label "inventing" emphasizes that this process often requires creativity to help people figure out new ways of working together.

T o realize a new vision, people usually can't keep doing the same things they've been doing. They need to conceive, design, and put into practice new ways of interacting and organizing. Some of the most famous examples of large-scale organizational innovation come from the automotive industry: Henry Ford's conception of the assembly-line factory and To yota's famed integrated production system.

More recently, Pierre Omidyar, the founder of eBay, invented through his company a new way of doing large-scale retailing. His vision was of an online community where users would take responsibility for what happened. In a 2001 BusinessWeek Online interview, Omidyar explained, "I had the idea that I wanted to create an efficient market and a level playing field where everyone had equal access to information. I wanted to give the power of the market back to individuals, not just large corporations. That was the driving motivation for creating eBay at the start."

Examining Your Leadership Capabilities

Few people wake up in the morning and say, "I'm a poor sensemaker" or "I just can't relate to others." They tend to experience their own weaknesses more as chronic or inexplicable failures in the organization or in those around them. The following descriptions will help you recognize opportunities to develop your leadership capabilities and identify openings for working with others.

Signs of Weak Sensemaking	Signs of Weak Relating	Signs of Weak Visioning	Signs of Weak Inventing
1. You feel strongly that you are usually right and others are often wrong.	**1.** You blame others for failed projects.	**1.** You feel your work involves managing an endless series of crises.	**1.** Your organization's vision seems abstract to you.
2. You feel your views describe reality correctly, but others' views do not.	**2.** You feel others are constantly letting you down or failing to live up to your expectations.	**2.** You feel like you're bouncing from pillar to post with no sense of larger purpose.	**2.** You have difficulty relating your company's vision to what you are doing today.
3. You find you are often blindsided by changes in your organization or industry.	**3.** You find that many of your interactions at work are unpleasant, frustrating, or argumentative.	**3.** You often wonder, "Why are we doing this?" or "Does it really matter?"	**3.** You notice dysfunctional gaps between your organization's aspirations and the way work is organized.
4. When things change, you typically feel resentful. (That's not the way it should be!)	**4.** You find many of the people you work with untrustworthy.	**4.** You can't remember the last time you talked to your family or a friend with excitement about your work.	**4.** You find that things tend to revert to business as usual.

Consequently, eBay outsources most of the functions of traditional retailing — purchasing, order fulfillment, and customer service, for example — to independent sellers worldwide. The company estimates that more than 430,000 people make their primary living from selling wares on eBay. If those individuals were all employees of eBay, it would be the second largest private employer in the United States after Wal-Mart.

The people who work through eBay are essentially independent store owners, and, as such, they have a huge amount of autonomy in how they do their work. They decide what to sell, when to sell it, how to price, and how to advertise. Coupled with this individual freedom is global scale. EBay's infrastructure enables them to sell their goods all over the world. What makes eBay's inventing so radical is that it represents a new relationship between an organization and its parts. Unlike typical outsourcing, eBay doesn't pay its retailers — they pay the company.

Inventing doesn't have to occur on such a grand scale. It happens every time a person creates a way of approaching a task or figures out how to overcome a previously insurmountable obstacle. In their book Car Launch, George Roth and Art Kleiner describe a highly successful product development team in the automobile industry that struggled with completing its designs on time. Much of the source of the problem, the team members concluded, came from the stovepipe organizational structure found in the product development division. Even though they were a "colocated" team dedicated to designing a common new car, members were divided by their different technical expertise, experience, jargon, and norms of working.

When the team invented a mechanical prototyping device that complemented its computer-aided design tools, the group members found that it facilitated a whole new way of collaborating. Multiple groups within the team could quickly create physical mock-ups of design ideas to be tested by the various engineers from different specialties in the team. The group called the device "the harmony buck," because it helped people break out of their comfortable engineering specialties and solve interdependent design problems together. Development of a "full body" physical mock-up of the new car allowed engineers to hang around the prototype, providing a central focal point for their interactions. It enabled them to more easily identify and raise cross-functional issues, and it facilitated mutual problem solving and coordination.

In sum, leaders must be able to succeed at inventing, and this requires both attention to detail and creativity. (See the exhibit "Cultivate Inventiveness.")

Balancing the Four Capabilities

Sensemaking, relating, visioning, and inventing are interdependent. Without sensemaking, there's no common view of reality from which to start. Without relating, people work in isolation or, worse, strive toward different aims. Without visioning, there's no shared direction. And without inventing, a vision remains illusory. No one leader, however, will excel at all four capabilities in equal measure.

Typically, leaders are strong in one or two capabilities. Intel chairman Andy Grove is the quintessential sensemaker, for instance, with a gift for recognizing strategic inflection points that can be exploited for competitive advantage. Herb Kelleher, the former CEO of Southwest Airlines, excels at relating. He remarked in the journal Leader to Leader that "We are not afraid to talk to our people with emotion. We're not afraid to tell them, 'We love you.' Because we do." With this emotional connection comes equitable compensation and profit sharing.

Apple CEO Steve Jobs is a visionary whose ambitious dreams and persuasiveness have catalyzed remarkable successes for Apple, Next, and Pixar. Meg Whitman, the CEO of eBay, helped bring Pierre Omidyar's vision of online retailing to life by inventing ways to deal with security, vendor reliability, and product diversification.

Once leaders diagnose their own capabilities, identifying their unique set of strengths and weaknesses, they must search for others who can provide the things they're missing. (See the sidebar "Examining Your Leadership Capabilities.") Leaders who choose only people who mirror themselves are likely to find their organizations tilting in one direction, missing one or more essential capabilities needed to survive in a changing, complex world. That's why it's important to examine the whole organization to make sure it is appropriately balanced as well. It's the leader's responsibility to create an environment that lets people complement one another's strengths and offset one another's weaknesses. In this way, leadership is distributed across multiple people throughout the organization.

Years ago, one of us attended a three-day meeting on leadership with 15 top managers from different companies. At the close of it, participants were asked to reflect on their experience as leaders. One executive, responsible for more than 50,000 people in his division of a manufacturing corporation, drew two pictures on a flip chart. The image on the left was what he projected to the outside world: It was a large, intimidating face holding up a huge fist. The image on the right represented how he saw himself: a small face with wide eyes, hair standing on end, and an expression of sheer terror.

We believe that most leaders experience that profound dichotomy every day, and it's a heavy burden. How many times have you feigned confidence to superiors or reports when you were really unsure? Have you ever felt comfortable conceding that you were confused by the latest business results or caught off guard by a competitor's move? Would you ever admit to feeling inadequate to cope with the complex issues your firm was facing? Anyone who can identify with these situations knows firsthand what it's like to be trapped in the myth of the complete leader — the person at the top without flaws. It's time to put that myth to rest, not only for the sake of frustrated leaders but also for the health of organizations. Even the most talented leaders require the input and leadership of others, constructively solicited and creatively applied. It's time to celebrate the incomplete — that is, the human — leader ■

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Also Read

Building the Co-Creative Enterprise - *Article*

Realizing that interactive technologies have changed people's behavior, a small but growing number of companies have invited customers to participate directly in the design of products and services.

In doing so, these pioneers have discovered that other stakeholders, like employees and suppliers, won't wholeheartedly participate in customer co-creation unless they are allowed to generate value for themselves, too. That requires giving them the opportunity to design and manage their own work experiences and to help identify and solve problems.

The payoffs of the co-creative enterprise are greater productivity and creativity, lower costs and employee turnover, and new business models and sources of revenue.

http://www.infosys.com/finacle/finacle-connect/Issue_22/default.html

Basel III Changes: Impact on Banks

Précis

The Global Financial Crisis led to unprecedented regulatory tightening and worldwide concern about the financial system's ability to foresee and withstand another shock of this nature. International regulatory and policymaking authorities including Central Banks, The Basel Committee, G20 and other blocs worked overtime to strengthen banking and corporate governance structures on the inside. The Basel Accord took center stage, as regulators looked at overcoming the weaknesses of the second pillar to come up with a new set of capital recommendations under Basel III during the G20 summit last July.

This article take a quick look at what Basel III hopes to achieve and how it might impact banking institutions around the world.

Overcoming the weaknesses of Basel II

The ability and appetite of financial markets to take risks during a liquidity/ credit crunch was instrumental in Basel III coming up with a new model that takes care of both on and off balance sheet items. The linkages between credit availability and agency ratings, and excessive dependence on the latter was another consideration.

Basel III, which is update to Basel II, tries to eliminate most of the latter's shortcomings that are as follows:

- Basel II allowed banks to be excessively leveraged and did not insist that they maintain sufficient high quality capital
- Its weak underwriting standards enabled banks to achieve unjustified credit growth
- Underpricing of liquidity and credit risk
- It provided for insufficient liquidity buffers
- It enabled banks to be overly aggressive in their maturity transformation

- It provided inadequate cushions to mitigate risks in various financial markets

Basel III goals

Basel III prescribes new directives stipulating the minimum capital that banks must hold during financial stress, as well as a revised framework of new ratios (pertaining to liquidity ratio coverage and credit ratio coverage) to monitor liquidity risk. The goal is improve banks' short-term resilience to liquidity risk by ensuring that they have sufficient liquid resources to last more than a month of financial stress. This is a big change over the previous situation when banks maintained liquidity coverage of barely one day.

Another goal of Basel III is to promote resilience over a longer horizon to enable ongoing funding of sources.

Specifically, Basel III heralds the following:

- Common Equity after Deductions must be at 2% by 2013, progressing to 3% and finally settling at 4.5% by January 2015; Tier 1 Capital must be 6% and Total Capital 8%

- By 2019, banks must separately earmark a Capital Conservation Buffer of 2.5% to tide them through periods of stress

- In case of a credit bubble build-up, banks may be asked to maintain a Counter Cyclical Capital Buffer of up to 2.5% of assets, made up of common equity or other loss absorbing instruments

- Systemically important banks might be levied a Capital Surcharge on top of all the above

Additionally, by January 2013, banks will have to meet new stipulations related to risk weighted assets as follows: 3.5% common equity/RWAs;4.5% Tier 1 capital/RWAs, and8.0% total capital/RWAs.

Last but not least, there will be a fivefold increase in the capital requirements against off balance sheet items like Letters of Credit and other trade financing instruments. Not only will these exposures come under closer scrutiny but the hike in capital norms will also increase the cost of mitigating the risk on each of these products. This cost will likely be passed on to the customers, making it harder for them to conduct international trade.

Impact on banks

How are banks placed to implement Basel III? While well-capitalized institutions such as Indian banks, which already maintain capital in excess of 12% will not face the heat, it is a different matter for global banks, particularly the likes of Bank of America, Citibank, Wells Fargo and Wachovia, which will need to shore up their capital significantly.

Compliance with Basel III standards will also place new demands on banking technology. Banks will have to look at tightening their operational and process control as well as adopting new technological standards and analytics capable of working with real time data. Currently, most financial data is available in offline mode; this needs to change such that the impact of a transaction on the balance sheet becomes visible in real time. While this calls for simulation exercises, logic-based calculations and stress testing, it also places a demand for the right skill sets. Finding people with adequate knowledge and experience to understand analytical data and take informed decisions based on it is easier said than done.

The full impact of the Basel III changes on the banking business will only be known in time ■

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Also Read

Basel 2 and Basel 3: Facing the Next Regulatory Tsunami

Post-financial crisis, responses continue to be characterized by the issuance and implementation of numerous complex regulations, with more changes expected as a result of ongoing deliberations. What the industry terms Basel 3 stems from the resolve by the Bank of International Settlements (BIS) Basel Committee to safeguard financial stability as well as address the gaps in Basel 2 - gaps that were exposed by the credit crisis.
http://www.infosys.com/finacle/finacle-connect/Issue_22/statute.html

Tech Watch

Virtualization and Private Clouds – Optimizing Infrastructure Efficiency

Précis

Virtualization is changing the landscape of the IT industry.

As enterprises grew, they set up larger IT infrastructure to support their business. Till very recently, these systems were not utilized fully, leading to wastage of precious resources such as power, space and manpower. Virtualization technology enabled large enterprises, including banks, to minimize these issues without compromising their business. Investment in virtualization is a way for banking institutions to improve utilization of data center resources, lower operational costs and respond to rapidly changing business conditions faster. Virtualization is also a step towards the private cloud.

In computing terms, virtualization refers to the creation of a virtual, rather than physical IT asset (such as hardware, storage capacity, network infrastructure, etc.). There are two main types of virtualization:

a) Hardware virtualization

b) Software virtualization

Hardware virtualization refers to the creation of a number of virtual machines on a host system whereby each of these virtual machines may host various operating systems. Here, the term 'host machine' refers to an actual physical machine, whereas 'guest machine' refers to the virtual one. Today, several vendors including VMware and Microsoft support this type of virtualization.

Software virtualization refers to virtualization at the level of the Operating System, whereby it is possible to host multiple virtualized environments within a single OS instance. Some well-known containers are from HP and the erstwhile Sun Systems.

Of the two, hardware virtualization has gained popularity and is the main focus of this article.

A combination of modern x86-based blade systems and the quickly maturing x86

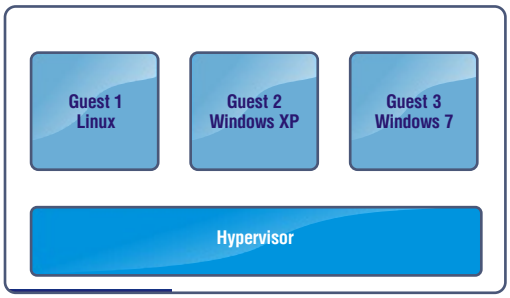

Fig 1: Hardware Virtualization

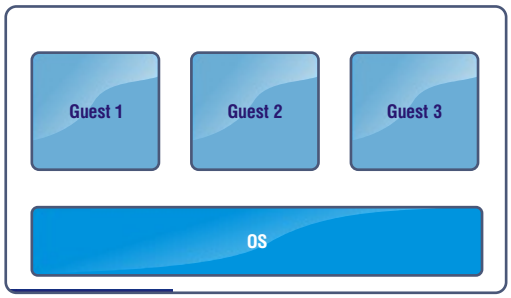

Fig 2: Software Virtualization

hypervisor technologies offered by a number of solution providers enables customers to greatly increase the utilization of their server investments, improve uptime and rollout services quickly, besides enhancing the agility of their infrastructure.

Key capabilities enabled through Virtualization

Virtualization has brought a paradigm shift to the way in which enterprises use and manage physical infrastructure. Virtualization imparts the following key capabilities to an enterprise:

1. Server consolidation – Many small servers can be consolidated and replaced by one large physical server to increase the utilization ratios of hardware. This spells a shift from a 'one server, one application' model to a 'one server, many OS, many applications' model. The decrease in physical hardware footprint not only saves hardware costs, but also power and cooling costs, to benefit the environment.

2. Reduction in administrative effort – Multiple virtual machines in a single physical box are more easily managed, controlled and inspected than multiple physical boxes. VMs can be duplicated and launched quite easily, and the administrative activity for building or upgrading servers can be completed within minutes instead of days.

3. A new virtual machine can be set up quickly without incurring any hardware costs. Automated management tools could be used for allocating and scaling the capacity of the virtual machine up and down as required.

4. At higher load demand, a virtual machine can easily be moved across servers in real time. This results in significant cost savings, helping enterprises to reduce the upfront cost on standby machines.

5. Due to possibilities of faster movement, quick provisioning and start up, virtual machines are being used in disaster recovery (DR) scenarios. Further, a DR center being mainly a fallback option against disaster to the main data center and utilization probabilities being low, enterprises are realizing the huge cost benefits that can accrue by investing in virtual rather than physical machines.

6. Virtual machines are also being used in Test and Development scenarios, as illustrated in this example. When an acceptance tester within a bank finds a bug, he or she can quickly take a live snapshot of the virtual machine state and send it to the developers who can provision the machine in question and fix the issue.

Security considerations in Virtualization

Security challenges in a virtualized environment are quite different from those in a physical one. Since virtual environments involve dynamic changes and quick moves, it is difficult to implement traditional security controls.

1. To start with, the separation of duties and administrative privileges that can be enforced in physical infrastructure

management is not possible in the case of virtualized infrastructure. Hence, if a virtualization technique does not create watertight separation between virtual machines, it can result in increased privileges for administrators, which could possibly pose a security risk.

2. Since multiple virtual machine instances are brought up over a hypervisor, there is a possibility that the hypervisor could become a single point of failure. Also, the security tools and procedures normally implemented at the OS layer would not be applicable to the hypervisor (which forms the virtualization layer).

   Though instances of attack on hypervisors are not known or envisaged, theoretically, the threat remains. Protecting the hypervisor is an additional element of security that needs to be planned for.

3. Since a large number of virtual machines could be created and deployed, there could be a problem of 'sprawl' - an uncontrolled growth in the number of VMs, which could pose data security hazards. Suitable monitoring controls need to be implemented to prevent the same.

Virtualization in Banks

A bank's data center runs many applications that can be consolidated and moved onto a single server. This effectively creates a private cloud-like scenario wherein the bank's IT teams can respond to business needs much faster than in today's world.

Banks need to move slowly towards the world of virtualization. Typically, IT departments should get their feet wet by moving their testing and small development activity to the virtual world before progressing to large scale virtualization. Their next step should be to move those applications to a virtualization platform that are less critical to the business – for example, bank's internal applications.

Moving applications to a virtualization platform may not really involve a code change in existing applications since this is mainly a deployment dimension. However the bank's IT team needs to understand certain aspects related to virtualization which needs due consideration. Some of these include:

1. Response times, performance, latency and quality of service (QoS).
2. Vendor support of application software on virtual machines.
3. Licensing-related aspects with software vendors ■

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Current Trends in the Australian Banking Sector

Précis

It may be the world's smallest continent, but Australia is big in many ways. Home to some of the world's largest mineral resources, mining exports grew 25% over the previous year to touch a record US$ 175 billion* in 2010. It's also a land of stunning landscapes; desert, reef and rainforest, you'll find them all.

This idyll was scarcely broken by the Global Financial Crisis, which impacted Australia far less than it did other parts of the world. In fact, Australia was one among only three OECD nations not to have gone into recession in 2009, even growing at 1.4%. The economy is expected to continue on its growth path in 2011, bolstered by a strong business environment.

Besides minerals, Australia is a major exporter of agricultural products, liquefied natural gas and coal. Major imports include machinery and transport equipment, computers and office machines. Japan, China, United States and New Zealand are key trading partners.

Financial crisis impact

Australian financial services experienced very little pain in the crisis, thanks to negligible exposure to the U.S. sub-prime market and an inherent resilience borne out of a culture of compliance and good governance. As a result, Australia's top banks – envisaged by the Government as the "4 pillars" of the financial industry – are among only 11 banks worldwide to be assigned an "AA" credit rating or higher. In the Financial Year 2010, National Australia Bank (NAB), Commonwealth Bank of Australia (CBA), Westpac Banking Corporation and Australia and New Zealand Banking Group (ANZ) held approximately US$ 2.65 trillion* in total assets, made a profit after tax of nearly US$ 22 billion* and enjoyed a combined market capitalization of US$ 275 billion*.

* Converted from A$, 1 A$=1.066 US$

Industry competition

These 4 local banks dominate the banking sector, which is virtually closed to international

entrants due to a strict monetary policy. There is a public perception that there is little competition and more collusion in retail banking. This perception was not helped when two smaller institutions – BankWest and St. George – we reacquired by Commonwealth and Westpac respectively in the wake of the financial crisis, essentially eliminating what little local competition existed to the big 4. Interestingly, NAB has tried to spur competition, distancing itself from the others by launching an aggressive media campaign and leading a price war. It remains to be seen whether these moves are real and sustainable.

Current challenges

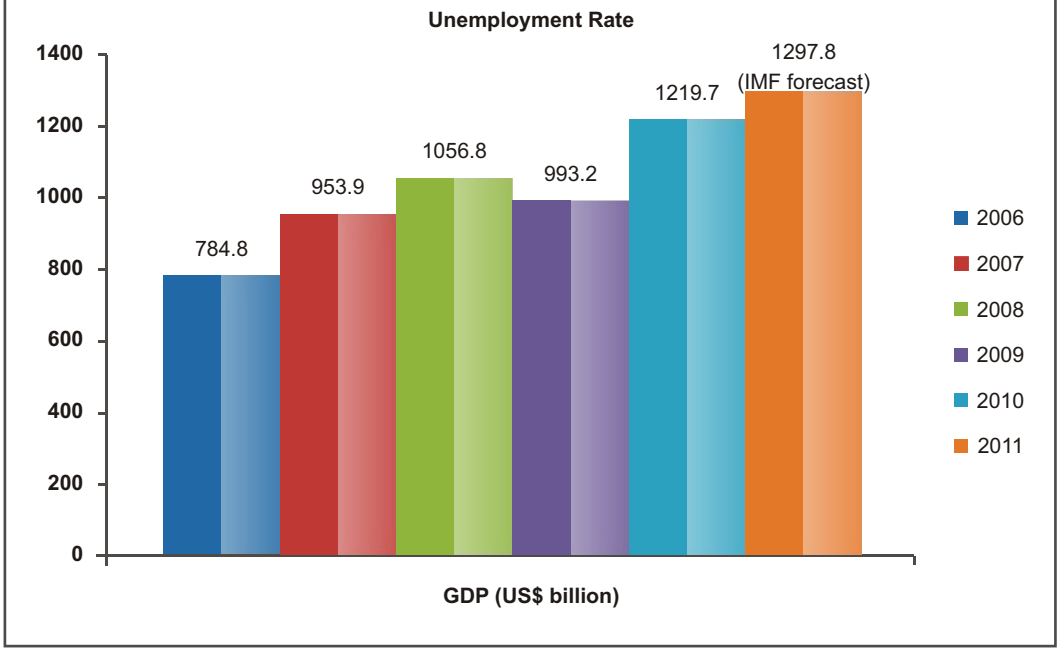
Although Australia's banking industry is sounder than most, there are some concerns looming over its horizon, the foremost of which is a worry – echoed in the assessments of local and international analysts alike – about an asset bubble being created by the overvaluation of residential property prices by as much as 40%! This is being hotly contested by the big 4 banks in what is being seen as an extensive public relations campaign. While the debate rages on, stress tests show that the banking system can withstand even a significant default on mortgages as well as a decline in property prices.

One of the biggest challenges facing Australian banks is the rising cost of funding, 25-30% of which is raised overseas. Although they succeeded in raising funds (at a higher cost) even during the credit squeeze of 2008-09, they may find it hard to do so in future should the traditional international lenders decide to cap their exposure to the Australian sector.

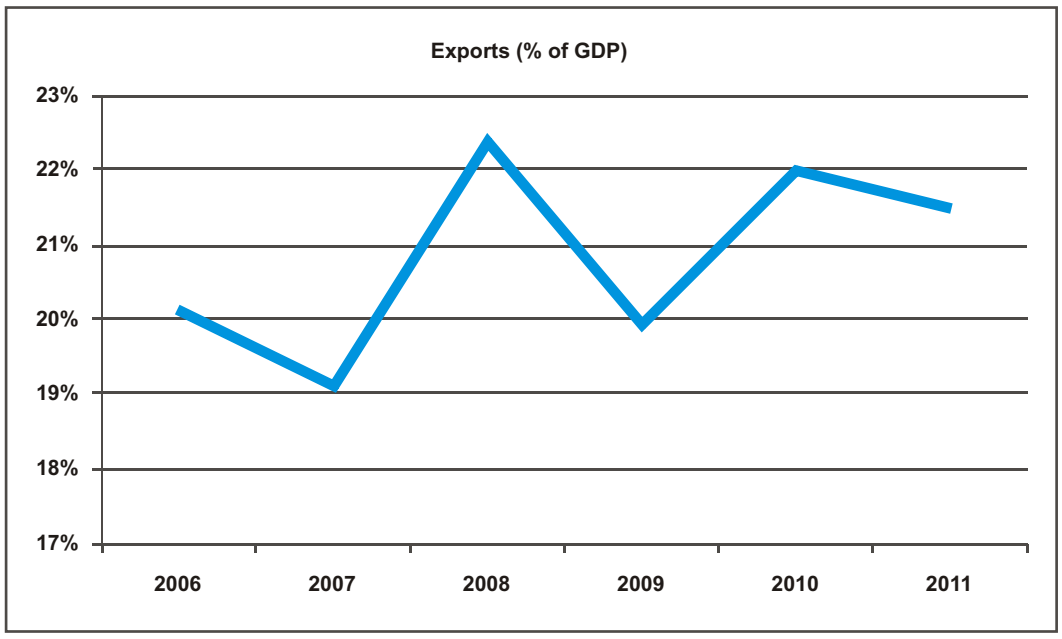
Another cause for concern is the limited growth outlook of the domestic banking market, which being highly penetrated, can only grow in line with the population. Australian banks, deeply rooted in home soil thus far, are looking westward, especially towards Asia, to increase their footprint.

Banking regulation

Australian banks' prudent capital management practices saw Tier 1 capital ratios rise above 9% against APRA's (Australian Prudential Regulation Authority) 4% stipulated minimum. Because banking legislation in Australia has historically been seen as more stringent than other countries', even the



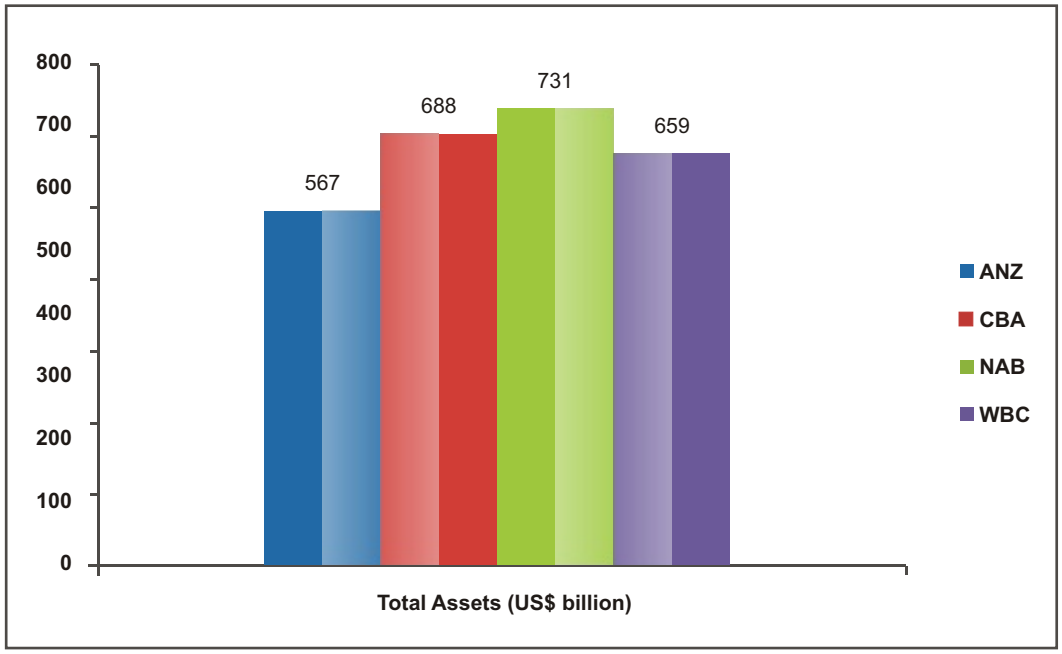
APRA's conservative approach to interpreting Basel III regulatory standards should not pose too great an issue for Australian banks. However, they may find it harder to deal with higher liquid asset norms, and would need to explore alternative avenues in light of the low volume of domestic government debt. That being said, at this point it is difficult to envisage the total impact of unfolding regulations including those under Basel III on the Australian banking sector. What is becoming apparent though is that such banking standards are further raising the bar for external entrants, who are being increasingly punished by regulators for offshore exposure.



Customer relationship and experience

In contrast to the financial well-being of the 4 pillar banks, - which returned to pre-crisis profitability levels last year - is their ailing relationship with customers. This can be traced back to the late 1990s when deregulation enabled a number of brokerages to enter the market and take over the banks' customer relationships, as well as the rise of the Internet, which distanced the branch from the customer. Over the last two years, this old disconnect between the banks and their customers was made worse by repeated interest rate hikes, numerous PR disasters and the huge profits made by banks during a period of increasing economic discomfort for the local populace. In the meantime, the government tried to capitalize on the anti-bank public sentiment by proposing legislation to limit credit card fees and ban exit penalty on mortgages, not realizing perhaps that these moves would further discourage the entry of new players and only strengthen the dominance of the big 4.

In the last ten years, the quality of customer experience online has also deteriorated significantly. Lulled by a sense of security created by the lack of competition, and mistaken assumptions about market need, banks persisted with offering limited functionality over aging channels to customers whose expectations had evolved a great deal in tandem with their increased exposure to customer-centric technology solutions. Other than through PR exercises, there have been very few real attempts to build customer trust and engagement – a somewhat curious example in this age of the Internet is Westpac deciding to open hundreds of new branches to resurrect the Bank of Melbourne brand, a local bank which used to enjoy high brand equity. But now, faced with the prospect of foreign banks like HSBC leveraging superior infrastructure to deliver far



superior customer experience, Australia's flush-with-cash domestic banks are seriously looking at technology to bridge the expectation gap as well as raise operating efficiency to compensate for their rising cost of funding.

Technology outlook

Renewal of core banking infrastructure is long overdue in a sector that has mostly implemented patch-up solutions in recent years.

There is a rising incidence of failure of core systems. Interestingly, one report said that it would take the big banks 10 years to stabilize their overworked core banking platforms. Current legacy systems are inflexible and slow and the reason why Australian banks lag their international counterparts in quality, flexibility and customizability of services, product innovation, and time to market.

It is the same with Australian banking channels, which have undergone scant evolution at a time when the Internet, and many of their international counterparts are experiencing revolutionary change. Although banks have realized the ascendancy of Internet banking, their systems are archaic and their distribution infrastructure remains largely traditional. Mobile banking has yet to make any real headway. There is a need to not only upgrade banking channels but also extend their role beyond transaction fulfillment, making them more effective in sales and customer service. Previously, the teller window doubled up as a point of sale. With the branch relationship having eroded, other channels, especially the Internet, must bear the responsibility forcross sales and resolution of customer issues; a responsibility that the banks have yet to realize online.

But things are set to improve. At least two banks have committed to large-scale technology investment; both CBA and NAB have embarked on ambitious US$ 1 billion-plus core banking transformation projects, in order to emerge as more agile, responsive banks.

Along with core systems and channel refreshment, the industry is also ripe for adoption of customer analytics solutions. Currently, there is little evidence that Australian banks are using their massive customer data to improve engagement across the customer life cycle. Mostly, analytics is being used in managing marketing campaigns – which incidentally are not real-time – and not where it matters most – namely, understanding customers better, improving

their financial status and proactively responding to their needs. Hopefully, the proposed investment in banking technology will improve service delivery and experience to take Australian banks closer to their customers in the near future ■

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Hatton National Bank Leverages Finacle for Growth and Improved Service

Hatton National Bank (HNB), established as Hatton Bank in 1888, is one of Sri Lanka's largest private sector banks. The Bank offers a range of personal banking, corporate banking, development banking and international banking services, as well as treasury services, mortgage financing, financial advisory and stock broking and insurance services through its subsidiaries. Headquartered in Colombo, the Bank is spread across Sri Lanka through a network of over 87 branches and customer centres in excess of 205. Today around 4,400 professionals are part of the HNB family.

Key Business Drivers

The decision to transform the Bank's existing systems was driven by a long felt need to migrate to a single core platform. By replacing both their existing core banking systems with a modern solution, HNB hoped to reduce the effort that it currently took to provide anywhere anytime banking services, avoid frequent business disruption, and reduce the cost and effort of maintaining core banking infrastructure. The Bank was hampered by the fact that every little change had to be individually implemented by staff at each of its decentralized branches. They wanted a solution that would enable them to make changes quickly, easily. The need of the hour was for a platform that would support their growth plans without placing additional demands on infrastructure and manpower.

Core Challenges

HNB was grappling with two core banking systems – a decentralized solution built in-house and another solution supplied by Temenos that worked on a legacy database platform – connected through a middleware platform. While the Bank implemented and maintained several workarounds in order to provide anywhere banking services, it still faced problems with end of day reconciliation, with the ATM network going offline each night. Transactions also dropped frequently.

Although the solution – migrating all operations to a single, centralized core banking system – was obvious, the Bank had struggled unsuccessfully for years to initiate action with their existing vendors. In 2007, HNB finally decided to take the plunge.

Choosing Finacle

HNB was keen on choosing a core banking platform that had been deployed successfully in Sri Lanka and was closely aligned with their requirements so that they would not have to invest in expensive and risk-laden customization. In other words, they would favour that solution, which came with out-of-the-box features that best matched the requirements listed in their detailed RFP. The Bank selected Finacle from a list of three finalists because its features were most closely aligned with their specifications; it had been successfully implemented at other sites in Sri Lanka; and it projected the lowest Total Cost of Ownership.

Project Overview

Implementation was planned in three phases – pre-rollout, model branch installation and rollout. The project tracked 12 milestones, namely *user education training, functional and technical assessment, hardware and networking requirement assessment and procurement, data migration readiness assessment, system readiness assessment, business definition, customization, user acceptance testing, systems integration testing, simulation, go live training, and roll out.*

The Project in Detail

The pre-rollout phase, comprising the pilot phase, customization, data migration, testing, and User Acceptance Testing (UAT) spanned nine months, and was supported by a team of between 25 and 30 on-site Infosys employees, 20 developers and testers from HNB, 25 members of their IT infrastructure team, and about 10 to15 employees from Infosys' offshore team.

During the model branch phase, the Bank's staff evaluated the alignment of the Finacle pilot with the original specifications in the RFP. The project phase started with a 3 month long training program conducted in Bangalore for the benefit of 25 to 50 employees drawn from different units ranging from loans and deposits to treasury to trade finance to Forex. The training program contributed to the gap analysis process, which was initiated in the early months with a similar exercise conducted on-site by Infosys' staff.

HNB's IT team completed data migration in parallel with the custom and interface development projects that were being led by Infosys. The Bank deployed Finacle in High Availability (HA) configuration and implemented its new disaster recovery infrastructure leveraging online replication.

The nine months of gap analysis, process definition, customization, data migration, and testing was followed by three months of user education, UAT, simulation roll out, and a pilot five branch rollout in the tenth month. Rollout across the remaining 180 branches was accomplished in 11 months between September 2008 and August 2009 largely by the Bank's in-house IT team, with the support of only two on-site Infosys employees. Since the in-house system was not centrally hosted, every branch, each having a separate instance, had to be rolled out individually. A number of branches went live each weekend.

40 HNB employees were involved in the rollout, along with 20 non-IT employees who were deployed full time on the project. These employees assisted the branches with the rollout process, spending a day or two at each. Across the organizational hierarchy, the 40 bank employees evangelized the need to adapt to, rather than customize the software; HNB believes that this was crucial to successful change management. Another success factor was that every user underwent week long training two weeks ahead of rollout and continued to receive training thereafter.

Success Factors

The implementation of Finacle at HNB within a tight timeline of just eleven months was doubly

remarkable given the nature of the challenges posed by the pre-existing banking platforms. With very little room for customization or scope creep, the Bank had to adapt its processes to the new system and maintain a rarely observed level of project management discipline. Last but not least, it had to secure the commitment of employees across different levels in the organization.

However, the Bank achieved this feat thanks to the personal involvement of the mid-managerial leadership, worked tirelessly to seek the buy-in of different business units and convince stakeholders of the need to adhere to the project plan. The steering committee, which monitored project progress and reported to and consulted the CEO for major policy decisions, also played a key role in the project's success.

Business Benefits

The migration to a single, centralized core banking system paid off handsomely such that HNB recovered more than half of its investment within five quarters of rollout (ROI is calculated based on the most tangible and quantifiable benefits). To start with, the Bank reaped savings in hardware and software costs across its 87 branches. Then it grew the number of accounts by 2.2% within nine months after rollout and the number of customer centres by more than 10% to 205 by December 2010, with only slight increase in manpower. Prior to Finacle implementation, such growth would have necessitated a linear increase in staff.

One of the biggest pain points of the decentralized system was the need to execute IT tasks individually at the Bank's 87 branches, necessitating the maintenance of support staff at each. Once the branches migrated to Finacle, core banking maintenance effort came down drastically from 640 man-hours to just 80 man-hours per day. This enabled the bank to redeploy IT staff to more strategic projects.

Finacle brought much needed agility and flexibility, enabling changes that used to take at least 3 to 4 days to execute, to be completed with minutes.

The new technology infrastructure allowed HNB to centralize a number of processes that were previously being conducted at the branches, including but not limited to account opening, clearing, manual posting to profit and account, month-end provisioning, and outsourcing storage of mandates. The Bank is now considering centralizing Fixed Deposit renewal, Standing Orders, and loan creation.

In addition, the Bank has reaped a number of unquantifiable yet important operational benefits. Being on a single core banking solution has enabled the Bank with a holistic and unified view of the customer. Thanks to consolidation of the Customer Information File (CIF), there is improvement in regulatory reporting already, and a similar impact on cross-sell ratio is expected. HNB is able to render standardized customer service across all its locations, with the result that its quality has gone up. The time taken to launch new products in the market has come down; at the same time, the system is able to control the numbers of variations for each product. What's more, front line staff is able to concentrate on selling and serving customers.

The implementation of Finacle core banking solution at Hatton National Bank serves as a good example for other banks contemplating a similar exercise ■

The Mandate for Banking Product Next: Be Relevant or Perish

Précis

Although the concept of economic exchange has remained the same, its practices have evolved from the industrial to the information age to keep pace with changing requirements.

While banking differs from the real sector in several ways, both are inextricably linked. Therefore, the challenges, expectations, processes and structures surrounding real manufacturing activity apply equally to banks and the way they design their products.

Thus, manufacturing's supply chain management concept makes its way into banking as financial engineering and another concept, namely co-creation,is set to follow suit. The future banking product will be created where it is cheapest, designed where there are knowledge networks, distributed where there's a market and serviced from where it is most efficient. This ideal can only be achieved in an environment of widespread collaboration.

Staying relevant is the biggest challenge facing 'banking product next'. It must fulfill new expectations made by a breed of new consumers: personalization, fairness and profit sharing. At the same time, it must battle competition not only from the real world but the virtual one as well.

'Study the past, if you would divine the future.' So said Confucius.

Subscribing to age-old wisdom, I'll start this discussion on the banking product of the future by going back to its past.

Economic exchange is as old as humankind. In the time of the hunter-gatherer, it was conducted as 'like for like' barter. That evolved into a broader exchange of commodities as agrarian man produced different types of goods and started to use precious metals as a medium of payment. Now, with the industrial age maturing into the present information economy, the cycle of 'raw material – process – finished goods' has been replaced with intangible, globalized value creation through knowledge-based services that dominate the GDP of several developed and developing

nations. Form has made way for formulae, farming for Farmville, and rain-based activities for brain-based ones.

Through the ages, banking - the act of keeping money in circulation has stayed relevant by keeping pace with economic evolution. What must it do in the future?

Creating 'Banking Product Next'

The Financial Supply Chain Paradigm

The goal of a manufacturing economy is convert raw materials, unusable in their native state, to an output for one-time consumption or repeated use. Each product serves a purpose and promises some benefit to its end users. And although a financial product is unseen, uses no raw material, and is relatively less 'designed', it is widely consumed, bought and sold and creates significant impact on all parties. Hence, just as product engineering and supply chain management brought efficiency to manufactured goods in the production era, in a services-based economy, banking products need to be financially engineered and thoughtfully conceptualized keeping the needs of the end consumer in mind. In future, the Financial Products Supply Chain will be optimized along the lines of manufacturing to develop products where cheaper, design where there is abundant talent and collaboration, distribute where profitable and service where effective.

Moving from Creation to Co-creation to Collaboration

Until now, banking products have mostly been created at a local level – designed by the local unit for consumption within its own market. However, as mentioned in the previous section, the banking product supply chain is set to globalize. This leads one to ask how ideas and products can be created in one corner of the world for consumption in another when the manufacturer has no insight into the consumer's market. The answer lies in co-creation and collaboration, a theme that we will revisit later in this discussion. By pooling expert knowledge of various disciplines from around the world, financial products can be engineered to not only deliver best in class features and service, but also anticipate emerging consumer need.

It is also interesting to look at how economic structures influence the way in which products are designed and delivered. In the decades of the 60s and 70s, everything, from manufacturing and administration to consumer demand and banking were controlled with an iron fist. With the fall of communism, centralized control made way for market forces, which dictated what was required in a globalizing world.

In the present knowledge economy, market focus is being replaced by collaboration-driven forces, as national boundaries melt away in the wake of increasing globalization. Localized collaboration, which started out as regional free trade areas such as NAFTA and the Single Euro Zone, is snowballing into global collaboration as more and more countries link up to do business together. This will have a huge influence on the way products are designed in every vertical, including banking.

Profiling 'Banking Product Next'

In the last three decades, 3 billion consumers, producers and users with a new perspective of consumption, production and usage, have entered the world economy.

Since financial products don't exist in a vacuum, the expectations that these 3 billion people have from other more dynamic sectors will catch up with banking some time or the other. One can foresee that 'banking product next' will be a perishable item that must be constantly refreshed to stay relevant, else will disappear off the shelves in no time.

The following shifts will shape the banking product of the future:

- **New expectations of credit**

  The nature of commerce has progressed from 'cash to cash' – where everything within the 'raw material – process – finished goods' life cycle was paid for in cash, to 'cash and bank' – where manufacturers paid cash to produce goods, but gathered sales proceeds into their bank using a complex network of distributors to 'cash and credit' – where customers used credit cards or loans to pay for their purchases, and finally to 'credit to credit' – where all actors, from manufacturers to consumers, use financing of some kind. It is plain to see that banks are entrenched within the entire life cycle of economic activity.

  While the nature of credit may not change, expectations of the speed and mode of delivery, turnaround time etc. will likely evolve with the changing needs of a world that becomes more globalized, more information-intensive and more knowledge-driven. Banks will not be able to create products satisfying these expectations on their own; they will have to co-create them, not just with other banks but with any business, whether in retail or telecom, that has a bright idea to share. It's not hard to imagine a day when co-creation will expand into global collaboration, wherein not just customers, regulators or partners, but anyone with something to contribute could have a stake.

- **New expectations of personalization**

  While the PC of the 1990s is far removed from the mobility-enabled handheld device of today, it did sow the seeds of personalized computing. Since then, the demand for personalization has not only spread to every category of consumption but risen exponentially as well. Let me illustrate this with an example: Apple allows customers the option to personalize most aspects of their hardware purchase, but this is multiplied manifold by the selection available on their app store. When customers use banking services to fulfill these purchases, they expect similar choice of personalization from them.

- **New competitors**

  Around the world, businesses with a huge captive consumer base are trying to leverage that strength to enter financial services. Success stories featuring Tesco, Sainsbury's and Safaricom are well known. Now, Internet giant Google is making a foray into this space with its own payments offering, in a bid to attract e-commerce opportunities that are currently being tapped by third party payment gateways.

  Google's entry means much more than the arrival of one more competitor on the scene. It heralds the emergence of a new alternative, something that present day consumers are always looking out for. The appeal of Google payments lies not in its convenience, ease of use, cost-effectiveness or security, – all of which is hygiene – but in its implied promise of customer-centricity and fairness. Customers perceive Google as empathetic, a company that has shared its fortunes with them by providing value added services free of cost. Quite the opposite of banks, which made money when customers lost it, and have always looked to devolve the risks and perils of financial transaction upon others. With new financing alternatives emerging, banks will have to look at co-sharing (a concept borne out of co-creation) both risk and profit with their customers in order to remain relevant and contextual.

- **New goals for innovation**

  Innovation in other industries has followed a 'creative destruction' model – for example, destroy the nature of raw material

to produce final goods, or destroy an outdated product with a later version – to constructively contribute to economic development, whereas financial sector innovation has destroyed by creating, to borrow a military term, 'weapons of mass destruction (WMD)'. There's no better example of this than the recent financial crisis, where the unbridled greed of a few financial institutions and their 'innovative' products wiped out economies, rival institutions, consumer wealth and confidence.

Going forward, banking innovation must draw inspiration from the real sector to reset its motive from one of profit to that of shared value and create a new kind of WMD - 'wealth for mass development' for the collective good.

A new world altogether?

Having started this discussion with the past, I'll end it by jumping further into the future.

Although banking products are intangible, they are the lifeblood of the physical world; going forward, this relationship will extend to the virtual one as well. The arrival of Internet, social media, online gaming and augmented reality has enabled millions of people to carve out a parallel existence for themselves in the virtual world. The impact of this second world on the one we live in is best illustrated through the example of QQ coins – a 'currency' earned on an immensely popular Chinese online platform which came to be used as legal tender to buy and sell physical goods! When the government banned this threat to the official currency, the latter crashed by 70% within weeks.

The Linden Dollar, L$, is legal tender in Linden Lab's online virtual world called 'Second life', and may be used to buy, sell and trade goods and services with other people.

Banks cannot afford to dismiss these trends as fads having no bearing on the physical world they operate in. To many people living double lives, their virtual avatar represents who they want to be, and hence wields enormous influence on their real self. Banks need to be part of that second life by fulfilling its expectations else they may soon be forgotten, given that there are so many alternatives (including Google payments) to choose from. It will be very interesting to see how 'banking product next' rises above these challenges ■

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Also Read

Future Perfect: Opportunity for Banks in Emerging Markets - *Whitepaper*

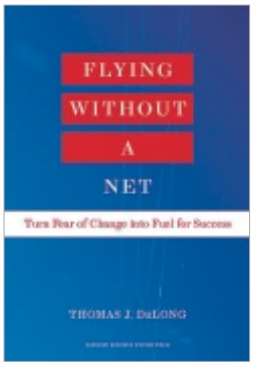
When it comes to listing the forces that will influence banking in the coming decade, emerging economies rank right up there along with the digital consumer, mobility and green innovation. The term 'emerging market' was coined in the 1980s as a more positive way to describe what until then were known as 'less economically developed countries'. But neither 'emerging market' nor 'emerging economy'– words that are used interchangeably – do justice to a phenomenon that is not only about a particular geography or its state of economic progress.

A better description would be to say that these are regions undergoing an information and communication revolution despite being partially or less industrialized. Semantics aside, what sets emerging markets apart is that they are home to a huge community of new users adopting products and services in non-traditional ways, and a source of innovation in product technologies and platforms.
http://www.infosys.com/finacle/solutions/thoughtpapers.asp

Flying Without A Net

Turn Fear of Change into Fuel for Success

By Thomas J. DeLong



Every organization has them. The highly driven, ambitious, must succeed at any cost types. You can spot the swagger a mile away, or failing that, will no doubt be treated to a loud account of the frequent flyer miles they're ratcheting up, just as you're grabbing a drink at the water cooler.

But in the race for success and its trappings, the "High Need for Achievement Professional" (HNAP) loses touch with the things that matter most in life – well-being, relationships and a sense of purpose. The HNAP's smooth, confident exterior actually masks a strong fear of failure and high degree of vulnerability manifesting as obsessive pursuit of tasks, inability to tell "urgent" from "important", difficulty delegating, mood swings and guilt, and avoidance of real risk.

For those who identify with these symptoms, Harvard Business School professor Thomas J. DeLong's "Flying Without a Net" is a must-read. In the book, DeLong cautions how HNAPs' need to project an image of capability and control; quest for popularity, respect and approval; and absolute horror of appearing fallible could eventually destroy all that they set out to achieve.

DeLong, a former Chief Development Officer and Managing Director at Morgan Stanley and self-confessed HNAP on the mend draws from his extensive personal experience to show how the HNAP's vulnerability can be turned into an effective weapon for initiating the process of recovery that entails facing up to the four biggest traps of comparing, busyness, worrying, and blaming. Letting go of the past or "flying without a net" is the central focus of HNAP rehabilitation, which requires the subject to pause and become aware of events and tendencies that diminish self-worth; relinquish the past; build a new vision and goals for life; seek guidance from mentors, especially on which behaviors to stop, keep and start; resist going back to old behaviors; and step out of the zone of comfort into one of vulnerability.

Weaving vignettes from his own and other people's lives into his incisive analysis, the author says that while correcting negative behaviors, the HNAP must be prepared to do the right things poorly before learning to do them well.

"Flying Without A Net" offers no quick remedies, but rather, motivates HNAPs to embark upon a sustained journey of self-discovery and turn their fears into "fuel for success". Sound advice for times riddled with fractious rivalries, needless insecurities and mindless blame games ■

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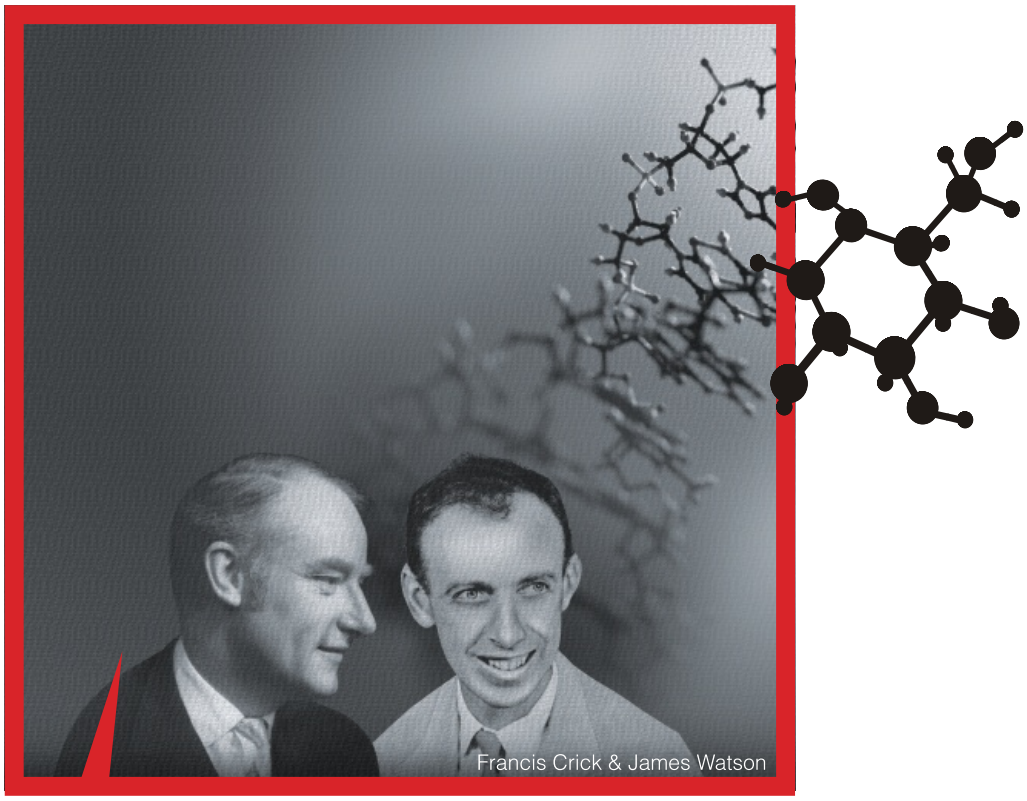

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