Jan - Jun 2014/Vol 08/Issue 28

FINACLE CONNECT

Connecting the banking world

Let's Simplify Banking

Cover Story

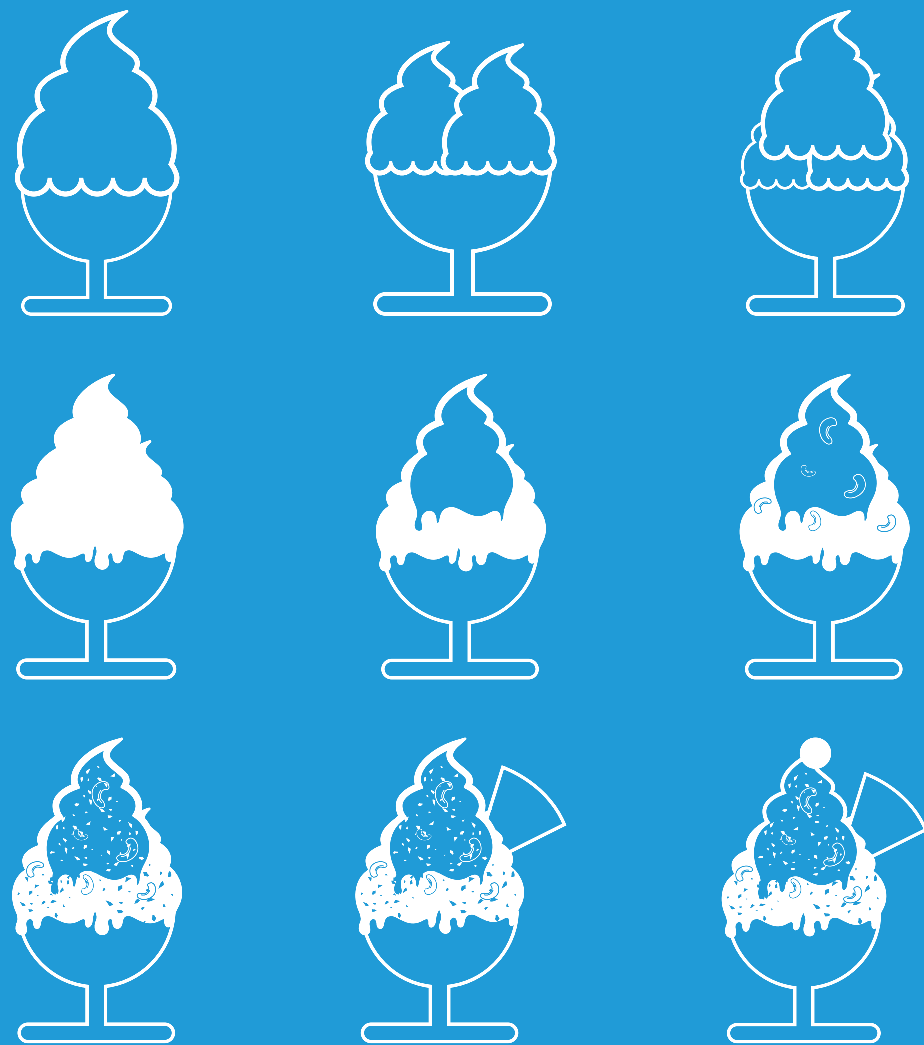
From complexity to competitive advantage

Feature

Simplifying banking: bringing it back to the basics

Big Bet

A simpler future for banking



REFRESH YOUR BUSINESS MODEL

LET'S SIMPLIFY BANKING

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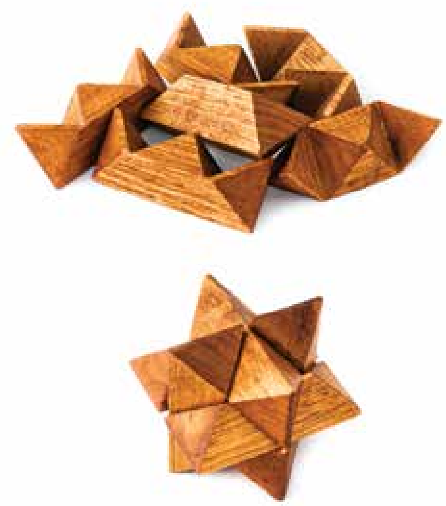
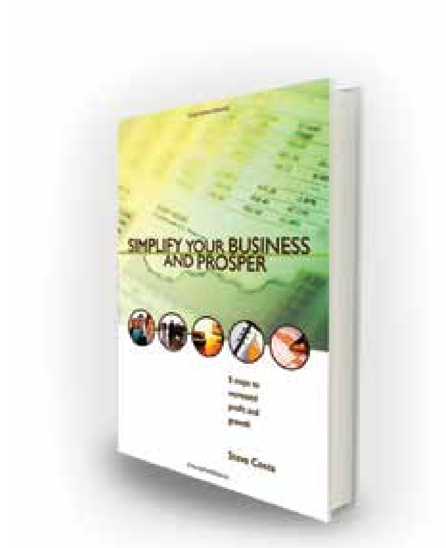
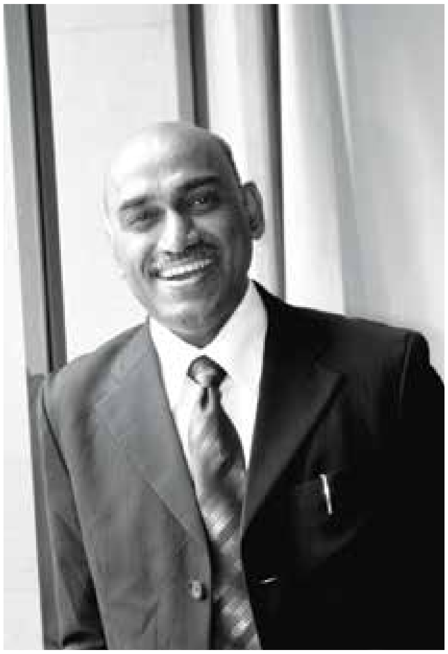


FinacleConnect is a journal on banking technology published by Infosys Limited. For more information contact: Tarang Arunkumar Mudliar, Infosys Limited, # 44 Electronics City, Hosur Road, Bangalore 560100, India. Tel: +91-80-41057541 or write to us at: finacleweb@infosys.com

Design and layout by VisualNet, www.vn4design.com


SIMPLIFY YOUR BUSINESS AND PROSPER

Simplify. Simplify. Simplify.



That's the mantra! The one word that has the potential to change banking as we know it…or rather, make it what the customers want it to be... simple. While banks around the world are examining the concept of simplification and figuring out how to apply it in their context, there are the frontrunners who have started to shed the layers of complexity and are finding their interpretation of simplicity.

What does simplification mean for banks and for their customers? And how does a bank begin to start on the simplification journey? In this edition of FinacleConnect we explore the various facets of this seemingly 'simple' concept.

To start our Feature explores how banking can be made simple again, and the role of technology in making it complex. The Cover Story goes on to examine how complexity can be turned into competitive advantage by simplifying! Next we have interviews with Michal Panowicz, CEO and Cofounder of mBank, Brett King, founder of Moven and author of Bank 3.0, and Shamir Karkal, CFO and Cofounder of Simple.

Is there such a thing as good complexity? If so how does one differentiate it from the bad kind? Read our Big Bet story to find out. On the subject of complexity, how are customers affected by it, and are they actually migrating to banks that have in fact simplified banking? The People Perspective section addresses this topic. We also have an Opinion piece that brings in a fresh new perspective on simplifying; crowdsourcing simplicity!

Don't miss the book review on simplifying business and the technology piece on simplification. All that and more in this edition of FinacleConnect.

Happy reading!

Haragopal M
Global Head – Finacle, Infosys

Simplifying banking:

bringing it back to the basics

There's an interesting theme that rings through all of the discussions with the new banks: "We help customers avoid financial mistakes." This targets old banks, which focus on charging customers for making financial mistakes, as a way to make their money. In other words, the more complex banking becomes, the easier it is to make money from the ignorant or unaware customer. Is this true or just a claim made to differentiate the new start-ups?

Banking used to be very simple. Before technology took over, banking meant walking into a bank branch, talking to a human being, showing some paper with your transaction history and balance and getting a stamp that indicated a new transaction of pay-in or pay-out.

All of this was visible, transparent and open.

Then technology took over and made it all invisible, opaque and discrete.

Gradually, people lost track of their money and this created opportunities to charge for transactions that customers were not expecting.

The payments out of the account the day before payday. The credit card bills that explode and accelerate without check. The overdrawn moment you didn't realize was coming.

All of these activities create revenues for traditional banks, as charging for lending is at the core of their revenue model. Take the American banking system as an illustration of these practices.

American banks generated $32 billion in overdraft fees in 2012, an increase of $400 million over 2011. Incidentally, the peak revenue year was 2009, when the banks collected $37 billion in overdraft fees. American banks make these fees by charging the customer for transactions based on a principle of processing the largest withdrawals first, and adding any deposits last. In practice, this means that if you have $100 in your account and make four transactions of $25, $20, $10 and $50 whilst receiving an electronic payment for $1000, the $50 transaction will be processed first. That transaction is processed first, even though it may have been your last transaction of the day and even though it may have been made after the wire of $1000 was received into your account.

The other debits are taken next, sending your account into overdrawn mode of $5 before the $1000 credit is added. As a result, you get slapped with an unauthorized overdraft charge.

This is the core banking issue that both customers and entrepreneurs believe is wrong. And the reason why it continues is that incumbent banks have made banking complex and created a system in which customers are punished for making mistakes.

Banking used to be very simple. Before technology took over, banking meant walking into a bank branch, talking to a human being, showing some paper with your transaction history and balance and getting a stamp that indicated a new transaction of pay-in or pay-out.

Those mistakes are easy to make if the account balance and charges remain invisible to the customer, until after the mistake is made.

'Free banking' became a model of banking in the 1970s and ironically, led to the 'fee banking' model around transactions to compensate for its free accounts. Mobile banking changes all of this.

And this is the area that many new banks are tackling, with the belief that technology has come full circle.

Mobile control

During the march of technology, the system removed the paper – the paper book with visible stamp and entries – and replaced it with a statement that appeared monthly.

This monthly statement would show the transaction history, but deprive customers of real-time visibility into their balances. Unlike the days of the paper passbook with visible balances, customers had moved to a state of invisible banking, where they only realized their positions once a month, or when they physically visited the bank.

Sure, call centres and internet banking gave customers more visibility but again, it meant that they had to proactively call the bank or go online before making a transaction to see if it was feasible.

As a result, it was easy for banks to levy fees and charges, by processing those transactions that the customers didn't expect first, and the deposits they anticipated, last.

Why would a bank do this?

Because it made sense. Customers would not switch banks in general, as all banks operated in a similar manner. And banks needed to find fee-based services, because the general model of banking did not allow them to charge customers for having an account.

'Free banking' became a model of banking in the 1970s and ironically, led to the 'fee banking' model around transactions to compensate for its free accounts.

Mobile banking changes all of this.

For the first time, mobile banking allows real-time account management. The customer is no longer ignorant of balances, inflows and outgoings, and is totally in control. In other words, the mobile is the e-passbook for the new century consumer. The invisibility of transactions and balance, and the resultant mistakes, are disappearing forever.

That is the major opportunity and change in mentality that mobile has delivered.

That is why new banks are focusing upon customer awareness of spending and saving, and delivering personal financial management through apps in real-time. This is not only simplifying the banking experience, but also putting consumers in control.

From experience to engagement to advocacy

The impact of technology upon the banking consumer makes for interesting reading.

It began in the 1980s, when banks talked about customer satisfaction and retention as customer in-branch visits began to decrease thanks to the introduction of ATMs.

In the 1990s, banks re-engineered processes to make them more customer-centric in the age of telephone banking. For the first time, service and advice, and not just transactions, moved outside the branch and the telephone script and process for service became a key differentiation factor.

In the 2000s, the focus shifted to the customer experience, as banking became a fully remote service via the internet. This service was initially delivered as an online bank statement and evolved, over time, to become an interactive delivery of full service banking.

A world, in which one can walk into a coffee shop and get that cappuccino without scrambling for change or hail a taxi without worrying about cash, is one where consumption, and not payments, is the key.

Now we focus upon mobile banking and customer engagement.

Building customer engagement through the medium of the mobile is the mainstream focus of many banks and new entrants today, although the two might lay emphasis on different aspects. The incumbent bank is trying to determine how to move from free banking that charges fees for mistakes, to fee-based banking that gives out rewards.

What this calls for in practice is a rethink of the banking experience from the perspective of mobile engagement and experience, rather than transaction.

Banks have traditionally focused upon the transaction referring to the process as money transmissions and, more recently, as transaction management.

This spells another major cultural shift for traditional banks, along with the mobile-driven change in focus from punishment (for mistakes) to reward (for smart spending).

This is primarily because the transaction itself is becoming irrelevant.

As retailers integrate more of the financial transaction into their trade processes, payments become increasingly irrelevant.

A world, in which one can walk into a coffee shop and get that cappuccino without scrambling for change or hail a taxi without worrying about cash, is one where consumption, and not payments, is the key.

It is a new transaction operation, where Apple, Amazon and PayPal can be plugged into any checkout process. Hence, retailers and consumers no longer worry about payment, but rather focus on the experience of shopping and consuming.

It is the reason why Apple iTunes turns over big business and why an Amazon can build a de facto internet purchase standard using one click.

Everything is about ease of process, lack of friction, taking away the pain and making life simple.

The only challenge for the customer therefore is how to manage debits and credits. This is where apps with real-time balances deliver.

This is the world where banks are evolving from charging for mistakes and focusing upon transactions, to rewarding for smart spending and focusing upon informing.

In such a world, informing customers in real-time to ensure they are in control, is the key.

The informed consumer expects augmented service

We might focus on mobile banking and customer engagement today, but soon we will shift attention to augmented servicing that is both proactive and predictive to encourage advocacy.

This is due to debits and credits taking place around us, behind the scenes, which will drive the need for informed service more than ever before.

Picture this scene in the near future: Chris is taking a journey into the city. He walks past the ticket office at the subway station, and says “travelcard”. The options appear in his eyewear and Chris chooses option 2 for all zones off-peak by saying “ option 2”.

$12:00 is charged to his bank wallet, the default payment account that sits behind all transactions Chris makes online, offline, anywhere, anytime.

At the station café, Chris gets a cappuccino. He visits the café most days and they know him now. He had pre-set the request for the cappuccino knowing that he would be at the station for the 09:35 train, and so just walks in, picks up the coffee and a newspaper and jumps on the train.

$3:95 is charged to his bank wallet.

When Chris arrives in town, he walks straight through the ticket barrier, as the wallet emits a signal to show that he is carrying a travelcard.

As he’s about to get to the office a note pops up in his eyewear: “special offer from Top Table: lunch at Imperial City today! Two for the price of one if you accept the voucher now”.

Great, Chris thinks, that’s just what I need to entertain John today.

“Accept”, he says, and the voucher is wirelessly delivered to his bank wallet.

The fact that his office is based just 300 metres away from Imperial City helps.

Obviously, we could detail this scenario further, but we have enough to make the following points:

First, with Google Glass, Sony SmartWig and Samsung Galaxy Watch combined with Bluetooth, NFC, Square and PayPal, we are already at the stage where the above scenario is reality.

Second, in this new reality, payment is not at the foreground of the process, but rather in the background. Third, payments may be in the background, but the knowledge of balances, spending, saving and charges is front and center. As with Simple and Moven, Chris’s eyewear or other devices will indicate the real-time bank wallet levels continuously and highlight in green or red whether it is safe to spend or otherwise.

> In future, visibility will be automated and automatic, all around us, and all the time. As will commerce and transactions, trade and finance. This is a world where banking is not simple but is incredibly simplified to the point of relevance to the customer and the merchant.

Fourth, the fact that Chris's activities can be tracked in real-time allows for wireless connectivity between his movements and everything around him. Therefore, contextual and relevant offers can be delivered proactively, on a permissions basis. For example, the offer from Imperial City may have been sent as a proactive offer from the restaurant or from the bank wallet. In the latter instance, the bank may have used analytics to figure out Chris's favorite haunts and timings, and using partnership programs, delivered a personalized offer to him on that day.

The last points are clearly where the informed proactive bank service, using augmented reality capabilities of context and location, comes into its own. This also traces the movement from invisible services to visible banking.

In future, visibility will be automated and automatic, all around us, and all the time. As will commerce and transactions, trade and finance. This is a world where banking is not simple but is incredibly simplified to the point of relevance to the customer and the merchant.

The focus of merchants and their customers is trade and commerce, rather than money flows and the banking system. That is as it should be and finally, after half a century of technology change, we will have technology doing what it should: informing and enhancing the processes of business and life.

Maybe it is best to conclude with the strapline of one of the case studies discussed in this issue of Finacle Connect: Moven. Moven's brand slogan is spend, save and live smarter. That is what simplified banking in the age of augmented mobile bank servicing will be all about.

About Chris Skinner

Chris Skinner is chairman of the Financial Services Club, CEO of Balatro Ltd. and comments on the financial markets through his blog www.theFinanser.com. He can be reached at cskinner@balatroltd.com.

From complexity to competitive advantage

Back in 2004, a management consulting major studied IT systems at over 20 large global companies and delivered this simple diagnosis – diseconomies of complexity. "Diseconomies" is the operative word here, especially because it is often said that complexity is the natural byproduct of sophistication. Today's smartphones pack in as much complexity as the systems that power the Mars Curiosity rover without compromising the sophistication required to destroy pigs or process payments.

IT complexity, with or without sophistication in attendance, erodes enterprise economic value. And this is the challenge facing banking, one of the most

Estimates underscore the savings, of up to 50% and 30% on application and total IT costs respectively, that banks can derive from reducing complexity.

IT-centric industries in the world. Estimates underscore the savings, of up to 50% and 30% on application and total IT costs respectively, that banks can derive from reducing complexity.

Currently, up to 90% of IT budgets in banking are frittered away on just stemming this hemorrhage. While banks continue to channel a significant chunk of their technology investments into restoring the status quo, the quo, to paraphrase Laurence J. Peter, has irreversibly altered its status.

Take customers, for instance. Loyalty is passé; promiscuity is in. Even as banks continue to invest in customer engagement and experience, more and more customers are moving beyond their traditional one-bank relationships into developing multiple financial affiliations, while nearly three-quarters of all banking customers have attrition on their mind. The tables stakes for retention and trust have also increased significantly; customers are now benchmarking their banking experience against that provided by lifestyle categories, like retail, for example. Digitally empowered customers are demanding a financial experience that is custom-fit for their convenience, circumstance and aspirations, regardless of channel, device or transaction.

As banks race to cope with fickle uncompromising customers, a new breed of competition, with business models crafted around contemporary customer expectations, disruptive innovation and cutting-edge technology, is slowly but surely making inroads into traditional banking turf. Even as mainstream financial institutions remain engaged in a race against IT complexity to stay in place, these new entrants are pushing the boundaries of technological possibilities in banking. Today, concepts like Square, Passbook and Wallet are nibbling away at the fringes of the banking ecosystem, but they represent a real threat of disruption to the entire process of banking. In contrast, banks themselves cite their current technology systems as the biggest hurdle to innovation.

Even within the traditional banking space, emerging technologies are enabling smaller players to acquire capabilities without having to break the bank in the process. These smaller players are already proving to be more nimble and agile than their colossal counterparts, who, just to provide one metric for perspective, take twice as long to take new offers to market than their much smaller peers. Technologies like Social, Mobility, Analytics and Cloud, are disrupting the traditional banking model by leveling the playing field.

Heightened regulatory oversight following the events of 2008 is amplifying the challenge for banks already grappling with potentially disruptive developments on multiple fronts. The pressures of shrinking fee incomes and cost inflating consumer protection regulations, further exacerbated by capital and liquidity mandates, are severely stressing banks' compliance structures, not to mention their balance sheets. If all pending regulations were retrospectively applied to European banks, their collective ROE in 2010 would have been 6% instead of the actual 10%. In the new regulatory regime, banks are also expected to deliver information at a much more granular level and in ever shorter time frames, which only increases their compliance burden.

To top all of this, a volatile global economy only adds to the overall mood of uncertainty in the banking sector. In comparison to pre-2008 levels, profitability has almost halved, cost to income ratio is raging at around 60% and the slowdown seems to be seeping from developed economies into emerging markets. The constantly morphing macroeconomic landscape only makes it more challenging for banks striving to make proactive bets for growth and profitability.

If all pending regulations were retrospectively applied to European banks, their collective ROE in 2010 would have been 6% instead of the actual 10%.

Looking back at the intensity of change, across every node of the banking value chain, it becomes abundantly clear that nothing short of a complete transformation will equip the sector with the capabilities required to compete in the radically new norm. But any effort to effect a comprehensive transformation of banking will have to start by addressing the diseconomies of complexity that currently plague banking systems. Simplifying the banking platform, therefore, becomes a critical step in the process of banking transformation.

Now, the case for banking platform simplification is easily made - it enables the agility to respond to rapidly changing market dynamics, reduces costs so banks may compete more effectively, helps build customer-centric banking models and fast tracks innovation. But paradoxically, the case for platform simplification is fraught with complexity.

Banking platform simplification involves large-scale, multi-year efforts that are extremely time and capital intensive. But the banking ecosystem is evolving so rapidly that expecting banks to wait for years to reap the benefits of simplification can hardly be justified. Then again, it is for the same reason that banks simply cannot afford to defer simplification any longer.

There is however one approach to simplification that addresses both the time and the capital constraints that the sector is currently faced with. Today, banks have the option of choosing a process of progressive, componentized simplification and transformation that can be adapted to the investment and rollout requirements suited to specific contexts. This process allows banks to choose the sequence of component deployment based on their business priorities while mitigating business continuity risk, easing transitioning management and simplifying the transformation journey. Progressive transformation also drastically reduces the time required to realize the benefits of simplification. Most importantly, even as the componentized approach simplifies technology architecture from the inside it creates a sophisticated platform that is primed to accommodate the next evolution in banking technologies to enable banks to build competitive advantage.

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Infosys Finacle

The mBank
Innovation Story

An interview with
Michal Panowicz,
CEO and Cofounder of mBank

Since the launch of mBank in the spring of 2013, the service has been recognized globally through various accolades and awards for innovation and service. This is probably because the bank is not only a revolutionary renewal of a traditional bank, but one that cannibalized and ate its parent, BRE Bank, which was determined to rebrand completely as mBank at the end of 2013 to capitalize on the innovative bank's success. What is happening? And can a traditional bank truly compete with the new entrants? It appears to be that the answer is a resounding yes. The founder and visionary behind mBank, Michal Panowicz, talks about the mBank story.

Q: What is the background to mBank and your role there?

A: mBank was one of the first online banks to launch in Poland in 2000. At that time, the concept of running a successful bank without branches was considered bizarre. It succeeded by leaps and bounds though, with two million customers within the first few years.

"mBank was one of the first online banks to launch in Poland in 2000. At that time, the concept of running a successful bank without branches was considered bizarre."

It changed the traditional banking model by offering a service with no fees on checking accounts and higher interest on savings and deposits. It also drove the adoption of payment cards, which was, at that point in time, a novelty. Therefore, mBank was also instrumental in introducing a lot of process and legal innovation. This was to allow these direct and digital processes to be introduced to the industry and prove acceptable to the authorities and then to the consumer. Everything we did was done with the purpose of being online, digital, and direct, when some of the other banks couldn't even offer the basic online services because their approach was intertwined with their branches. It was difficult for these banks to compete with mBank, as it involved massive restructuring of systems and processes, which was costly and hard to achieve.

After a decade, everyone had pretty much caught up with what we had delivered. The branch-based banks had competitive web services – not that they were committed to such services in the same way, but the functionality was there. The gap that had been there in the beginning had diminished, and competitors now offered free online banking services in a similar way.

The concern then was that going forward, mBank might lose its edge. This is when I came into the bank. I was hired in 2011 with the mandate to bring some fresh perspective and identify the next project for mBank to set its strategic platform going forward. In other words, to find a new vision for the bank to compete effectively in the future.

We began by having a number of creative strategic workshops, with people from all over the bank generating ideas about what we could do in retail banking in the future. We generated 120 ideas and implemented 20. That was the scope of reduction of what could be done versus what is feasible to do, even though we ended up implementing one of the biggest innovation portfolios ever seen in banking.

The issue is not one of generating ideas, but of being able to realize them – how to organize the process from a cultural view and create a willingness to change internally. That is a big challenge – the internal disruption and the ability to accept that change.

Q: Was the focus upon simplifying the customer experience?

A: That was not the starting premise, but simplification did come to the top of the mind in the process. The challenge is the human-to-computer interaction model, which has not been resolved yet but has evolved massively over the past decade. In the 90s, a game changer was the graphical user interface invented in the 50s, which replaced the DOS shell to open the world of computing to mass audiences – first to information workers, then to consumers. Still, early browsers were not able to recreate it, so for a long time Internet interactions were far inferior to PC ones. That is when tablebased banking was born, based on early browsers, and it hasn't changed much since. Meanwhile, Internet and browsers made tremendous progress and now Internet applications are almost as interactive and graphical as native PC ones. That is when the notion of interactive modern Internet user interface began. Then we added touch to the screens to make it far easier for people to interact with machines, and that is where we are today.

Now we need to apply that to finance, and how engineers design the digital experience to be more consumer oriented or consumable. That is why we now see people using TVs and magazines and trying to push buttons, rather than pointing and clicking.

Q: So that is what creative start-ups like Simple or Moven are doing?

A: Yes, I think so, but only to some limited extent. When you compare the start-ups in the industry – Simple, Moven and others – versus the incumbents, then I think you start to see that they simplify user interface beautifully, but also through a very limited product range, to create a rather simplistic version of banking. For example, think about giving someone just a checking account and a debit card and then trying to call it a bank. It's true that these are the most essential products you use most, but even mass customers need more from a banking service. There is frequent need for credit cards, cash, or car loans and also at some point, for investments or mortgage. We are not just talking here about the affluent and wealthy but also about the mass market consumers who need a broader range of services. When you enter the world of the mass market consumer, you see that the new start-ups do not offer all of those services. Simple and Moven do not offer loans, for example, and it may be even structurally challenging for them to get to this point.

The key is to give people choice with easy access. Our loans process is fully online and with an easy check-out experience. We will approve and disburse you a loan straight to your checking account within three to five minutes if you are a customer depositing salary into our account. And we will have a 30 seconds version by the end of January! That is a guarantee we provide because we have systems in the back office that support these things. As you apply for a loan, a fully automated process verifies credit checks and salary confirmation, and so you get the loan there and then. In our new mobile application it will be virtually "one tap", while you're there in a store heading to check out. No waiting. We don't wait for the banking teller to do things; we just get these things done by automated and online processes.

> "The issue is not one of generating ideas, but of being able to realize them – how to organize the process from a cultural view and create a willingness to change internally. That is a big challenge – the internal disruption and the ability to accept that change."

Then there is a space for things that are not simplistic. We call this complexity on demand. For example, you get your checking account or card statement. Each of them will have a separate statement in most banks, as you get these services from different divisions and you need separate logins for each of these services. We put all these services in one, Mint-style service. Only, that at mBank it is fully actionable – you do not need to re-login to a banking service to act upon your statement review.

This means that the first thing you see is a simplified view of your money; all of your money. You then have complexity on demand, so that you can click through and see more accounts combined as a picture. You can change things to reflect more detail, and get into a granularity of finance you may not have experienced before. It is not something everyone would use, but we put this together with the same customer experience look and feel as like say, Google or Facebook. This means that if our customers want complexity, they can have this on demand, but with a feel that is familiar.

The aim is to make it simple to manage money, and make it fast and easy to use.

The last piece is a single page application, with a modern front end with JavaScript and HMTL, and then using AJAX, you can get more information. What this means is that you might have bank alerts and requests that you use today to remind you to pay your tax or remind you of the date for making payments against a card so you don't get charges. You would usually only see those requests and alerts when you go to the page that relates to those payments. That would usually not be on the home page, but several layers down against that specific card or account setup. We don't do this. Thanks to the technology design, these alerts and requests are part of the homepage, and appear dynamically through the technology architectures we have deployed.

When these appear, you can click or touch the alert and then it takes you straight there. So our design is very simple, but it does not take away depth. You just get all you need, using the latest design and technology architectures of today.

> "The key is to give people choice with easy access. Our loans process is fully online and with an easy check-out experience. We will approve and disburse you a loan straight to your checking account within three to five minutes if you are a customer depositing salary into our account. And we will have a 30 seconds version by the end of January!"

It is simplicity with depth and offers complexity on demand.

Q: What has been the customer reaction to this?

A: All of our 2.7 million customers have access to the new service of mBank, and adoption is steadily progressing. Nearly 40 percent of the logins to mBank services are now in the new mBank. That is a standard scenario, where we provide the new and old mBank service in parallel and gradually people move across. Bear in mind that most people have been using the old mBank for over a decade, so this new service is very different for them. If you go back to Geoffrey Moore's Crossing the Chasm, only 15 percent of people want something new and the remaining 85 percent do not want things to change. That is because people have to unlearn what they know and learn something new, which is tough. So we were amazed to find that we got 15 percent of the mBank customers switching to the new services within the first two and a half weeks. By the end of June, the early adopters and innovators were all there. And now, five months later, we have 450,000 people not just logging in, but also using the service. We are now 25 percent above the chasm, with 40 percent who have switched to the new service.

And this is not like Moven or Simple. These new entrants are focused upon the innovators and leading edge users in a market of 314 million consumers, and getting around 100,000 users in total so far. We are converting millions of mass market consumers who were already with the bank, in a country of 38 million.

This is the fastest product growth we have ever had. We have 460,000 customers using the service within a few months. That is phenomenal growth.

We also have some offers that are specific to these customers, such as merchant-funded rebates targeted against customers' transactional behavior. Close to 390,000 people signed up for this service and some of our best users have already earned €250 in rebates, which is three times the interest the average banking customer would get from their deposits in a year. And that is just within the first five months of the service.

We are permanently at over 1,000 contacts a day in our digital branch service – video, voice, chat, and real time collaboration in a communicator-like browser window. So far, most of that usage is in chat. We have 10 to 12 percent of the entire volume of the contact centre represented in our digital bank within five months! Sales results are even more encouraging. On 11% share of traffic in October, the digital branch was able to sell 38% of investment products. And all that while our regular call centre service is 8-10 times more effective in direct sales than an average bank in our region, as demonstrated by separate studies by ZED and Finalta in 2012.

"This is the fastest product growth we have ever had. We have 460,000 customers using the service within a few months. That is phenomenal growth."

It will take some time before the service becomes ubiquitous but to be where we are in just five months is a great thing, and we are very happy with how this has progressed.

Q: And how is the competition reacting?

A: It is not easy for them. They will probably take one to two years to get their head around what to do and how to react, and then another two to three years to deploy a competitive service. They will have to make some tough decisions too, such as whether they add this to their current core banking offers or build a completely new de novo service. Obviously, it is easier if you launch a new bank but then they will lose the benefits that come from the network effect, scale, ability to do real-time credit scoring, and more.

Equally, if they don't do this, they will find it hard to adapt to the internal technologies and culture to deal with the mobile internet revolution and services we have deployed. This means that it will take them longer, maybe three or more years, to adapt.

It also means that the management of traditional banks will have to think differently, as most executives came through branches and naturally put fewer stakes in digital. Creating and implementing digitally enabled processes that remove the need for branch-based services is going to be a big deal. Unwinding the structure that was not built for digital will be hard.

This does not mean that we have no competition, but it does mean that the existing incumbent competition

> "Creating and implementing digitally enabled processes that remove the need for branch-based services is going to be a big deal."

will find it hard to adapt, change, and compete in the way that we have achieved.

About mBank

mBank is a key player in the Polish banking sector, remaining the leader of Internet banking. Although mBank's business model is under constant development and differs fundamentally from traditional banking models, the main features remain unchanged – mBank does not offer everything ever invented in the financial world. The bank, instead, focuses on a limited number of innovative products and financial services required by customers and believes that banking should be simple and user-friendly. These elements are fundamental to their business model and have not changed since the launch of the bank in 2000, as a subsidiary of BRE Bank. BRE Bank SA is an entity dependent on Commerzbank – the second largest private-sector bank in Germany and one of Europe's leading financial institutions with a consolidated balance-sheet total of € 608 billion. Poland is Commerzbank's second market of business activity after Germany.

About Michal Panowicz

Michal Panowicz is the Managing Director of mBank, and apart from being its co-creator, managed the project New mBank (BRE Bank). Employed at BRE Bank since 2011 for this project, he previously worked in Poland and the USA. Since 2006, he had been employed in Business Management Office at Microsoft headquarters in Redmond, where he was responsible for creating complex directions of the company's development, such as the natural user interface strategy, strategy of the company in competition against Apple, and its business effectiveness improvement. At eBay, he was involved in working on the acquisition of Skype, and in the Boston Consulting Group office in Warsaw, he created the development directions for major Polish banks and financial institutions.

The Moven Advantage

An interview with
Brett King,
founder of Moven and
author of Bank 3.0

Brett King became globally known for his ideas about the future of banking with the release of his seminal book Bank 2.0 in 2010. After lecturing and travelling globally, talking with banks and investors about his vision, he realized that there was a major opportunity to launch a new bank concept based upon mobile smartphone innovations. As a result, Brett began building the backing for his new bank, Moven, in 2011 and achieved a soft launch early in 2013. What is different about Moven? Read this interview with Brett to find out.

Q: What is Moven and the background to it?

A: Moven started as a concept back in July 2010 when I was out on the road doing the book launch of Bank 2.0. I did this big presentation to a group of Venture Capital firms, Movie Producers and Entrepreneurs out in Los Angeles, and they grilled me for about an hour on my vision of the future of banking. I kept talking about how mobile was going to be the game changer. More importantly, the fact that traditional banks had not recognized the value of mobile yet.

This got me thinking that there was obviously an opportunity for someone to create an Amazon or Facebook of banking, based on mobile. Traditional banks respond slowly to these types of changes in distribution.

I went home after that meeting and immediately registered the company name "Move and Bank", or Movenbank for short. At the heart of this concept was the way Gen Y would use a bank account; so the name is meant to reflect a bank that is mobile and orientated to Gen Y banking.

When I put together a team and we started prototyping, we decided to drop 'bank', because we weren't convinced that we needed a bank licence. Also, we didn't think being a bank was that cool. We also found that both our customers and we ourselves had got into the habit of referring to this entity as simply "Moven", so it made sense to stick with that name. So, **Moven.**

It's also a case of practicalities. As a start-up there's only so much you can do at one time, and so we focused upon the emerging digital customers and mobile, rather than the back-end banking and charter.

"I went home after that meeting and immediately registered the company name "Move and Bank", or Movenbank for short. At the heart of this concept was the way Gen Y would use a bank account; so the name is meant to reflect a bank that is mobile and orientated to Gen Y banking."

That made sense as the banking area was detailed, technical and complex. We felt it was better to start by partnering with a bank for the core processing and build a great front-end customer experience, rather than divide our attention by also building a core – which are plentiful in the U.S. market.

Q: Has that been the biggest challenge: the bank processing area?

A: There have been quite a few challenges along the way. For example, we had secured our first round of funding in the summer of 2012 to get everything ready for an early 2013 launch. We had found a bank partner and a payments processing partner. The processor we chose on their ability to provide real-time analytics and feedback on how people were spending. That meant a processor who could capture data off the back of each transaction. At the time there were only two processors in the whole of the United States that could handle that sort of requirement. We chose TxVia. Just six weeks before our launch, TxVia was acquired by Google, who decided against having any third parties on the TxVia platform, which they wanted exclusively for the Google Wallet. For us, that meant finding another processor weeks before launch – it was a huge blow. By the time we found another processor, the bank partner we had chosen decided that they had changed strategy and had other priorities in the timeline. Basically, Moven no longer fitted into their schedule and would have to delay plans. So you can imagine our predicament; just six weeks out we had lost the ability to process a payment via MasterCard or leverage a deposit account. That could have been the moment that signalled the end of the Moven project right there, but we were fortunate in that we managed to turn it around and within three months, find an alternative bank partner and processor. That rapid turnaround meant we could still launch in April 2013 trialling the service with friends and family or those known to the company, before opening up to our first public customers at the beginning of June.

Q: How have customers reacted since launch?

A: Well it is early days, as we are still in beta product mode, but the reactions have been very positive in general. For example, New York's Channel 4 recently interviewed us as well as one of the early adopters of the product. One of our customers told them that Moven "makes saving money as easy as spending every day". That sort of response is typical and is due to the feedback loop we have built into the product, which tells customers about their spending behaviour every time they transact. That mechanism and tool provides a very different view of money and how it is being used, from a typical debit card or checking account. To get people talking about that and how they have found the money management tool that has changed the way we think about spending and saving, is what we are trying to achieve.

> "When we started out our aim was to reinvent the model of banking and make it simpler, but also smarter. If you look back at the way banks worked over the past century, you would have started with a passbook in the mid-1900s, and then moved to a check book maybe in the 1960s, and today you have a debit card."

Another customer, whose purse was stolen, didn't realize it was so until she got a Moven alert for the next transaction on her smartphone. Every receipt for every purchase is logged on the Moven app in real-time and pushed to the phone. Luckily, the customer was able to immediately shut down and block usage of all of her cards from our app in real-time, straight away.

This is the beauty of mobile, in that it is making banking more secure and also more informative. In this case, the customer was protected from the fraudsters the moment they made their first transaction, thanks to the alerts, blocks and capabilities of the app. It's also proof that people are more likely to remember where their mobile is at any given time, but not their wallet or purse, which is becoming more and more irrelevant.

Q: And it also means that you are simplifying the whole experience of dealing with money.

A: Yes. When we started out our aim was to reinvent the model of banking and make it simpler, but also smarter. If you look back at the way banks worked over the past century, you would have started with a passbook in the mid-1900s, and then moved to a check book maybe in the 1960s, and today you have a debit card. The passbook origins of banking gave you quite a lot of visibility about your money. You would walk into a branch, take the cash out, see the balance change in the passbook, and you would know exactly how much money you had left to spend in your account. With a debit card, you don't have that visibility today. That's why people need to check their balance all the time, as they don't know how near or far away they are from being overdrawn or overexposed financially. Credit card companies have really worked hard to exploit that lack of visibility of money. Card issuers take advantage of customers' ignorance of their financial position to push them into a borrowing position and then charge them fees on their credit usage. That's the revenue model.

> "We are making this unique connection between our customers and their money, on a real-time basis, and are being able to service customers and their financial needs as they arise, contextually. This is banking that provides you value as you need it, with transparency and helpful advice in real-time everyday via your smartphone."

At Moven, we work the opposite way. We want our customers to have the maximum visibility of their money and how they are using it. This is because we want Moven to be the primary financial application for our customers, not just an app riding on the back of their existing accounts. But our objective is not necessarily to get them to switch banks, but rather to use our app to monitor their spending and saving. That being said, as customers use the discretionary spending tools within Moven over time, they are switching more of their spends, and using our service more and more often. Moven gives customers a unique view of their money and their ways of spending and saving, and that creates a strong behavioural imperative. As they tap and pay, they get a real-time balance check and summary of transactions related to that category and class of spending. They get the receipt on the phone telling them how much they spent with that merchant today and over the past month, and how that compares with their general spending on those sort of services. And also whether they have spent more or less this month.

The thing is that most banks would not intuitively have reached the mobile experience that we have created. The traditional view of most banks is to have a debit or credit card that creates fees and generates customer activity for pure revenue purposes. It's not intuitive for a bank to then turn around and say to customers: "stop spending money and save more". Their products and culture are geared in the opposite direction. The more money the customer spends, the more revenue and profit the bank makes. We take a different view, which is that if you build a product that helps customers spend less money, they'll be your biggest fans, and still generate revenue while telling others how cool your app is!

Q: So when we talk about simplifying banking, we really mean provide transparency of money.

A: Absolutely, that's our secret sauce. What we are realizing is that there's a value exchange that occurs between the service provider (Moven in this case) and the customer as a result. If you look at one of our target segments, the Gen Y audience, they have no patience for a lack of visibility on fees. That's why the prepaid market has exploded in the USA, as it overcomes the hidden fees, overdrafts and surprises. We provide the things that customers like – feedback, mobile first thinking and a rich feature set that includes money transfer via Facebook – but there are no gotcha moments, no surprises and nothing hidden. We make it all visible and put the customer in control. That's the key and that value exchange creates trust with the consumer.

In the past, banks earned trust by safeguarding money. Now, customers want more than that. They want a trusted relationship. And the mobile can provide a unique platform for this. In fact, we see the mobile becoming more and more of an advisory tool, giving you information and context about your life, your money, your spending and saving. That component of advice, brand advocacy and trust are all intertwined. If you don't have transparency and you don't offer visibility into what you're charging and why, then you will never get that trusted relationship or capability to connect with the customer. We see a customer connection in an interactive relationship via a mobile app, not via the traditional operations, products and structures.

Q: Could banks do what you're doing?

A: Undoubtedly, banks will try to copy some of the things we're doing and the way we provide information and context through the mobile app. That's the easy part. But bank culture will block a lot of these developments as they are counterintuitive for a traditional organization. When I talk to banks about how we give our customers visibility on their spending and that it leads them to reduce spending over time, most banks say to me: "Why would you want to do that? That would be throwing away revenue." Of course, these banks see the current model where revenue comes from interchange, and they are locked into that view. The reality is that people are still going to spend money, and they will put more money with you if you are totally transparent and open. That's our model and that's what we have seen as market reality during the early days of customers using our product. Within 90 days of starting to use our product, customers typically shift 18% - 20% of their share of wallet from other bank accounts to Moven. In fact, we're seeing two things happening. One is that banks are attempting to copy our positioning. We started with this phrase: "Spend, Save and Live Smarter"; now we're seeing that language being used by a heap of other banks, although they do not offer services in the same way. The second thing is that banks approach us regularly, asking if they can use Moven's platform to interface with their bank to provide our service to their customers. We are exploring those sorts of partnerships for the future too.

Q: Finally, where will Moven be moving in the future?

A: When you think about where Moven fits, once we become a customer's primary app for managing daily spending and saving, and provide information, context and advice to go with that, our next step would be to answer a different problem. Right now, the main play with the app is to offer real-time feedback as customers spend and save. The bigger questions for a customer however are: Should I buy this? Can I afford it? And those are the questions we aim to answer in our new version of the Moven app that is being released in November 2013. We are trying to get customers to use Moven to help them make purchase decisions, not just reflect on what they have already spent and purchased. We are making this unique connection between our customers and their money, on a real-time basis, and are being able to service customers and their financial needs as they arise, contextually. This is banking that provides you value as you need it, with transparency and helpful advice in real-time everyday via your smartphone. On that basis, we don't believe banks that lead with a branch or a dumb, zero-feedback plastic debit card can even come close to competing with our offering.

About Moven

Moven is an app that provides real-time updates on purchases and analysis of spending to help customers achieve financial wellness. It is one of the first mobile-centric banking platforms, and is described by Wired magazine as 'the bank of the future". The company's focus is to give financial control and insight to motivate customers to make smarter spending decisions and save more. Moven's customers are generally technologically savvy consumers, who suffer from money anxiety and struggle to manage their finances.

About Brett King

Brett King is a global bestselling author, a well-known futurist and speaker, the host of the "BREAKING BANK$" Radio Show on Voice America (an Internet Talk Radio Network with over 9 million monthly listeners) and the founder of the start-up "Moven". King was voted as American Banker's Innovator of the Year in 2012, and was nominated by Bank Innovation as one of the Top 10 "coolest brands in banking". BANK 3.0 (in 8 languages) has been topping the charts in the US, UK, China, Canada, Germany, Japan and France since its release late in 2012. His latest book, Breaking Banks, is due out early 2014 with Wiley.

Keeping it Simple

An interview with
Shamir Karkal,
CFO and Cofounder of Simple

Simple, originally known as Simplebank, was launched in the USA at the end of 2011, with the aim of simplifying banking and giving customers what they really want and need from a bank. Designed with user experience through mobile internet at its core, Simple has gained significant customer and media coverage. Is it truly innovative and inspiring, or purely adding icing to the banking cake? To find out, we spoke to Shamir Karkal, co-founder of Simple and former McKinsey consultant, on banking strategies.

Q: What is Simple and its background?

A: Simple started about four years ago when my cofounder, Josh, reached out to me with an email saying "let's start a retail bank." I was working for McKinsey in Europe at the time and this was a surprising idea, but something that seemed interesting. So Josh and I started brainstorming and we rapidly realized that big banks in the US make money out of confusing the customer with complexity. Large banks have mainly grown through acquisition over the past thirty years, whilst the business model of community banks is based on surviving on their interest margins. The thing is that, today, large banks in the US make most of their money through fees and charges – overdraft fees, late payment fees, and so on. All of those charges apply when a customer makes a mistake. The banks therefore have no incentive to help customers deal with their money better, as that's how they make money. As a result, customers make a large number of mistakes with their money. The incentive structure of the banking industry in the US is therefore set up to punish customers. We thought that if we could bring a better user interface and business model to the customer, then that would change things. That has been the whole thinking behind Simple.

> "Simple started about four years ago when my cofounder, Josh, reached out to me with an email saying "let's start a retail bank." I was working for McKinsey in Europe at the time and this was a surprising idea, but something that seemed interesting. So Josh and I started brainstorming and we rapidly realized that big banks in the US make money out of confusing the customer with complexity."

Q: Have you found in this process that there is a frustration with the banks?

A: We have found that there is an enormous level of frustration with traditional banks. We did not even have a true sense of the depth of that frustration when we started. That is probably because Josh and I both came from business school as software engineers, and we saw problems with our own personal banking needs. So we knew we had frustrations, but we didn't know that this was common to everyone. One of the first things we did, for example, was put up a Simple website early in 2010, just stating that we were planning to launch a better, simpler bank. We did not say what we were going to do, but just asked interested visitors to register their email address. That was it. Within four months of putting up that website, we had over 20,000 people leave their email addresses. That was without any marketing – it was just Josh and I tweeting the web link. Many people signed up, and we didn't know them, so we started emailing them asking about their experiences with banking. What did they like? What didn't they like? How would they change things? We started having conversations with these people and before we knew it, we had ideas from about 10,000 people. One of the reactions was that they found us already very engaging by the basic fact that we had responded to them with an email. Really? You find it amazing that I just sent you an email? The answer was yes, because they didn't get that sort of interest or response from their bank. The level of service that people were getting from banks appeared to be zero and, since whatever there was had been automated as far as possible, simply offering human engagement via email was already setting us apart. Some people even sent us seven-page long emails. There was one couple that regularly traveled to Africa and they just decided to sit down one Saturday evening and write down everything that they didn't like about banking today. That was why it was seven pages long!

Q: We all know that there is some inefficiency in service from existing banks, so how come there aren't more Simples out there?

A: This is because it's a regulated oligopoly. In 2012, the Big Four US banks generated over $300 billion in revenue between them. They each have over $1 trillion in assets and control over 40% of the deposit market between them. In credit cards, they control over 80% of the market. Just four of them. So you have these four gigantic behemoths that pretty much control the market, and then you have this tail of around 6500 community banks and 6000 credit unions that have a few thousand customers each on average. They are so small that they do not have the ability to invest and change anything. In fact, they cannot compete with the dollars that the big four put into technology so even though their heart is in the right place, their pockets are not deep enough. They do not have the resources to change the market; the big banks have the resources but do not have the incentive to change the system. Getting a bank charter and just getting into the industry is also a big barrier. Ask an entrepreneur if he wants to start a bank, and then tell him it will take about five years before he will be able to on-board his first customer and that entrepreneur will go away and start a business somewhere else.

"Ask an entrepreneur if he wants to start a bank, and then tell him it will take about five years before he will be able to on-board his first customer and that entrepreneur will go away and start a business somewhere else."

Q: Is it easier now, as you have started up?

A: It is certainly easier to innovate today, thanks to the breaking down of technology barriers, but it is more than that. In our case, there were a lot of factors that came together. You need to have the right combination of the right people, the right investor, and the right idea, and we had all that. The financial crisis was also a great trigger. Before the crisis, there was this feeling that if you walked into a bank and it had a big marble hall with someone in a suit and everything nice, bright, and shiny, that it was secure and stable. A big bank equaled safety, and there was an implicit trust in the bank due to this. The financial crisis has pretty much destroyed all of that. In fact, big banks are now seen as being less safe than small banks, as they can systemically fail. People are now a lot more willing to consider switching banks as a result, and safety does not come from being a big bank but from having the FDIC insurance at the bottom of the page. Now that they understand that, people are a lot more willing to switch, and there is much greater focus on getting good service. Ten years ago, when Check21 was first being considered, you could not provide the sort of services that can be offered today, such as remote deposit via smartphone. People tried, but the innovators then found it challenging because the industry was not there, the infrastructure was not there, the regulatory structure was not there, and the customer base was not there. Today, that is all different. Our median customer age is around 26, for example, so most of our customers grew up with the internet and everything online. They're on Twitter and Facebook, and they wonder why the banks' interface with them is so much worse than any other mobile or online experience they have.

Q: But you are not actually offering full banking, are you? Just a front end to traditional banking.

A: Well, not quite. Everyone who uses Simple has to open an account with us. Every customer who comes to our site signs up for an interest-bearing checking account that has, for all intents and purposes, the same capabilities as any other interest-bearing checking account in the US. What is different about us is that we have thought through the customer experience and designed it with modern technology, to help our customers manage their finances. It has not been designed to maximize our fee revenues; in fact, we do not generate any fee revenues. Simple has been designed for customers who do banking on mobile phones. There are small features like our map of money that shows you your balances and takes away all the forthcoming billing, savings, and transactions to be processed to show you what is safe to spend. We do the math, rather than leaving the customer to do it. It's a simple feature, but knowing what is safe to spend avoids mistakes – mistakes, which generate a cost for customers and fees for banks. That is what we are changing. We are trying to show people where and when their money is flowing in and out of their account, and making it easy to save and spend. It's seamless. It's about creating simple behavioral rules that the customers can control around spending goals, budgeting and alerts, and enabling them to have this managed for them simply and easily.

> "Most banks just take internet banking and stick it on a smartphone, rather than thinking about what they can actually do with the smartphone to improve the customer experience."

Q: What are the unique aspects of Simple and its offer?

A: There is a range of things we have built into the user experience that are different to the usual bank offer. The mobile app is head and shoulders above anything else in the market, and this is something our customers are saying. One of our customers, for example, tweeted about how she had just switched from Bank of America to Simple. When Bank of America reached out saying, "hey, we've had an app for years.", she tweeted back saying that she knew that, had tried it, and that it sucked compared to ours. She then sent a further six or seven tweets explaining why. This is because most banks just take internet banking and stick it on a smartphone, rather than thinking about what they can actually do with the smartphone to improve the customer experience. Think of any modern website such as Twitter, Facebook, or Quora, which just sucks you in. Now compare that with banks' websites, which are often unusable by comparison. This is because the banks designed their services for a world dominated by branches, and they view the mobile and the internet as just a channel of statement delivery rather than service delivery. So we aimed at creating a website and mobile experience that is fully integrated and simple. For example, entering a username and password on a smartphone is a pain, so we use a PIN for access as it's far quicker and easier. We added other authentication to the process, however, towards two-factor authentication. We added other features here, such as how you spend and on what. We can tell you exactly how many coffees you have purchased this month from a store if you used the Simple account or card to pay for it. We can give you huge depth of knowledge of your spending and saving habits and how they are working for you. This is the intelligence we built into the design to provide a fantastic customer experience.

Q: What have been the tangible results for Simple since its launch?

A: We have had an amazing reaction since launch, in every way. You can check out our Twitter feed or Facebook page if you want to see this. We are growing fast and have tens of thousands of customers today. We are seeing heavy customer usage coming through and really seeing an engaged customer base. What has been particularly satisfying is that we give customers tools such as how much is safe to spend, and seeing customers using those tools has been incredible. I'll give you an example. We have a goals feature for the service. This allows customers to create goals that they are striving to achieve – a deposit on a house, money for paying for education through college, saving for a car or a holiday, and suchlike. When it was launched, we just put it out there and didn't really market it at all. We then analyzed what was happening with that feature and saw that customers have this habit where, when they have a lot of money in their account, they feel rich but if they have a little, they feel poor. That's fairly obvious, but, by using the goal setting process which is purely driven by the balance in their account, they see their true balance after paying for their goals, rather than the pure balance of what they have on that day. This way, they don't have these irrational spending days because they feel rich, as they have pre-allocated monies towards goals. This means the balance in their account is less driven by their monthly income cycle, and more by their actual spending and savings needs. This is a key feature which, without any marketing, we found many customers using.

> Today, combining the financial crisis with the mobile financial revolution creates a major and unique inflexion point to change things. That is what we are going to do. We are going to see a new Amazon for banking, and we wonder why that has not happened yet.

Q: There are other banks like you that we are seeing today, such as Moven. Do you see these as threats or complementary?

A: They are complementary as this is a small industry with a small number of new guys competing with a few giants. We do not see ourselves competing with these other guys like Brett at Moven, as we would all lose if that were the case. We are not trying to take customers from Moven or Google, but rather from the big banks that have millions of customers. We want a piece of that customer base and we want to show them that there's a better way of managing their money. There's a whole wave of innovation coming downstream focused upon doing that, including from Moven, but we're ahead of most people. So this is not a win/lose situation but a win/win if we can all get there.

Q: And, in the future, how do you see the landscape and what will have changed?

A: We are constantly innovating. That is the most important part of our ethos. I don't know what we will be doing five years from now but we will continue to be innovating. Our core mission and vision will not change. We will stay customer centric and customer aligned, and focused upon designing the best customer experience in the banking industry. That is our core. We will add new features and new technologies as we see them, as long as they leverage and support that vision. So we will add services that make it easier to transfer money into and out of an account, and to interact with your balances and goals. There was a wave of innovation in the last big technology change to banking in the late 1990s when the internet came around, but nothing really changed. That is partly because of customer apathy and partly because there was not something fundamentally different. I do not believe we have that situation today. Today, combining the financial crisis with the mobile financial revolution creates a major and unique inflexion point to change things. That is what we are going to do. We are going to see a new Amazon for banking, and we wonder why that has not happened yet. The main reason it has not happened is that banking is far more challenging, for the reasons we discussed earlier: capital, structure, backing, investment, scale, and ability to compete with the big incumbents. We are going to change that as we think that it is all ripe for change, and that is where we are targeted.

About Simple

Simple offers a bank account that has all the tools needed to manage money built right in, to make managing personal finances effortless. The company believes that making smart spending and saving choices should be easy, and often, even fun. All the tools customers need to manage their money are built right into the account, where they're most effective. The funds in a Simple account are held by their partner bank, Bancorp. Simple provides everything else, including the Simple Visa Card, powerful iOS and Android apps, a highly designed web interface, and full customer support.

About: Shamir Karkal, CFO & Co-Founder, Simple

Shamir is a software engineer turned finance and banking expert. Prior to Simple, Shamir was a consultant with McKinsey & Co. specializing in strategy consulting for financial institutions in Europe, the Middle East, and the US. Prior to McKinsey, Shamir was a software engineer. He has a bachelor's in computer science, a master's in information technology, and an MBA from Carnegie Mellon University.

Simplifying for flexibility, adaptability and agility

Global average banking profitability is currently hovering around eight percent, nearly half the pre-crisis levels. And yet estimates suggest that a potential 20 percent increase in profitability is inaccessibly locked away within banks themselves. The biggest impediment to most banks' digital channel plans also comes from within. Biggest barrier to innovation? Internal. Inefficient, protracted time-to-market schedules? Ditto.

A strategic simplification program can have a profound impact on banks' ability to deal with almost every variable that affects the business of banking – changing customer needs, evolving distribution models, increasing regulatory compulsions, emerging competitive imperatives and unpredictable macroeconomic conditions.

All these elements can have a significantly detrimental impact on performance as banks navigate a volatile environment characterized by intense regulation, uncertain macroeconomics, increased competition and uncompromising customers. The point to note is that all these bottlenecks can be traced back to the same internal source – an IT ecosystem so complex as to be inflexible, unwieldy and sluggish.

The reasons for the complexity are manifold – legacy architectures, disparate technologies, autonomous product/ channel silos and ad hoc, myopic system configurations, to name just a few. Whatever the cause, the fact is that complexity is a debilitating handicap in a competitive environment that rewards flexibility, adaptability and agility. Simplification, therefore, is no longer just an option but an ordinance; and flexibility, adaptability and agility are three of its most productive outcomes.

A strategic simplification program can have a profound impact on banks' ability to deal with almost every variable that affects the business of banking – changing customer needs, evolving distribution models, increasing regulatory compulsions, emerging competitive imperatives and unpredictable macroeconomic conditions. But herein we shall focus largely on three distinct simplification strategies that deliver the most transformative outcomes for banks and customers at the point where they meet.

Simplification of distribution architecture

The banking distribution model has probably witnessed the maximum number of step changes in recent years, forced by changing customer preferences and banks' response to them. If we look at the branch as a banking distribution channel, it has gone from being the fulcrum of almost every bank-customer interaction in the past to playing a supplementary role therein today. In response, banks have been quick to expand their channel offerings in the form of ATM, online or mobile options. But their good intentions have largely resulted in standalone channel-specific structures that operate independently of each other. Add to this the traditional product silos, and the best that banks can derive from the current set up is a limited keyhole view of customer activity either by channel or by product. For customers, this creates a disjointed banking experience as they pursue different transactions across different channels. For banks embarking on a 'one bank' strategy, this complex matrix can pose several challenges to creating and delivering a standardized and unified banking experience.

The first step in the distribution simplification strategy should be to unify channel architecture around one application or architecture supported by a few applications to service all these channels. For banks, such unified channel architecture translates into the agility to quickly launch additional channels and new products across all. It empowers them with the flexibility to create bundled offers and publish them across multiple customer touch points. A 'one architecture' approach also enables a unified real-time view of customer relationships across multiple products and channels that can be leveraged for creating solutions that are tailored to specific customers.

to renew their distribution strategies with a focus that goes beyond merely enabling access, reach and experience. By simplifying distribution architectures, banks would be able to generate a holistic view of current customer portfolios, activities & behaviors, identify potential need gaps and deliver additional solutions that pertinently address customer needs.

Simplified distribution architecture enables banks to build more strategic customer engagement models that drive deeper customer relationships. Today, it is common for banks to sell two to three products or accounts per customer.

For customers, this translates into a rich and consistent multichannel experience and the ability to seamlessly transition between channels without losing transaction context.

But even as banks attempt to unify their offerings and the customer experience across Lines of Business (LoB) and channels, there is another variable that further complicates the distribution simplification journey – the proliferation of platforms and devices that customers are using to fulfill their banking transactions. In a unified world, applications have to be designed to respond appropriately to the diverse profile of access devices and platforms as well as the context that defines the nature of the transaction. Truly simplified distribution, therefore, should also factor in the imperative for responsive design that enables applications to respond to specific devices, platforms or contexts while keeping the experience consistent.

And finally, simplified distribution architecture enables banks to build more strategic customer engagement models that drive deeper customer relationships. Today, it is common for banks to sell two to three products or accounts per customer; one US multinational bank has succeeded at achieving a record six accounts per customer. Given the high cost of customer acquisition, extending existing customer affiliations to more product/service partnerships can prove to be a cost-effective route to growth and profitability. Banks need

Simplification by eliminating redundancy

The traditional banking approach was to deploy end-to-end processes that supported each LoB module, the fallout of which was the creation of autonomous silos. But this approach also ended up duplicating functionalities across multiple LoB modules. Take for instance deposits, lending, cards or wealth management modules, which required their own account-keeping units. At the same time, each of these modules also incorporated its own customer information, payments, origination or limits management units – functionalities that could structurally operate across accounting systems. In effect, these were non-LoB-specific horizontal processes that were unnecessarily replicated in different LoB systems.

The elimination of such duplications in the enterprise IT landscape can significantly contribute to the process of simplification. Standardizing modules or components across the enterprise results in the creation of a horizontal layer of shared services that works across vertical stacks of business modules. By standardizing shared capabilities and services, banks can not only boost operational efficiencies and reduce technology costs but also enhance their agility to adapt to market demands and execute innovation.

But apart from streamlining enterprise operations and costs, eliminating duplication can also deliver significant payoffs by enabling a consistent customer experience. In a situation where each channel operates with its own captive payment functionality, the customer experience would be different in each. The corollary is that centralizing the payment functionality fine tunes customer experience. In addition, it makes the system more flexible, adaptable and agile from the customer's perspective – since the information is reflected in real-time across channels, regardless of where it originates, customers have the freedom to start the transaction in one channel and pick it up later in another and even consummate it in a third.

Simplification by eliminating spaghetti interfaces

In the days of product-centricity, banks organized their operations and their IT applications around different products. Although this approach served their purpose at the time, it ended up creating product silos and duplicating applications and processes across each. Then came channel proliferation, which also led to the proliferation of interfaces with product centric systems. In time, banks found that they could no longer work with product silos, which impeded their ability to become customer centric. Worse, their technology systems had become highly complex, suffused with disparate patchworks of redundant, point-to-point applications and interfaces, which were the result of tactical ad hoc interventions to create immediate solutions. Today, this spaghetti of interfaces is also a major contributor to systemic and integration complexity, especially in large banks. Systemic complexity has a negative impact on productivity, process efficiency, time to market, and hence, customer service. It also makes the systems more opaque to deny banks unified visibility and control, and their customers a consistent cross-channel experience.

The problem has grown so big that technology, once considered an enabler of agility, flexibility and innovation, is today increasing systemic and integration complexity, when deployed in silos. Hence the third simplification strategy must focus on dismantling spaghetti interfaces in the banking IT environment, and standardizing interfaces and integration patterns.

One of the goals of this strategy should be to rationalize the application portfolio and capabilities across the banks' product domains and departments. Inflexible legacy architectures must be replaced with next-generation, flexible and open systems. In contrast to the fragmented approach of before, banks must adopt an enterprise-wide strategy of application integration, ensuring conformity with interface and integration standards as far as possible. Also, they should favor plug and play interfaces over custom interfaces.

Apart from streamlining enterprise operations and costs, eliminating duplication can also deliver significant payoffs by enabling a consistent customer experience.

To sum up, flexibility, adaptability and agility are the key levers of future banking growth and profitability given the volatile dynamics of the financial services marketplace. Most banking systems today are simply under-equipped to deal with these nuances because of the complexity that is clogging their IT architectures and systems. Simplification, therefore, must drive strategy, as banks embark on building a sustainable model that emphasizes customer experience and results in enhanced value for both their organizations and their customers.

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The age of **Crowdsourcing**

If your idea of good automotive mileage is 5,000 miles between fuel stops, then 1958 was a good year. That was the year Ford introduced the Nucleon, a car that was powered by a nuclear powertrain. Except, it was a non-functional concept car. The type of car that showcases a manufacturer's design and technological ingenuity, sometimes completely isolated from commercial practicality, consumer preferences, compliance benchmarks or other tediums of reality.

But when Fiat decided to build a futuristic concept car in the late 2000s, the company preferred to ground it in the reality of the ideas and expectations that consumers had about a car of the future. The result – 10,000 ideas from 17,000 participants in 160-countries later – was the Fiat Mio, a concept that seems to have become the de facto standard bearer for crowdsourcing.

Today the concept of harnessing the wisdom of crowds to turbocharge ideation and innovation is gaining traction across sectors from drug discovery to marketing communications, under the neologisms of crowdsourcing, co-creation or open innovation. Each of these approaches refers to the process of opening up organizational boundaries and orchestrating a flow of ideas to inform the development of products and processes and to create value and competitive advantage. The distinction between these approaches itself is generally made on the basis of size and scale of external participation, participant profile by way of skill or capability, and/or project tenure. Whatever the approach, the practice itself predates the mainstreaming of these neologisms.

Since as early as 2001, CPG major Procter & Gamble has co-created new products across a secure network, a program that currently accounts for around 35 percent of the company's innovations. In 1998, when LEGO's programmable robot line was hacked and customized by users, the toy major responded by folding these users into the company's development efforts to expand the product range.

Open innovation has clearly helped companies like P&G and LEGO simplify the process of development and innovation by expanding and enriching the idea pool exponentially. So it stands to reason that there is opportunity for the banking industry to leverage open innovation to mobilize its inclusive participative model to drive customer-focused, customer-driven innovation.

Innovation is not new to banking. What is, is that the action has now shifted to the customer front where the convergence of evolving consumer expectations and the entry of innovation-led customer-centric oblique competition is radically redefining the terms of engagement. Banks are probably not ready for the shift: in a recent EFMA-led banking innovation study, three out of four banks indicated significant increases in innovation investments, but at the same time, respondents gave consumer-led open innovation an average rating for effectiveness.

Today the concept of harnessing the wisdom of crowds to turbocharge ideation and innovation is gaining traction across sectors from drug discovery to marketing communications, under the neologisms of crowdsourcing, co-creation or open innovation.

And yet, this is exactly where there is a huge opportunity for banks to unlock latent value.

Consider this: Some of the most innovative submissions to the Mio program included wheels that eased parallel parking by rotating 90 degrees, cameras replacing rear-view mirrors and inter-vehicle communication to prevent collisions. Now, none of these ideas reinvent the automobile as a nuclear powertrain could possibly have, but they do significantly redefine the automotive experience by simplifying the process of driving. Sometimes, it seems, all that consumers want is a better horse.

This is the opportunity for banks – to redefine the banking experience by simplifying the process of banking. In a highly regulated, innately complex business like banking, complexity invariably seeps into the customer experience in spite of the best intentions and efforts. And who better to inform the process of simplification than customers, the very people who have to deal with banking complexities on a daily basis? Here are some examples of banks that have used crowdsourcing to simplify experience:

- Customers want to transact from within their social platforms and they need their mobile phones to completely replace their wallets. But even as that happens, they want the ability to see pending transactions on online statements and block lost cards via mobile banking instead of having to make a call. That may not seem like a big deal, but the last two were indeed the most popular suggestions voted by consumers on a Barclays crowdsourcing platform in the UK earlier this year.
- When Barclays launched its 'Your Bank' crowdsourcing campaign as part of an innovation drive involving the public, the focus was firmly on improving the banking experience by simplifying accessibility and interaction.
- One of the winning ideas in Dubai-based Noor Islamic Bank's $20,000 'Shape Your Bank' competition was a family card that made it easier for the main card holder to monitor and control overall usage.
- When First Direct solicited suggestions on its website design, customers said they wanted the ability to personalize the homepage.

Today, more and more banks are rolling out collaborative models that are leveraging the customer perspective to redefine banking products and processes as diverse as credit cards, mobile apps, customer service, marketing communications and even branch design. But it is important to stress here that consumers are increasingly co-opting their perspectives into the developmental efforts of banks regardless of whether banks solicit their participation or not. They are doing this by crowd-judging products, services and innovation that are already live in the marketplace. In turn, banks must proactively channel that voluntary participation to align effort and expectations, mitigate the risks of mediocrity and failure, crash cost and time-to-market, and better manage the consumer narrative.

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Steve Jobs once observed, way back in 1985, that a lot of times customers did not know what they wanted. Things have changed dramatically since then. Jobs also believed that simple, though harder than complex, had the potential to move mountains – which is true even today. This is good advice for banks, which should work on creating participative models involving their vocal consumers, to help with the complex task of simplification.

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Superior banking,
made easy!

"Today Apple is going to redefine the phone", declared Steve Jobs to the 5,000 attendees at WWDC 2007. "Here it is", he continued as behind him the screen flashed the first ever image of a product that would revolutionize an entire industry – an iPod with an old fashioned rotary dial!

Nearly seven years later several industries have been transformed around that momentous milestone, which most definitely did not involve a rotary dial. But the iPod-rotary dial reference can work as a guiding metaphor for the banking industry as it seeks to reinvent itself to better serve rapidly evolving customer profiles and needs.

For some time now, customer-centricity has been a key touchstone of banking transformation strategy. This is borne out by the rise of channels that allow customers to bank the same way that they surf, shop and socialize – digitally. But even though digital access is the norm for today's consumers, experience is the true differentiator; their expectations of experience simply cannot be met by deploying the digital equivalent of a rotary dial. This must be the governing principle for the banking sector if it has to move beyond the era of customer-centricity to the age of customer experience. Taking that thought further, the banking experience must be as engaging, immersive, intuitive and simple as the tactile phone experience.

For an industry characterized by regulatory stricture, and constantly evolving offerings and customer expectations, it might be nearly impossible to adopt one sweeping definition of 'simple banking'. But a good way to start is by looking at the complexities that currently cramp experience, and sometimes even utility, across key factors that together constitute the banking process.

Simplify information

While information drives decision making, information overload is often counter productive. Take regulatory disclosures, for example, which can run into reams of pages, most neither relevant nor helpful to the average banking customer.

Banks need to understand that fine line between compliance and complexity to be able to curate, highlight and present information that is pertinent to the context of every customer activity. Self-configuration tools that allow customers to define their personal information requirements to aid a transaction can also mitigate information overload. Frequent changes to information, whether in terms of content or structure or presentation, can confuse customers. Hence banks should try to keep these updates to a minimum, and undertake them only when deemed absolutely necessary by fundamental mutations to product, policy or regulation.

Even when the changes are driven by a desire to simplify and refine the customer experience, banks must implement them at regular intervals incrementally, rather than radically refurbish the environment. Also, each and every change should be incorporated with a clear understanding of customer needs. Remember the recent customer outrage set off by the elimination of a single 'Start' button on a leading OS?

For some time now, customer-centricity has been a key touchstone of banking transformation strategy. This is borne out by the rise of channels that allow customers to bank the same way that they surf, shop and socialize – digitally.

Simplify access

Does the access experience provided by new digital channels surpass that of trudging through rush hour to get to the branch?

Access is still an ordeal and it is not entirely the banking sector's fault. What disclosure compulsions do to information, security concerns inflict on access protocols. Foolproof security structures often translate into multiple layers of authentication and validation procedures and consequently, tedious access. With the onus for creating a simple process without compromising security or ease of access resting with the banks, they might like to consider taking a differentiated approach based on risk perception to eliminate some protocols in 'regular' transactions.

Content and activity adjacencies should be planned in such a way that related functions are accessible from one place. Wherever possible, customers should have the option to personalize their experience based on usage patterns and preferences.

Also, quality of access is not just about security; it is also about the ease with which customers are able to find information relevant to their needs. It's about interface design. Once customers are inside the system, they should be able to intuitively and with minimum effort guide themselves to content that will help them process their transactions. Content and activity adjacencies should be planned in such a way that related functions are accessible from one place. Wherever possible, customers should have the option to personalize their experience based on usage patterns and preferences.

Simplify activities

A range of activities – inquiries, transactions, applications, service requests etc. – comprise each customer-bank interaction, many of which involve extended sequences that require time and effort. Can all of these activities be compressed into a one-step narrative? Probably not, but there is immense scope for simplification across each of these activities. The fundamental approach should be to optimize activities to leverage the possibilities and the behaviors of different channels. For instance, online banking was not about migrating branch banking processes to the web. Similarly, channels like mobile banking and others need to find their own approaches.

Also, where a multi-stage process is inevitable, guided workflows, detailing the number of steps and an indicator of actual progress, can vastly enhance customer experience. These multi-stage processes should also give customers the flexibility to save a partially completed workflow at any point so that they can come back and complete it at their convenience. Customers should also be able to simply 'cut & paste' activities that they have completed in the past instead of having to go through the entire process all over again.

Simplify branch

The branch is where it all began and notwithstanding the growth of alternative channels, branch banking is here for the foreseeable future. Unfortunately, it is more often than not, the least experiential and the most complicated channel.

Many banks are reinventing their branches on the lines of lifestyle retailers. But customers are demanding more and more, benchmarking their expectations against other consumption experiences. Which means they are less and less willing to queue up, or move from teller to teller. Hence the branch of the future will be digital, with assisted self-service options that can help customers complete their own transactions while they wait. But in order to succeed it must also meet customers' expectations of an experience that is more streamlined and fulfilling than any digital interaction. For that to happen, besides technologies, systems, processes and ambience, even the quality of service representatives must be enhanced for the digital age.

Simplify choices

Choice in the right amount is a good thing. But an overabundance of banking options can create indecision in customers. Banks need to move from a model that inundates customers with choice to one that delivers value through simplicity, relevance and transparency.

Savings and discounts should be made comprehensible rather than overwhelming. Since customers are increasingly using independent sources and even social media to validate decisions, banks should make it easy for them to exercise their choice, for instance by voluntarily providing access to tools and resources enabling speedy decision making. Banks should also build simple value-based arguments for their own products and services as customers will inevitably go comparison shopping, with or without their assistance. And they should follow through on these arguments to ensure a consistent fulfillment experience that will help build trust in this fickle digital age.

Banks must also remember that they are not empowering choice merely to acquire new customers; they need to do it even to build trust among existing ones.

Simplify support

Customers often cite grievances with their banking products and services related to fees or modification of terms. For example, a pricing structure that they opted into as part of a one-time campaign might never have been applied to their account. Or a change of address instruction could have been overlooked, or worse, need to be repeated for each product account. As bad as this situation might sound, in most cases, a convoluted resolution process makes it worse. Given the emerging reality that most customers no longer bank for life with just one financial institution, or already use multiple providers, banks need to simplify the process of redress to keep customers from walking away. They should ensure that the onus of process adherence during resolution, which today largely lies with the customer, is shifted to the bank. If a particular issue requires the raising of four separate service requests, it should be the banks' responsibility to do so. The focus must be on simplifying the entire process of support and resolution so that the concepts of customer-centricity and customer experience are brought to bear on this stage of the relationship just as in the acquisition stage.

Simplify rewards

Today's customers expect to be rewarded for their loyalty. Studies reveal that the promise of rewards is an important enough factor to convince customers to switch banks. Banks, therefore, need to view a loyalty program as another opportunity to engage with their customers. Needless to say, the process should be streamlined and simple so that customers can avail of rewards and benefits without having to chase them through another set of bureaucratic processes.

To conclude with the example we started with, in the seven years since the launch of the iPhone, there has been no dearth of brands aspiring to the smartphone throne. Many, if not most, have been able to close the gap in terms of features. But if there is one aspect that they have not been able to master, it is experience – an experience derived from simplicity. Banking is in a very similar situation today; product features are rarely ever proprietary. Customer experience, on the other hand, has the potential to be a distinct differentiator. But to achieve that, banks need to look beyond all the inherent complexity of the business to deliver an experience that is simply superior.

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Simplifying
the complexITy

For decades automobile manufacturers have relied on platform sharing to amortize costs across multiple models and vehicle classes. But in early 2012, when Volkswagen unveiled its MQB platform, the automotive world stood up and took notice. Observers hailed it as a turning point, a game changer and the most important automotive initiative in 25 years.

In banking, IT systems are the equivalent of the automotive sector's design, engineering and production systems. The business demands on both are largely the same – innovate products based on customer need and reduce cost and time-to-market while doing so.

MQB (the German short form for Modular Transverse Matrix) was not a new technology, but rather, a new way of doing things. At least 43 models in the company's brand portfolio would eventually be built on that platform, leading to reduction in build times, costs, one-off expenditures and weight and emissions. It would give the company the flexibility to build cars that consumers demanded, the agility to take them to market quickly and cost-effectively, and the ability to innovate across premium and volume segments. Above all this, the company expects annual gross savings of USD19 billion by 2019.

In essence, Volkswagen simplified its design, engineering and production processes to thrive in a sector that was innately complex.

In banking, IT systems are the equivalent of the automotive sector's design, engineering and production systems. The business demands on both are largely the same – innovate products based on customer need and reduce cost and time-to-market while doing so. But over the years that banks have been focused on doing exactly this, the build-up of complexity in their IT environments has undermined their flexibility, agility and overall ability to be customer-centric. The fact that banks have not been able to rationalize their products and processes has only compounded the complexity.

So, the case for simplifying IT in banks comes down to four competitive imperatives.

Reduce cost: Apart from severely compromising business value, complexity in the IT landscape drives up the overall cost of maintaining these systems, leaving few resources for transformation. According to industry studies, banks spend up to 80% of IT budgets on maintaining existing infrastructure. It is also estimated that IT simplification could cut half of application and infrastructure costs and reduce IT spends by nearly one third.

Increase agility and innovation: Complexity also affects banks' innovation capabilities. Legacy applications and systems characterized by inflexibility and closed architecture contribute to complexity and are resistant to change. The complexity of these legacy systems also poses a major roadblock to modernization programs. Simplifying the technology landscape will allow banks to be more responsive to market conditions and achieve significantly faster times-to-market.

Improve customer sales and service – Complexity erodes customer experience. Users may have to wade through multiple applications just to service a simple customer query because the IT architecture does not allow the free flow of information across products, processes or applications. The absence of a single customer view leads to sub-optimal customer service. This disjointed view of customer information can also have a debilitating effect on a bank's ability to make the right decisions quickly.

Improve Efficiency: In many cases, complexity is simply the result of too many applications crowding the same business, which only results in duplication of capabilities and inefficiency. The ad hoc addition of applications is often guided by the desire to be competitive but mostly compromises Straight Through Processing and productivity.

Every simplification program must focus holistically on all drivers of complexity to achieve a transformation that is truly sustainable.

The core principles of simplification

At the outset it is important to understand that although complexity is manifest in IT applications and architectures, it is also an outcome influenced by a bank's IT organization and governance model. Inasmuch, every simplification program must focus holistically on all drivers of complexity to achieve a transformation that is truly sustainable. Of course, the overarching theme for simplification is to enhance enterprise value and all changes, therefore, should be informed at all times by clearly defined business objectives and strategies.

Diagnose the present. Define the future.

This is probably the most critical stage of the simplification process simply because it exerts a strong influence on the outcome. Banks need to begin by diagnosing the existing application and architectural landscape by identifying elements, functionalities, redundancies, lacunae, interfaces and repositories. In this stage, it is also essential to pinpoint compatibility and performance issues in applications and infrastructure that pose limitations to achieving business objectives and goals.

The next step is to define the targeted future state of enterprise architecture as necessitated by the strategic business needs of the bank. Every application, platform and technological element must be rigorously scrutinized against enterprise needs, objectives and strategies to assess their relevance to business operations. This process will help banks arrive at the decision to retain, replace, upgrade or eliminate constituents, following which it will be much easier to prioritize and plan the transition to a simplified future state.

Choose components

Even as banks shift to enterprise architectures eschewing traditional silos, they should consider packaged, componentized products. Componentization affords significant benefits, both from a systems architecture and business function perspective, as it simplifies implementation and allows banks to pick and choose enterprise level components based on their business priorities. Componentization also allows them to plot a path to simplification that is consistent with their business and investment needs. It is important that the packages are interoperable and easy to integrate so that they can reduce the time for banks to realize business value from their simplification programs. While choosing a package banks should opt for those which are parameter driven and also provide the flexibility to extend them based on need.

Standardize / Centralize

Standardization of applications across the various departments and processes of a bank can have a transformative impact on the IT landscape. By standardizing and sharing applications across the organization, banks can not only benefit from synergies but also reduce system complexity. Hence they must start deploying standardized applications using open systems architecture that follow standard market interface protocols. Another route to standardization is by deploying enterprise-class components that can handle business functions across the enterprise to replace multiple applications, boost operational efficiencies and simplify the IT landscape of the bank. Banks can also optimize the architecture by creating central technology hubs where applications are centrally maintained and managed and are shared across the organization's business units, geographies etc. This is especially useful for banks with multi-country presence. Standardization and centralization would help banks achieve economies of scale and thereby secure better deals from suppliers.

Based on the target architecture, banks will also need to embark on an exercise of rationalization by replacing, retaining and consolidating applications. Though a reduction in operational cost is the most immediate impact of application rationalization, it also significantly enhances banks' flexibility and agility in innovation.

Simplified IT organization and governance

In order to ensure the sustainability of their simplification efforts, it is critical that banks transform their IT organization and governance model to fit the new landscape. The first step would be to institute a simple but comprehensive governance framework that is easy to understand and implement. The framework should also clearly define the alignment between business and IT so that both sides understand the deliverables. Banks also need to rethink their IT organizations, which over the years might well have become as complex as the IT environments in their charge. A simple, open IT organization, without multiple layers that impede quick decision making or complex hierarchies that reduce productivity, and which is staffed with the requisite skills for the new IT environment, will be central to the success of the program.

Conclusion

Technology simplification is a challenging and yet highly rewarding exercise for banks. Besides reducing costs by identifying and plugging leakages across the IT resource landscape, which is simplification hygiene, a simple and transparent architecture also allows the mapping of IT costs to actual value delivery so that resources can be prioritized and optimized on the basis of value across the enterprise. By streamlining and optimizing applications and processes across the banking environment, banks would be able to significantly enhance the flexibility and agility of their enterprise systems to become responsive to the changing dynamics of the marketplace. By transferring the focus from banking products to banking customers, simplification empowers banks with a unified customer view that can inform new customer-relevant product, service and pricing structures, and therefore opens up brand new opportunities to enhance revenues. From the customer's perspective, this translates into a standardized and consistent experience across the bank's product, service and channel portfolio. Most important though, is the fact that beyond the obvious business value, simplification can be the source of competitive advantage required to drive innovation, growth and profitability in today's demanding banking environment.

By streamlining and optimizing applications and processes across the banking environment, banks would be able to significantly enhance the flexibility and agility of their enterprise systems to become responsive to the changing dynamics of the marketplace.

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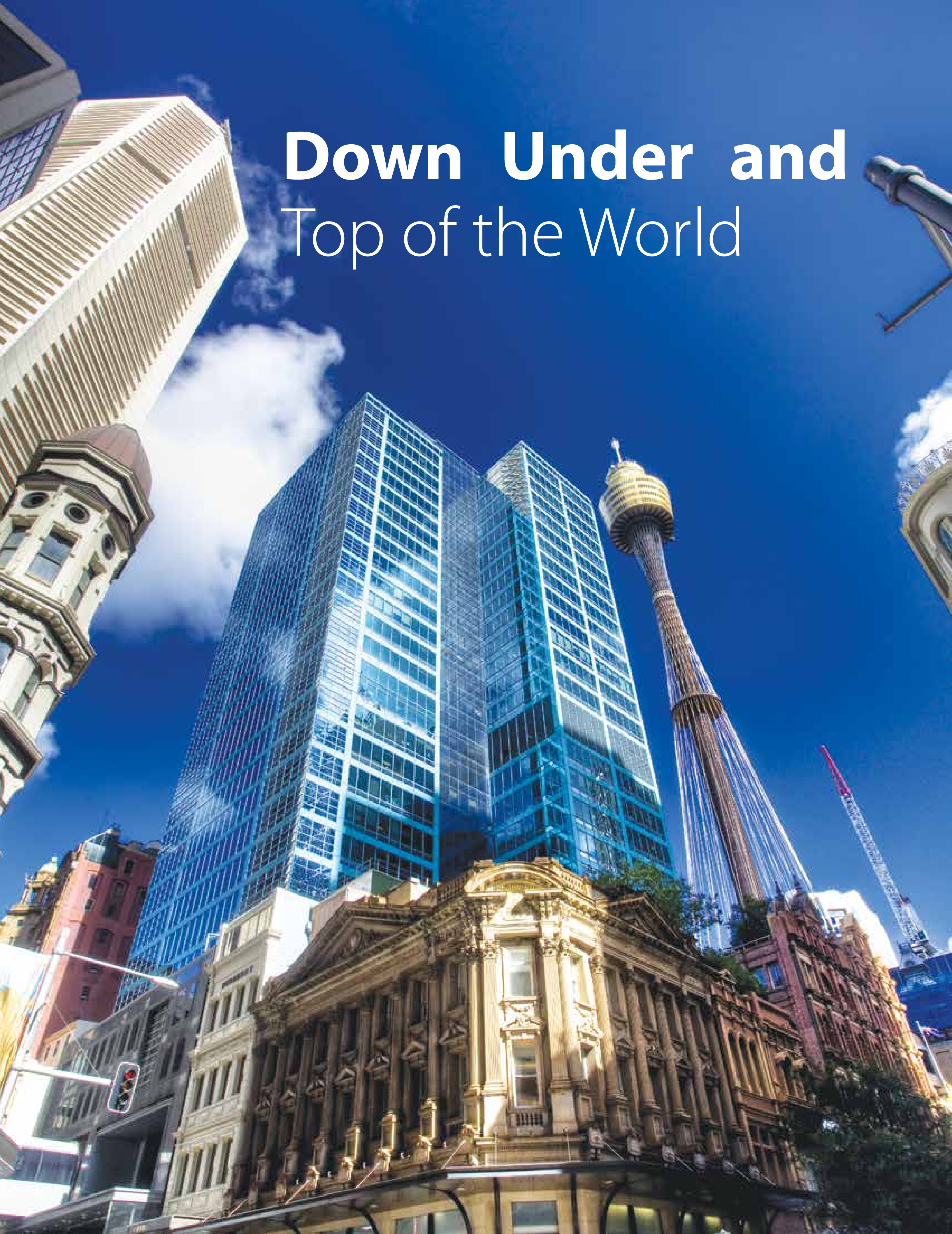
Down Under and Top of the World



This year, Australia topped the OECD's list of happiest countries to outdo its second position in the Human Development Index rankings. With its abundant natural resources, spectacular landscapes, and some of the most livable cities on the planet, the world's smallest continent seems to have it all.

Even on the economic front, Australia has an enviable track record. Prior to the Great Financial Crisis, the country's economy grew for a straight 17 years. Even during the crisis, the impact of a fall in exports was mitigated by a US$ 50 billion fiscal stimulus and sustained Chinese demand for Australian commodities. The strong financial system also played a very important role – Australian banks, which were stable through the crisis, were held up as symbols of fiscal prudence and resilience.

However, a few small cracks have now begun to appear. GDP is expected to grow only 2.4% this year, and barely 2% in the next couple. The Australian economy is vulnerable to volatility in Chinese demand for iron ore and other commodities. The labor market, consumption and business confidence have come off somewhat from their former high levels.

In 2008-09, the country's high mortgage lending standards prevented the property market from crashing. But today, there are fears that a riskier approach to lending on the back of a low interest environment is sending property prices soaring. In September 2013, housing loans with a loan to value ratio exceeding 80 percent reached the highest level since June 2009, making lenders, borrowers and insurers more vulnerable to a fall in the property market.

Prior to the Great Financial Crisis, the country's economy grew for a straight 17 years. Even during the crisis, the impact of a fall in exports was mitigated by a US$ 50 billion fiscal stimulus and sustained Chinese demand for Australian commodities.

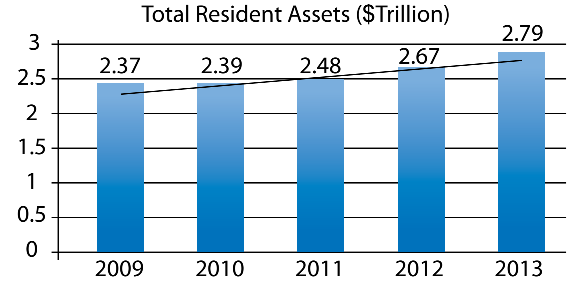
So, while the Australian economy is certainly not in crisis, it is at a crossroads.

Robust and resilient banking industry

The finance and insurance industry is the second largest contributor to GDP, after mining. The total resident assets of the banking industry (forming approximately 90 percent of total assets) crossed $ 2.79 trillion for the year ending June 2013. Housing loans are by far the largest constituent of banking assets. At the end of June 2013, such loans totaled $ 1.17 trillion.

Australian Banking Industry

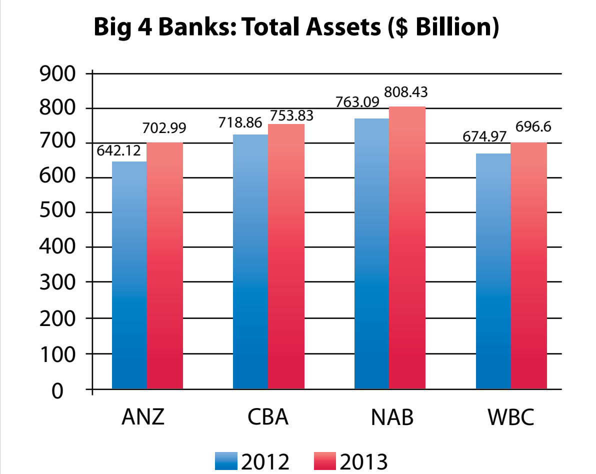
Total Resident Assets ($Trillion)



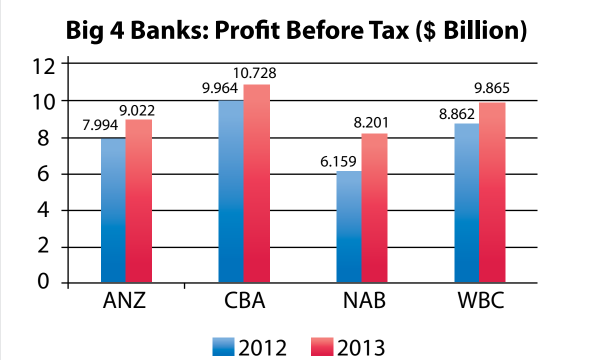
Total Resident Assets ($ Trillion), Source: Australian Prudential Regulatory Authority

The Australian banking industry is highly concentrated. The Big four, comprising Australia and New Zealand Banking Group Limited (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank Limited (NAB) and Westpac Banking Corporation (WBC) dominate the market. At the end of the 2013 financial year, these banks held more than $ 2.21 trillion in assets. They were also rated the most profitable banks in the developed world, thanks to lending growth, low impairment charges, and cost efficiency. In FY 2013, the big four made a profit before tax of $37.8 billion, 14.7 percent up over the $33.0 billion they earned in 2012.

A bulk of those profits has been paid back to shareholders. Banks paid a record $21.2 billion in dividends. Banks are also planning to invest six to seven billion dollars in improving products and services leveraging technological developments, such as mobile banking.

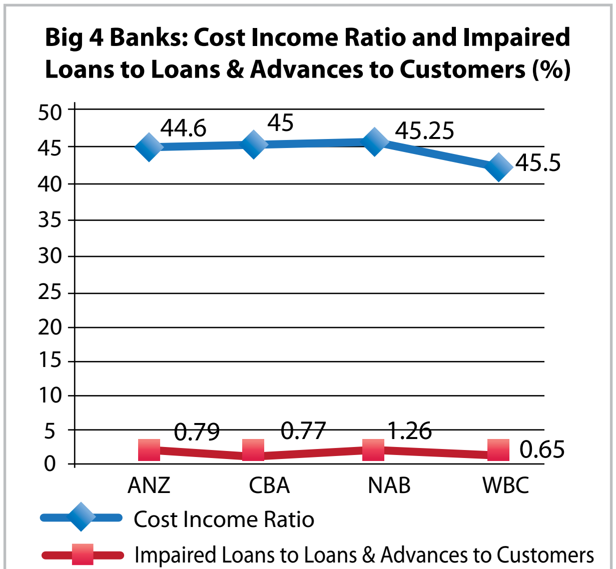


Total Assets of Big 4 Banks ($ Billion), Source: Major Australian Banks Full Year Results 2013, KPMG



Profit Before Tax of Big 4 Banks ($ Billion), Source: Major Australian Banks Full Year Results 2013, KPMG

Besides ANZ, CBA, NAB and WBC, Australia is home to several smaller regional and community banks, such as Suncorp Bank, Bank of Queensland and Bendigo & Adelaide Bank. Some banks, like Suncorp, are backed by a larger financial group. While none of the smaller banks match the big four on balance sheet, credit rating, cost of funding or Return on Asset, they do have certain strengths: for instance, Bendigo & Adelaide Bank operates a community branch distribution model focusing on building a network in areas that the big banks have ignored or exited. It shares its profits with the local communities where it is present. Also, many of the smaller banks enjoy high customer satisfaction ratings. In the six months to September 2013, the big four banks found customer satisfaction scores touching an 18-year high. Even so, they lagged banks like ME Bank, Bank of Melbourne, and a couple of new Mutual Banks. Many international banks have also set up operations in Australia, although none of them has achieved scale.



Cost Income Ratio and Impaired Loans to Loans & Advances to Customers of Big 4 Banks ($ Billion), Source: Major Australian Banks Full Year Results 2013, KPMG

Better than world-class supervision

Regulatory institutions, Reserve Bank of Australia (RBA) and Australian Prudential Regulatory Authority (APRA), deserve much credit for the health of the nation's banking industry. Rigorous supervision, effective regulatory infrastructure and prudent policymaking ensured that Australian banks were well capitalized and resilient enough to withstand the shock of the Great Financial Crisis. The regulators showed clear intent in the aftermath of the crisis, quickly swinging into action with efforts to shore up liquidity and further strengthening the regulatory mechanism.

Australia's banking regulators also take an active interest in the functioning of the industry. They engage with banks on matters as wide ranging as reporting, product structuring, and interest rate determination, without being overly restrictive. They are also concerned about encouraging market growth, upholding transparency and protecting customer interest. The regulators have consistently taken a collaborative approach towards new policy and process formulation, and in the introduction of market initiatives.

In the six months to September 2013, the big four banks found customer satisfaction scores touching an 18-year high. Even so, they lagged banks like ME Bank, Bank of Melbourne, and a couple of new Mutual Banks.

Products: same, yet different

The banking market is replete with a large number of products, including different types of standalone banking accounts, as well as combined account plus loan products. A variety of mortgage products feed the thriving housing market.

The massive $ 1.2 trillion housing loan business is served by a system of banks and third party brokers working in tandem. The strong broker network takes care of several preliminary activities, like application collection, review and processing and property and proportionate loan valuation, which are typically the responsibility of banks or their direct agents in other markets. Some brokers go so far as to open the loan account before transferring it to the bank, which disburses the loan. Accordingly, the banks' systems are well integrated with those of their brokers.

A number of retirement products have also sprung up to meet the needs of a growing aging population. Although these are modeled on similar products found in Canada and the United Kingdom, they are customized to the Australian context. For instance, retirement products earn a differentiated rate of interest – rather than a flat rate – depending on the consolidated value of retirement funds held by the customer.

Banks bet big on IT

Australia's big banks have both the scale and the financial resources to make viable technology investments. In 2012, banks spent over $2 billion dollars to acquire technologies that made them more attractive to customers and more compliant with regulations. Online technologies and mobile technologies, such as NFC, were among the top draws. Last year, Commonwealth Bank completed its $1.1 billion core systems modernization program, taking it well ahead of its like-sized rivals.

In March 2013, IDC predicted that Australian banks would figure among the top IT spenders this year and would increase their outlay by 6.8 percent compared to 2012.

The outlook is equally bright for 2014, when the financial sector will invest large amounts in technology transformation, Cloud, Data Analytics and Mobility.

Payments are another important area of interest. With much ongoing consolidation of payment systems, a number of Australian banks are looking to replace multiple silo systems – one for each payment network – with a single solution. The industry is also working towards building a real time retail payments platform, and has set for itself a deadline of 2016 for completion.

A government appointed advisory firm is helping with this. This is expected to revolutionize the existing system, and bring it in line with those in other regions, such as Europe.

Some investments may also be deployed into Internet banking by banks that were slow to transform that channel. These banks will aim to upgrade their legacy Internet banking to a solution that offers much more to retail banking customers by way of interactivity, Personal Financial Management tools, and audio-visual support, and additional services, such as supply chain management for trading, to corporate clients. On the corporate banking side, there is some demand for loan origination solutions to streamline the processing of multicurrency/syndicated/infrastructure/small business loans.

Banks are also beginning to show some interest in social media technologies. At this stage, their need is for solutions, which can analyze their social media presence – number of mentions, feedback, sentiment and the like – rather than for solutions integrating social media with other channels.

Tough to beat, tougher to enter

Australia ranks among the most sought after markets for technology vendors. Technology companies attempting to break through will have to cater to the Australian banking industry's need for solutions that allow them the flexibility to quickly introduce new, segment-specific products or extend channel infrastructure.

Any core systems replacement exercise in a tier 1 bank would be fraught with immense complexity. Also the banks would expect to run their legacy and new systems in parallel for some time to minimize business disruption. In such a scenario, it might be advisable to propose a component-based transformation and progressive replacement of core systems. This would allow for course correction in the face of any change in the original assumptions or dynamics of the project, as well as enable periodic reinforcement/reassessment of priorities. Core banking technology vendors should also prepare for cloud-based replacements in the future; big banks in particular, are almost certain to own a private cloud.

A pre-configured, reusable blueprint customized to the Australian market is a necessary element of successful strategy. This means vendors must offer a set of pre-configured functionality, methodologies, tools and capabilities for both greenfield deployment and migration to or from another platform. Along the way, they can also offer a repository of structured processes to enable the banks to standardize and rationalize processes across branches, business units and even geographies. Vendors who leverage and improve upon their previous deployment experience are better positioned to succeed in this lucrative market.

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IndusInd Bank, India
Powering growth, agility and compliance

Profile

IndusInd Bank derives its name and inspiration from the Indus Valley civilization – a culture described as 'one of the greatest of the ancient world'. The Bank combines a spirit of innovation with sound business and trade practices.

IndusInd Bank started its operations with a capital of Rs. 1,000 million. Today the Bank has a net worth of Rs. 74,180 million (as of March 31, 2013) and caters to over 3.7 million customers across the country. Established in 1994, the Bank was one of the first of a new generation private sector banks in India.

The Bank believes in driving its business through technology. It enjoys clearing bank status for both major stock exchanges – BSE and NSE – as well as for the major commodity exchanges in the country, including MCX, NCDEX and NMCE. On April 1, 2013, IndusInd Bank was included in the NIFTY 50 benchmark index. The Bank also offers DP facilities for stock and commodity segments.

Core banking transformation imperative

Early in the year 2011, IndusInd Bank took a long-pending decision to change its legacy core banking system of 17 years. Core banking replacement, which is never easy, becomes more difficult when employees are habituated to a certain way of doing things. But the Bank could delay no longer, because its existing system was denting its ability to grow and compete with rivals who had all migrated to modern core systems.

To make up for lost time and opportunity, the Bank ambitiously set its sights on a solution that would support new business functions, integrate with more than 40 internal and external systems and be open enough to absorb future businesses and acquisitions. And it wanted it all done simultaneously, in a big bang effort, in less than 15 months.

Business drivers

Growth plans

In 2010, IndusInd Bank was making plans to drive growth in business volumes. It intended to treble its branch network by 2013. However, this was beyond the capability of the existing legacy core banking system, in service for 17 years. There was clearly a need for a sophisticated, scalable and state of the art alternative.

Product expansion

Also, the business was clamoring for new products with better features to keep pace with the market's rising expectations as well as the competition. But the core banking system lacked the flexibility to support agile product creation and quick rollout to market.

Compliance imperative

In a post-financial crisis environment, the Bank faced stiff compliance mandates, which were becoming increasingly difficult to fulfill on the old system. These factors convinced the Bank that it needed to bring in a new core system quickly. After a rigorous process of evaluation, IndusInd Bank decided to implement Finacle 10.2.

Mr. Romesh Sobti, MD & CEO, IndusInd Bank said, "The Bank believes in driving its business through technology, and with Finacle, we are able to achieve our growth plans and meet the ever changing customer needs. We are confident that Finacle will help significantly scale up our customer base and branch footprint besides improving productivity".

Challenges

The task was extremely challenging for a number of reasons. Firstly, there was a need for extensive customization in order to accommodate bank-specific new business functions. Secondly, the Finacle solution had to be integrated with more than 40 internal and external interfaces. Thirdly, the Bank wanted a provision for absorbing future businesses or acquisitions on to the same platform.

Mr. Paul Abraham, Chief Operating Officer, IndusInd Bank said, "Finacle core banking implementation is one of the most significant steps in the Bank's transformation journey with which the Bank sits at the cusp of significant growth, both in terms of physical distribution and range and sophistication of its products suit".

Last but not the least, the entire exercise, including migration and feature enrichment, was to be completed within a very short timeline of 15 months – with a 30-day buffer at most – in order to minimize disruption. This marked a departure from the usual practice of implementing in phases and also entailed greater risk.

Apart from being extensive, the customization was largely of a "first time" kind, which meant that there were no ready components or experiences to draw upon. The scope of integration was similarly complex, covering different technologies like Web services, ISO messages, XML over Https, and SSO redirection, to name a few. To top it all, not only transaction history, but also extensive product specific data was to be moved to Finacle. Then there was the challenge of retaining the old ID and passwords of a large user base of over 4,000, on the new core system.

The implementation team was under tremendous pressure to deliver customization and user acceptance testing on time, not only to meet project deadlines, but also because the Bank's employees were available to the project for a limited duration. In a first of its kind instance in Finacle implementation, requirement gathering and solutioning were undertaken simultaneously to compress the project cycle. Further, in order to ensure that things remained under control, the project team, composed of representatives from business, solution delivery, information technology and marketing met daily, and reviewed progress with the Bank's Head of Operations and the delivery manager from Infosys once a week, and with the high level steering committee once a month.

Once the new core banking platform was ready, the Bank initiated a performance and penetration testing procedure using an exhaustive repository of about 1,500 scenarios that could be expected in a production environment. For the Bank, testing was not only about compliance, but also about ensuring that the new platform delivered on its promise of scalability, performance and quality of customer experience.

Then came the task of data migration. The need to migrate 18-month transaction history to the new core added to the inherent risk of this process, and a short window of 24 hours to do it all didn't help matters. The Infosys team came up with an innovative solution of parallelizing the move of voluminous data. Not only did it meet the deadline, but it was also able to logically explain any differences that arose between the two balance sheets. But there was one more hurdle in the path of go-live, and that was crossed when the external auditors signed off both financial and non-financial data migration.

18 months and 10 days from the date of the contract, Finacle went live at IndusInd Bank on December 10, 2012, in an extremely smooth and seamless transition. The Bank's goal of ensuring transparent cutover at minimal down time was realized.

Benefits

The Finacle core banking implementation has been successfully completed in all branches to facilitate the delivery of state-of-the-art banking services. The bank currently has 3.74 million customers, 530 branches, and 1003 ATMs spread across 380 geographical locations in the country. The Bank also has representative offices in London and Dubai. The Bank's total business exceeded Rs.1,000 billion as at June 30, 2013.

The Bank which went live on Finacle's consumer e-banking solution in April 2011, is serving over 1,80,000 customers through this channel.

As a part of this transformation project multiple functionalities were provided and improved upon. These were categorized as general customer service improvements and specific assets and liabilities improvements.

Customer service improvements

- Services are truly at par with industry standards
- Retail FX transactions
- On line issuance of SWIFT advice, FIRC (Foreign Inward Remittance Certificate)
- Future dated loan payoff enquiry
- Choice of account number functionality for prospective/existing clients to select an account number of their choice

Mridul Sharma, EVP & Head Solutions Delivery, IndusInd Bank, India said, "In terms of scale, starting from around 180 branches, today we stand at 500+ branches with a full suite of products and services. We went live in December of 2012, within the projected timelines of almost one and a half years that the teams have been working jointly across the Bank and Infosys. The transformation from our earlier core banking system to Infosys Finacle went off very smoothly, it was a success. Overall, when we look at the size and scale of this operation, both teams have worked quite well."

Asset product support

- Collateral
  - Support for 17 types of collateral
  - Security classification is possible
  - Drawing power derivable (as a haircut %) of collateral value
- Ad-hoc/additional limit
  - Original limit can be topped-up by this ad-hoc amount with a defined roll-over and expiry date
- NPA and write-off
  - DPD counter available, NPA classification done in the system unlike earlier, when it was done outside

Liabilities product improvement

- Cash
  - Aided AML control in the form of pop ups and

memo pads
- Referral concept available

- Remittance
  - Demand Deposit (DD - INR and FX) inventory control is now available in core
  - Multiple level DD charges discount functionality to cater to multiple product offerings
  - RTGS/NEFT transaction utilizes the check from the customer account
- Clearing
  - Complete change with legacy concept of zone
  - Inward check returns – automated workflow for informing the RM/BM on mail and SMS
- Fixed deposits
  - Treatment of overdue deposits is an automated flow
- Corporate loans and retail (personal) loans are supported on Finacle. The Bank has recently launched a personal loans product
- Hovering charges functionality to recover pending charges from customer
- Customized account reservation
- Gold coin sale is easier as the inventory module is in the core banking solution itself
- Manual reconciliation of internal accounts is not required

As a part of general efficiencies and operations improvements at IndusInd, specific tools were created for
- Bulk user creation in core/CRM/SVS
- Bulk office account creation
- Configure data movement
- BJS and calendar replication scripts
- Bulk account and CIF creation for CASA
- Bulk retail CIF creation
- Bulk loan account creation
- Bulk loan disbursement
- Bulk ECS mandate creation

Key elements of transformation

- Moved from legacy core banking system, in service for 17 years, to a consolidated Finacle Platform
- Finacle solution integrated with more than 40 internal and external interfaces
- Performance and penetration testing procedure completed using an exhaustive repository of about 1,500 scenarios
- Parallelizing the move of voluminous data to migrate 18-month transaction history
- Finacle went live in 18 months and 10 days from the date of the contract
- Achieved extensive customization in order to accommodate new business

A Simpler Future
for Banking

Separating good complexity from bad

At this year's Global Electronics Forum in Shanghai, there were 22,000 new products on display. In my view, that is as good an indicator of the complexity of 21st century business as any. Not unexpectedly, the banking industry finds itself near the top of the complexity leaderboard – coming in 6th among 26 industries ranked on a global complexity index.

It is tempting to counter this judgment by saying that complexity is evolutionary collateral; as banking becomes more sophisticated, so must banks become more complex. At this point it may be useful to digress a bit to make an important distinction between complicated and complex, terms that are often wrongly used interchangeably. In his presentation titled "Physics Meets Wall Street: Complexity in Business" made at this year's TEDxHalifax event, eminent academic and capital markets expert Dr. Rick Nason separates the two. He cites the example of a space mission as a complicated operation – it involves performing approximately 100,000 steps all of which are necessary and must be completed with absolute precision to achieve the end result. Tough, but when all the steps are performed as they should be, the result is clear and predictable. Complexity, on the other hand, says Dr. Nason, arises from events or situations that are neither predictable nor consistent in outcome. Anyone who has raised a teenager would know!

Although Dr. Nason does not explicitly say so, we can extrapolate his ideas to come up with the following simplistic distinction – complicated is built on what is necessary, but complex is not. Or alternatively, we can say that the former is good complexity, but the latter is not.

And it is the latter – the unnecessary or bad complexity – that is the source of much CEO consternation. Because it can really destroy value. A study of the Global 200 companies, which includes 26 banks, reveals that a majority of global banks are close to or beyond the complexity tipping point, where complexity adds cost and destroys business value. Another research study estimates that reducing the complexity in banking could result in a nearly 20% increase in profits.

Reducing bad complexity

Any attempt to mitigate banking complexity must start by exploring its principal causes. For the purpose of this article, we shall categorize them as external and internal factors, although some do overlap. Also, external and internal factors of complexity drive and impact one another.

External factors

Macroeconomic situation: The macroeconomic situation is grim all around – the absence of visible greenshoots, heightened risk of natural disaster, and a lethal concoction of inflation and stagnation are creating much uncertainty. The fact that banks do not know what to expect is only adding to their complexity.

A study of the Global 200 companies, which includes 26 banks, reveals that a majority of global banks are close to or beyond the complexity tipping point, where complexity adds cost and destroys business value.

At the same time government and private investors are unwilling to put money into infrastructure or development, thereby drying up the source of credit growth, which is already under pressure from a lower savings rate in an inflation-hit economy.

This vicious cycle of external factors is impinging upon banks' internal policies and budgets, often inciting short-term actions conflicting with one another. For instance, the average investment horizon, which is down to just three to four years from about 16 – 17 years a few decades ago – and is only 30 days in banking – is creating a mismatch between banks' long term lending and short term funding.

Regulatory environment: Regulation is clearly one of the biggest sources of complexity in the banking domain. Today, it is at unprecedented levels. Just one piece – the Dodd Frank Act, which is only 30% complete – occupies more than 8,000 pages. In fact, Jamie Dimon of JPMorgan Chase estimates that his Bank will have to set aside between US$ 400 to 600 million every year to comply with this law.

Rumblings in the establishment are also making things more complex for banks. Moves to unify banking regulators, or create super-regulators like the ECB-in-the-making will have serious implications on the economy and currency of the region, and a spillover effect elsewhere. Amidst all the uncertainty, the only certainty is that these changes will increase the time and cost of compliance.

Internal factors

Customer expectation: On 11/11, designated Chinese Single's Day, e-commerce giant Alibaba recorded the highest sales on a single day in history at US$ 5.75 billion. The Single's Day – the antithesis of St. Valentine's – is a great example of marketers discovering and fulfilling an unarticulated customer need.

Banks must make a similar progression in fulfilling customer expectation. Some banks have transitioned from a product-centric to customer-centric model, but even they lag other industries, which have become highly customer-specific. That's a tough task, made more difficult by the fluid nature of the banking business. Let's illustrate that with an example:

Some banks have transitioned from a product-centric to customer-centric model, but even they lag other industries, which have become highly customer-specific.

Unexpected competition: Banks least expected that someday they would battle telecom companies, retailers, and Internet startups in the marketplace. Or that virtual currencies would actually command real value. It is fair to say that many banks were caught unawares, with the result that they were not ready with products to counter the new disruptive offerings from non-traditional competitors. Worse, (from the banks' perspective), many of these products are creating collateral effects that could fundamentally change the business of banking. A good example here is the significant withdrawals made by customers to buy Bitcoins, which further stressed their banks' liquidity position, and is inspiring other companies like Amazon to introduce currencies of their own.

Events such as these should lead banks to ask the question if they will have a role to play in the investment cycle, going forward. At the very least, they must respond to external complexity by adapting their internal business models and market facing strategies. An area of concern is that the industry currently lacks the new age skills to convert into a new age business.

A manufacturing industry like automotive, has a "stable core" in the form of a relatively unvarying production line, and standard inputs and processes. In contrast, banking has to deal with much change and uncertainty – in customers, products, competition, business models and so on – which add to the overall complexity. This erects obstacles in their ability to meet customer expectations.

Technology: Technological change and complexity has manifested as evolution for some banks, and revolution for others. Unable to cope, those in the latter category have bowed out of the industry. For those still standing, this round of tech evolution is more intensive than anything they have experienced in the past. Rapid pace of change apart, these banks must deal with the reality of having very little control over technologies like Social, Mobile and Analytics.

How to simplify

Once banks identify the factors at the root of the complexity within their organizations, they can apply that knowledge towards simplification. Given their size and diversity, it is certain that banks will have several strategic options before them. One way to prioritize action is from an external shareholder perspective – targeting asset efficiency or capital efficiency or free cash flow.

Again, no one size fits all. Most developed market banks are struggling to meet even their basic cost of equity: In Europe, banks earn a 0 to negative Return on Equity, versus a 9 to 10 percent cost (of equity). In the United States, the figures are 7 percent and 8 to 9 percent respectively. Contrast that with the emerging world, where Asian and Latin American banks make 17 to 19 percent, but spend 10 to 14 percent on equity.

The story repeats itself in growth and efficiency statistics: Where China's banking revenue is growing at a CAGR of 10 percent, Europe's is shrinking at the rate of 1 percent every year. Again, American banks' cost to income ratios have worsened from 59.9 percent in 2010 to 67.7 percent today; on the other hand, Asian banks have become more efficient, with some managing to keep their ratio of cost to income below 30 percent.

Individual banks must decide for themselves where to focus the thrust of simplification, based on what they would like to improve first or foremost.

What to simplify

Another, more commonly used approach seeks to simplify business models, products or processes, or a combination of them all.

Simplify business models: Wells Fargo is often cited as the bank to beat in many aspects. However, with more than 3,000 subsidiaries under its wing, the Bank has still some distance to cover when it comes to organizational structure. Wells Fargo is not alone: the top six banks in the United States alone account for more than 20,000 subsidiaries. Although taxation structures often dictate org structures, banks must weigh the benefits against the cost of replicating processes, silos, and infrastructure in each subsidiary. Now, they also have the technology levers to make such shifts. An example – perhaps a slightly extreme one – is (online bank) Simple, which is currently focused on making its presence felt in just one market.

Simplify products: It's an example tired beyond cliché, but no discussion on a simple product range is complete without Apple. One phone, unlimited apps, and the product range is complete. What's more, the product has progressively become simpler with every release, yet improved experience.

Banks must likewise limit the complexity of their product range, while improving its experiential aspects. This is not a matter of chopping and changing, but rather approaching all aspects of product development – from definition to design to delivery and distribution – from a perspective of simplification. A good example is Capitec Bank, where simplification drives innovation. The Bank is built on simple products, simple infrastructure and simple business processes.

Simplify processes: Amazon is experimenting with employing drones to deliver orders. This comes as no surprise from a company that has always tried to simplify all its processes, whether in logistics or customer understanding or consumer experience. Manufacturing companies have done the same with Lean and Six Sigma. But process driven banking has only added more complexity through its processes. With competitors from the retailing and telecom space serving a range of financial services through simple processes, it is imperative that traditional banks rethink their own to deliver the promised experience.

No doubt, these are challenging goals for an industry characterized by regulation, size and sophistication of operation. Banks will have to take some tough decisions to unravel some of the complexity built over the years. The sooner, the better.

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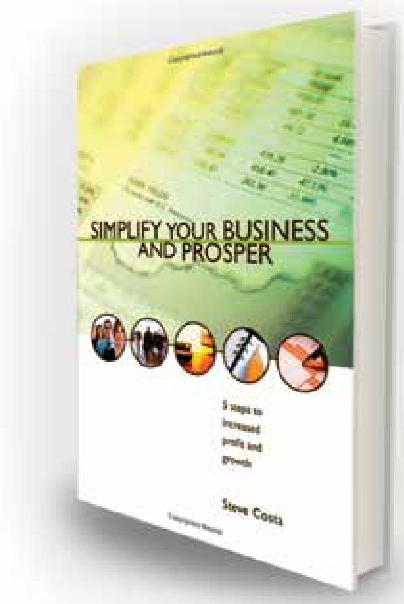

Simplify Your Business and Prosper

By Steve Costa

This 2006 business strategy book may be almost a decade old, but the ideas author Steve Costa discusses in it, hold true even today, and will perhaps continue to be relevant in the days to come. This book, about keeping it simple, is for anyone that is looking to build a successful business or career. Steve introduces a downright logical five-step approach to success, and shares his vision for an effective business. Starting, from inception to setting it up, marketing, sales and technology, Steve proposes a uniquely simple approach to running the show.

The book is targeted not just at entrepreneurs but also managers and executives looking to be more effective and grow. Steve draws from his personal experience as a business advisor, a consultant and an entrepreneur to help people skip the trial and error phase and jump straight to what's tested and proven. In essence, life is simple, but we tend to complicate it over time. In business too, complexity is often a product of our own creation. And sometimes it takes a third person to point it out, and show us a simpler path that may always have been present, yet not obvious to our mind. Simplify Your Business and Prosper does just that.

From understanding how you can be more profitable, to improving your productivity, measuring your success, building better relationships with your customers and stakeholders, and choosing the right technology for your needs, this book has all the answers to simplify your business.

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