



“If in doubt, invest in technology”

An Informative piece on deriving maximum business value from Technology investments in the Banking and Financial Services Sector ©

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If In Doubt, Invest In Technology

Rs. 1,20,000 crores have been spent over the last four years on IT in the Indian Banking & Financial Services sector. If we consider approx. 200 active banks/ institutions – leading the technology brigade in India, an approximate Rs.150 crores per annum, year on year has been spent by each of these institutions. And future budgets, upwards of Rs. 150 – 200 crores are not unheard of.... But how are these decisions made? What is the impact of this spend? Has the Rs. 120,000 crores generated an equivalent value? How long will the payback be? How can it be hastened?

If in doubt...

As the presentation by the 'Software Purchase Evaluation' committee came to an end, the top management of the bank was immersed in deep thought. After all, this was a decision that would cost the bank several crores, considering all the attendant hardware, networking, and training costs involved. The vendors had, of course, reminded everyone that the real cost would be those hundreds of crores of value that the bank would lose out on, if they did not go in for this solution.

The CEO pondered. The stock prices had been falling off late. This could be a good signal. After all, the market loves tech savvy companies. The vendor had been claiming that the fancy things this software could do, would become the banks USP – unique selling point. That spelt 'competitive advantage', if you referred to a dictionary of 'Strategic Management'.

The VP Operations was barely able to take his mind off the multitude of escalated customer complaints and VIP requests that took up 30 to 40% of his time, of late. If everything that he had heard about the capabilities of the 'new and integrated' software was true, he was ready to give his right arm to get it. At least, after providing such a huge and expensive support

to his fellas, they would dare not come back with cries of haplessness!

The VP, Technology, was of course trying to negotiate his way through the quagmire of technological buzzwords, to evaluate which vendor would be the best. That the software had to be bought, was a foregone conclusion.

No prize for guessing what decision was unanimously agreed upon.

It indeed was, great software!

It had the desired effect on the management and the market. Only that customers continued to wait for the same 25 minutes for a Cash or Demand Draft to be issued, and employees continued to double-check physical vouchers even when they had done re-confirmation of every transaction in the system. Many of the mandatory/ compulsory fields in the system would now be filled with XXX, and slow system speed would often be the bane for operations. At the end of the year, good treasury income and deposit mobilization overdrive had also saved the day for shareholders and management. So complaints about the IT system, if any, would remain the cribbing subjects for corridors over cups of coffee.

When the cribs finally reached the ears of the software supplier, pat came a reply, 'Our next version releasing on Day 2, will take care of this

problem'; only that the next version will cost Rs 150 crores more!

Yes, as you read this, across the innumerable corridors in the country, people are grumbling furiously about Rs.120,000 crores of '*Customers money*' invested in technology by the Banking & Financial Services sector in India over the last four years¹.

Were the vendors lying?

No, they weren't. The software was indeed great. It had the potential to generate a tremendous amount of value. The same software had given tremendous business benefits to the bank next door, not to mention to numerous banks across the globe. ***The product was good, the credentials were good; so why did this bank and many others not extract full value out of the technology spend?***

Our Point of View

Based on our vast management consulting experience across Banking & Financial sector in India, we believe that value realized in terms of Cost Savings and Revenue Enhancements, could have been more than doubled for the same IT spend (meaning halving the payback periods) had Indian banks & financial institutions been prudent enough to understand and learn what we as a nation learnt, when we won the 1971 war... ***'It is not the high tech flying machines that win the war, it is the people, the processes, the discipline, and the planning which goes behind the right machine that wins the war'***

¹ Dataquest-Nasscomm study quoted in Business Standard, Banking Annual, 2004

We have helped a large number of leading Indian private sector banks as well as global banks/ Insurance players leverage full value out of various technology initiatives. There are 5 areas that need to be 'focused' on while implementing technology in order to leverage full value out of investments.

5 P's to be focused on while implementing technology

- **Paradigms**
- **Processes**
- **People**
- **Profitability**
- **Pace**

Paradigms: All problems seem like nails if the only tool one is used to, is a hammer.

The 1st P, which needs to be focused on by a bank undergoing a technology transformation, is the set of 'Paradigm' changes across various functions in the bank. Let's look at a few simple illustrations of this 'P':

A cash teller captures all the transaction details in the core banking solution, yet he/ she has a manual scroll sheet to capture almost all the same details – in order to tally the cash denominations – just because the auditor wants the daily reconciliation on the scroll sheet as he does not yet believe the system or is more comfortable with the manual recon. The paradigm changes need to happen in the minds of the branch manager, the auditor, the risk manager, etc,

- a) Some time in 2000, we posed a rather naïve question to a client – why do you need an application form to issue an account number? Why don't you create pre-generated account numbers in a centralized factory and issue it across the counter to the

customer? Traditionally, even today, most banks across the globe, wait for the application form to hit the processing center before commencing the processing – the paradigm shift which we were able to convince the top management of this bank was to shift from a ‘Make to Order’ situation to a ‘Make to Stock’ situation. This leading bank in India has gone public in announcing the huge amounts of savings they could achieve due to this paradigm shift, and last year they were able to turn around 10,000 new customers accounts every single day the bank was in operation throughout the year! Thus, the bank benefited from huge cost savings due to centralized processing, which was anticipated in the technology initiative, but shifting to deactivated pre-generated account numbers in a centralized scenario, leveraged technology significantly, helping to increase market share, generating top line and bottom line value to the bank.

- b) ATM cards normally take a long time to reach the customer, be it the first card, or the reissue card. And in 3 to 4 out of 10 cases, these cards had the customer names misspelt, leading to customer dissatisfaction, complaints, rework, additional ATM cards, etc. The question we asked a leading private sector bank is - Why do you need a customer’s name on the ATM card? The ATM machine does not need it; then who needs it? The customer? For keeping it in his pocket? They agreed to shift their paradigm. The result was pre-generated ATM cards that were given across the table. Again, leveraging technology and shifting the paradigm from ‘Make to proposal’ to ‘Make to stock’.

Technology provides banks with the platform to challenge the current paradigms. And what is required is the guts to tread the unbeaten path,

and unleash its power through creativity and imagination. A few banks have challenged existing paradigms, and they stand testimony to history as the most successful banks in India.

Processes are to Banking & Financial transactions what backbone is to the human body

Technology = Process

If like several traditional banks, your answer to this question is ‘yes’, then its time to rethink. We have found that inspite of huge expenditure on technology by some banks; there is virtually no change in the level of customer service. Let me illustrate this with an example:

- When a customer wants to take a housing loan, or a personal loan, an educational loan or a car loan, he would normally contact the Direct Marketing Agent of a few banks or call up the call center of the bank. Now from the time the customer has contacted the bank representative till the time the person comes – collects the form and documents – submits it to the branch – undergoes data entry – then goes through credit scrutiny – some body from the Field Investigation agency checks the customer’s credentials and then assuming all the checks are ok, the loan is finally given to the customer. The best guys in Indian industry cover this entire ‘Loan Sanction process’ in 10 to 12 days. Mind you, this is the **Customer to Customer cycle** - from the time, the customer first expressed interest in taking a loan, while the worst guys can be as bad as 30 to 35 days.

In this entire customer’s experience of elapsed time, of say 10 days for the best bank in India, technology comes into play when ‘data is captured’ in any software/ system and will take

not more than 20 minutes – of elapsed time per case in the whole end to end process

Imagine Rs 150 crores invested to automate 20 minutes of data entry, and virtually or very little change in the customer's end to end experience.

This raises the most important question – If the customer is not impacted, or sees the difference - has Rs 1,20,000 crores invested in technology over the last four years gone down the drain? The sad news is – yes! A large portion of the technology investment has disappeared without commensurate tangible benefits - the heads you will find in the break up of this technology spend, is 54% on hardware, 43% on software & AMC services, and the balance 3% on training; not a single percentage point spent to 'reengineer' the end to end processes from a customer's point of view, and make life better for the customer.

The good news is that some banks are beginning to realize the importance of business processes and its impact on end customer.

A customer sees the effectiveness of the process, he is not bothered about the systems, infrastructure, investments which a bank makes, the processes which involve him better be simple, hassle free, offering him valuable advise, faster and with high degree of accuracy.

People - Not everything that is faced can be changed, but nothing can be changed until its faced.

PSU banks, Insurance companies and old Private sector banks form the bulk of the Indian Banking & Financial institutions, both in terms of size of business handled as well as the number of employees. The average age across these organizations would be in the range of 45 years. Most of the employees working in these organizations have been doing the same job,

day in and day out, for the last 20 to 25 years. They are proficient in their particular domains; to that extent you could call them disciplined or rigid – depending on how you see it – the glass is either half empty or the glass is half full.

Resistance to change: Technology dismantles the current ways of working. As humans, we resist any change that fails to answer some key questions, - What is in it for me? Why should I do it? Will it add to my workload? Will I get reimbursed for additional working? Will I get retrenched?

Proactively managing change - developing a communication mechanism, creating a platform to surface and address issues and anxieties, taking the key opinion makers of the bank and transforming them into 'Active change agents' becomes vital to the success of the technology initiative. ***The key challenge for a bank is to convert the 'resistance to change' into what we call the 'positive dissatisfaction with the status quo' thereby ensuring involvement, ownership & commitment to change***

For the technology provider, loading software on the system & data migration is the end point of implementation. However, for a bank, that is the start point of implementation!

Complex organization structures: Many large banks in India are structured geographically, with national offices, regional offices and local offices in cities. These structures lead to local systems and culture in the organization. Leveraging technology would necessitate changes in organization structure, changes in 'power centres' – for instance, people who earlier had powers to sanction large loans, will suddenly find themselves deprived of that power, as organizations centralize their credit / underwriting decisions.

Having the best technology is akin to having a high speed Formula 1 car and current

organization structures are akin to the roads and signals of say, a city like Mumbai! Hence in order to drive the F1 car faster, the bank needs to remove the roadblocks and create a 'super express way', to ensure that the technology is fully leveraged

Banks & FI's wanting to leverage technology need to be ready to invest time, money, attention & energy to undergo this large-scale change – to make the technology initiative effective.

Inadequate Skills for new roles: Technology destroys the status quo – the current strategy, the business model & architecture and as a result most people in a bank branch or centralized set up will undergo significant change in their roles & responsibilities.

The current world best practice in banks is to leverage technology and convert a bank branch to a 'Sales & Service' outlet focusing on 'retail customer acquisition' and 'increasing the wallet share' of existing customers.

Cross sell, suddenly becomes a key buzzword and hence, the need for the skill to convert a mundane interaction like deposit or withdrawal of cash into a business opportunity. Whoever would have thought that a teller needs to have superior relationship management skills, networking skills, be flexible, and be able to proactively provide solutions to the customer! These skills may not be available with a large set of existing employees. Hence, a bank needs to undergo a comprehensive exercise, mapping the reengineered roles, responsibilities and performance metrics for each role - coupled with assessment of skills and talent of the people so as to fit the right person to the right job.

Profitability - **If profits don't drive your business, you will soon be driven out of business!**

When a corporate asks any bank for a loan of say Rs 100 crores, the loan documents go through intense scrutiny by a number of hierarchy levels, before a loan is sanctioned. Similar scrutiny is applied when the borrower applies for disbursement. Once disbursed, the bank has a set of 'Relationship Managers' or Account Managers, who keep track of the company by tracking and monitoring the progress, profitability reporting, monitoring stocks, risks, validating limits, etc.

One of the most well set processes in the country comes virtually to a complete stand still if this loan is given to say the internal team for investing Rs 150 crores in technology. There is hardly any monitoring – to the level one does for a loan given to an external party. And to add insult to injury, nobody ever comes to know – if the investment was ever worth its weight in gold. And the good news is that once the top management has taken a decision, it needs to defend it, lest they be accused of mismanagement or ulterior motives. Thus, even in the worst of ERP or CRM implementations in the manufacturing industry for example, which never gave any business results, the entire effort of the top management is to 'prove that every new customer acquired' was due to the new technology, they have implemented.

Rs 150 crores is a lot of money. And it better be spent rightly to ensure that the full value of the spend is leveraged for either driving or retaining a competitive edge. ***The need of the hour for all 'large technology investments' is to define a P&L account which very clearly defines the parameters which would get impacted due the technology changes, the allied implementation which needs to be done to ensure that technology is fully leveraged, the key milestones, the break even points, NPV of investments and most importantly, whose heads should be hanged***

in case the envisaged benefit does not materialize. A strong and robust monitoring and control mechanism will prevent technology flirtations, which some techie wiz kids love to experiment with. That will ensure that banks remain about making money, and not about the latest buzzwords in the country.

Pace – Time is a great teacher, but unfortunately it kills all its pupils.

The speed at which technology changes are going through – be it hardware or software, virtually everything becomes redundant in a time span of 18 to 24 months. This means that an organization has a maximum of 24 to 36 months to implement the technology and allied changes, break even, and then milk the benefits of the technology changes. Hence, the Pace of implementation becomes vital to ‘profitability’ of the investment. Those that wait for time to teach great lessons may find themselves killed by it!

‘A program of change must be led’. In our experience, Pace can be hastened substantially, by managing large initiatives at the apex level of the organization. The intricacies of cross functional linkages, process reengineering, organization restructuring, paradigm shifts, and tracking profitability of the entire ‘program’ becomes essential to leveraging technology and extracting maximum juice of every paise spent on the technology.

In our experience, ‘Program Managing’ the entire change initiative with ‘war room’ tracking on daily basis, escalating non adherence, and forcing top management to take informed decisions, ensures that ‘Pace’ of implementation is never compromised.

Program Management attempts to:

- a) ***Get the whole group headed West, i.e.,***
- Creating alignment of all impacted employees for sharing a commitment to

a single purpose and generating enthusiasm to pursue it to fruition

- Identifying all the possible elements of the 5 P’s which need to be addressed for achieving desired business results
- Prioritizing these elements and converting them into ‘initiatives and projects’ with defined deliverables and time frames. Formation of suitable full time/ part time ***‘Bubble teams’*** with complete authority.

b) ***Keeping the group together:*** Managing execution of these initiatives & projects to be aligned to the desired objectives

c) ***Sustaining this Change in the long term:*** Creating early success stories, Recognizing & institutionalizing success

In Summary: Technology forms the backbone of any transactional process in Banking & Financial services. However, having the right technology does not guarantee success. Success is guaranteed when an organization leverages this technology by ‘changing the rules of the game.’ Unless the changes in Paradigms, Processes, People, Profitability and Pace are implemented, it would be like driving a Formula 1 car in a traffic jam, on a pot-hole ridden road in the city – the technology investments would be close to null & void.

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