

Transforming banking operations through advanced operating models

According to recent research, banking executives believe there is untapped potential for advanced operating models to address the most strategic enterprise challenges



**GENPACT
RESEARCH
INSTITUTE**

GENPACT
GENERATING IMPACTSM

About the **research**

In 2014, Genpact commissioned a research project conducted by an independent research firm. The goal was to assess the potential for new operating models across a wide spectrum of industry sectors and functions. More than 900 senior-level executives completed the survey. Respondents were screened based on their ability to materially influence functional decisions. This analysis complements other research and insight derived from Genpact's experience designing, transforming, and operating business processes and operations.

This document presents the findings drawn from 238 senior executives engaged in the banking industry. They are predominantly located in North America (81%) and come from companies with more than 10,000 employees. More than 70% of the banks covered by the survey offer both retail and commercial services. The sample includes 201 banks that offer retail services and 206 that offer commercial services.

Introduction

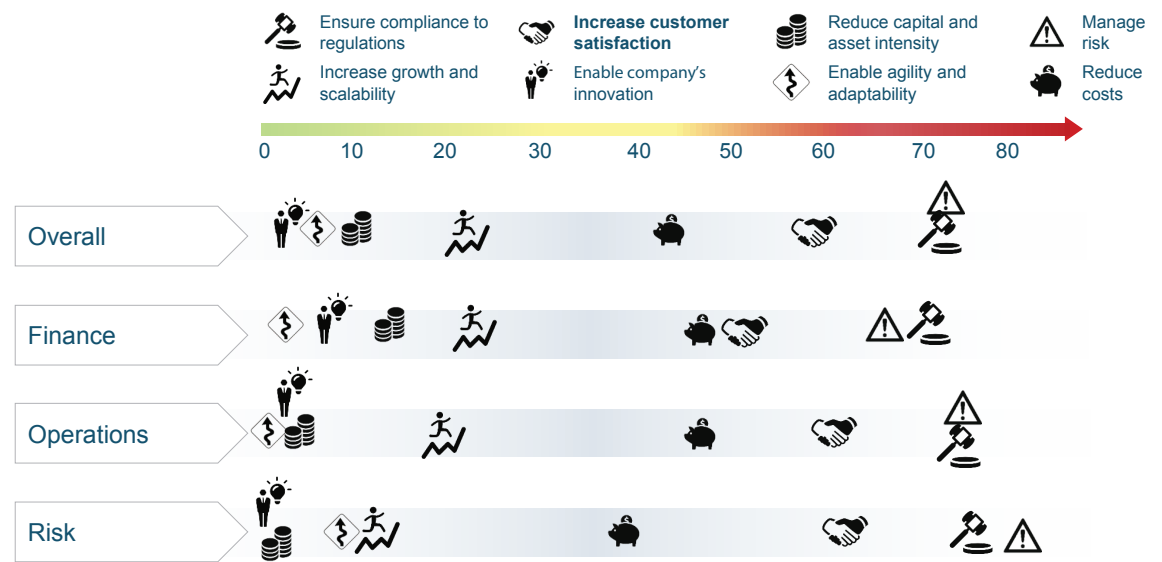
As the banking industry restructures in the wake of the financial crisis and a rapidly changing regulatory landscape, COOs and other senior banking executives are grappling with unprecedented change. In addition to regulatory and cost pressures, there is a growing imperative to meet increasing customer expectations in a volatile market. Transforming business processes to implement advanced operating models is a large part of the solution, but levels of process maturity and preparedness for transformation vary widely across banking functions. For retail banks, payments processing and account set-up and servicing offer opportunities for wide-ranging impact, while anti-money laundering is specialized but critical. Operational transformation in commercial banking seems slightly more likely to focus on risk management. The three levers of operating model transformation—technology, process re-engineering, and advanced organizational structures (shared services, business process outsourcing, and hybrids thereof)—create impact differently. Using commissioned research, Genpact has examined these trends to understand how banking institutions are evolving their operations to achieve business impact.

Compliance and risk are the most frequently named challenges in retail banking today across all functions, while customer satisfaction ranks third

Regulatory compliance, risk management, and customer satisfaction are the main challenges confronting retail banks today

- Ensuring compliance with regulations is cited most often, pointed to by 72% of retail banking executives as one of their three top challenges (Figure 1).
- Managing risk ranks close behind, at 71%, followed by increasing customer satisfaction, at 58%.
- Operations executives in retail banks face similar challenges as do their counterparts in other functions.

% of respondents from various functions stating challenge as among the 'Top 3' for their company



n=201 executives from retail only and retail/commercial banks

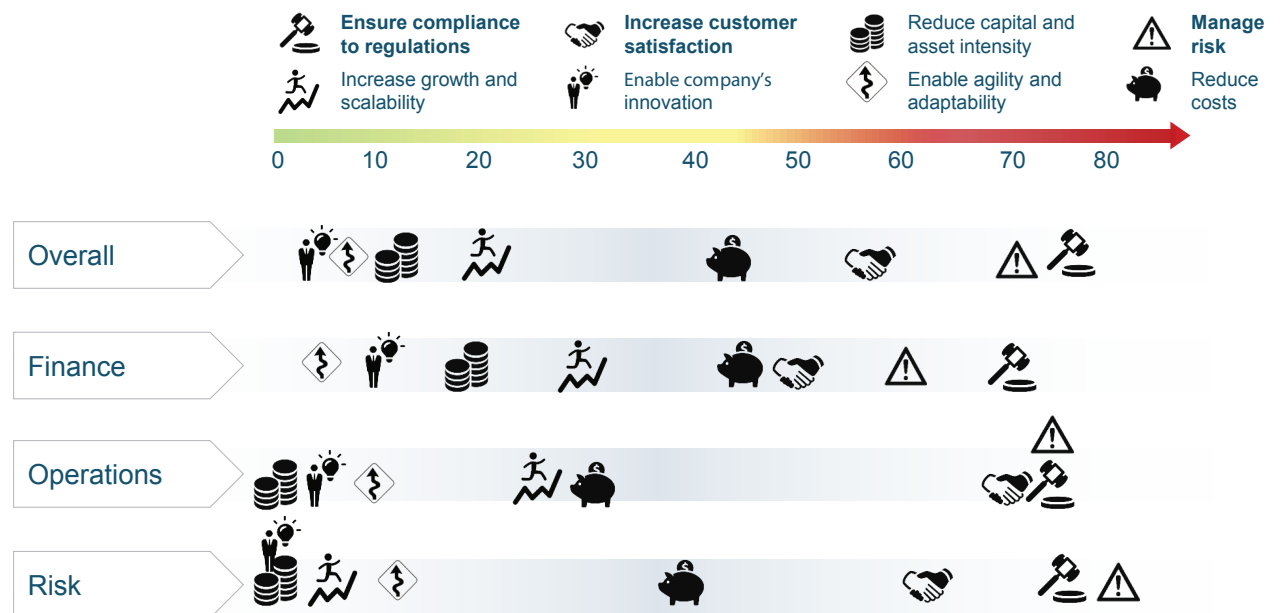
Figure 1

Commercial bank operations executives cite compliance and risk management nearly equally as top challenges

Commercial bank executives face many of the same challenges as do their counterparts in retail banks

- Ensuring compliance with regulations is cited often by commercial banking executives, with 76% indicating that it is one of their three most important challenges (Figure 2).
- Risk management is close behind, at 70%, followed by increasing customer satisfaction, at 59%.
- Operations executives in commercial banks tend to give nearly equal prominence to compliance and risk management, each at 74%, as well as customer satisfaction, at 69%.

% of respondents from various functions stating challenge as among the 'top 3' for their company



n=206 executives from commercial only and retail/commercial banks

Figure 2

The payments processing function materially addresses many of the most important challenges

Retail banking operations executives say payments processing has high potential for impact on customer satisfaction

- Payments processing (90%), followed by account set-up and servicing (86%) are most frequently seen as having material impact on customer satisfaction.
- In retail banking, anti-money laundering stands out as the most frequently cited function for addressing both regulatory compliance (89% of respondents) and risk management (77%).
- However, impact indexes that take account of both the importance of each challenge and the ability of each function that addresses it, indicate that payments processing is perceived as having the biggest impact, with an index of 156, compared with 146 for mortgage servicing and 142 for account set-up and servicing (Figure 3).

FUNCTION IMPACT INDEX*

combining stated importance of challenges and stated ability of a function to address them

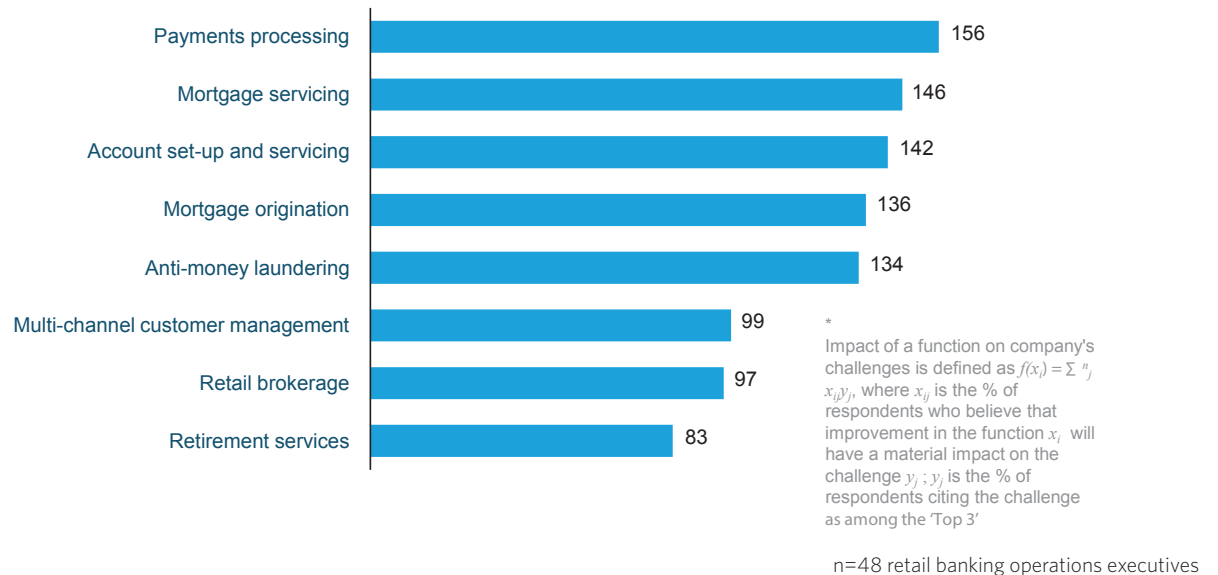


Figure 3

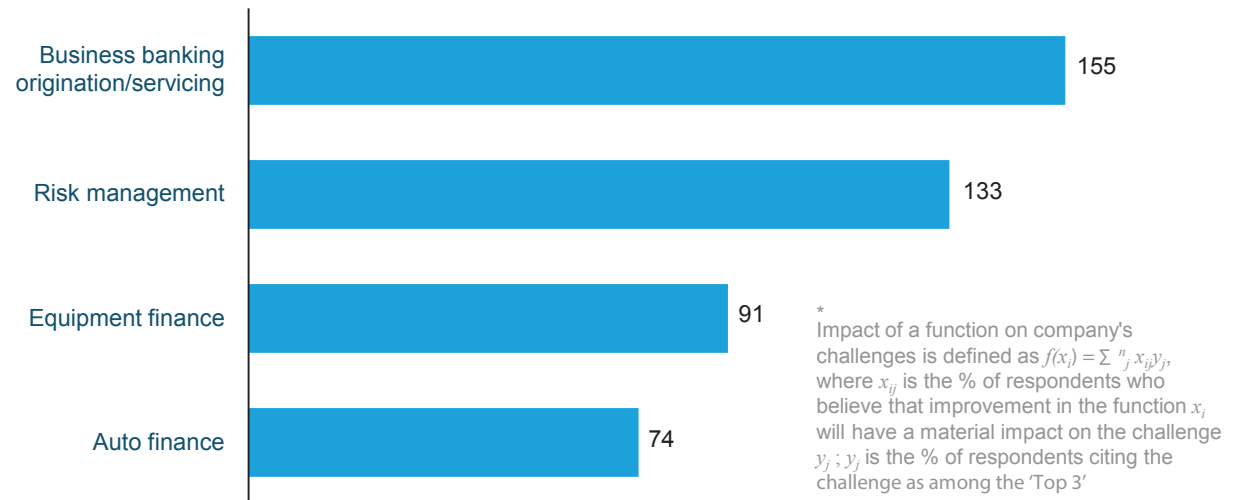
Business banking origination/servicing and risk management are believed to impact the most pressing commercial banking challenges

Commercial banking operations executives most often point to the business banking/origination servicing function as having potential for addressing key challenges

- In commercial banking, the largest proportion of operations executives say that the risk management function can materially impact regulatory compliance and risk challenges.
- More than two-thirds say that business banking origination/servicing can have material impact on customer satisfaction.
- These two functions also have the highest scores on impact indexes (Figure 4).

FUNCTION IMPACT INDEX*

combining stated importance of challenges and stated ability of a function to address them



n=35 commercial banking operations executives

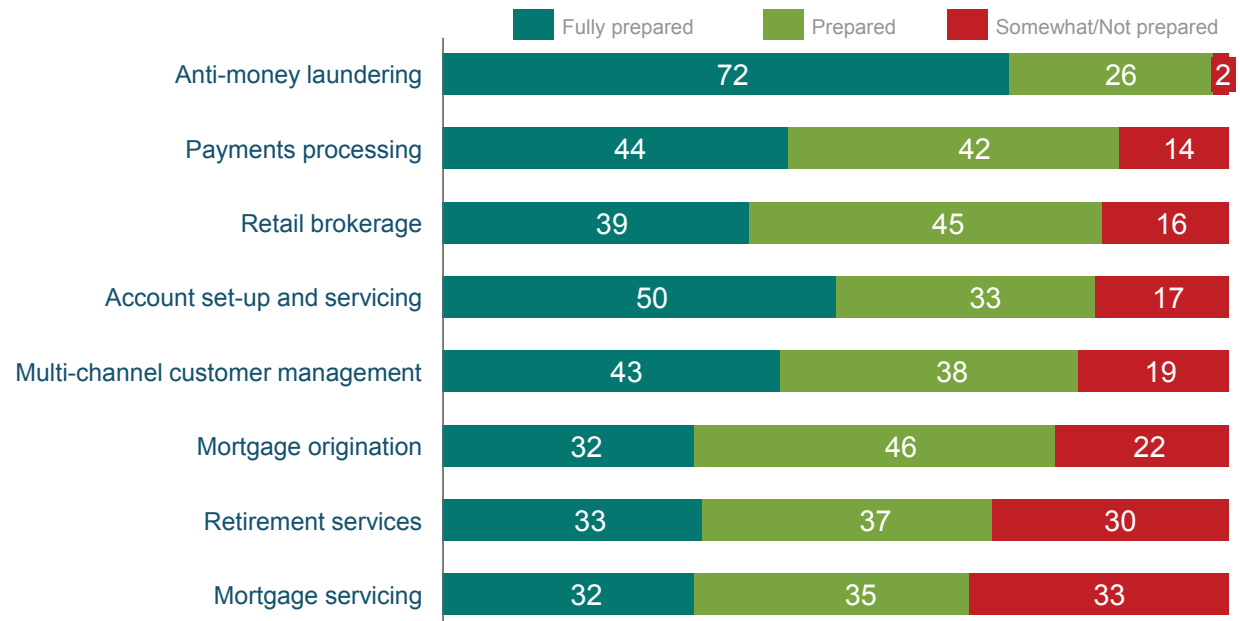
Figure 4

Retail brokerage and retirement services are prepared to achieve process maturity; mortgage services are least prepared

Anti-money laundering is considered the most mature retail banking function

- Retail banking operations executives see anti-money laundering and payments processing functions as the most mature functions, with 94% and 90% of respondents rating them, respectively, as mature or very mature, while nearly 40% see retirement services as not yet mature.
- 98% of operational executives say that anti-money laundering is well positioned to mature further (prepared or fully prepared), and the payments processing function is close behind, at 86%
- Mortgage servicing and retirement services rank at the opposite side of the spectrum, as about one-third of the respondents lamented their limited preparation to mature further (Figure 5).

% Respondents stating the preparedness of their organization to mature a function



n=48 retail banking operations executives

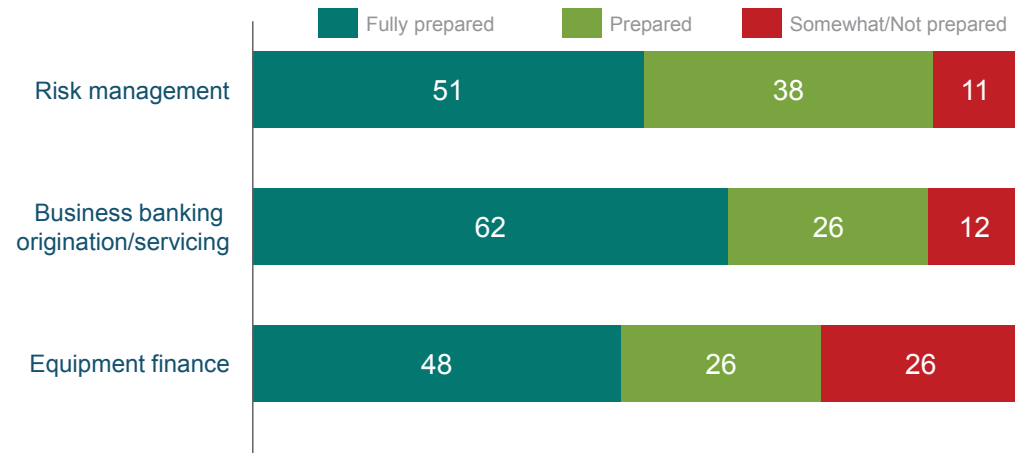
Figure 5

Most functions are fairly mature; risk management and business banking originations/servicing are considered the most mature

Most commercial banking functions are mature, but risk management and business banking operations are prepared to mature further and impact key business challenges

- Most commercial banking functions are relatively mature, with the proportions of operations executives rating them mature or very mature, ranging from 94% for business banking origination/servicing to 88% for auto finance.
- Risk management and business banking origination/servicing are thought to be the best prepared to mature further, with nearly 90% of respondents rating both functions as prepared or well-prepared.
- At the opposite end, auto and equipment finance are less prepared to evolve (Figure 6).

% Respondents stating the preparedness of their organization to mature a finance function



n=35 commercial banking operations executives

Figure 6

Advanced organizational models are most often seen as able to have material impact, though the perception varies across operations

Executives see advanced organizational structures as more applicable to evolve banks' operating models, but BPR and technology are considered to be able generate greater dollar impacts

- Advanced organizational structures—including shared service centers (SSC), business process outsourcing (BPO), or hybrids—are more frequently cited by retail banking operations executives as having material impact than either business process re-engineering (BPR) or the radically improved use of technology.
- Notwithstanding significant variation across functions, the proportion of respondents stating that advanced organizational models can have material impact on the function is highest (or tied for highest) for five of the eight functions (Figure 7).
- On the other hand, while they tend to be less broadly applicable, technology and BPR seem to deliver higher dollar impacts (about USD 260 million per annum, compared to about 160 million for advanced organizational models).

% of respondents stating the initiative can have a material impact on the function

	Radically improved use of technology	Business process re-engineering	BPO or SSC or Hybrid ¹	Impact Index*
Payments processing	48	40	58	156
Mortgage servicing	35	46	44	146
Account set-up and servicing	54	56	48	142
Mortgage origination	29	42	42	136
Anti-money laundering	40	33	42	134
Multi-channel customer management	48	52	48	99
Retail brokerage	25	19	33	97
Retirement services	21	19	46	83

¹ BPO – Business Process Outsourcing, SSC – Shared Services

Function Impact Index* combining stated importance of challenges and stated ability of a function to address them

n=48 retail banking operations executives

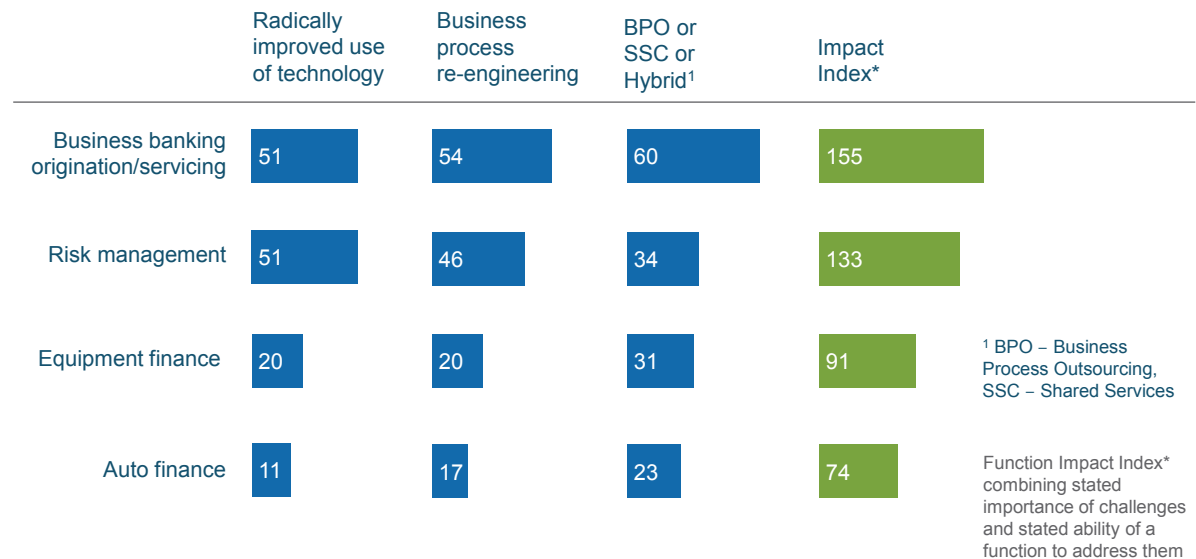
Figure 7

Many believe advanced organizational models have broad impact for business banking; technology and re-engineering are seen as more important for risk management

Commercial banking executives say advanced organizational structures are most likely to have material impact on business banking operations

- In commercial banking, advanced organizational structures are more frequently cited by operations executives as having greater material impact on business banking operations, equipment finance, and auto finance (Figure 8).
- The radically improved use of technology is most often seen as having an impact on risk management.
- Both technology and BPR are seen as generally having a higher dollar impact in situations in which they are applicable (about USD 300 million per annum).

% of respondents stating the initiative can have a material impact on the function



n=35 commercial banking operations executives

Figure 8

In conclusion

As the banking industry restructures in the wake of the financial crisis, COOs and other senior banking executives are focused on overcoming the challenges of proliferating regulatory requirements, a more complex risk environment, and increasing customer expectations. The researchers examined how those challenges can be tackled with **three levers of operating model transformation**: technology, process reengineering, and advanced organizational structures.

The related transformation of operations is an untapped strategic lever for the COO as well as the CEO. However, it is sometimes seen as **a formidable undertaking**.

Our experience of advanced operating models, accumulated over 15 years, clearly indicates that there are agile and practical ways to transform. The key is to design, transform, and run the processes that power advanced operating models so that they **closely align with measurable business goals**, thus avoiding saddling the company with unnecessary and often unmanageable complexity.

This approach **focuses more rigorously on the sources of impact** and deliberately disregards any practice that does not yield material outcomes. It also takes a more objective and holistic look at technology, analytics, and organizational practices.

Finally, this approach harnesses the **process and organizational levers** available from established disciplines, such as reengineering, shared services, outsourcing, and global delivery. We think there is a smarter way to transform operating models and address the most complex strategic challenges. This is a way for COOs to make their enterprises more intelligent and generate material impact.

This document presented the highlights of research findings. Discover more in the [full report](#).

Genpact Research Institute

The Genpact Research Institute is a specialized think tank harnessing the collective intelligence of Genpact – as the leading business process service provider worldwide - its ecosystem of clients and partners, and thousands of process operations experts. Its mission is to advance the “art of the possible” in our clients’ journey of business transformation and adoption of advanced operating models.

www.genpact.com/research-institute

About Genpact

Genpact (NYSE: G) stands for “generating business impact.” We design, transform, and run intelligent business operations including those that are complex and specific to a set of chosen industries. The result is advanced operating models that foster growth and manage cost, risk, and compliance across a range of functions. We have hundreds of long-term clients including more than one-fourth of the Fortune Global 500 and currently employ over 66,000 employees in 25 countries, with key management and corporate offices in New York City. Behind our passion for process and operational excellence is the Lean and Six Sigma heritage of a former General Electric division that has served GE businesses for more than 16 years.

For more information, contact, banking.solutions@genpact.com and visit, www.genpact.com/home/industries/banking-financial-services

Follow us on Twitter, Facebook, LinkedIn, and YouTube.

© 2014 Copyright Genpact. All Rights Reserved.