Accenture Management Consulting

**Business Process 2.0**

Six best-in-class strategies to fast forward banking transformation

*High performance. Delivered.*
Banks around the world are embarking on mission critical large-scale, multiyear business transformations as they seek to return to pre-recession levels of profitability and growth. These transformations touch every corner of the operation—from enabling the sales force with new tools to consolidating back-office operations. While often designed to simplify the customer experience, transformations are highly complex for both frontline employees and the program delivery team. The combination of new processes, technologies and roles represent some of the toughest challenges for banking professionals.

Such complexity implies that banks often struggle with their transformation efforts. Even in smaller financial service projects, research finds that these projects are over budget 41 percent of the time, while they are delivered behind schedule 29 percent of the time. Sometimes, transformation programs are even cancelled while on course. There are a multitude of reasons for these challenges. However, from a business process perspective, four stand out: a lack of process leadership, inadequate enterprise methodology, a weak mandate to realize business goals and a lack of process transformation skills.

There are several high-stake decisions that may improve delivery success. One of these decisions is how and when to leverage the best-in-class business process strategies to improve the bank’s ability to successfully deliver these transformation programs. Through a combination of process ownership, tailored methodologies, highly trained process delivery professionals, enabling technology and focused value capture, these leading-edge business process strategies can accelerate speed and enhance quality at every stage of the transformation effort. Diving deep into its own experience with bank transformation programs, Accenture offers six best-in-class business process strategies for banks to help improve their chances of success with transformation programs, achieve high performance in bottom-line results and develop the confidence to stay ahead of the competition.
A wave of change in the banking industry

The new landscape that is emerging in the wake of the financial turmoil has seen banks in North America recover stability and profitability to a certain degree. Market pressures have been squeezing the profit of North American banks for the past several years—since 2005, the profit margin of the top five North American banks has decreased by 11 percent on average.ii To improve profitability, many banks have been actively pursuing transformation—large-scale, multi-year programs underpinned by new or enhanced technology that significantly reengineer banking processes.

At the end of 2010, over 400 US banks were in the midst of system replacements. This number is expected to steadily increase to over 500 by the end of 2012.iii While some of these transformation programs are focused on customer acquisition, retention and increased share of wallet to drive additional revenue, some others are attacking costs through a range of efficiency initiatives.

While large-scale transformations are often required for banks to achieve their profit targets, such programs are complex and often do not achieve their promised value on the timeline committed. Even in smaller projects, execution is still a challenge. In financial services, these projects are found to be over budget 41 percent of the time and delivered behind schedule 29 percent of the time.iv In many cases, transformation programs have been put on hold or cancelled during the course of its execution. Several programs stall in the strategy formulation and analyze phases, allowing competition to move ahead and diluting their business case benefits. Others programs are cancelled outright while in flight, shaking the organization's confidence.

Process potential

Banks use several levers to improve business transformation performance including selecting the right partners, achieving strong business and IT alignment, and developing realistic business cases. Increasingly however, we are seeing that leading banks are beginning to embed process strategies into their delivery efforts to overcome challenges, and improve the speed, quality and predictability of delivery.

The benefits achieved from this focus can be significant. For example, by accelerating delivery by as little as one month, it is possible to gain more than US$10 million in incremental profit, thereby freeing resources for other important initiatives. Our experience finds that better quality process designs that reduce testing errors by as little as 5 percent can decrease testing effort by more than 100 days. Using examples from Accenture’s deep experience in large-scale transformation programs, we outline the most common challenges to carrying out a successful business transformation. We also show that best-in-class process strategies that enhance the predictability of outcomes help executives gain confidence to launch dynamic transformation programs and race ahead while their competitors manage incremental change.
Four process challenges to successful transformation

Like companies across various industries, banks often struggle with transformation efforts for a variety of reasons. One key factor is that while many banks have mature process capabilities, they are unable to apply those capabilities comprehensively to transformation delivery. Accenture has identified four key barriers for banks in applying leading business process strategies to raise their game in transformation delivery:

1. **Process leadership is a bystander to business transformation**

   In most transformation delivery efforts, IT has the lead role and increasingly, representatives of the business, most typically from product groups, play bigger leadership roles in delivery. Process leaders—who have accountability for an end-to-end process or own a team of process experts in Lean or Six Sigma or continuous improvement—are rarely involved at the highest level of decision making in a transformation program; they are viewed more as suppliers of resources rather than strategic partners. This results in the lack of explicit links between the corporate strategy and the related process strategy. Further, process discipline is not driven down across the delivery team. The end result is a weakened ability to develop a seamless end-to-end customer experience across product and other banking silos.

2. **Inadequate enterprise methodology**

   Bank IT delivery methods have been traditionally designed to manage the smaller scale, high-volume IT projects that the teams execute most frequently. But these methodologies fall short of the typical complex transformation effort that requires a larger, distinct operational framework. Trying to force-fit a transformation into the existing enterprise delivery framework often ignores important process considerations such as process key performance indicators, process reusability and process visualization.

3. **Weak mandate to realize business goals**

   In typical business transformation programs, the mandates of the process and delivery teams, as well as the resources committed by them, end with delivery, rather than with the business goals being realized. After short-term support from a deployment team, channel and operations owners are left on their own to realize the business benefits, while delivery teams move on to the next project. In the absence of a concerted effort to capture value, business goals suffer.

4. **Process resources lack transformation skills**

   Typical bank process teams are specialized in Lean or Six Sigma. However, one rarely finds a marriage of that skill set with core business analyst skills and structured problem-solving techniques—skills that are required to effectively support transformation. Similarly, IT business analysts lack the business process knowledge and continuous improvement skills required to design systems that can effectively support the new processes. Subject matter experts from the business are often struggling to work with process and IT team members. As a result, there is a gap in terms of understanding the spectrum of business, process and IT, with no individual able to pull it all together.
Six Best-in-Class Business Process Strategies
Despite these barriers, select North American banks are beginning to have a more process-oriented approach to transformation delivery. According to one industry executive, a key reason for this change is that as banks shift from product-focused operating models to customer-centric operating models, process becomes more important than ever. As a result, program transformation offices are being led and staffed by people with deep process skills. Some of these transformation programs are setting new standards of excellence, which create a capability that can be leveraged by the enterprise again and again.

Based on Accenture’s experience and industry interviews, we have identified six best-in-class business process strategies to fast forward banking transformation.

1. **Give power to the process:** Empower process owners and hold them accountable for transformation success

Process owners are defined as those having the authority, budget and resources to define and improve end-to-end processes. At the outset of every transformation program, these owners must be established and given a seat at the highest levels of decision making. In practice, they may be a senior leader in any function or line of business, but must emerge ultimately as a credible voice of the customer and process. These process owners must engage in defining the guiding principles of the program, link the promised value of the transformation directly to the process capability and requirements, and be accountable for the delivery of value. This connection between the target outcomes of the transformation and the process provides the key direction—a true north—throughout the program; it serves both as the base for decisions and refinements throughout the deployment and as a way to communicate the program strategy.

**Case study**

As part of a major retail lending transformation at a North American bank, the process lead helped operationalize the bank’s transformation strategy into a set of guiding principles that were used throughout the program. When the project reached a point where the requirements had to be prioritized and scope reduced, a team traced the sets of business requirements back to the guiding principles and described the value these requirements brought. The team made trade-offs with a clear understanding of how these impacted the transformation strategy and business case.

In another bank, the process owner spearheaded linking more than 20 key performance indicators (KPIs) to specific parts of the value chain impacted by the transformation. As the transformation progressed and the process and the solution matured, these KPIs were continuously refined, enabling program leadership to clearly understand how the future state might perform against the expectations set.
2. Segment processes and the approach will follow: The strategic intent of a process should drive the selection of approach

Too often, transformation programs barrel into process analysis and design without an appreciation of the strategic intent of the impacted processes at a detailed level. In some cases, this stems from a lack of a clear understanding of the business strategy and operating model. As a result, simple processes are overengineered with costly, complex requirements, and processes facing high-value customers remain undifferentiated or lag behind that of competitors.

To overcome this challenge, banks should segment their processes, prioritize the work and then select a process analysis and design approach that suits the segment. Accenture defines this treatment of processes into three categories: Innovate, Optimize and Standardize (Figure 1).

A proper understanding of the strategic intent of the process is required for the delivery team to modify its approach to fit these categories. Since processes that the business wants to innovate are likely to present a significant change from the current state, these may benefit from visualization and prototyping to facilitate future state design. However, for those processes that are meant to be standardized, off-the-shelf vendor solutions are often an excellent starting point to develop the majority of the solution, leaving only minor modifications for those activities that are truly unique.

**Case study**

One leading North American bank identified customer needs analysis, prequalification and product recommendation as areas where innovation needed to be brought in to improve customer experience and significantly enhance cross-selling ability. With most competitors and off-the-shelf solutions focused on single product origination, the bank decided to also focus on developing a multiproduct sales and origination system. To define the process and requirements for this system, the bank relied on customer scenario silhouettes, out-of-industry paradigms, mock-ups and an iterative process design to help bank executives, as well as business and technology subject matter experts, confidently visualize the future scenario.

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**Figure 1: Segmenting the Process**

<table>
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<tr>
<th>Process Category</th>
<th>Category Definition</th>
<th>Example Process</th>
<th>Analysis and Design Approach Tactics</th>
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</table>
| Innovate         | Design or redesign capability to meet strategic need/mission or be differentiated in the market | Customer needs analysis | • Cross-industry best practices as starting point  
• Iterative process design using mock-ups and prototypes |
| Optimize         | Balance cost, customer and other business objectives for both effective and efficient process performance; may require significant subprocess redesign, but looks to improve rather than start anew or standardize | Adjudication | • Industry capability models as starting point  
• Reuse of select current state processes |
| Standardize      | Reduce process and organization complexity through process standardization; focus management attention and resources on higher-value areas of the business | Customer profile creation | • Off-the-shelf vendor solutions as starting point  
• Fit the processes to available solutions |
3. Go deep and wide on process skills: Dedicate a team of “process architects” to support the project through its entire lifecycle

Given the business, technology and program management complexity associated with a banking transformation, new and augmented process skill sets, such as facilitation, quantitative analysis and business case development, are required to effectively support delivery. A team of process architects—with an ideal mix of process, business and IT skills—is required to strengthen the cohesion within the delivery team. Effective process architects enhance communication between IT and business resources to ultimately help design processes that serve business needs precisely. In fact, Accenture experience with several leading banks shows that banks are recognizing the need for this hybrid-skilled resource team, and nontraditional process architect roles are beginning to surface in program delivery teams.

In addition to displaying the right skills, these hybrid-skilled process architects must play the correct roles in a transformation. While process resources are often deployed in the analyze and design phases, they are critical through the remainder of the program lifecycle to enhance the change management process and deliver on the value promise (Figure 2).

Case study

During the build phase of a large transformation program at a leading North American bank, the process team analyzed the end to end process to identify the key areas susceptible to uncertainty and failure. The idea was to develop workaround processes so that the staff could continue to serve their customers in the event of a failure—such as a faulty document workflow. This served to de-risk the launch for the frontline staff as well as the program leadership.

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Figure 2: Process activities in the delivery phases

<table>
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<tr>
<th>Delivery phase</th>
<th>Example of process activities</th>
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| Plan           | • Translate business outcomes into process outcomes  
                 • Segment processes into innovate, optimize and standardize categories and prioritize |
| Analyze        | • Complete current state analysis and future state design  
                 • Link business case key performance indicators (KPI) to specific process activities |
| Design         | • Pressure test the process by adding task-level detail to future state process across new system, legacy system and manual tasks  
                 • Funnel opportunities into a quick-win team |
| Build          | • Conduct process failure assessment and develop workarounds for possible failure points  
                 • Ramp up the BPM Center of Excellence, refine mandate and governance model, and migrate process artifact |
| Test           | • Act as a process SWAT team to develop system-assisted and manual workarounds  
                 • Support user acceptance testing and refine process guides |
| Deploy         | • Dry run process data collection and key process improvement mechanisms  
                 • Conduct extensive knowledge transfer with operational teams |
| Post Deployment| • Measure process metrics and initiate continuous improvement projects  
                 • Codify lessons learned and share across the enterprise |
4. Tool up your process infrastructure: Use Business Process Management – Lifecycle tools to add structure and order

Transformation programs typically affect hundreds of business processes. Several hundred people may view or edit the process maps to facilitate work, including process design, technical design, testing and training. Basic process mapping and project management software fall short of meeting the needs of the project, resulting in several pain points, such as inadequate change control, duplication of process design and maintenance effort, and poor understanding of high-level and detailed process hierarchy and design.

In these instances, the transformation effort can be used as the burning platform to invest in advanced Business Process Management – Lifecycle (BPM-L) tools and support the team to help structure and manage the process reengineering. The benefits of BPM-L tools and practices include:

- Easy-to-understand depiction of the process hierarchy at the enterprise level
- Ability to systematically capture, retain and reuse information
- Clear traceability between the business process activities and technical requirements for development and testing
- Defined maintenance and governance processes
- Enhanced change management capabilities and effectiveness

Case study

The transformation effort at a leading North American bank illustrates the value of BPM-L tools. The decision to invest in a BPM-L tool and associated governance was made during the plan phase and “was critical in giving the bank the capability to transform,” according to a BPM-L tool expert with the bank. The BPM-L tool was used to capture the process hierarchy, document more than 50 business processes and reference the processes to more than 1,000 requirements. More than 100 individuals edited or viewed the process maps at some point during the transformation. The tool was deployed enterprise-wide, not just in the transformation program, so that other projects could benefit from its capability as well.

5. Jump start the program with process: Implement process-based quick wins to build momentum

Typically, a majority of the benefits associated with a transformation initiative come from a defined set of capabilities that are implemented over a period of time in releases. For example, a bank may deploy a new origination system first in its mortgage division, then in its auto loan division, and subsequently in other divisions. While delivering these major capability releases, implementing process-based quick wins can kick-start value realization and give the program a much-needed boost in momentum.

Process-based quick wins are characterized as low-benefit, low-effort process improvements, which can be executed in parallel to a transformation effort and implemented in advance of the core business transformation itself. When done well, quick wins are rapidly prioritized, sequenced and deployed on leadership direction in a logical and manageable fashion without diverting attention from the core transformation. While quick wins can deliver some meaningful bottom-line benefit, their real power is in building momentum for the overall initiative. Employees begin to see tangible improvements to their everyday work associated with the transformation effort and as a result, are more open to subsequent changes.
6. Capture value to improve every day: Create a Business Process Management Center of Excellence to sustain and improve value capture

To realize the benefits of a transformation effort, program delivery teams need to see beyond deployment and consider value realization as the end result of their mandate. Too often, transformation delivery teams hand over new processes to business units that are ill-equipped to measure and improve the process on a continuous basis, resulting in a wide gap between expectations and realized gains. To improve this handover, several delivery teams are extending the boundaries of traditional deployment efforts.

At one North American bank, for instance, the transformation program office introduced the concept of a “program warranty.” This is a physical business card that the delivery lead gives the business unit owner after the program has been handed over; the card signifies an assurance of help any time in the next one year. Though symbolic, this program warranty does represent a shift in the mindset of the delivery team.

A handful of banks around the world are going even further by redesigning to make them simpler for the frontline staff to complete without any errors. Ultimately, these quick wins were planned to deliver more than US$500,000 in benefits even before the implementation of the new platform and fuel the transformation momentum.

Case study
Recognizing the importance of quick wins to their program success, a leading North American bank established a small, full-time team alongside the transformation program team to pursue such projects. In the course of process mapping and defining business requirements for a new technology platform, the team identified several quick-win opportunities that could be deployed without much technology change or implementation effort. For example, forms were redesigned to make them simpler for the frontline staff to complete without any errors. Ultimately, these quick wins were planned to deliver more than US$500,000 in benefits even before the implementation of the new platform and fuel the transformation momentum.

Case study
One top European bank used a BPM CoE to help accelerate, sustain and improve the value derived from a transformation in its finance function. The CoE has clear service offerings, including process architecture, process improvement and IT support, that it provides to the business and drives tactical improvement projects to continue to improve business performance. The CoE was set up during the “build” phase of the transformation to prepare it for supporting the new processes in the post deployment phase. In parallel, a process owner structure was rolled out to ensure full ownership of the changes beyond the transformation.
The process boost: Long-term competitive advantages

As North American banks embark on a wave of large-scale transformation, the delivery of these programs will come up against a range of challenges—from leadership gaps to roadblocks in the delivery methodology. A handful of banks will be able to overcome these barriers by adopting these best-in-class process strategies to boost speed, quality and predictability of their transformation effort. These banks will not only see the impact of business results on their bottom line but, more importantly, will also develop a delivery capability leading to long-term competitive advantages to remain differentiated in the industry.

i. Gartner, IT Key Metrics Data 2011: Key Applications Measures: Project Measures: Current Year, 2010, December 17, page 14 and 18

ii. Method of estimation:
1. Collected revenue and net income from annual statements of banks
2. Calculated profit margin = Net income/revenue for 2005 and 2010
3. Calculated change in profit margin for each bank from 2005 to 2010 = 2010 profit margin – 2005 profit margin
4. Top five (by market capitalization) average change in profit margin = Simple average of results from Step 4

Annual Report Data Sourcing
RBC: 2010 annual report (AR) page 8, 2005 AR page 5
Wells Fargo: 2010 AR page 6, 2005 AR page 6
JPMorgan Chase: 2010 AR page II (2/308), 2005 AR page 1 (3/144)
Bank of America: 2010 AR page 24, 2005 AR page 3
Citigroup: 2010 AR page 30, 2006 AR page 3

iii. Oracle, The Impact of the Financial Crisis on Core Systems Replacement, July 2010, page 3

iv. Gartner, IT Key Metrics Data 2011: Key Applications Measures: Project Measures: Current Year, 2010, December 17, page 14 and 18
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 246,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$25.5 billion for the fiscal year ended Aug. 31, 2011. Its home page is www.accenture.com.