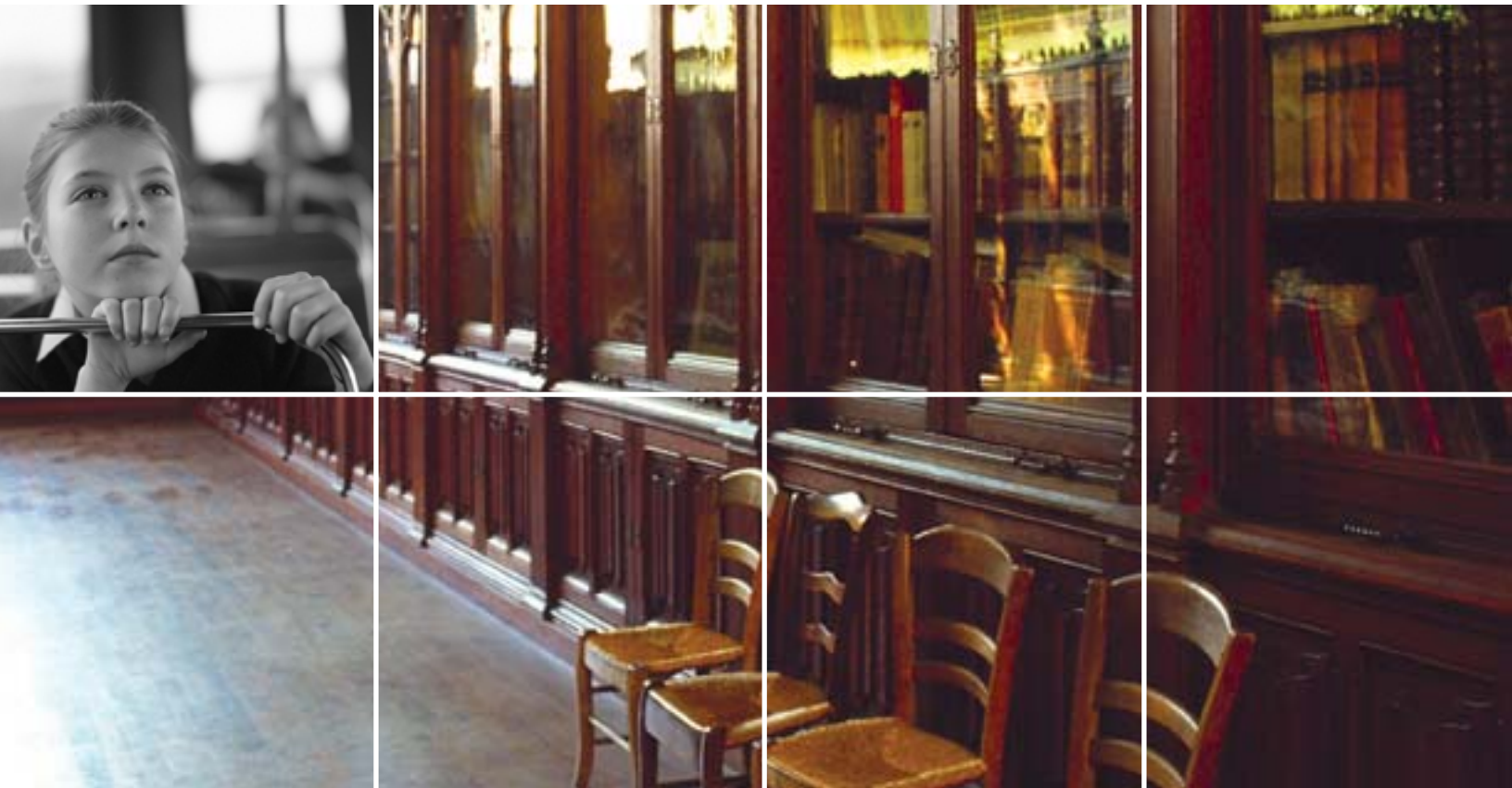


Unlocking the value of account opening with component business modeling



An IBM Institute for Business Value executive brief

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Business components – the fundamental building blocks of a component business model – are clearly bounded groups of cohesive business activities supported by processes, appropriate information systems, organization structure and performance measures. Each component has well-defined interfaces and serves a unique purpose.

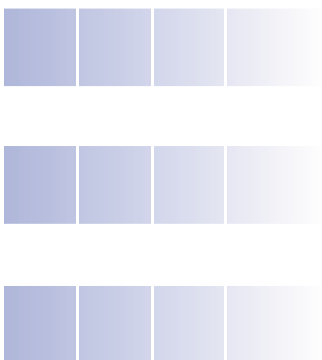
Introduction

Worldwide, banks are looking for ways to eliminate the inefficiencies that have crept into their business structures, not only to reduce operational costs, but to better attract and keep customers. The new generation of customers, accustomed to increasingly innovative shopping experiences, insists on satisfying and faster interaction with financial institutions. Driven by high customer expectations and competitive pressures from market leaders, banks are being forced to reassess their delivery and customer management strategies. As an important function that often serves as the “first face” to a potential customer, *account opening (AO)* is a natural candidate for improvement.

To help ease cost and revenue concerns, leading banks are looking to transform their AO activities *at the enterprise level* – an undertaking which is markedly different from the traditional process-based improvements performed within the business unit silos of organizations. *Component business modeling (CBM)* is an approach which allows banks to launch this transformation and substantially improve efficiency levels by fundamentally restructuring today’s siloed organization around components (see left margin).

Needing to make a good first impression

AO is a critical customer-facing retail function that sets the tone for customer acquisition and customer relationships. A growing demand for fast, convenient and innovative AO experiences that are delivered consistently across channels underscores the necessity of developing best-in-class processes and building a single customer view for multiple products and channels. However, major inefficiencies – siloed product organizations, legacy systems and applications, repetitive processes, duplication of data and disparate service levels across channels – are widespread in the industry.



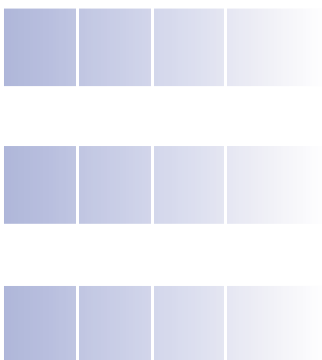
Though partly attributable to ongoing merger and acquisition (M&A) activity, such inefficiencies mainly result from the historical development of solutions for siloed organizations:

- Customer information is not shared enterprisewide
- Multiple databases are maintained for the same information
- Inefficient processes remain in use
- Different strategies are used to attract the same customer, resulting in higher acquisition costs
- Multiple credit reports are purchased for the same customer, instead of reusing existing information
- Poor collaboration across business units results in low cross-sell ratios and an inability to close on active leads from other units within the organization.

Subsequently, banks are struggling to lower customer acquisition costs, improve new AO abandonment rates, implement strategies efficiently and otherwise greatly improve a *status quo* that can frustrate and alienate customers.

There is a clear need to improve the “onboarding” process. Recent studies demonstrate that the abandonment rate is as high as 75 percent for a customer left alone to complete an online account application.¹ By contrast, an in-branch AO experience for the same customer averages a 25 percent abandonment rate.² Clearly, banks need to make the experience simpler and more collaborative, allowing the customer to access friendly help. More and more, banks are offering collaborative help as part of their AO process, allowing customers to get help in person or through kiosks, customer care centers or realtime chat assistance in an online environment.

By understanding customers better and providing consistent treatment through all channels, banks can differentiate themselves as they try to attract potential customers and deepen existing customer relationships. Recent IBM Institute for Business Value analysis shows that among consumers, the primary drivers of retail



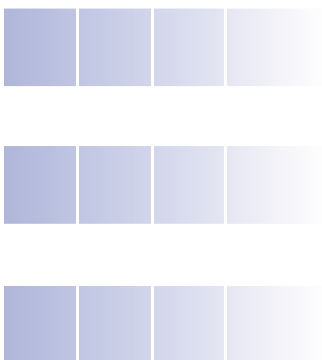
financial purchases are *price*, *convenience* and *trust*. Understanding the effect of these drivers is key to creating a differentiated AO experience:

- *Price* – Price-conscious consumers are exclusively motivated by *obtaining the best rates* for all of their banking needs, irrespective of existing relationships. Always seeking the best deal, they can be easy to acquire, but difficult to retain.
- *Convenience* – Convenience-oriented consumers look for banking relationships that allow them to *conduct their personal financial duties more efficiently*. Convenience seekers reward banks that provide efficient processes with above average loyalty.³
- *Trust* – Trust-driven consumers want to *develop a relationship* in which the bank will eventually serve as the primary financial advisor. Valuing relationships above all else, they are prime candidates for increased share of wallet.

The impact of AO costs

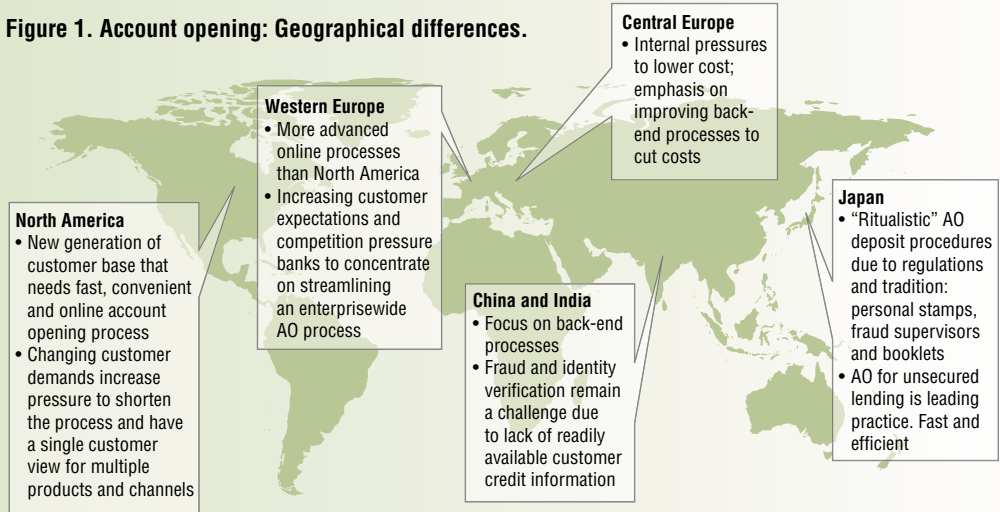
Along with the need to attract and retain customers, banks are focusing on how to reduce costs. Interviews with banking industry stakeholders showed that a complex web of business issues surrounds today's AO environment. Findings indicate that for each opened U.S. deposit account, the total base cost is US\$65. Since most banks experience a 15 percent annual turnover, a large bank with 10 million accounts is likely to lose approximately 1.5 million accounts each year. In order to make up those lost accounts, the bank would have to spend a total of US\$98 million. If the same bank could attain an average 14 percent overall cost reduction for new AO in the areas of people, process and technology, it could potentially save US\$14 million as these new accounts are established.⁴

Furthermore, our experience shows that the average annual revenue potential per new U.S. deposit account is US\$380. Based on the IBM estimate of US\$380 per account, the expected total of 1.5 million lost accounts represents US\$570 million in annual revenue for the bank. However, taking action to create better AO processes allows institutions to increase cross-selling and up-selling and bring in more revenue per account than before. Improved AO could help banks achieve a revenue gain of 14 percent, which translates to incremental revenue of US\$80 million.⁵



Though the goal of reducing AO costs resonates across the globe, there are notable differences in the specific challenges faced by banks in different parts of the world (see Figure 1).

Figure 1. Account opening: Geographical differences.



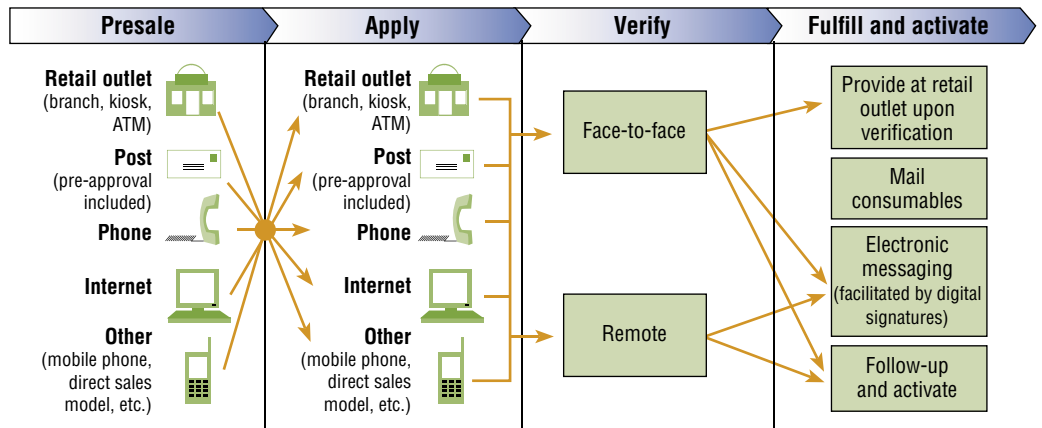
Source: IBM Institute for Business Value analysis.

In Central Europe, China, India and Japan, for example, the primary drivers for changing AO are *internal cost pressures* and *the regulatory environment*. Meanwhile, in Western Europe and North America, the pressure to change is coming mainly from *demanding customers* and *increased competition*. Regulatory impact is also critical in North America, but it is not a primary driver for change.

Steps of the AO workflow

Account opening is defined as an end-to-end workflow that starts with customer need identification and ends with activation of an opened account (see Figure 2).

Figure 2. Basic account opening workflow.



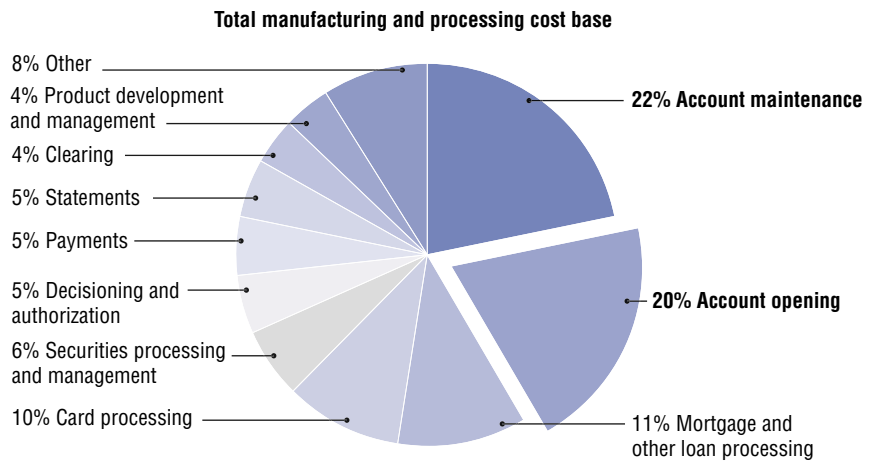
Source: IBM Institute for Business Value analysis.

The four sequential steps in the workflow are:

1. *Presale.* New and existing customers with a need for a new account can contact the bank through any available channel, such as a retail outlet, postal correspondence (which may already include pre-approval), telephone, Internet or even direct sales.
2. *Application.* The bank uses information from the presale step to assess customer needs and identify the best product. Next, the customer applies for the suggested product by completing an application and submitting any necessary supporting documents.
3. *Verification.* Whether verification is done face-to-face or remotely, the bank checks the customer's identity, performs credit checks and prices the product accordingly.
4. *Fulfillment and activation.* The new account is funded and opened. Depending on the channel used, the bank may follow up with customers to confirm that the account has been activated.

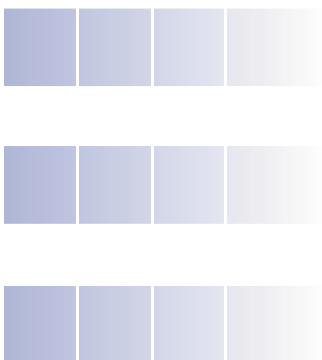
The Verification and Fulfillment steps of the AO workflow comprise approximately 20 percent of the manufacturing and processing cost base (see Figure 3).

Figure 3. Cost breakdown of a bank's activities.



Note: Costs are derived from a detailed analysis of the operations of a large European bank. Labor costs and other expenses incurred to support manufacturing and processing (excluding IT) are incorporated.

Source: IBM Institute for Business Value analysis; IBM client engagements.

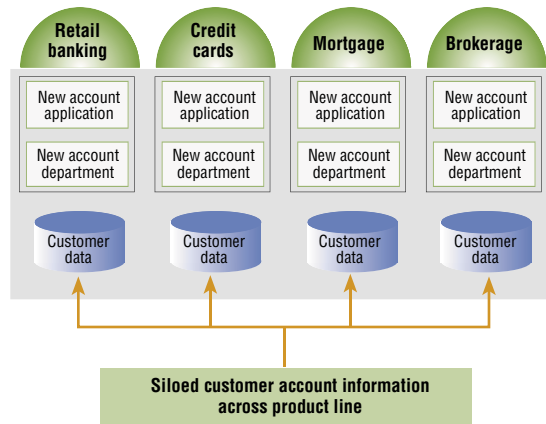


Why are AO costs high?

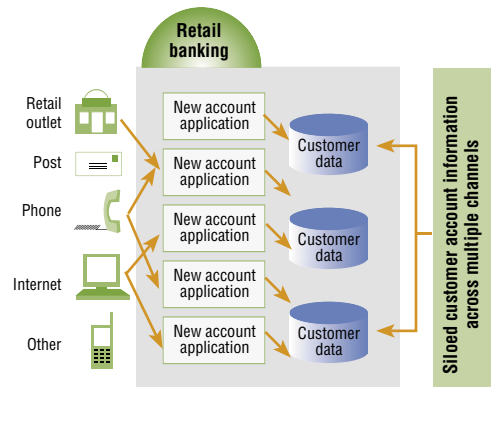
As mentioned, the high cost of AO can primarily be traced to the duplication of effort and systems, as well as the maintenance of interfaces among disparate legacy systems (see Figure 4).

Figure 4. Today's multiproduct retail bank and single product line within a bank.

Multiproduct retail bank today

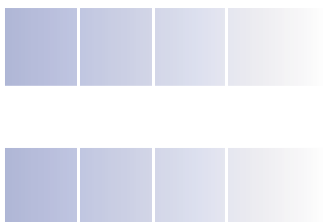


Single product line within a bank today



Source: Adapted from Lee, Sang and Adam Josephson. "New Account Opening Technology: The Final Frontier in Automation?" Celent Communications. May 2003; IBM Institute for Business Value analysis.

These siloed organizations, disparate channels and poorly trained employees act as barriers to both cross-selling and up-selling, in addition to reducing productivity of customer-facing employees. As Figure 4 illustrates, the lack of an enterprisewide AO workflow that spans product lines and channels has contributed to the rising cost base. IBM analysis reflects that more than 65 percent of application activities are common across products, thus offering institutions a tremendous opportunity to share best-in-class processes at the enterprise level. Extensive M&A activity in the global banking industry has further magnified maintenance costs, particularly when banks rely on "patchwork" connections within the infrastructure instead of fully integrating their systems and business processes.

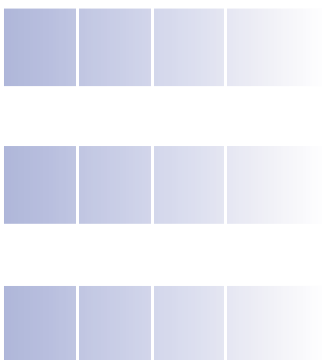


A look at the inadequacies associated with each step of the AO process helps to explain why AO is a good target for optimization:

- *Presale – Tellers' lack of customer focus* can be traced to the lack of integrated processes, inadequate training and a metrics environment that is not always easily measured. *Disparate information* in siloed product lines and channels prevents a single customer view and offers no understanding of the real needs of returning customers. *Low closure rates* have resulted from a poor understanding of customer needs, lack of dynamic, rules-based pricing and a complex presale process, as well as a lack of prepackaged products. Furthermore, a *lack of collaborative tools*, such as chat and co-browsing, also makes presale activities less effective.
- *Application* – One discouraging statistic from IBM analysis reveals that, at any given time, the majority of large institutions are using more than 25 versions of AO forms across the enterprise. Poorly designed forms and a lack of customizable “e-forms” further increase the potential for errors. In North America, new regulatory requirements dictated by the USA PATRIOT Act to establish customer identity and submit Suspicious Activity Reports (SARs) have compelled many institutions to make use of rules-based decision engines to help ensure consistent regulatory compliance and identify redundant information. In light of ongoing security concerns, we are seeing a global trend toward similar legislation. The intensive “decisioning” process needed for regulatory compliance has compounded an already *complex application process*.
- *Verification* – A *cumbersome paper document flow* is the result of limited digital imaging. Again in this step, *lack of a single customer view* means inconsistent or absent customer information that is not synchronized with information gathered from third parties.
- *Fulfillment and activation* – A prolonged process can be traced partly to the lack of both *digital signature* and *automated funding* capabilities. The *use of paper letters* in this step causes higher administrative costs. Finally, the *lack of follow-up* is detrimental because carrying inactive accounts is a major cost item for banks.

Improving the AO process

To deliver savings and an improved customer experience, leading banks have started transforming their AO processes. Using standardized processes can help banks ramp up business faster in new markets while reaping efficiencies in existing markets globally. For example, using one common application form enterprisewide that is digitized and linked to back-office systems can result in real efficiency



improvements *and* a less confused customer. During Verification, technology can automate most of the process and allow enterprisewide information sharing during verification activities associated with other product sales. Banks can reap additional, significant cost savings by negotiating better procurement rates with providers of external information, such as credit reporting companies.

Improved risk management and regulatory compliance can reduce fraud and capital requirements (Basel II) to protect brand equity. In addition, AO can be enhanced through implementation of premium capabilities offering the latest in authentication; use of e-forms; and creation of a complete, online AO experience that supports balance transfers from external accounts and realtime collaboration. Banks will also be able to make better risk managed pre-approvals and assess the impact of these offers in terms of new active accounts opened. An AO component will more easily permit banks to isolate the specific purpose of different actions (offered as component services such as credit check, welcome pack, underwriting) and explore different, but equivalent ways of reaching the same goal through alternate approaches – providing flexibility, lower cost of delivery and a more satisfied customer benefiting from customized offerings.

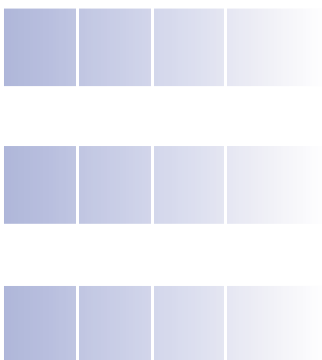
Banks have already begun to hone their AO processes

ING Direct and Citicorp have embarked on innovative AO processes which allow for faster activation, lower fulfillment charges and standardized processes, all working together to meet the needs of an impatient customer with high service level expectations. ING Direct uses rapid authentication and funding mechanisms that allow customers to open “instant” deposit accounts online in a matter of minutes. By reengineering its supporting back-end processes, its method of seamless account opening is completely paperless.⁶

Citicorp employs realtime decisioning capability that allows customers to open an account entirely online, with no hard copy signature card required, except for customers requesting paper checks. A consumer can arrange to have funds transferred into the new account from another account, including those at other financial institutions, within two to three days.⁷

Component business modeling: Beyond process reengineering

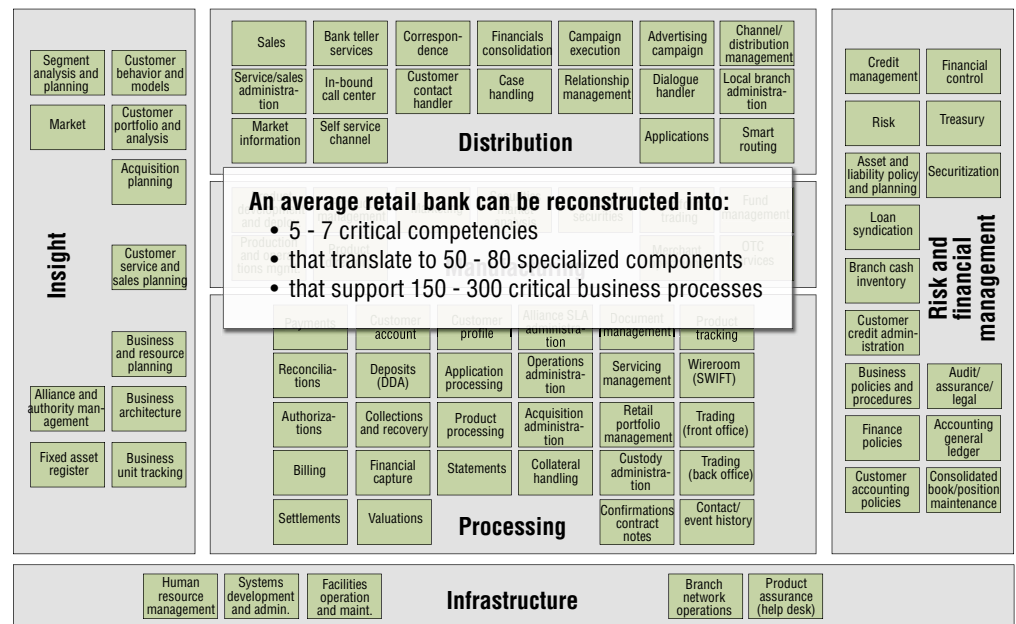
Until now, banks have typically sought improved efficiency via process reengineering within individual organizational silos – not necessarily attempting to integrate vertical towers. Although traditional approaches can result in improved subprocesses, they fall short of helping banks identify similar, redundant activities that may be scattered



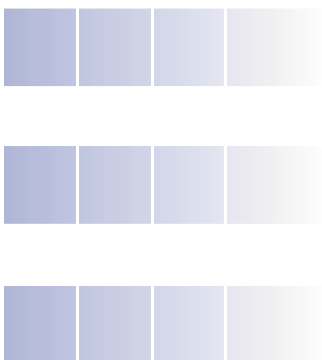
across separate processes within the enterprise. The process perspective does not force the generalization of common tasks nor help rationalize shared activities.

By contrast, CBM takes a very different and refreshing look at unlocking efficiencies. CBM is an analytical framework that allows an examination of AO activity, not only as a process to be streamlined, but as a collection of related and potentially concurrent, asynchronous activities that need to be coordinated (business component collaborations). A CBM perspective allows a critical look at the sequencing and dependencies among steps that may be performed in parallel and assesses how important and how well each action is executed, including evaluation of the intermediate states of an application while managing interdependencies in a flexible cause/effect design exploration. Much more significant improvement in performance levels is possible by using components to “cut across” siloed business units and considering needs at both the enterprise and unit levels. CBM allows analysis from multiple perspectives to gain insights for better decision-making, grouping related business activities together regardless of organizational, geographic or process boundaries (see Figure 5).

Figure 5. Competency-based retail bank component map.



Source: IBM Business Consulting Services.



This “componentization” bundles common activities, allowing them to be shared across the organization with interfaces to integrate the standalone component with relevant verticals. In this way, business activities and resources that are duplicated in various parts of the company can be consolidated or even eliminated.

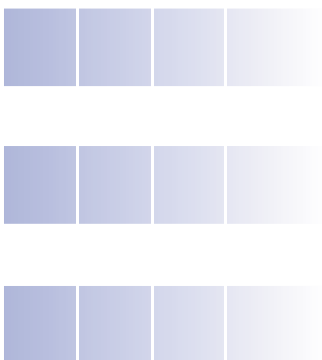
Business components – the fundamental building blocks of a component business model – are clearly bounded groups of cohesive business activities supported by processes, appropriate information systems, organization structure and performance measures. Each component has well-defined interfaces and serves a unique purpose. Using CBM, a business structure that replicates components with similar purposes across various lines of business can be transformed into a structure leveraging shared components; as a result, banks can gain substantial efficiency improvements and differentiation.

Using a CBM approach to assess and improve the AO function offers significant advantages. Increased *efficiency* comes from the elimination of duplication and optimizes processes, especially for how data is collected, shared and analyzed. *Flexibility* is another primary advantage of applying CBM to AO. A modular approach to their value networks will help banks to adapt more nimbly to rapid changes in the business environment. Integration efforts can be accomplished faster – whether necessary for partnering or to help assimilate new operations.

Transforming to a common data and workflow model

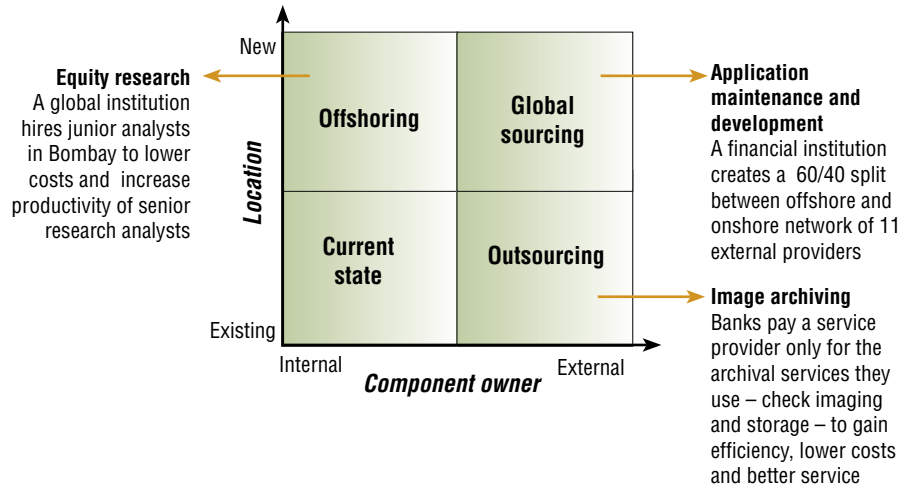
After an AO component is in place, banks can progress toward enacting a common data and workflow model. Establishing painless ways for customers to open accounts – across all products and regardless of channel – offers the potential to boost customer satisfaction and loyalty, in addition to improving efficiency levels. Key to streamlining AO is to transform processes that are embedded in siloed business structures into a workflow model that is rationalized horizontally across products and channels.

A component is able to offer differentiated, consistent services without getting mired in business unit-specific nuances and needs. By establishing an AO component, an institution can not only reduce operating costs, but also gain the potential to transform a traditional cost center into a revenue-earning opportunity. For example, by centralizing customer data, any change made to the shared repository would be automatically available for query by other components as needed. Customer data could be used to cross-sell and up-sell, as well as to strengthen customer relationships and satisfaction (imagine not having to provide the same information over and over again for various banking services), all without the cost of past redundancies.



The AO component will be designed to house best-in-class processes that can be adopted at the enterprise level. The owner of the AO component has substantial flexibility to determine the optimal provider and location of the component, based on comparative advantage (see Figure 6).

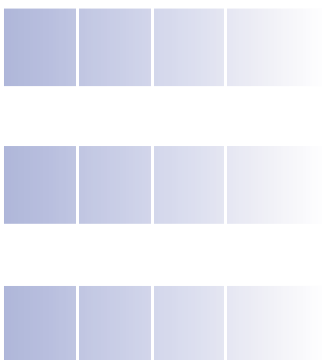
Figure 6. Component owner options.



Source: IBM Institute for Business Value analysis.

Location choices are many, including various combinations of in-house, offshoring and outsourcing. For example, the owner can create a best-in-class component and choose to retain it in-house; or benchmark service levels and generate additional revenue streams by offering the AO service to other institutions that are industry laggards. Along with choosing a location, the AO component owner can also identify which technologies and “shareable” processes can provide the most value to stakeholders.

As the component owner gains experience in this new way of running a business, additional improvement opportunities become available. In today’s networked economy, banks can strike external alliances with ease, as dictated by changing business needs. The capacity to dynamically partner with the most advantageous providers can help institutions remain best-in-class. Establishing tight service level agreements and setting the “right” fee-linked performance metrics allow component owners to deliver industry-leading service levels. By partnering with providers who share infrastructure and application responsibilities, banks can convert a majority of their fixed costs to variable. With a variable cost structure, institutions can take larger risks in growing markets by being able to scale up or down quickly based on market cycles, without a corresponding impact to fixed costs and capital outlays – capabilities that can help smart institutions to capture market share and differentiate themselves.



Connecting to other components that are critical to the AO process, such as a Regulatory Compliance component, will cultivate adherence to applicable regulatory provisions, helping banks stay in compliance even as new laws are enacted. Each component owner can remain focused on individual component objectives, which are, in turn, aligned to enterprise objectives, helping to prevent the dilution of focus that can otherwise diminish service levels and organic innovation. Similarly, by connecting to a Marketing component, the AO component can take advantage of the latest in neural and heuristic modeling to promote the right mix of products, allowing for a better cross-sell ratio, as well as new and existing customers who are happy to receive tailored products.

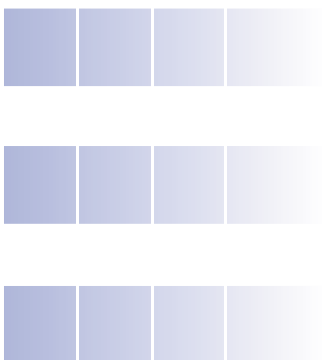
Adopting the component approach allows organizations to focus on key business and IT capabilities that form the foundation for a common workflow and data model that is shared across product lines and channels. By creating superior customer experiences, CBM can allow organizations to establish higher customer service levels, support acquisition strategies and create shareholder value through efficient operations and sustainable growth.

Using CBM to streamline AO

With a more efficient AO process, institutions can create shareholder value in four key ways:

- *Grow revenues* – By differentiating the account opening experience, improving the cross-sell ratio and being able to enter new markets quickly
- *Improve margins* – By reducing costs across the AO value chain, reducing spikes in operating costs and introducing dynamic pricing tailored to individual customer needs
- *Optimize capital* – By reducing asset ownership, decreasing the level of working capital, reducing unprofitable, fixed contracts and lowering recovery costs
- *Manage risk* – By reducing internal operational and credit risk, distributing risk to strategic partners, driving greater financial predictability and surviving in tough markets.

Our CBM engagement experience demonstrates that AO is an area that needs focus and can greatly benefit from component creation. While the scale of benefits will clearly vary among organizations, positive results are expected to be material. We suggest several steps to spark momentum:



1. *Assess the current state of AO.* Identify current challenges, including the degree to which the enterprise is siloed, and pinpoint the areas of complexity and redundancy in today's AO workflow and data flow. An initial step would be to benchmark the capabilities needed to attain market-leading standards and understand the cost, performance and customer satisfaction implications.
2. *Design an AO component with a common workflow and data flow for both customer-facing and back-end processes.* For the entire end-to-end process, especially for the Presale and Apply steps, identify the common, constant data elements collected from the customer across channels and across products (though some banks may prefer to start with transforming a vertical product line, then migrate later to horizontal rationalization across products). Design and implement an enterprisewide data model for AO that features uniform workflow, common data collection, a single customer view and common data flow for constant data elements. Another key activity is to identify leading workflow practices that can be shared as common steps in the AO process, independent of the product type, designing a component that can stand alone to provide services to various "user groups."
3. *Develop a plan to roll out a pilot and leverage the collected data to demonstrate some quick benefits.* Perform a planned rollout using data that is accessible from the common data flow for cross-selling and up-selling, as well as to identify incremental data needs by product line.

In the current global banking environment, improving the account opening process can mean lower costs that translate into higher operating margins. Easier, faster processes are also what it takes to meet the demands of customers who want "instant gratification" as part of their banking. To learn more about how to use component business modeling to assess and streamline your bank's AO function, contact us at iibv@us.ibm.com.

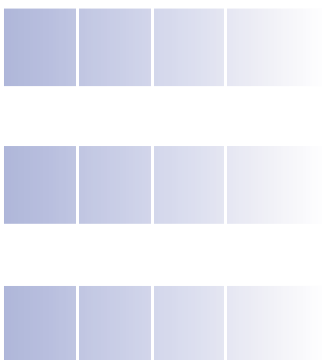
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