

Process-Centric Back Office Transformation

Executive Summary

By driving back-office efficiency, banks and other financial institutions seek to lower expenses and reduce business opportunity costs by being more responsive to market dynamics. However, if the underlying processes are fundamentally flawed, the conventional approach of making incremental changes and adding automation will not deliver the maximum possible benefits.

For successful change that's truly transformational, Kodak—based on nearly two decades as a provider of business process services—advocates following a disciplined, change management approach that reexamines fundamental operating models. Often, a unified capture strategy combined with a reengineered process delivers efficiencies and a clearer focus on customer information that can drive retention and new business.

Introduction: tumultuous times belong to the fast and flexible.

Financial institutions face unprecedented economic uncertainty and intense competition on a global scale. Meanwhile, investor expectations for return remain unchanged; banks must demonstrate profitability or face extinction. The rewards will go to those who can quickly implement tactics that overcome market complexities and capitalize on short windows of opportunity while maintaining high service levels to protect the customer base.

Unfortunately, the ability to execute business strategy quickly can be crippled by a bank's operating models. Inflexible operations preclude the quick responses necessary to lead the market. For example, if the bank's operations can only capture 15 percent of the possible response for a new product, the rollout will have to hit smaller territories over a longer time, limiting marketing economies of scale and creating opportunities for competitors. In addition, operational inefficiencies limit the cash reserves available to fuel growth. For reasons described on the next page, back-office operations offer the greatest potential for wringing out inefficiencies and providing the most strategically valuable benefits.

The product-centric back office: silos of duplicated effort and resources.

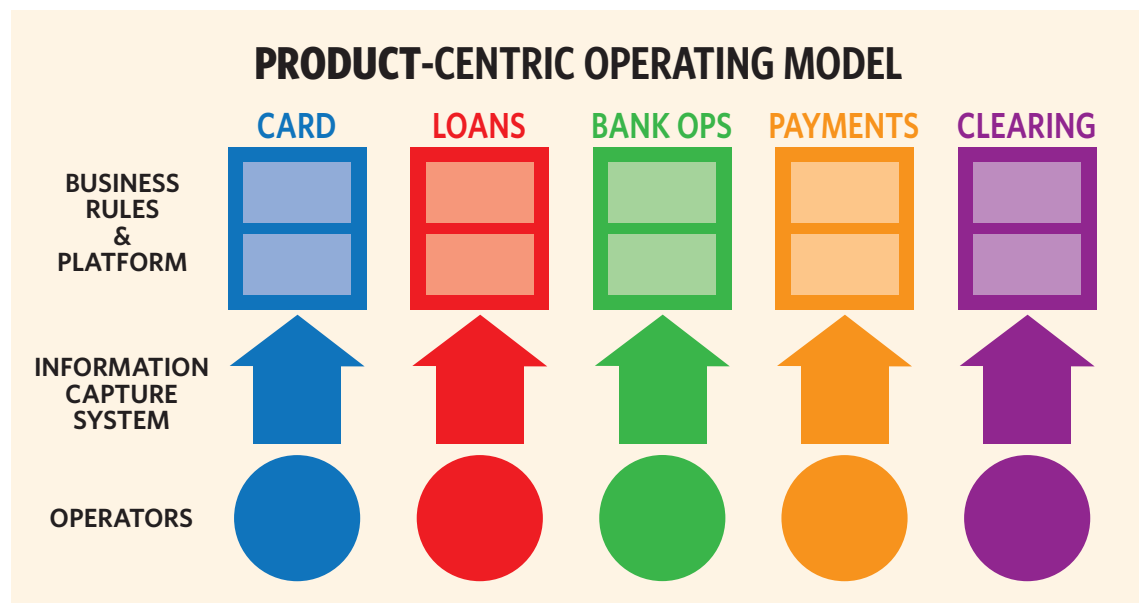
What we refer to as “the back office” is seldom singular. Back-office operations are usually a mix of disparate technologies and platforms. These are the legacy of generations of product introductions and mergers and acquisitions. As a result, back-office operations are most often aligned in a product-centric fashion and cannot be scaled across functional areas. It’s also difficult, if not impossible, to obtain a global view of the customer’s relations with the bank, leading to overlooked sell-through opportunities and duplication of account management efforts.

The disadvantages of a product-centric operating model are many:

- Wasteful resource duplication: dedicated people execute each business process and these resources are difficult to reallocate during peak times.
- Multiple, product-specific processes and procedures: creates difficulties in capacity planning and load balancing that can constrain service level delivery and execution during peak times or promotions.
- Multiple technology platforms: increased costs for maintenance and space for operations.
- Complex monitoring and reporting creates difficulties in process monitoring, problem resolution and performance measurement.
- Lack of insight into customer behavior and selling opportunities that could drive new revenue.

Increasingly, the costs of the product-centric model are becoming a luxury no financial institution can justify. Kodak has measured inefficiencies running into the millions of dollars. And the model’s inflexibility inhibits rapid response to market conditions, placing customer satisfaction at risk and constraining growth.

Each product silo shown contains its own set of information capture technologies, processing workflows and resource overhead to operate and manage.



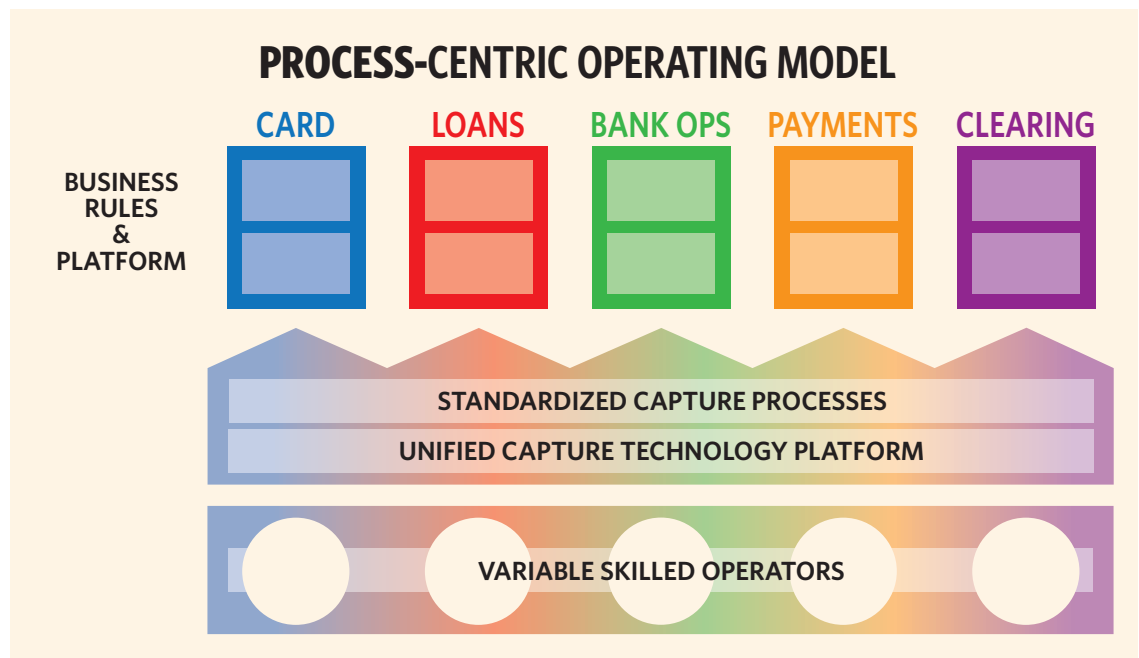
A leaner approach: efficiency via standardization.

Financial services generate revenue by receiving funds from investors, depositors, and debtors and disbursing funds as dividends, payments or transfers, and loans. The basic revenue engine takes information into the organization and processes the information to trigger an action. The more efficient an institution is at moving money through these processes, the more profitable and competitive it will be.

With a product-centric operating model, a bank has many small engines, each with its own operations and maintenance issues. When processing workloads increase in one area, there is no way for the other engines to help.

Kodak has seen what can happen when a back-office strategy leverages processing similarities across product lines to create one shared process engine. Consolidation of similar activities, such as establishing a unified capture platform, drives global efficiencies. Standardization and resource sharing enable scaling to meet variations in demand. The costs of automation and advanced technology are more easily justified enterprise-wide across all products, rather than on a piecemeal basis. It's a bit like comparing many commuters in automobiles clogging a highway to an equal number of commuters sharing a ride on a bullet train. They all get to work, but those on the train do so faster and use less energy.

By sharing processes, technology platforms and a set of operators, lines of business have access to more resources when they need to scale up to match market changes.



The process-centric back office: transforming operations for the better.

A process-centric operating model is characterized by the following:

- A unified capture technology platform takes the place of multiple disparate technology platforms.
- Work processes have been reengineered into straight-through process flows by redefining existing digital workflows and further eliminating manual work steps.
- System operation is greatly simplified, error rates are reduced and flexibility is gained through these actions.

- Process operators are easily cross-trained to support multiple product lines. This enhances the ability to reallocate existing resources or train new operators in support of peak operating periods.
- Real-time online monitoring, reporting, service level and Key Performance Indicator management ensures visibility into every individual product and business.
- Overall complexity is reduced; processing speed, capacity and flexibility are increased.
- Customer-facing branch operations can be simplified so that customer information is captured and communicated faster.
- Data mining and other information-driven marketing are enhanced by a more complete, more timely view of the customer.

Process-Centric Operating Model Key Benefits

Efficiency via standardization

- Fixed costs become variable costs
- Improved process governance and transparency

Enhanced customer satisfaction

- Improve service quality levels
- Information accuracy and quality

Support for business strategy execution

- Rapid geographic expansion
- Streamlined product launches

Transforming back-office operations to a process-centric approach demonstrates good stewardship of investor capital. Within this environment, the bank can enhance customer satisfaction by providing faster and more accurate information exchanges. Operations can shrink or grow in response to market conditions or the consequences of mergers and acquisitions. New products can be designed, implemented, and launched in shorter timeframes.

By operating this model in a hosted environment, banks can convert from a fixed-cost model to a variable-cost model that better aligns with business strategies. A process-centric approach effectively reduces operation costs and positions the business for rapid execution of business strategies, which can lead to growth and better profitability.

Obstacles to change: a matter of perspective.

Why haven't more financial institutions made the journey from product-centric to process-centric operating models, given the substantial benefits? It's likely because real change is a complex transformation that touches all aspects of people, process and technology. It requires a change management-driven process that probably does not reside within the organization. Within this context, three factors emerge as key drivers for inaction.

Managers are themselves product-centric. They have trouble envisioning a process-centric big picture and its benefits within the metrics of their own product-centric models. And individual business managers have little incentive to think and act globally. Above all, they must not risk performance of current business operations.

Business inertia. Banks treat back-office operations as an unglamorous cost center. Pervasive management beliefs hold that technology substitution is the only way to drive cost efficiencies and yield desired profit margins. In the absence of quantifiable benefits, managers assume that current operations represent best practices.

Lack of perspective. Leaders within the organization need to change their view of the back office and the role it plays in the business model. When managers associate the back office with revenue generation and profit enhancement rather than cost, they see the issues with product-centric operating models. It becomes easy to understand the benefits of a process-centric operating model and the value of engaging in fundamental change to build it.

Getting to optimum: a roadmap for change

In Kodak's experience, once stakeholders recognize and understand the strategic, big picture issues, the journey from the product-centric to process-centric back office can begin. The first task is to develop a roadmap that includes a plan for managing the risk associated with change. Throughout the transformation, existing service level commitments must be maintained.

A senior-level steering committee must be convened to develop and execute the roadmap. The committee's ownership ensures that issues encountered along the path are resolved and that communications flow smoothly to convey project status and reemphasize the benefits of change.

Following a Roadmap for Change

Efficiency via standardization

- Convene senior steering committee
- Communicate, communicate, communicate

Mitigate risk

- Leverage stage and gate process
- Build achievable work plans
- Plan for contingencies

Celebrate early success and build momentum

Engage a partner with experience that becomes part of the team

Kodak builds a stage and gate process into its roadmaps to mitigate risk. At each phase of plan execution, project value is validated and the completeness of deliverables is reported to all stakeholders. This ensures awareness of the action's value and risks before any investment or changes occur. This also presents an opportunity to dismiss the project or redirect it before additional cash is expended.

The plan should be developed within the stage and gate context. The work to be performed in phases between each milestone should not overstretch the capabilities of the organization. Instead, work must be organized in increments that the organization can reasonably expect to absorb. The plan should also develop contingencies based on probable outcomes to guard against surprises.

This approach enables the new operating model to emerge in an accelerated, yet controlled, manner. The organization can confirm value, prove the model works, and easily scale to the end state with minimum

disruption to current operations. Early trial successes can be celebrated to help maintain momentum.

To obtain the skill set required to drive back-office transformation, a bank can engage an experienced partner. Such a partner will guide development of benefits quantification and convey key learnings to the team. Leveraging the partner's expertise will enable the bank to accelerate transformation while minimizing costs. The most desirable partners are those that act in the capacity of a trusted advisor, become a part of the team, and help drive the success of the transformation from beginning to end.



Summary

The typical back office evolved over time in an ad hoc, product-centric manner as banks launched new products, added new territories, and absorbed other operations through mergers and acquisitions.

A financial institution willing to look past the complexity of multiple operating environments will discover significant ways, such as a unified capture platform, to eliminate cost, improve customer satisfaction and respond to market conditions much more flexibly. While it may not be easy to uncover this potential, the magnitude of the available gains compels the institution to act in the interest of investors.

To recognize opportunity and create the will to act, financial institutions must look past institutional biases and cost. When the aggregate back office is viewed in terms of its role in revenue generation and profit enhancement, the benefits of shifting from a product-centric to a process-centric back-office operating model are truly compelling. An experienced partner can guide the organization in the disciplined pursuit of the benefits of process-centric back office transformation.

Leaders must embrace this opportunity. The financial institutions that see beyond the malaise of today's economic and market environments will be positioned to seize the full potential of the opportunities that await.

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