

Driving Asset Value Through Back-Office Integration

Executive Summary

Despite the turmoil of the world economy, profitability and growth continue to be long-term goals throughout the banking industry. Product innovation, cost efficiency improvements, and merger and acquisition activities all offer opportunities for achieving these goals. In many cases, these strategies will require that customer data be converted from one or more system formats to a single, centralized format in order to rationalize product lines, consolidate back offices, and merge bank operations.

The timeliness and smoothness of a data conversion project will impact the success of the back-office integration it supports. The conversion process itself is not simple and should not be taken for granted. The solution requires the proper domain knowledge, technology platforms, and process capabilities to integrate seamlessly with the larger objectives of the bank and proceed without straining internal resources. Kodak offers a proven project management methodology that aligns with banks' integration activities and enables the use of customer data faster and more easily than the alternatives.

Introduction

Banks can be drawn into back-office integrations in support of a variety of strategic objectives. For example:

- In order to compete more strongly, a bank may shift its product applications to new or improved or fewer consolidated platforms.
- Systems or hardware obsolescence or an application's end of life may require the migration of data to new technology in order to remain in production.
- The path to improved profitability may include data center consolidation to drive smaller footprints, reduced power consumption, and better cost efficiencies.
- Merger and acquisition activities will require the alignment of two sets of front-office services and back-office processing into standard formats.

Kodak's perspective on the evolution and transformation of back-office operations is based on over 90 years of experience in back-office banking operations. Throughout those years, Kodak has played a continuing role in transforming operations, including transaction and application processing, statement generation, and document management, as new technologies and business strategies have come online. For more than a decade, Kodak's support has included dedicated data conversion services. We've learned that data conversion is best handled as an integral component of any back-office integration, rather than as an afterthought.

A bank must address certain challenges whatever its reasons for undertaking a data conversion project. Conversion should be integrated into the overall budget and timeline to reduce risk, meet project milestones, and control costs. Managers should realize that a conversion is not as simple as copying data from point A to point B. The proper solution will require specialized technology and processes to prevent data loss.

Many types of customer accounts require conversion.

- Commercial and personal checking
- Commercial and personal lines of credit
- Automobile, home equity, and student loans
- Mortgages
- Credit cards
- Financial services, including insurance and investments

Issues and answers on the road to data conversion.

The merger/acquisition scenario presents the biggest challenges and creates the most urgency. Once the deal is done, the clock is running. By acquiring the assets and customer accounts of another bank, the bank creates opportunities for growth and greater economies of scale. But achieving a fatter balance sheet and greater market penetration depends on how quickly and smoothly the bank puts the acquired customer accounts into production.

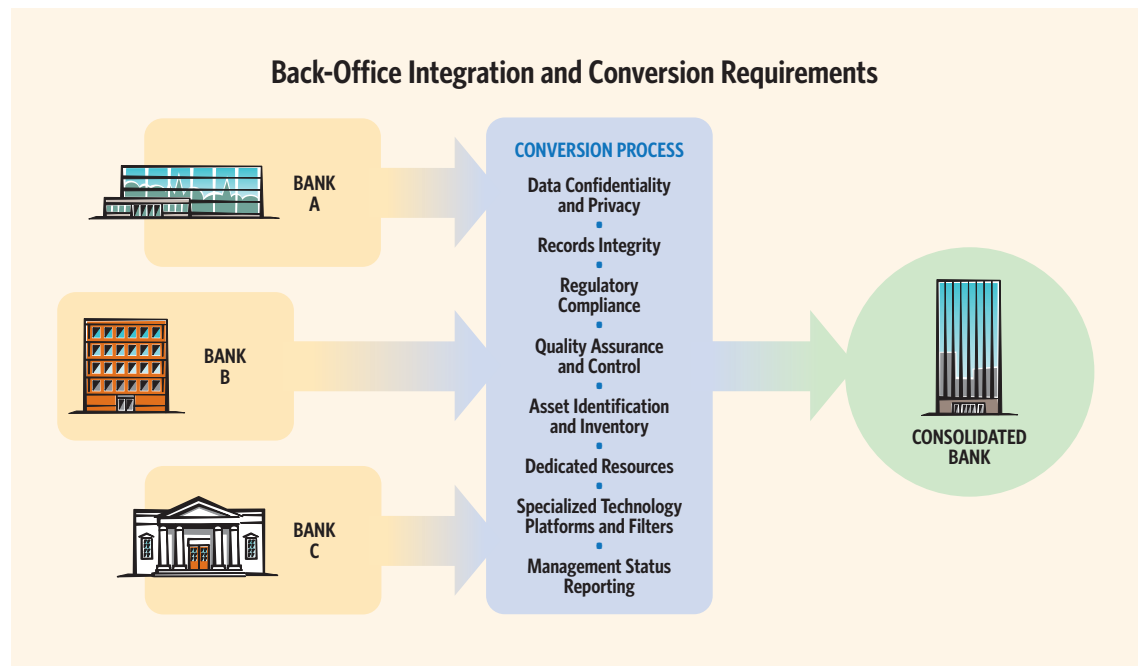
Seldom will the banks involved in a merger/acquisition have identical operations. Branded products must be standardized to drive new business. Back-office platforms must be consolidated to eliminate duplicated resources and support services. Inevitably, there will be a period during which the bank must run two sets of operations while it is working to shut one down. The faster the bank can get through this transition, the faster it can achieve the strategic goals of the merger while protecting the newly acquired customer base.

Turning customer data from a liability to an asset.

To accomplish this integration successfully, the bank must convert customer account data from the platforms it is retiring to formats that can be processed by the replacement platform.

Until then, those customer accounts are like branch offices the bank plans to close; the bank paid to acquire them and is paying an ongoing cost to maintain them. Until the bank leverages them to generate new business, they create no value and consume resources.

Whatever the reasons banks are drawn into a consolidation effort, account data must be migrated to a common platform without compromising its integrity.



Supporting continuity and customer confidence.

No matter what transitional turmoil may be going on behind the scenes at the bank, customer-facing business must go on as usual. Central banks will require periodic reporting. Depositors and borrowers expect their balances and records of loan payments to be accurate and available. An erroneous statement can dissolve a depositor's residual goodwill and create mistrust of the "new" bank. A delay in lending to a commercial customer may interrupt their business and drive the customer to approach another bank. To get the most value out of the acquisition, back-office operations must mitigate customer flight and support daily cash flow by providing a high level of service. At the same time, banks must strive to efficiently close the obsolete systems and minimize incremental operational expense.

Shortening time to revenue growth.

The ultimate goal, of course, is not to maintain the status quo, but execute on marketing campaigns with customer communications that will result in increased revenue. The data must be accessible to the bank's systems in order to mine the customer base and cross-sell and up-sell financial products with uniform branding.

On-time, accurate conversion is integral to a smooth system cutover that helps the bank protect the base and create opportunity.

What does it take to drive a trouble-free conversion project?

For all the reasons above, the bank needs to implement a conversion as quickly and smoothly as possible. Doing so is not easy. Kodak's experience has shown that the logistics of a large-scale conversion project and the complexity of the conversion process itself can overwhelm an organization that is not equipped to handle the details.

There are many not-so-obvious issues to manage in several key areas:

Business

- The integrity of records in use must not be compromised.
- Confidentiality and privacy must be maintained.
- The transition must comply with any applicable oversight regulations.
- The project may require dedicated resources in order to meet hard deadlines.
- The acquired IT department may be somewhat hostile.

Process

- Media will need to be inventoried, possibly converted, backed up, and tracked throughout the process.
- There must be a process with quality assurance and control steps in place.
- Certified destruction may be required for some classes of data and records.
- Management Status Reporting.

Technical

- Legacy files may require loading from disused media in order to complete customer records.
- Inactive records may need to be migrated through software generations to be processible and/or archived at the acquiring bank.
- Fields may be required for one platform but not present on the other.
- The names for fields will vary among application databases.
- The data format for the same field may vary between platforms.
- The rules for database pointers may lead to dead ends in the destination database.

In Kodak's experience, very few data conversion projects are a straightforward one-to-one conversion. In order to maintain trust and compliance, absolutely no value may be altered. Unless the project managers and software programmers know where and how to look, there are pitfalls waiting at every turn.

Sometimes the differences between formats are very subtle, perhaps just the matter of a leading zero or two. Sometimes coding errors in the conversion software can introduce hard-to-detect errors. Without attention to the right level of granularity in processing and testing, transpositions, shifts in dates, and misplaced decimal points can occur.

Realizing the Value of Acquired Account Data

How quickly and accurately a bank absorbs information about another bank's customers can have a positive impact in the back office and on the bottom line.

Benefits include:

- Higher service levels contribute to customer retention
- Earlier cutover to new systems reduces costs, enables expanded and new revenue streams

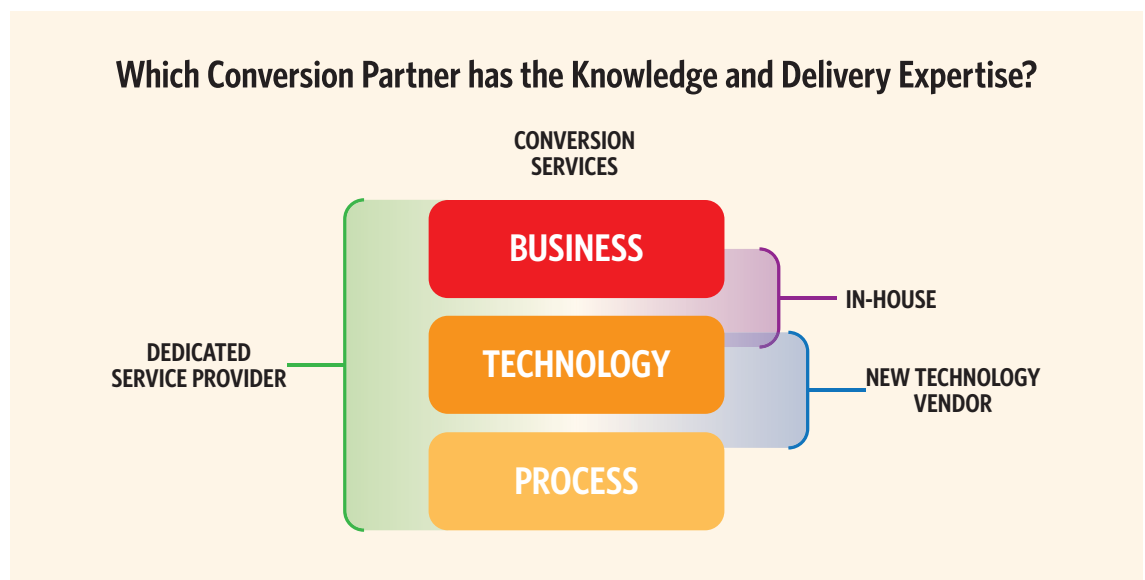
Who will be the best conversion partner?

The fact is that a conversion is much more complicated than backing up a server or loading software. Given the business investment that's at stake and the tight timeframe, the weeks after a merger are not the time to experiment. But how does a bank anticipate and access the resources, capabilities and interest required to perform the task successfully?

The bank will want to weigh its choice of partner carefully:

- **In-house conversion** has its own set of challenges. With customer relationships and revenue streams at stake, the acquiring bank's IT department must enable back-office integration as quickly as possible. Its resources are likely to be stretched thin as a result of the acquisition. Systems need to be installed and tested at the acquired branches. Employees need to be trained on platforms that are new to them. The IT department is unlikely to want to invest resources in foreign systems and platforms that are being retired. The bank needs to weigh the pros and cons of ad hoc internal development carefully.
- **Hardware or software platform vendors** are unlikely to offer conversion as a core competency. Without dedicated resources or process road maps in place, a conversion project is likely to be managed as an afterthought, ad hoc task. Strategically, the bank would probably place more value on having its vendors focus on platform installation, testing, and training, because that's where vendors add the most value.
- **Dedicated service providers** build their business models around conversion and partnering with companies to enable back-office integration. As a result, the best providers will have the domain knowledge, the technology platforms, and the process capabilities to meet the bank's needs, plus the insight to understand how this activity fits into the bank's overall strategies. With this model, the bank receives data that's been checked and tested, ready to be loaded on schedule to service accounts, add new services, and generate customer statements.

Different types of service providers will provide different scopes of understanding of the overall complexity of a conversion project. Generally, the greater the depth of domain knowledge, the lower the risk.



Kodak has built and validated an ongoing business based on its dedicated service provider approach to conversion. With close to 15 years of experience, we understand how to support a bank's most urgent objectives with proven best practices that mitigate risk.



How to deploy conversion to drive integration.

At Kodak, we take a consultative approach to back-office transformations. When it comes to integration, we treat data as a strategic asset in which the bank invests to achieve ultimate goals that can include cutting costs, enhancing productivity, and growing markets and market share. With the Kodak model, data conversion is managed as a change enabler—a key component of integration rather than a messy but necessary task. To do this, we integrate our services with the bank's overall integration process. In practice, this means we map our work plans into the bank's project Gantt chart, coordinating our stages and gates with the bank's timeline and horizons. In effect, our project management remains in lockstep with the bank's project management.

The value of Kodak's approach is that we help the bank get past initial hurdles that would otherwise delay implementation. By applying resources and processes honed by a decade and a half of experience, we can move from tests to sample production to full production against an accurate project scope and timeline. This delivery model enables the integration of back-office systems in an accelerated, yet controlled, manner. Testing on actual systems can be done prior to the "go-live" system cutover date, to more rapidly enable other project tasks downstream in the integration plan. Early trial successes—such as validation of sample batches of converted data sets—can be celebrated to build momentum and a sense of confidence at all levels of the organization.

Summary

The process of converting customer data from platform to platform is often required to support streamlined operations, application consolidation and updating, and merger and acquisition activity. Considering the data's intrinsic value to daily operations and customer service together with the technical complexity of conversion, it is best to work with an experienced, dedicated service provider. Such a provider will have a process model, a proven methodology in place, and offer a track record of success. They should be willing to work in a consultative role as a partner in the bank's transition. Responsible bank leaders will investigate this lower-risk, accelerated approach to back-office integration in order to drive time to market, maintain high levels of service, and support transformation strategies.

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