

Moving from the Mission Statement to Reality:  
*Achieving a Customer Centric Bank*

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# Achieving a Customer Centric Bank

## OVERVIEW

It seems the most fundamental rule of economics is that every concept needs to be prefaced with the phrase: “Let’s assume....” For example, let’s assume market efficiency; let’s assume interchangeable, fungible, commodities; let’s assume a vast marketplace, and so on. In fact, the fundamental laws of economics: those of supply and demand are prefaced by many of these same assumptions.

But just imagine if we could relax some of those assumptions. What if we didn’t have to have a huge marketplace--like those for corn or soybeans--but could have smaller, discrete, yet just-as-efficient a markets. Nonsense, you say, that’s impossible. But you merely have to look at the worlds of eBay and other online auction communities to recognize it is not a stretch by any means. Instead of one market with thousands of buyers and sellers, we have thousands of markets with one or two buyers and sellers in each. If it is happening in the world of Hummels, old record albums, and other such tchotchkes why not in the bundle of goods and services that a financial services firm delivers?

Why can’t we apply this same idea to the world of retail banking? a world of traditional, one-size-fits-all loan and deposit products, which may or may not meet the needs of the customer, and more importantly may not be profitable for a bank. What will it take to develop such a complete understanding of the customer, that we can tailor something specifically to him or her, and structure it in such a way it ensures the customer will remain both loyal as well as valuable to us? In the past, financial institutions were hamstrung by the inability to quickly exploit market opportunities. They faced lengthy time-to-market cycles due to technical and systems constraints and battled the widely held belief that banking products are commodities, like wheat and pork bellies, instead of a discrete bundle of goods and services that can be tailored to each customer.

The phrase “a customer-centric bank “ has become a cliché and probably exists on more than a few mission statements at banks around the world. So what exactly does that mean, and more important how do we really become a customer-centric

bank and move the idea from a refrigerator magnet to our day-to-day operations? A customer-centric bank is not one that fits a customer into one-size-fits-all products and services, but one that starts with the customer and configures the relationship to uniquely reflect his needs and the means by which he will use the shared services of the bank.

Achieving a customer centric organization requires answering the following:

- How do we improve our efficiency while also increasing our value to the customer?
- How can we streamline business processes to improve our go-to-market speed?
- How do we enable front-line associates to provide unique offerings to our customers?
- How do we improve the customer experience while also increasing operational efficiency?

#### **HOW CAN WE STREAMLINE BUSINESS PROCESSES TO IMPROVE OUR GO-TO-MARKET SPEED?**

*“The only profit center is the customer”*

*-Peter Drucker*

The father of modern management, Peter Drucker, was also the father of the concept of cost centers and profit centers. It is interesting that, while most organizations have many profit centers, the original concept was to have only one: the customer. It is not only a sound philosophy for keeping your customers satisfied, but it also focuses the rationale for everything (and the cost of everything) we do around how it meets the needs of customer acquisition, retention, and satisfaction. Therefore, the first step in achieving customer centricity is to understand how each and every business process of your organization ultimately exists to satisfy your customers. If a bank can't attribute everything it does do to a customer or acquisition of a customer, it is likely superfluous.

It is just as important to understand the costs of serving, retaining and acquiring customers. Each customer will use the shared services of the organization uniquely, and as a result, there is a unique cost associated with attracting and serving that customer. Activity Based Costing, a long-accepted business practice in

manufacturing, is now gaining traction in the financial services industry as a means of accurately allocating the enormous pool of shared services of which a bank consists to individual customer relationships.

The simplest way of thinking about Activity Based Costing is to map every resource of the organization (e.g. costs, people, technology, fixed assets) to the activity they support. In turn these activities are then mapped to what is generically referred to as a cost object, the purpose for which this activity was expended. In this case, as it should be in all cases, the customer is the cost object.

Historically there has been a belief that the great cure for unprofitable customer relationships is in cross selling. But the fact of the matter is, on average, each customer has two accounts with the bank out of a total wallet of 16. When you look at the most profitable customers at the bank, they have on average....

2 accounts.

And if we look at the most unprofitable customers, they have on average....

2 accounts

The question is why do we believe cross selling will improve customer profitability when each account often is handled separately from the other(s)? When you separate systems, customer interaction, and channels, chances are that customer interaction related to one account is completely blind to any other relationships that the bank has with a specific customer. The idea that more accounts translates to greater profitability is predicated on the notion of economies of scale. If no economies exist, cross selling really doesn't do much good.

## **HOW CAN WE STREAMLINE BUSINESS PROCESSES TO IMPROVE OUR GO- TO-MARKET SPEED?**

The ability to differentiate individual customer relationships is of little use if the core systems and technology a bank has in place cannot accommodate this strategy. Moreover, delays in new product introduction due to organizational or technological hurdles translate into missed opportunities because the competition will be more than willing to step up and fill the void.

Organizations can build market responsiveness by adopting flexible core banking processes using open standards. Using technology to reflect the business processes

you want rather than the other way around (creating business processes to conform to static, inflexible technology). New open standards technologies such as service oriented architecture (SOA) and Business Process Execution Language (BPEL) can facilitate this change.

BPEL, a standard managed by OASIS, has been widely adopted by organizations and leading vendors. Together with SOA, BPEL delivers a modular way for IT departments to deploy new solutions, decrease maintenance costs, and quickly adapt to new business requirements. This modularity reduces risk often inherent in “big bang” replacements, and provides for quick “wins”, rather than waiting for years to see any benefit from a significant IT overhaul.

SOA is getting significant attention across the IT industry—and for good reason. Propelled by standards-based technologies like XML, Web Services, and Simple Object Access Protocol (SOAP), SOA is quickly moving from pilot projects to mainstream applications that support critical business operations.

Oddly enough, compliance--something that is often regarded as an overhead burden--can also be a competitive advantage. Business processes that facilitate compliance can actually help to improve go-to-market speed, enabling banks to launch a new offering or leverage an individual opportunity more quickly than the competition, which is still trying to put internal controls in place.

## **HOW DO WE ENABLE FRONT-LINE ASSOCIATES TO PROVIDE UNIQUE OFFERINGS TO OUR CUSTOMERS?**

You enable your front line to become customer centric when you can deliver the following to them:

- The ability and the authority for real-time decisions
- A 360-degree view of the customer

A complete view of your customer quite simply allows for intelligent customer interactions. Customers aren't left shaking their heads wondering why the customer agent wasn't aware of all the relationships they have. Customers also walk away from the engagement with the sense that the bank understands them and what their needs are.



From the bank's perspective, a complete view of the customer permits it to know what the bank can sell the customer next. How do we increase our share of the typical customer's 16 financial relationships?

Needless to say, this view of the customer should be available, regardless of transaction and channel.

### HOW DO WE IMPROVE THE CUSTOMER EXPERIENCE WHILE ALSO INCREASING OPERATIONAL EFFICIENCY?

This question could be stated another way: How do we provide a consistent customer experience? Providing a consistent customer experience will improve the attitude of the customer toward his bank. In addition, if a bank has one place--regardless of channel--for all policies, standards and procedures, it has substantially lowered its operational risk as there is less chance for inconsistent accounting policies being applied.

Let's take, for example, one of the most basic, yet most important transactions--account opening. Does your customer have a consistent customer experience regardless of the channel he uses? Are the rules and policies consistent between channels? Did that consistency come via replicating standard rules and policies over and over again between different supporting IT systems? As such does this need for replication not only create additional efforts, but is it prone to error? Does your customer wonder why each type of account he opens with you has a different

application process, and why he needs to repeat fundamental information each time (e.g. name, address, financial information, etc.)?

Customer management and campaign management also need to seamlessly span and be consistent across multiple channels.

Once again, building the technology around the business process (account opening) rather than conforming it to all the discrete core banking systems a bank has in place, generates a consistent, reliable experience, that is ultimately more cost-effective to deliver.

What a single view of the customer contain:

- Real-time account balances
- Account details and transaction history
- Contact information
- Opportunity management
- Interaction history
- An approach to guided selling
- Likely cross sell/up sell products
- Recent sales offers
- Needs analysis

Real-time decisions enable a bank's front line to immediately pursue a sales opportunity as it arises and permits (within limits, of course) the ability to tailor the opportunity specifically to the customer's needs. In the case of a loan product, given the customer's credit standing, transaction history, and today's marketplace opportunity costs (funding costs), what price can I offer to the customer that will be competitive and guarantee a profit for the bank? In the case of a liability, based on transaction history, channel usage, and other factors, what can I offer this customer that will differentiate our offering in an increasingly commoditized world, from the competition?

## **Conclusions**

Is it possible to treat each customer uniquely, and improve the return each customer provides to the bank? The answer is a resounding yes. First, a bank needs

to return to its roots as a service company--the phrase financial “service” company should be taken to heart. From the customer’s point of view, they are receiving a basket of services from you, not a commoditized product. Technology advances such as SOA and BPEL are enabling banks to provide a much more consistent, compliant, and efficient customer experience. Although technology can help enable a customer-centric organization, it is the people and processes of the organization that will, ultimately ensure the success, of this important transformation.

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