Becoming a Proactive Bank

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Executive Summary

The reactive culture that is pervasive in financial institutions negatively impacts their ability to achieve strategic goals such as improvements in risk mitigation, customer experience and operational performance. Firsthand research indicates that 85% of banks are reactive when it comes to identifying and resolving operational issues, as well as intraday decision-making.

In today’s highly competitive and overly regulated banking environment, the traditional “fix-on-failure” approach to business operations can no longer be tolerated. To achieve their strategic goals banks must become proactive.

To transform their operations from manual and reactive to systematic and proactive, financial institutions need to gain operational intelligence by creating real-time situational awareness and predictive insight. This arms their operations staff, risk and compliance officers, product management, customer relationship managers and executives with the actionable intelligence required to proactively achieve their respective operational objectives.

Whether the purpose of becoming proactive is to gain operational control for proactive action or operational insight for faster and more informed intraday decisions, these proactive banks have demonstrated significant results.

For instance, banks that have built business command and control centers have streamlined their operations to act as a centralized first line of defense:

- They proactively identify and solve process issues prior to impacting their business and customers, achieving 50% mean time to repair (MTTR) reduction and saving millions of dollars in just the first year alone.
- They transfer long human experience that is costly to acquire into actionable intelligence dashboards that can be learned by non-expert operators 95% faster.
- They use their new proactive capabilities as a marketing tool to demonstrate confidence and superior customer experience to retain their VIP customers and attract new ones.

“It is not the strongest of the species that survive, or the most intelligent, but the one most responsive to change.”

Charles Darwin
Proactive banks avoid paying punitive fees and penalties due to missed obligations. A large international bank saved $5.2 million in interest claims related to payments and corporate actions.

Proactive banks dynamically optimize resources by assigning them according to intraday needs. A large regional bank doubled its check image volume without missing Service Level Objectives (SLOs) and without adding any staff.

Proactive banks no longer look at regulations such as Basel II/III as a “necessary evil” but rather, as a competitive advantage to reduce losses and gain positive PR while demonstrating complete control to auditors.

“Crises offer rare opportunities to make major changes in an organization because they lessen the resistance that exists in good times,” said William George, a professor of management practice at Harvard Business School and the former chairman and CEO of Medtronic.

In the aftermath of the recent financial crisis and in this sluggish worldwide economy, now is indeed the best time to become a Proactive Bank.
Reactive: A Cultural Challenge Faced by the Financial Industry

Banks of all sizes establish strategic goals along with the measurable objectives required to achieve them. While myriad challenges must be overcome to meet these objectives one of the most prevalent goes unnoticed — the reactive culture that is pervasive in business operations.

To achieve their objectives, individuals such as operations staff, customer-facing employees and executives must be able to anticipate and address operational challenges before they impact the bank, its customers and strategic goals. Instead, they too often address challenges after the fact. This reactive mindset is rewarded, as putting out fires quickly is the measure of success and becomes enshrined in a culture of reactivity.

Furthermore, this reactive culture acts as a negative force against any quality, risk and customer improvement initiatives. Consider the following:

- Is it possible to mitigate operational risk when issues are detected too late for corrective action?
- Should Key Risk Indicators rely heavily on lagging rather than leading indicators?
- Is it efficient to pay staff to manually monitor what is right most of the time?
- Can customer experience improve if avoidable issues cannot be addressed before customer impact?

Firsthand research indicates that 85% of bank operations are reactive when it comes to identifying and resolving operational issues. Anecdotal evidence of this reactive culture was uncovered during a recent conversation with payments operation staff of a large multinational bank. They complained about never receiving bonuses because they installed a new system that rarely failed; whereas another business operations group received sizable bonuses for their ability to quickly address failures that occurred regularly.

This reactive culture did not appear overnight, in fact, the term “fix-on-failure” has been shamelessly used within the banking industry for years. For decades, the technology that powered bank processing systems could only pinpoint operational issues after they had already occurred. Information was available in post-mortem reports leaving operations supervisors with only one option — react as quickly as possible after discovering the impact to the bank and its customers.

A similar observation can also be made about intraday decisions. Pieces of information required for on-time decisions are often contained in silos, creating latency between when a decision should be made and when information is available. Without access to timely information the decision-maker must choose between a proactive decision with partial information and a reactive decision with full information.

Being reactive is like texting while driving: we all know it is wrong and even potentially lethal, but many — if not the majority — continues to do it, until something bad happens.
Drivers for Becoming Proactive
Time is shrinking

Whether it is to achieve faster time-to-market, under-cut competitors, gain higher margins or speed up service delivery, moving faster has been and will always be a driving force for banks to stay competitive. Achieving speed and agility at all levels of the enterprise leads organizations to decide and act faster. Consider this:

- Are there any business processes where cycle times are lengthening?
- Do customers want to wait longer for transactions or to have their problems resolved?
- Are there any acts of fraud that do not take advantage of latency?
- Do operational issues exist that are not time sensitive?

Taking time to react to operational issues and make decisions is a luxury banks can no longer afford.

Proliferation of Technology Changes

Organizations have integrated their computing infrastructures and business processes in new ways — creating “value-chain” services. As a result, the pace of technological change has outpaced the ability of banks to maintain control of their operations, and it keeps accelerating.

For those in business operations, the feeling of being in charge but not in control is a new reality. Computing infrastructures are increasingly complex and extend beyond the bank’s boundaries to incorporate third parties such as processors, exchanges, customers, and partners. Consequently, the risk of failures keeps increasing significantly, hence augmenting the overall vulnerability of these ecosystems.

Increasingly complex regulations

Today, banks feel unprecedented pressure from regulators to change the way they manage compliance. It is no longer acceptable to manage compliance with reports that look in “the rear view mirror.”

The Basel II framework provides a perfect example. Under the category “Execution, Delivery and Process Management”, Basel II clearly outlines the set of operational risk best practices that banks must implement, one of them being to proactively identify unusual events. In July 2009, the Basel Committee published its Loss Data Collection Exercise (LDCE). This study includes 121 banks from 17 countries and finds total losses worth €59.6 billion of which the “Execution, Delivery and Process Management” category represents a staggering 25%.
In today’s environment, banks that still adopt a reactive approach to monitoring regulatory compliance are increasing the risk of substantial fines and reputational damage. Rather than regarding compliance as a “necessary evil,” banks can turn it into a competitive and PR advantage.

From “too big to fail” to “too big to manage”

More stringent Fed guidelines pressure too-big-to-fail banks to demonstrate their ability to withstand crisis situations and maintain operational control during them. What regulators consider to be a crisis goes beyond the traditional case of a large outage. It now covers exposure to counter-party risk, like the domino effect created by the failure of another bank (such as what happened in 2008 with Lehman Brothers and recently with MF Global). In such a situation, banks can proactively advise customers to reroute their transactions during the crisis.

Although “too big to fail” is still on the mind of regulators and markets, the complexity of the financial industry has reached such a level that “too big to manage” is becoming the new concern. Automatically and proactively identifying abnormal situations, focusing attention on the right leading rather than lagging indicators to avert the next crisis require a paradigm shift that is obstructed by the current reactive culture.

Becoming Proactive: Building the Proactive Bank
People — their objectives and concerns

Becoming proactive involves recognizing that each individual is expected to achieve measurable performance objectives. These objectives map to the bank’s customer commitments (e.g., process all payments by cut-off), regulatory compliance obligations, and current strategic initiatives (e.g., improve customer experience).

To transform from reactive to proactive, banks must empower each individual to proactively focus on what is most important for overcoming obstacles and achieving objectives. This is created through real-time situational awareness, predictive insight and actionable intelligence used by each individual to address concerns about obstacles that can prevent them from achieving objectives.
Figure 1: Situational awareness, predictive insight and actionable intelligence are used by each individual to address concerns about obstacles that can prevent them from achieving operational objectives.

- **Situational Awareness** is generated by analyzing and correlating data within a defined operational context to make a specific group of people recognize a situation that requires their attention. It reduces the latency between when information is available and when a decision is made. An example using high-value payments would be to alert a back-office operator that an abnormal number of payments are stuck in a repair queue.

- **Predictive Insight** assesses the potential impact of ignoring the precursory signs created by situational awareness. It therefore informs people on their ability to meet their objectives. Building on the previous example, a real-time predictive analytic would calculate the estimated time of completion for each payment and let the operator know which payment is at risk of missing its cut-off time.

- **Actionable Intelligence** is information tailored to each individual’s needs that is delivered at the correct time and with the proper context to take immediate action.

**Technology solutions**

Operational Intelligence (OI) is an example of proven technology that enable individuals to anticipate-and-avoid rather than fix-on-failure. They are also used to reduce latency in decision-making.

These solutions offer real-time operational performance monitoring that, when properly applied, delivers situational awareness, predictive insight and actionable
intelligence. In other words, they constantly monitor operations from a business perspective to deliver timely information to the correct person so s/he can take proactive action and make faster intraday decisions.

They capture and transform events and data through sophisticated, real-time analytics which are then published through digital dashboards and alerts tailored by job function and role.

**Effective situational awareness**

Create effective situational awareness by transforming the seven deadly sins of reactive organizations into proactive virtues.

<table>
<thead>
<tr>
<th>From Reactive Sins...</th>
<th>...To Proactive Virtues</th>
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<tbody>
<tr>
<td>#1 Latency</td>
<td>Real-Time</td>
</tr>
<tr>
<td>#2 Manual</td>
<td>Systematic</td>
</tr>
<tr>
<td>#3 Data</td>
<td>Actionable information</td>
</tr>
<tr>
<td>#4 Information overload</td>
<td>Information in context</td>
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<tr>
<td>#5 Silos</td>
<td>End-to-end</td>
</tr>
<tr>
<td>#6 Intermittent observation</td>
<td>Continuous observation</td>
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<tr>
<td>#7 IT Centric</td>
<td>Business Centric</td>
</tr>
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</table>

Figure 2: Turning the seven deadly sins of reactive organizations into proactive virtues

**#1: Real-time instead of latency**

Often, the latency between when information is available and when an action can be taken is too long. Latency prevents organizations from identifying and resolving process issues prior to business and customer impact, and also inhibits timely intraday decisions.

**#2: Systematic instead of manual**

Since time is a critical factor, it is virtually impossible for someone to manually monitor the well-being of most banking processes, or manually correlate data into meaningful information in order to make decisions or take corrective actions. This manual surveillance must be automated and become systematic.

**#3: Actionable intelligence instead of data**

The vast majority of financial organizations are data rich. To become proactive, data must be transformed into actionable intelligence. That data transformation process is much more complex than it seems. Unlike post-mortem reports, score cards and business intelligence dashboards, actionable intelligence calls for immediate actions. Real-time actionable intelligence must address the specific concern of the persons to whom it is delivered and be timely, accurate, contextual and intuitive.
#4: Information in context instead of information overload
There is no question that we are inundated by information. If data must be transformed into actionable intelligence, it must not become a distraction by overloading us with unnecessary noise. Actionable intelligence must synchronize with the operational tempo of our working life, eliminating noise by being exception-driven.

#5: End-to-end instead of silos
While silos are common in most organizations, they are nevertheless an obstacle to providing the full situational awareness required to take proactive actions and decisions. Organizational and technology silos only give a partial picture of what is happening. Worse, they can create the false perception that everything is fine whereas an emerging risk requires immediate attention.

Therefore, to gain an accurate view of performance and emerging risks it is essential to monitor activities across silos and from end to end.

#6: Continuous observation instead of intermittent
In many cases, business staff and managers have access to some information but only at given times. For instance, a float manager receives information at 8AM, 12PM and 3PM and nothing in between. By the time a bad trend develops and the manager learns about it at 3PM, it is already too late to take corrective action. Another example illustrating this challenge concerns leading indicators used in operational risk scorecards: by the time a leading indicator is made available, time has elapsed, transforming that leading indicator into a lagging one which may no longer be accurate. Managers need access to continuously updated information in order to observe how certain performance and risk indicators evolve throughout the day.

#7: Business-centric instead of IT-centric
It seems like a logical approach: the more we monitor the computing infrastructure, the more we avert incidents impacting business. However, monitoring IT events makes us “business blind” because we do not link an event to its business and customer impact. Furthermore, events impacting business are not always IT-related.

Former BNP Paribas Americas’ CIO Bruce Lee said it best: “We were doing a great job optimizing performance of individual components. But we were not linking that effort to the one thing we should all care about — how the business process is doing. We realized that we have to look at things top-down — starting with the business process lens, and not vice versa.”
How to Start?
Follow these three steps

Step 1: Define your purpose for becoming proactive
Start by answering the following question:

Are you trying to gain better operational control over a business activity or improve operational insight?

If operational control is your answer, start by selecting a flow-based business process with time-sensitive deliverables. For instance, payments and settlement process transactions that flow through business steps with cut-offs and customer SLAs that must be met every day. Operational control therefore deals with actions that, if taken proactively, will help avoid incidents, late fees and penalties.

If operational insight is a higher priority, then select a decision process. Look for activities that suffer from latency and where timely intraday decisions would improve the business outcome.

Step 2: Select your category of proactivity
Whether it is to improve operational control or insight, there are five categories of monitoring solutions where proactivity improves the outcome. Select the most appropriate one from the list below. To help, try to pick the category that aligns best with current strategic initiatives within your line of business about risk mitigation, customer experience, operational excellence or top line growth:

- **1) Process performance**: proactively identify and resolve process issues prior to business and customer impact
- **2) Workforce performance**: proactively optimize workforce to increase efficiency and match demand across multiple activities, processes and geographies
- **3) Client performance**: gain a proactive client-centric view of activity, quality and risk across multiple products at the bank to provide better customer experience and value while enhancing Know Your Customer (KYC)
- **4) Business performance**: proactively detect patterns and analyze data from systematic observation of transactions to identify new business opportunities and optimize business performance
- **5) Risk and compliance**: proactively monitor risk and regulatory compliance where real-time or intraday decisions are required. Demonstrate control to auditors and regulators

Step 3: Select the business process
List two or three business processes matching Step 1 and 2 criteria. For each of them, on a scale of 1 to 5 (five being the highest), rate their level of urgency. In other words, rate how urgent it is to act after an incident has been detected to avoid impacting your business. Then, rate their level of impact — the consequences of such incidents. Select the business process with the highest ranking on both scales.
Once this task is done, identify those within your organization who would become the users of actionable intelligence delivered by the monitoring solution. Then, define their operational objectives and concerns that would prevent them from achieving these objectives. For instance, “never miss a cut-off” is an operational objective for an operator of a high-value payment process. A concern would be whether an abnormal number of payments is piling up which could lead to missed cut-offs.

**Scenario examples**

Below are some examples of what is possible once you have started down the road to becoming a Proactive Bank.

**Scenario 1: Overcoming Human Error**  
**Operational Control and Process Performance**

Over 500 DDA accounts for a customer were errantly deleted from the payment processing application, meaning no payments could be processed by the bank for that customer. By 10 AM the baseline of volume entry for that customer was abnormal and automatically detected by the bank’s Operational Intelligence Solution. After receiving an alert, the problem was communicated to key parties within the bank. Then, proactive communications were made to the affected customer and the bank was able to manually enter missing payments while the problem was resolved.

**Scenario 2: Superior Customer Service**  
**Operational Control and Client Performance**

This large bank normally receives three or four files per night from an important customer. “We (the bank) had an instance where our OI baselining dashboard alerted us that we had not received a file from them by a certain time. We then called the customer and informed them that their files were late. They went to investigate and called us back and said that they had a production issue and did not realize that they were impacted until we called them. They were able to fix the issue and get their files to us by the posting deadline. Had we not notified them, they most likely would not have known that they were missing files until the following day.”

**Scenario 3: Workload Balancing**  
**Operational Control and Workforce Performance**

The bank’s real-time performance monitoring solution indicated that a large number of high-value payments had been sitting in the repair queue too long. This placed the SLA of one of the bank’s largest corporate customers at risk. Armed with such early warning, the back-office supervisor in the Command & Control Center alerted the site manager in charge of repair. That day, due to a heavy snow storm, only half of the employees made it to their offices. The site manager agreed to balance the workload with another site located in a different geographical region. That site was not impacted by the storm and extra manpower was immediately available, speeding the repair process to make the SLA.
Scenario 4: Tracking New Revenue Opportunities

Operational Insight and Business Performance

Keeping more revenue from each transaction, finding the best prospects and understanding the value they could bring is a challenge. Most banks have this data, but do not have any systematic or continuous way to turn it into actionable information.

One major bank entered a test program to put this data to work proactively. The bank receives instructions from a client to make a payment to another corporate payable at a competitor bank, but that beneficiary is also a client of the bank. If the bank could have its client change the payment instructions, the bank could make that payment on its own books, driving out cost while expanding client relationships. The bank gained the ability to identify this behavior pattern and automatically track payments over time to ensure that the instruction change remains in place.

Scenario 5: ACH Credit Risk Decisioning — Operational Insight and Risk & Compliance

When a customer file is suspended, especially after-hours, the credit risk officer must make a quick decision on whether or not to authorize that ACH file. Often that person is not familiar with that specific customer and needs access to key decision-making information in order to make a timely, informed and accurate decision. Gathering such information can be time consuming because it is located within multiple applications and requires manual consolidation and correlation.

With the bank’s proactive monitoring solution, the credit risk officer can immediately access the client’s most up-to-date risk profile information including assets held in other areas of the bank and a history of recent ACH credit extensions which may influence the decision. The information latency is eliminated, allowing the credit risk officer to quickly arrive at a decision that considers the bank’s risk and its client relationship.

The 5 Stages in Becoming a Proactive Bank

The Proactive Bank transformation consists of five stages. Banks move through these stages as they gain incremental achievements which drive broader sponsorship and participation.

Stage 1: Reactive

In this stage, the bank is reactive across the board. There is heavy reliance on manual monitoring to catch occasional problems after the fact. The bank mostly relies on application support groups to diagnose and fix issues after business commitments or SLAs have been breached. These groups use technology that lacks business context and simply monitors applications, systems, networks or transactions to measure the health of IT infrastructure components.

Stage 2: Localized proactivity

This stage is triggered when a business executive of a line of business or department recognizes that having reactive operations negatively impacts his/her
organization. There is a desire to learn how to move from manual and reactive to systematic and proactive. Goals for becoming proactive typically focus on process improvements (e.g., reducing the number of severity one incidents by 50%) and are measured historically. For operational control, specialized operators focus on exceptions and receive early warning of situations at risk requiring their actions. For operational insight, information gathered across silos is updated continuously and available on-demand.

Stage 3: Proactivity aspirations
A C-level consensus is building to create a strategic initiative that transforms operations from reactive to proactive. To improve operational control, operators are reorganized in a Command & Control Center where economy of scale is achieved by reducing the number of operators that are cross-trained on multiple products and across geographies. Operators no longer need to be subject matter experts because that expertise has been embedded into actionable intelligence dashboards. Performance objectives are now measured in real time and align with the bank’s obligations (e.g., never miss customer payment cut-off). For operational insight, the latency between when information is available and when a decision is made is considerably reduced, enabling timely and accurate intraday decisions.

![Figure 3: Example of transformation achieved in Stage 3 with a Business Command and Control Center through the alignment of technology, processes and people](image)

For operational insight, the integration of the monitoring solution with the BPM or business application underneath enables manual decisions to be automatically processed. For instance, after receiving an alert, a credit risk officer approves a credit extension for a customer whose transaction was momentarily put on hold. The monitoring solution then passes the transaction release command onto the payment processing application.
<table>
<thead>
<tr>
<th>STAGE</th>
<th>SPONSORSHIP</th>
<th>CULTURE &amp; OBJECTIVE</th>
<th>OPERATIONAL CONTROL (ACTION)</th>
<th>OPERATIONAL INSIGHT (DECISION)</th>
<th>TECHNOLOGY</th>
</tr>
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<tbody>
<tr>
<td>Stage 5: The Proactive Bank</td>
<td>CEO passion. Broad-based management commitment.</td>
<td>Lean and fluid. Self-service mode. Proactivity is used to deliver actionable intelligence in all corners of the organization and beyond.</td>
<td>Individual empowerment. Use proactivity at will to focus on what matters.</td>
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<td>Users build and modify their own dashboards. Time-continent with navigation from real-time to historical data and situations.</td>
</tr>
<tr>
<td>Stage 4: Proactive Operations</td>
<td>Board, C-suite support.</td>
<td>Expanding to include other groups such as CRM, risk &amp; compliance officers, product management and executives. Broad coverage across the five categories of proactivity.</td>
<td>Actionable intelligence structured across horizontal segments and vertically from executives down to operators.</td>
<td>Decision execution integrated with process automation.</td>
<td>Common integration via Enterprise Services Bus.</td>
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</tbody>
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Table 1: The five stages in becoming a proactive bank (adapted from Davenport and Harris: Competing on Analytics)
Stage 4: Proactive operations
In this stage the bank’s primary focus is building world-class proactive operations. From Stage 3, considerable progress is made toward building sponsorship, culture, process and technology alignment. Proactivity is expanded to new groups such as customer relationship management, risk and compliance, product management and executives and covers most of the five categories of proactivity. Operational objectives align with corporate strategic initiatives (e.g., customer experience improvement with an objective of discovering issues before customers) and regulatory compliance (e.g., Basel II, FFIEC RDC) and are measured in real-time and historically. Actionable intelligence dashboards are horizontally aligned across all organizational groups and geographies and vertically from executives down to operators. Collecting data across the enterprise is made easier via an enterprise services bus.

Stage 5: The Proactive Bank
This stage is achieved through the relentless pursuit of aligning people, processes, and technology to move beyond reactive business operations. This transformation builds on the proactive culture ingrained in previous stages. In Stage 5, the bank empowers employees to proactively achieve their operational objectives using personalized situational awareness, predictive insight and actionable intelligence. Employees have self-service access to the technology allowing them to build their own dashboards using intuitive built-in templates and analytics. Integration with the computing infrastructure has become pervasive in such a way that users can subscribe to that integration layer to collect data as needed. Users navigate from real-time to historical information in a continuum to set and measure their operational objectives across the five categories of proactivity. Executive passion pushes the bank to use situational awareness, predictive insight and actionable intelligence in new ways, creating operational control and insight in all corners of their organizations.
Conclusion

The reactive culture that is prevalent in financial institutions undermines strategic goals such as improvements in risk management, customer experience and operational performance. In today’s competitive and regulatory environment, the traditional fix-on-failure approach to business operations can no longer be tolerated.

To achieve their strategic goals, banks must become proactive in all corners of their organization and empower each individual to reach their operational objectives in the most cost-effective way possible. This involves the delivery of situational awareness, predictive insight and actionable information that enables faster intraday decisions and proactive actions.

The five-stage path to becoming a Proactive Bank is not easily traveled but tangible benefits are delivered along the way. Early success will generate the broader visibility and executive sponsorship necessary to reach the next stage and ultimately transform the bank from reactive to proactive.

Your Action Plan

Monday morning: Identify a flow-based, time-sensitive process where the proactive identification of process issues would help your organization avoid impacting business and customers. Use the 3-step plan described in section IV for this selection process.

- **Monday morning:** Identify a flow-based, time-sensitive process where the proactive identification of process issues would help your organization avoid impacting business and customers. Use the 3-step plan described in section IV for this selection process.
- **Your next 90 days:** Call Axway to implement the situational awareness, predictive insight and actionable intelligence that will make your operations proactive and move you into Stage 2.