Insight into Banking Processes

Established banks need better insight into their processes if they are to compete

The ecology of banking in the UK is quickly evolving as the so-called challenger banks establish an ever-greater presence in the market.

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The Big Five banks – Barclays, HSBC, Lloyds, Royal Bank of Scotland (RBS) and Santander – now find themselves facing substantial competition from the more slim-line rivals that emerged in the aftermath of the financial crisis.

On top of this, the better-known names in banking now also have to meet the demands of increased regulation. This means fulfilling the onerous requirements of regulators in different international jurisdictions as well as complying with the looming deadlines of more intense Basel regulation, which come into force in January 2016.

This is not straightforward when high-street banks are operating with complex IT systems which were added to over time and inherited through acquisition. Where once they spent vast sums on IT, the established institutions now face a tighter range of cost constraints, just as technology develops at an ever-faster rate, opening up opportunities for their rivals.

What is required is enhanced business flow monitoring that flags up problems in critical processes, allowing action to be taken before they have any impact.

Such solutions are vital to combat the developing presence of the challenger banks, which was thoroughly examined in a report this year from consultants KPMG. This suggested they are achieving better performance in terms of growth and average return on equity. Furthermore, despite being considerably smaller, the new banks also have similar cost-to-income ratios.

Within the KPMG report the point was made that the well-known high-street banks should never underestimate the scale of the threat from the new competition, even though they still have the technological edge on their smaller rivals, particularly when it comes to mobile banking.

As the report outlines, digital banking and mobile services are undoubtedly going to be where banks battle for market share, as more customers move online in the expectation of gaining access to sophisticated mobile services. To meet these demands, organisations will have to become more technology-driven, serving customers through an electronic interface that must deliver every time.

The challenge for a bank with both investment and retail arms is substantial, given the large cost of running inherited IT systems and of adapting them to the new era of regulatory oversight. Institutions that have successfully managed to achieve great economies of scale globally are now faced with ever more complex national regulations.

Over a period of years, the declining ability of these organisations to get a grip on their processes has left them vulnerable to failures that currently, they lack the capability to foresee. While their newer rivals have much simpler systems dealing with fewer products, larger institutions often have labyrinthine and very expensive IT systems, with little end-to-end transparency that is genuinely useful to the business. This is exacerbated by constant out-sourcing for different functions.

must return to first principles and ask themselves what it is their systems are supposed to achieve for clients and how that is to be measured.

It is a question of deciding what is really important from among the millions of potential metrics – of applying the correct business logic. All banks have monitoring tools, but many fail to have a real-time view of what is really critical. This means they lack the capacity to intervene before processes collapse and result in financial, regulatory and reputational disaster.

In simple terms, the bank should be monitoring what matters and from that, creating a system of alerts. By applying its own business logic to put key metrics in context, it can take conventional end-to-end flow monitoring and boost its value many times.

Such a solution tells the user at a glance which of their critical processes is working well and what they should be worrying about. Moreover,

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Even a cursory examination of the recent failures by major UK banks to complete payments, shows the scale of the problem. Although institutions do, for the most part, run sophisticated IT monitoring systems, their siloed nature often means it is simply not possible to see the wood for the trees.

If large, complex banks are going to head off their younger rivals while meeting the more burdensome requirements of compliance, they it does not require a time-consuming and costly overhaul of a bank's entire IT estate. It can be implemented quickly as an add-on on top of existing monitoring solutions.

In an age when all banks know they must become truly digital organisations, none can afford to turn a blind eye to the advanced flow monitoring solutions that have been proven to reduce the risks of catastrophic failure while saving valuable man-hours.

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