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Celent Model Bank 2012: Case Studies of Effective Technology Usage in Banking

An excerpt from a report published in June 2012

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Executive Summary

The vision for Celent's Model Bank research was to try to answer an apparently simple question: "What would it look like for a financial institution to do everything right with today's technology?" The approach that Celent has taken to answer this question is to seek examples of best practices in technology usage. These examples span the spectrum from the infrastructure and architecture level to more specific levels: product development, marketing/sales, distribution / channel management, transaction processing, loan processing, customer service / support, and security and risk management. The term "bank" is used for brevity, but is meant to apply to banks, credit unions, and thrifts alike.

In **infrastructure and architecture**, key technology elements include: service-oriented architecture (SOA), core renewal, business process management, virtualization, and cloud computing. Model Bank Component cases include:

- Citibank: Global Commercial Card Platform
- Emirates NBD: Core Transformation
- Redstone Federal Credit Union: Core Development Using the DNAcreator

In **product development**, key technology elements include: SOA, the enterprise service bus, and business process management. Model Bank Component cases include:

- Bank of America Merrill Lynch: Payment Services Hub
- Bank of Montreal: Online Banking for Business
- Fifth Third Bank: Remote Currency Manager
- USAA Bank: Easy Deposit

In **marketing / sales / customer service**, key technology elements in marketing/sales include: customer data consolidation, understanding customer profitability, and relationship pricing systems. Key technology elements in customer service include: skills-based routing and rules-based workflow, comprehensive interaction tracking systems, VoIP networks integrated with contact management systems, integrated and disciplined multichannel service, and an integrated customer view. Model Bank Component cases include both banks and credit unions.

- Huntington Bank: iPad Sales Tool: "Selling Technology with Technology"
- HDFC Bank: CRM Initiative
- ICICI Bank: Account Portability
- Rakuten Bank: Happy Program Customer Loyalty Initiative

- Standard Chartered Bank: Breeze Living
- Yes Bank: Insights 2 Engage Platform

In **distribution / channel management**, key technology elements include: enterprise-wide data consistency, user-friendly graphical user interface, depth of self-service integration, ubiquitous and consistent user experience, support for end-to-end process, workflow-based, rules-driven account opening, and multichannel integration. Model Bank Component cases include:

- ABSA Bank: Mobile Banking Initiative
- Coastal Federal Credit Union: Personal Teller machines
- RHB Bank Berhad: Easy by RHB - Celent 2012 Model Bank of the Year
- US Bank: Online Platform Transformation

In **transaction processing**, key technology elements include: simplified payment initiation, rich remittance information linked to payments, rules-based engines, and platform modernization. Model Bank Component cases include:

- DBS Bank: Emerging Markets and Overseas Countries Core Migration
- Taishin Bank: Transaction Analytics

In **security and risk management**, key technology elements include: systematic governance, behavior and rules-based tools to combat fraud, systems, and tools to protect clients and their accounts, and systems and tools related to internal issues affecting employees, corporate networks, and applications. Model Bank Component cases include:

- Taishin Bank: Unified Facility and Risk Management System
- Yes Bank: Governance, Risk, and Compliance Competency Framework

The report contains expanded discussions of these elements followed by brief case studies of each of the Model Bank Components from among a diverse group of financial institutions spanning multiple countries and several continents. New for 2012, Celent honors a single initiative with its Model Bank of the Year award, which goes to RHB Bank Berhad for its Easy initiative. Celent plans to refine this summary of best practices and identify new model bank components annually.

RHB Bank's Model Bank component follows in the next section.

RHB Bank Berhad: Easy by RHB

The RHB Banking Group is the fourth largest fully integrated financial services group in Malaysia. The Group's core businesses are streamlined into seven Strategic Business Groups (SBGs): Retail Banking, Business Banking, Group Transaction Banking, Corporate & Investment Banking, Islamic Banking, Global Financial Banking, and Group Treasury. These businesses are offered through its main subsidiaries: RHB Bank Berhad, RHB Investment Bank Berhad, RHB Insurance Berhad, and RHB Islamic Bank Berhad, while its asset management and unit trust businesses are held under RHB Investment Management Berhad. RHB's Global Financial Banking Division includes commercial banking operations in Singapore, Thailand, and Brunei. The Group also has a non-ringgit based offshore funding operations in Labuan as well as a representative office in Vietnam.

Table 1: RHB Bank Snapshot

Through 12/31/2011	RHB Bank
Company Information	
Year founded	1997
Company Size	RM152.4 billion assets 13,000 employees
HQ Location	Kuala Lumpur, Malaysia
Branch Coverage	199 RHB Bank branches 235 Easy by RHB outlets
Infrastructure Information	
Branch Technology Environment	Branch Delivery System
Core Systems	AllTel/Systematics (now FIS)
Self-service Channel Systems	1,800+ ATMs and CDMs Internet banking Mobile banking

Source: RHB Bank Berhad

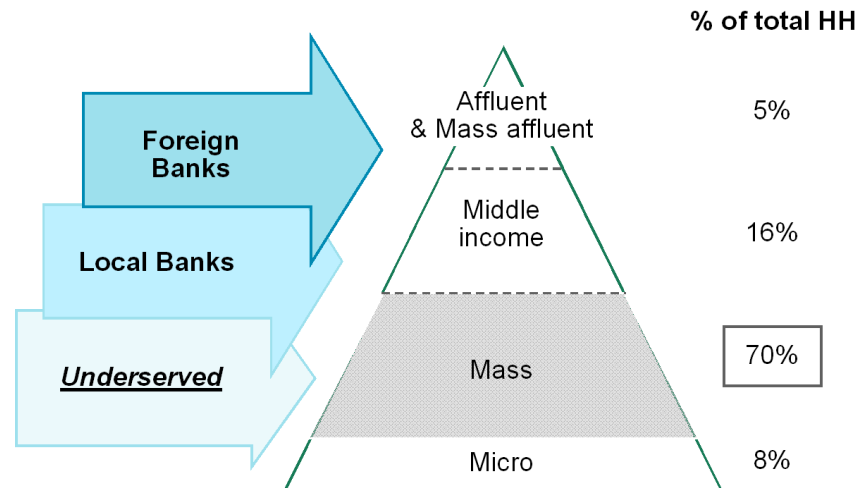
Malaysia enjoys a relatively concentrated banking market, with five dominant banks. In terms of assets, RHB Bank trails Maybank, CIMB, Public Bank, and Hong Leong Bank, with significant growth ambitions that couldn't be met with incremental approaches. RHB created Easy, a new branch network conceived as a unique, low-cost distribution model to target the mass market, which has been traditionally viewed as unprofitable to Malaysia's large banks.

Opportunity

The mass market in Malaysia (70% of Malaysian households earning between RM1,500 and RM3,000 per month) have been underserved by its retail banks based on a historic inability to cost-effectively serve this segment. In Malaysia, mobile banking

remains nascent, so a branch presence is a prerequisite to develop a sustainable mass market presence. RHB sees the mass market offering significant growth potential. Comprising 70% of Malaysian households, the mass market accounts for just 16% of bank deposits (see Figure 1). Although under served in financial services, the segment's potential has been demonstrated in other industries.

Figure 1: The Malaysian Mass Market Is a Big Opportunity



Source: RHB Bank

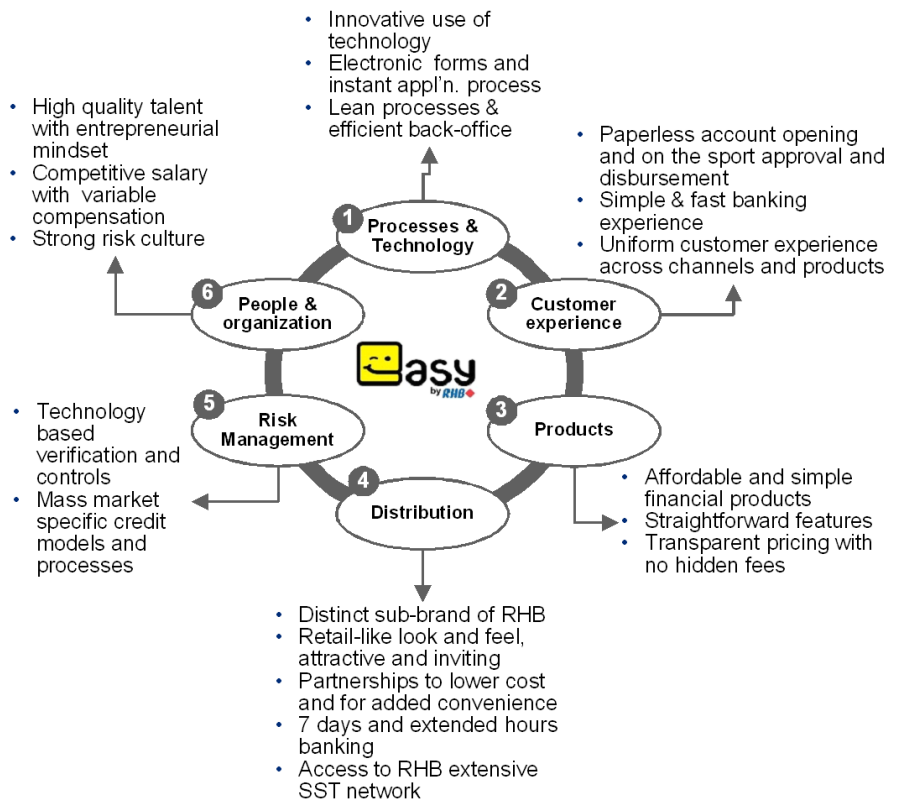
Solution

Leveraging its existing infrastructure along with state of the art transaction automation, RHB Bank created Easy by RHB, a new brand supported by a new retail distribution network conceived as a unique, low-cost branch-centric model to target the mass market. The new bank was designed to deliver the brand promise of “banking simplified.” Easy by RHB was designed around six key elements:

1. **Redesigned processes and technology.** RHB uses paperless account and loan origination systems, electronic forms, and biometrics to create a scalable, efficient retail operating model derived from a lean process redesign.
2. **Differentiated customer experience.** Unlike most Malaysian banks, Easy account opening takes less than 10 minutes. Loan approval and funds disbursement are made on the spot.
3. **Affordable and simple financial products.** Easy simplified financial services by creating six discrete products with transparent pricing and no hidden fees. Doing so made marketing, support, and delivery simpler, more efficient, and effective.
4. **Convenient distribution.** Placed in high-traffic areas and open seven days a week with extended hours, Easy sets the standard for convenience in the Malaysian market. Retail partnerships lower costs and deliver prime retail placement.

5. **Automated risk management.** Technology-based verification and controls, specific credit models, and smart business process management deliver a scalable and low-risk consumer lending model.
6. **Entrepreneurial culture.** RHB built an entirely new organization for Easy that was young, ambitious, and entrepreneurial and rewarded strong performers with a competitive base salary coupled with attractive variable compensation.

Figure 2: Six Key Elements Define Easy by RHB



Source: RHB Bank

The Easy business model was both strategic and pragmatic. To achieve RHB business objectives, the model had to be exceptionally low-cost and deliver the brand promise of “simple and fast banking.” This thinking led to several design objectives for Easy.

- **Enhanced access to financial services.** Fundamentally, RHB envisioned that Easy would provide a step-change improvement in financial services access to the Malaysian mass market. To do so, it had to be exceptionally low-cost and enable rapid expansion if RHB was to achieve a market discontinuity.
- **Convenience.** Commonly, Malaysian banks had limited operating hours, making access for many mass market consumers difficult since branches are typically closed after work hours. RHB sought from the outset to offer extended banking hours and seven day per week operating schedules. To

reduce cost and to achieve critical branch densities quickly, RHB sought to design a mix of formats that would coexist within existing retail environments.

- **Simple financial products.** Alongside the brand promise of “simple and fast banking,” RHB designed a radically simplified product lineup that could be easily communicated and delivered. Such simplicity not only supported the brand promise, it produced simplified (and lower cost) sales and support requirements.
- **Extended credit.** Supported by paperless loan application and automated underwriting systems, Easy would provide access to low-cost credit that had previously eluded the Malaysian mass market.

The resulting retail outlet design and retail operating model for Easy by RHB is not singular, but a portfolio of four distinct designs. Specifically:

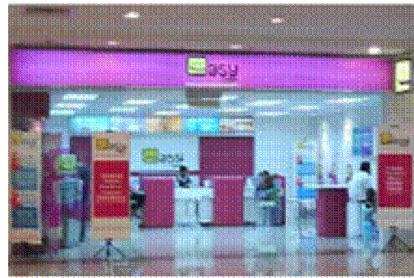
1. **Stand-alone outlets.** Typically located in shopping centers rather than as separate, more costly brick and mortar structures. Standalone outlets offer all Easy products.
2. **POS Malaysia Kiosks.** POS Malaysia Berhad is the exclusive provider of mail services in Malaysia. Unlike the USPS, for example, POS Malaysia is a private concern and offers retail service Monday to Friday: 8.30 a.m. to 8.00 p.m. and from 8:30 a.m. to 5:00 p.m. on Saturdays. Easy kiosks located in POS Malaysia outlets offer all Easy products as well as cash deposits and withdrawals.
3. **Tesco Kiosks.** One of the world’s leading international retailers, Tesco has around 5,000 stores worldwide, employing over 500,000 people in the 14 countries in which it operates. Since entering the country in 2002, Tesco has opened 40 stores across Peninsular Malaysia. Easy kiosks located in Tesco stores offer all Easy products except credit cards.
4. **Microbranches at LRT Stations.** Malaysia Transit network operates a light rail transit system with stations in high-traffic urban locations. Easy kiosks located in LRT stations offer all Easy products.

While unique, each of the four Easy formats (see Figure 3 on page 9) share common technology elements: paperless account and loan origination systems, full-function ATMs, cash deposit machines, and instant card issuing. In addition, Easy customers can use RHB-branded ATMs, Internet and mobile banking systems, and legacy RHB branches. These highly automated branches permit extremely low operating costs while building the Easy brand with visible signage in high-traffic areas. Each Easy outlet provides personalized service, although staffing models vary across the formats. RHB intentionally created a high-energy, entrepreneurial culture in its Easy organization. Celent observes several distinctive elements with its organization.

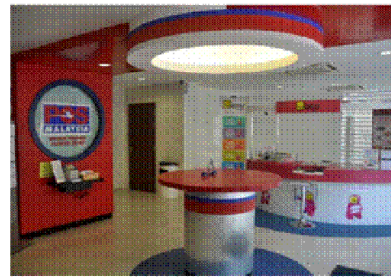
- Entrepreneurs by culture, RHB explicitly seeks ambitious and energetic staff exhibiting an “owner” mind-set.
- Average sales staff are 25 to 28 years old, much younger than other banks.

- RHB offers profit sharing at the branch level. Managers see a 35% to 40% variable compensation. Some have doubled their base salary based on performance, which includes both sales and profitability. Frontline sales staff enjoy roughly 30% variable compensation levels on top of a competitive base salary.

Figure 3: Easy by RHB Uses a Portfolio of Four Branch Concepts



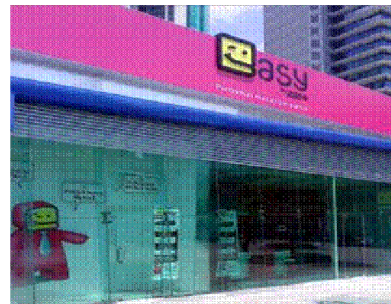
1 Easy standalone outlet



2 Easy kiosk at POS Malaysia



3 Easy kiosk at TESCO



4 Easy at LRT stations

Source: RHB Bank

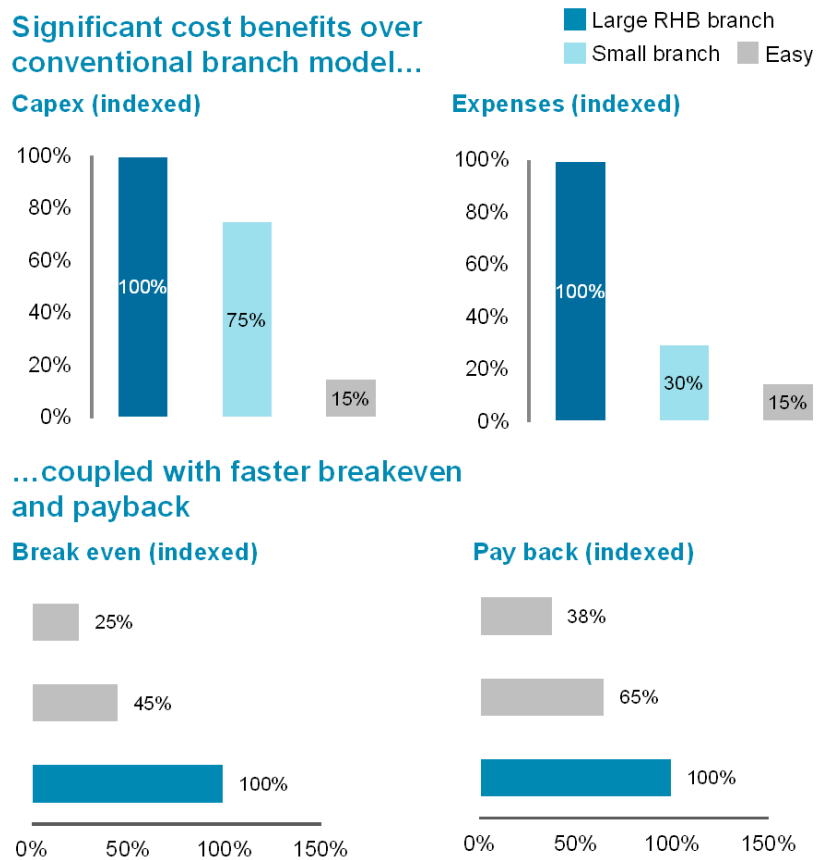
As is apparent in Figure 3, each retail format shares a common look and feel. Bright and vibrant colors provide highly differentiated branding. Not so obvious is the use of prefabricated panels and fittings to lower setup time and cost, enabling rapid outlet kiosk expansion. Implementation is administered by a dedicated team of 12 focusing on Easy network expansion. Team responsibilities include site identification, site renovation, and construction. The team is also responsible for completion of infrastructure and equipment setup and ensures full site readiness before hand-over to the business. This approach has led to remarkably fast network expansion for Easy. In July 2009, RHB conducted a six-month pilot of two locations to validate the work process, staff, and infrastructure. By January 2010 it had opened more than 20 locations in a single month supported by mass market advertising. At the time, RHB thought it might expand to 100 branches. By July 2010 many early branches were already profitable. RHB opportunistically expanded its retail footprint—often at a rate of up to 25 branches per week.

Results

Celent considers Easy a masterful execution that should inform future branch initiatives in other markets. Easy by RHB has been shown to be a successful line extension for RHB, attracting a demonstrably different customer. To date, 75% of Easy customers are new to the bank.

Operational performance over Easy's first two years demonstrate it has met its objective of profitably serving the Malaysian mass market. Over 80% of locations have achieved break-even, typically in less than 12 months. On average, the Easy delivery model costs just 15% of the legacy RHB branches to build and operate. Easy branches on average break even in one-fourth the time and achieve pay back more than twice as fast as traditional branches.

Figure 4: Easy Channel Economics Speak for Themselves



Source: RHB Bank

Conclusion

The 21 “Model Bank Components,” while not exhaustive, reflect multiple key elements of a Model Bank. By presenting these examples of best practices and their results, Celent sought to illustrate the degree to which banks are making effective use of technology today and provide inspiration to banks contemplating how to improve their own business process and technology strategies.

While extremely varied, Celent observes many of the Model Bank Components Share three key elements.

- **Technology**—most obviously, each of the preceding case studies illustrated the application of technology to achieve step changes in efficiency or effectiveness.
- **Business process redesign**—in most cases, the business value of technology investment is only achieved through a concurrent redesign of business process. An astonishing number of Model Bank winners are invested in lean principles. In some cases, the technology itself enables significant change in business process. Predictive analytics is one such example.
- **Culture and organizational change**—The most significant initiatives appear to be those that inspired such success that culture and organizational change resulted. In these cases, evolving business process isn't merely procedural, but rather spawns real evolution in the bank's culture and organization. Easy by RHB is one such example.

It will be interesting to monitor how banks and technology evolve. What is “model” in 2012 will likely be a basic requirement in a few short years. Banks are constantly on the lookout for competitive differentiators and are attempting to innovate within the confines of their IT budgets. Celent plans to continue its collection of best practice examples in the usage of technology and will refine its Model Bank Components list throughout 2012 and produce a sixth edition of the report in the first quarter of 2013.

Leveraging Celent's Expertise

If you found this report valuable, you might consider engaging with Celent for custom analysis and research. Our collective experience and the knowledge we gained while working on this report can help you streamline the creation, refinement, or execution of your strategies.

Support for Financial Institutions

Typical projects we support related to banking include:

Vendor short listing and selection. We perform discovery specific to you and your business to better understand your unique needs. We then create and administer a custom RFI to selected vendors to assist you in making rapid and accurate vendor choices.

Business practice evaluations. We spend time evaluating your business processes. Based on our knowledge of the market, we identify potential process or technology constraints and provide clear insights that will help you implement industry best practices.

IT and business strategy creation. We collect perspectives from your executive team, your front line business and IT staff, and your customers. We then analyze your current position, institutional capabilities, and technology against your goals. If necessary, we help you reformulate your technology and business plans to address short-term and long-term needs.

Support for Vendors

We provide services that help you refine your product and service offerings. Examples include:

Product and service strategy evaluation. We help you assess your market position in terms of functionality, technology, and services. Our strategy workshops will help you target the right customers and map your offerings to their needs.

Market messaging and collateral review. Based on our extensive experience with your potential clients, we assess your marketing and sales materials—including your website and any collateral.

Related Celent Research

[Celent Model Bank 2011: Case Studies of Effective Technology Usage in Banking](#)
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[Celent Model Bank 2010: Case Studies of Effective Technology Usage in Banking](#)
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[Celent Model Bank 2009: Case Studies of Effective Technology Usage in Banking](#)
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[Celent Model Bank 2008: Case Studies of Effective Technology Usage in Banking](#)
March 2008

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Prepared by

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