



---

## Overview

Nearly 90 percent of bankers in our global survey believe that transforming from the status quo is critical to profitability. Tomorrow's banks must become more client centric by leveraging sophisticated insights to improve risk management, pricing, channel performance and client satisfaction. Simultaneously, banks in mature markets should reduce operational complexity, which we estimate costs them approximately US\$200 billion annually.<sup>1</sup> In emerging markets, where wealth is growing at nearly US\$900 billion annually, banks should focus on wealth management, innovation and inclusion of the underbanked and unbanked.<sup>2</sup>

---

## IBM Institute for Business Value

# From complexity to client centricity

*With simple smart service*

To prosper in today's ever-changing world, banks too must change. They need to move beyond any existing organizational silos, infrastructure complexities and other constraints – and toward an operation centered on the client. Based on our most recent banking industry research, we believe banks worldwide should utilize sophisticated insight to:

- Optimize risk by leveraging information
- Increase revenues by becoming more client centric
- Enhance operations by managing cost and complexity.

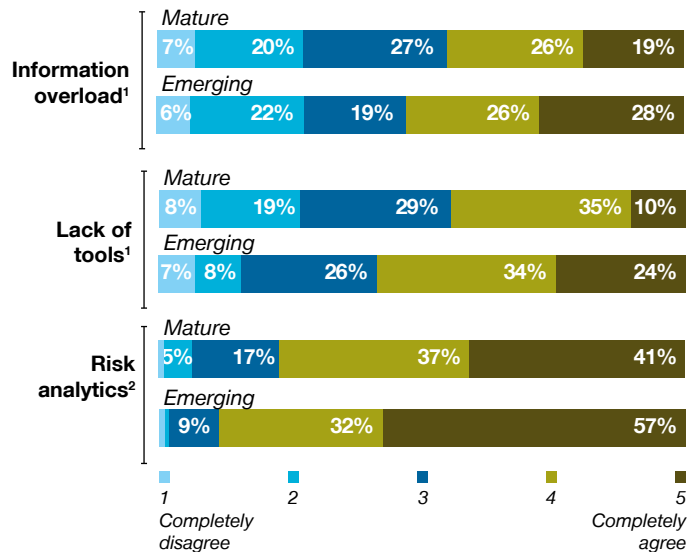
### Leveraging information to help reduce risk

Banks are facing an environment of increasing risk and regulation. Hence, improving risk management techniques by eliminating operational silos, increasing transparency and implementing consistent risk management practices will almost always be a mandate for banks.

Recognizing the value of analytics in optimizing risk, bankers in our survey rated risk management as the number one area where analytics could deliver long-term benefits. However, to effectively use analytics, as well as the wealth of information available, banks require additional tools and processes (see Figure 1). We believe the future belongs to banks that can balance risk, return and financial innovation. Risk-savvy banks will invest in analytics to leverage the vast amounts of information already available to improve insight, lower risk and optimize profits.



**Use of information and tools and focus of analytics investment**



Notes: n=235. Question asked: 1. To what extent do you agree with the following statements? Rate on a scale of 1 to 5. "The bank has more information than it knows how to use effectively." "The bank lacks the tools and processes for rigorous use of analytics." 2. Top most selection shown; Question asked: For each of the following functions what is the likelihood an investment in analytics will deliver long-term sustainable profits for the bank? Rate each function on a scale of 1 to 5, where 1 = high potential and 5 = low potential. Source: IBM Institute for Business Value/Economist Intelligence Unit Business Analytics in Banking Survey 2010.

*Figure 4: Banks need to effectively leverage information and invest in tools to reap the full benefits from risk analytics.*

**Becoming more client centric**

As banks strive to better understand their clients’ needs and further improve client interaction, they should focus on pricing models, segmentation and channels.

**Pricing to win**

Banks worldwide are looking at pricing model innovation, as many move beyond “one-size-fits-all” models toward granular pricing and self-service pricing bundles. However, our research indicates banks face some roadblocks, including the need for information on client risk, cost of service and price elasticity of the market. The good news is that these are barriers banks can overcome.

**A fresh look at the client**

Our research indicates that banks – especially in emerging markets – are poised to move toward needs-based and behavior-based segmentation in the next three years. To do so, banks will have to understand client needs based on client interaction in their channels. Our survey indicates banks need to improve their systems and processes and invest in analytical tools as a precursor to gaining client insight.

**In search of channel satisfaction**

Unfortunately, for many banks, current client satisfaction in the channels is, at best, mediocre. To increase satisfaction, banks need to better understand how people bank, how often they bank and what products and services they seek when banking. Banks then need to use

---

## Key Contacts

*IBM Institute for Business Value*

Srini Giridhar  
srini@ca.ibm.com

*Global*

Likhit Wagle  
Likhit.Wagle@uk.ibm.com

*North America*

Doug Butler  
douglas.butler@us.ibm.com

*Europe*

Likhit Wagle  
Likhit.Wagle@uk.ibm.com

*Japan*

Norisha Tsuruta  
TSURUTAN@jp.ibm.com

*Growth Markets*

David Campbell  
david@sg.ibm.com

## Authors

Srini Giridhar  
srini@ca.ibm.com

David Notestein  
danotes@us.ibm.com

Likhit Wagle  
Likhit.Wagle@uk.ibm.com

---

this information to align product and service prices with client needs in the client's choice of channels. Simultaneously, banks need to improve client satisfaction in all channels.

## Enhancing operations

Banks, like other successful organizations, must continually evaluate their operations, seeking ways to increase efficiency, cost savings and revenue opportunities.

### The complexity conundrum

Banks in emerging markets lead their mature market counterparts in cost efficiency. Banks in mature markets are constrained by operational complexity, which is costing them up to US\$200 billion and nearly 20 percent in pre-tax profits.<sup>3</sup> The exemplars in our research have outperformed their peers by using sophisticated insights to specialize their operations and manage cost and complexity.

### Rebalancing the portfolio

While banks in emerging markets have been extremely successful, their profits are over reliant on the interest income business and subject to interest rate risks. Banks can help reduce interest rate risk and diversify their portfolio by focusing on the lucrative wealth management business in the emerging markets. According to our research, banks that use sophisticated insight could potentially increase their wealth management business by nearly US\$150 million annually for the next few years.<sup>4</sup> Simultaneously, banks in emerging markets should focus on financial innovation and improve services to the underbanked and unbanked population.

## Conclusion

In the new economic environment, successful banks will invest in insight to become more risk savvy and specialize their operations and services around client needs. While banks in mature markets should focus on eliminating complexity and reducing costs, banks in emerging markets need to diversify their income sources and maintain cost leadership.

---

## How can IBM help?

With a wide range of services and technologies, we are a flexible partner ready to help you:

- Assist in developing business insights and analytics to enhance client satisfaction
- Specialize operations to reduce costs and complexity and increase profitability
- Assist in developing risk analytics to enhance risk management.

To request a full version of this paper, e-mail us at [iibv@us.ibm.com](mailto:iibv@us.ibm.com)

---



---

© Copyright IBM Corporation 2011

IBM Global Services  
Route 100  
Somers, NY 10589  
U.S.A.

Produced in the United States of America  
March 2011  
All Rights Reserved

IBM, the IBM logo and [ibm.com](http://ibm.com) are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at “Copyright and trademark information” at [ibm.com/legal/copytrade.shtml](http://ibm.com/legal/copytrade.shtml)

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products and services do not imply that IBM intends to make them available in all countries in which IBM operates.

#### References

1. IBM Institute for Business Value analysis of mature market banks within the top 200 banks in study (based on financials for 50+ mature market banks). November 2010.
2. IBM Institute for Business Value analysis based on information from: “Global Wealth Report.” Credit Suisse Research Institute. Credit Suisse. October 2010.
3. IBM Institute for Business Value analysis of mature market banks within the top 200 banks in study (based on financials for 50+ mature market banks). November 2010.
4. IBM Institute for Business Value analysis. October 2010.



Please Recycle