

SunTec[®]

Point of View


An African Bank's Transformation Through Product Consolidation



Executive Summary

This Point of View primarily examines an African bank's transformation by streamlining its fixed-term and notice-term products. The bank's key insight was to standardize its products based on two core types: time-linear and notice-to-linear. Their product consolidation strategy significantly simplified the management of an extensive array of almost 1020 unique products across the base of focused products. The bank also leveraged customer behavior data to understand the factors influencing customers' decisions to terminate their term deposit accounts early, and to offer more flexible and personalized terms that aligned

with customer needs and preferences. The bank's standardization strategy conformed to industry standards like BIAN. It resulted in significant operational efficiencies, such as reduced overheads, decreased early breakage (refers to the withdrawal of funds from the account before the end of the agreed term), enhanced risk management, and streamlined reporting. The bank's customer-centric approach, enabled by a combination of IT and business standards, fostered agility and adaptability in the ever-changing and highly competitive landscape of financial services.



CASE STUDY: An African Bank's Transformation Through Product Consolidation

In the dynamic banking sector, an African bank embarked on a transformative journey that challenged the traditional complexities of financial product management. Operating across more than 17 countries with a diverse range of currencies and customer segments, the bank had faced the daunting task of managing nearly 8000 distinct products. This complexity had burdened the organization's operational capabilities and obscured the customer experience.

The Catalyst for Change



A pivotal realization had occurred when the bank recognized that standardization did not constrict business operations but rather unleashed unprecedented flexibility. The key had been altering the operational approach to harness this newfound agility.

The organizational engagement had strategically deviated from conventional practices, underscoring the importance of comprehending both technical and business industry standards that could yield mutual benefits. Rather than solely educating IT professionals about business

functionalities, the emphasis had been redirected towards cultivating business units with the requisite technical standards and expertise. This expertise had been vital for grasping the boundless possibilities that could be harnessed, thereby bridging the divide between business capabilities and technological advancements. This innovative approach had highlighted the criticality of a synergistic interplay between business comprehension and technical prowess in unlocking unprecedented opportunities.

The Framework for Simplification

To alleviate the intricacies inherent in the simplification process, the bank strategically opted for a “streamlined product portfolio,” with a specific emphasis on term investment deposits. This seemingly uncomplicated choice, however, could potentially have profound implications, notably impacting bank liquidity management and adherence to local regulatory reporting.

The bank’s strategic initiative was set in motion with a comprehensive analysis of their term account products. This entailed deconstructing these products to understand and identify the variable components. This procedure led to a distinct segregation between fixed-term and variable-term accounts, each with its own controllable facets. As a result, the bank laid the groundwork for a more streamlined product portfolio. This initiative, though initially unintended, had a direct bearing on their approach to liquidity management.

Fixed-term liabilities, such as term deposits, surfaced as a pivotal element of this new framework for several persuasive reasons:



Cash Flow Predictability

Fixed-term liabilities provided the bank with stable and more predictable cash flows. The knowledge of the exact maturity dates of these liabilities facilitated more accurate planning of liquidity requirements.



Funding Source Stability

These liabilities served as a stable source of funding due to their contractual nature, securing funds for a predetermined duration. This stability was vital for the bank to sustain a dependable funding source.



Regulatory Compliance

The bank’s compliance with regulatory requirements was strengthened by fixed-term liabilities, which contributed to the requisite stable funding over specified periods as stipulated by regulators.



Confidence Building

A solid portfolio of fixed-term liabilities also helped to reassure the market of the bank’s robust funding base, thereby boosting confidence among local investors and customers.

In essence, the bank’s simplification framework not only enabled a more efficient product offering but also fortified its liquidity management. Fixed-term liabilities became an integral component of the bank’s operational strategy, offering predictability, stability, and confidence—fundamental elements that underpin a resilient financial institution. This strategic overhaul allowed the bank to navigate the complexities of the financial landscape with increased agility and a customer-centric focus, ultimately leading to improved operational efficiency and customer satisfaction.

Leveraging Customer Behavior Data

The bank's comprehensive analysis of customer behavior data had provided invaluable insights into the decision-making processes of its clientele, particularly regarding the management of their term deposit accounts. This data had been instrumental in understanding the factors influencing customers' likelihood to terminate their accounts prematurely, despite facing penalty charges.

1

Restrictive Nature of Fixed-Term Deposit Choices

The bank's fixed-term deposit offerings had traditionally been rigid, with options such as 30, 60, 90, 180, and 360 days for fixed deposits, and 7, 14, 30, 60, and 90-day notice periods for notice term deposits. This rigidity had led to:

- **Limited Customer Autonomy:** Customers had limited choices over the period term of their investments, which could lead to dissatisfaction and a higher likelihood of early account termination.
- **Inflexible Financial Planning:** The inability to tailor deposit period terms to individual financial goals or circumstances would deter customers from utilizing these products.

2

Early Account Termination Preferences

Customers had shown a marked preference for early termination of their accounts, a behavior influenced by several factors:

- **Penalty Charges vs. Opportunity Cost:** Customers had been willing to incur penalty charges for early termination, suggesting that the opportunity cost of staying in a lower-yielding account outweighed the penalties.
- **Legislative Constraints:** The bank had had to navigate a complex landscape of local legislation that heavily regulated penalty charges, which could limit the bank's flexibility in imposing such fees.



3

Impact of Interest Rate Fluctuations

High-interest rate fluctuations had played a significant role in customers' decisions to break fixed-term agreements:

- **Rate Comparison:** When external rates exceeded the bank's offerings by 1-2%, customers had been more inclined to opt-out of their current fixed terms to seek better returns elsewhere.
- **Behavioral Economics:** This trend also highlighted the psychological aspect of financial decision-making, where the prospect of higher returns would drive customers to make decisions that may involve short-term losses for potential long-term gains.

with customer needs and behaviors, potentially reducing early terminations.

- **Risk Mitigation:** Recognizing patterns in customer behavior allowed the bank to mitigate risks associated with sudden liquidity demands.

In summary, leveraging customer behavior data had not only aided in crafting a more customer-centric product portfolio but also served as a strategic tool for effective liquidity management. By addressing the reasons behind early account terminations and offering more flexible terms, the bank was able to enhance customer satisfaction while maintaining a stable liquidity profile. This approach underscored the importance of agility and adaptability in the ever-evolving competitive landscape.

4

Leveraging Data for Liquidity Management

Understanding these customer behaviors had been critical for the bank's liquidity management:

- **Predictive Analysis:** By anticipating when customers were likely to withdraw their funds, the bank could better manage its cash reserves and liquidity positions.
- **Product Innovation:** The data could inform the development of more flexible product offerings that align



The Power of Standardization

The potency of standardization in the bank's operational strategy is undeniable. It has been a transformative insight that has redefined the entire framework of how the bank's products are managed and perceived. Here's a detailed perspective on how standardization has revolutionized the bank's approach:

1

Streamlining Through Standardization

The bank's business teams initially grappled with what appeared to be an overwhelming task: managing a portfolio of nearly 1020 term-based liability products. However, standardization unveiled that they were essentially dealing with just two core products, not 1020 distinct ones:

- **Time-Linear Product:** This product type was predicated on a fixed timeline, where the return on investment was determined by the duration of the deposit.
- **Time-Linear Product with Notice Requirement:** This version provided some adaptability, requiring a notice period before the funds could be withdrawn. The length of this notice period could vary depending on the customer's termination needs, including the option for partial notice.

2

Surmounting Perceived Constraints

There were initial apprehensions that standardization might curtail the bank's capacity to manage liquidity and risk effectively. However, these concerns were dispelled as standardization offered several benefits:

- **Augmented Risk Management:** With fewer products and clear, established variables to manage, the bank could concentrate on refining its risk assessment models, leading to more robust risk management practices.
- **Enhanced Liquidity Forecasting:** Standardization simplified the prediction of cash flow patterns, bolstering the bank's ability to manage its liquidity with remarkable precision.

3

Transitioning Attributes to Reporting Metrics

By standardizing products, the bank could relegate the numerous attributes of each product to mere reporting metrics. This transition had several implications:

- **Efficient Reporting:** The bank's reporting processes became more streamlined, as there were fewer unique factors to track and analyze.
- **Data-Driven Decisions:** With a simpler set of consistent data points, the bank could make more informed decisions based on clear, concise metrics.

4

System Standardization and Optimization

The shift towards system standardization and optimization yielded significant benefits:

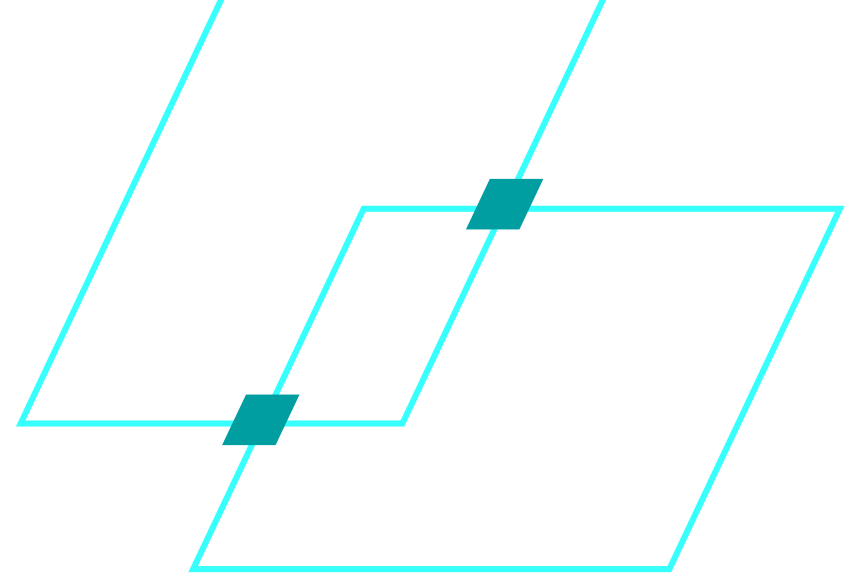
- **Reduced Overheads:** Simplified systems resulted in less complexity in maintenance and operations, leading to lower overhead costs.
- **Decreased Training Cost:** A simplified product portfolio facilitated easier explanations to customers and partners.
- **Reduced Early Breakage:** A more transparent and customer-friendly product structure led to a reduction in early breakage by customers, as they better understood and were more satisfied with the terms.

5

A Factor of 30 Improvement

Perhaps the most notable outcome of the standardization initiative was the reduction of overhead costs and early breakage penalties by a factor of 30. This dramatic improvement underscored the efficiency gains that could be achieved through a well-executed standardization strategy.

In summary, the bank's adoption of standardization has been a strategic triumph that simplified its product offerings, bolstered its risk and liquidity management capabilities, and led to substantial operational efficiencies. This approach not only benefited the bank internally but also enhanced the customer experience, demonstrating the extensive impact of standardization in the banking sector.



The Resulting Agility

The bank's newfound nimbleness has transformed the product offering from a fixed set of options to a flexible conversation with customers. When inquired about a term savings product, the question evolved to: "What would you prefer it to be?" The duration and quantity of deposits could now be personalized to customer preferences, ensuring superior rates for longer commitments. This approach also fortified risk management by facilitating more precise reporting from a committed liquidity perspective and mitigating the risk associated with fluctuating liabilities.

Standardized products simplified compliance with local and international liquidity regulations. Within the IT framework, previous products were gradually phased out over time into the two new standard products, thereby reducing overall system support complexities.



A Customer-Centric Approach

The bank's transition towards product standardization, enabled through IT adopted standards, has significantly improved its customer focus, risk management, and overall operational practices. By adhering to internally defined standards (Business and IT combined), the bank has simplified its product portfolio from a complex assortment of nearly 8000 unique products to a streamlined selection of 10 primary product sets. This has not only boosted operational efficiency but also made the products more comprehensible and accessible to customers.

The bank's IT-enabled approach has allowed it to leverage customer behavior data, offering valuable insights into its clients' decision-making processes. This understanding has enabled the bank to personalize its product

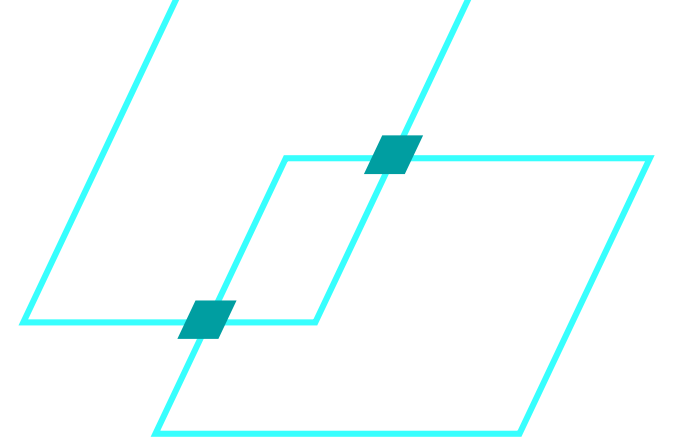
offerings through configuration, to align with customer needs and preferences, thereby enhancing customer satisfaction.

Furthermore, the bank's customer-centric shift has simplified product documentation for branch and sales staff, enabling consistency and greater flexibility across digital channels. This has provided customers with choice and clarity, setting a new benchmark in the banking sector.

In terms of risk management, the bank's standardization strategy has improved its risk management practices. With fewer variables to handle, the bank can concentrate on refining its risk assessment models. Standardization has also optimized the bank's liquidity management. In addition, the bank has enhanced its

compliance with regulatory requirements by producing more accurate reports as frequently revised and requested by regulators.

In terms of overall operational practices, the bank's adoption of standardization has led to significant operational efficiencies. Simplified systems result in less complexity in maintenance and operations, leading to reduced overhead costs. A more transparent and customer-friendly product structure has led to a decrease in early breakage by customers, as they better understand and are more satisfied with the terms. The bank's reporting processes have become more efficient, and with a more straightforward set of data points, the bank can make more informed decisions based on clear, concise metrics.



Conclusion

By intertwining its business and IT-enabled standardization strategy, the bank has enhanced its operational capabilities while preserving the uniqueness of its offerings. The standardization serves as an enabler rather than an impediment, fostering efficiency while upholding the distinctiveness of the bank's business. This customer-centric approach, combined with the bank's commitment to agility and adaptability, positions it well to navigate the ever-changing and highly competitive landscape of financial services.



About SunTec

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