Rationalize Your Bank's Product Portfolio to Do More (With Less)

Whitepaper

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Introduction

All banks typically build their business around a standard set of products (e.g., checking accounts, current accounts, deposits, card products, loans etc.). To address the needs of their customers, banks provide product combinations and variants (e.g., minimum balance requirement, differential interest rates, zero annual fee credit cards etc.).

While personalization of products/services in line with customer needs is undoubtedly a strategic objective for any business, limitations arising from the software system architectures of some older banks have led to a piquant situation: over the years, the product portfolios/catalogs of many banks have simply become huge and unwieldy due to the large number of "products" in them.

In reality, a majority of the "products" in bank portfolios are just variants or bundles of the same basic products, created to accommodate the needs of individual customer segments. Older core banking systems require banks to create and store each variant as a distinct product in their catalogs. Thus, over time, multiple instances of the same basic products and/or bundles got added to the portfolio as different products. Even if product teams know that certain products or variants are unprofitable or not in demand, it is not easy for banks to extinguish them on legacy systems.

Clearly, this is one more example where more is not better. In the quest for banks to become more agile and responsive to customers, cleaning the "Augean Stables" of banks' product portfolios is thus becoming not just important, but also urgent.

The Adverse Effects of Product Proliferation

Bloated portfolios reduce the agility and efficiency with which banks can respond to their customer needs (despite knowing what they are) and to changes in their business environment. The problems typically caused include the following:

- Costs associated with managing a bloated product portfolio/catalog are higher.
- The need to train staff on a larger number of “products” even though many of them may no longer be relevant in the market.
- Risk of mis-selling products, with customers consequently feeling that they were not treated fairly or transparently.
- Possibility of business disruption triggered by frequently having to touch the systems of record to make changes.
- Risk of non-compliance with regulatory requirements.
- Limiting the bank’s ability to offer its customers truly personalized and relevant offers.

A large catalog inhibits the bank’s ability to efficiently bundle products and services or restructure them rapidly in response to changes in the environment (e.g., customer needs and expectations, shifts in customer risk profiles, changes to interest rates, regulations etc.). Banks with unwieldy product catalogs that reside in legacy systems thus find it difficult to present customers with the right mix of products and services. In addition to impeding the bank’s ability to attract new customers, this also adversely impacts customer loyalty. This situation also raises the risk of mis-selling, which can lead to risks to the bank’s reputation and of course, financial and other penalties being imposed.

In an environment where banks are facing major threats from neo-banks and BigTech players, the inability to respond nimbly to market changes can get increasingly fatal. Third parties that wish to co-innovate and jointly go-to-market with banks too prefer banks that have lean product catalogs and agile systems. Missing out on this “ecosystem play” can be a major disadvantage at a time when banks need to differentiate themselves from newer players with disruptive, digital capabilities that are able to easily attract and retain new customers (especially millennials). In the days ahead, the composition of the ecosystem will go beyond insurance, mutual funds, mortgages, foreign exchange etc.; it could include services that are relevant to the customer’s life-stage needs. For example, one bank offers its home loan customers not just home insurance, but also interior design services. Can groceries or healthcare be far behind?

What's the Way Forward?

Affected banks understand that their bloated product portfolios impact internal as well as market-facing efficiency and productivity. But they are hamstrung because typically, their product catalogs are a part of their legacy core banking platforms, which are often "blobs" of monolithic software code. This makes modification not just difficult, but also expensive and risky because of the disruptions it could cause to business as usual. This is why, in practice, the task of rationalization is not as simple as it might sound.

Any solution approach must ensure that it addresses the challenges from the root, and not just superficially. The way forward is therefore not just to simplify the product portfolio but also to be able to do so in a way that is easier, faster, less complex, less disruptive, and less expensive than is possible given their current technology landscape. Given that bloated product portfolios are largely due to the way banks' legacy systems were built, meaningful rationalization approaches must also unshackle banks from these constraints.

Also, banks must easily be able to periodically review and manage their product portfolios to prevent a recurrence of bloat. If the rationalization approach adopted does not meet the above goals, the process of rationalization will become a recurring pain that consumes valuable resources, besides posing risks of business disruption.

Once completed, the rationalization exercise must ensure that banks can continue to address their customer needs by delivering the right combination of products/services/offers to individual and/or corporate customers based on their needs. In other words, banks must not lose their ability to customize their offerings after rationalization.

Banks must formulate a clear action plan to create lean product catalogs/portfolios without adversely impacting customer access to various products/services. This is an important consideration, because cutting off customer access to products/services can cause dissatisfaction and lead to churn; it can thus impact the bank's financial performance as well as reputation.
In light of the above, we see product rationalization as a rope that is made up of three distinct but intertwined strands:

- Putting in place the **right architecture** that will allow not just a one-time cleanup of the portfolio, but will lay the foundation for delivering faster innovations, superior customer engagement and seamless origination of new accounts/business in the future as well as supporting efficient ongoing product management.
- Building and enabling the **right product/offer construct** to address customer preferences and needs.
- The **right selection decisions** help banks achieve their objectives of rationalizing their product portfolios while also facilitating smooth account migration with minimum disruptions to customer experience and delight.

Each of the above individual strands needs to be robust for the rope to be strong. Understanding the nuances of each of the strands will help appreciate the solution approach.

The Right Architecture

What is needed is an architecture that gives the bank's product management teams easy access to the catalog, without having to touch the core systems every time they need to work on it. Such work can include innovation (e.g., bundling to create new or modified offers) as also periodic review of offers and retiring those that are no longer relevant to the market (based on customer need or due to regulatory changes).

In the context of banks with legacy core banking systems, this ability can be architecturally achieved by separating the product catalog from the core systems of record. The product catalog (including product level rules) is extracted from the core system into a "wrapper"- an OTT (Over-the-Top) solution that functions as the bank's product innovation layer. Such a solution also helps create a central, bank-wide catalog, which addresses the challenges arising from the fact that in some banks, product data resides across addresses the challenges arising from the fact that in some banks, product data resides across multiple back-end systems. Products/services provided by partners external to the bank and those provided by the bank itself are, in effect, treated differently on the catalog- it is as if they are part of different catalogs. This needs to change, so that every product is treated as a “partner”; there must thus only be one unified, holistic catalog at the level of the bank.

The right solution architecture can free banks from the constraints imposed by their legacy core banking systems. They can infuse higher levels of agility and responsiveness, besides saving the bank time and money. It also makes it easier for banks to meet their customers’ high levels of service expectations on an ongoing basis.

The Right Product/Offer Construct

At a practical level, implementing customization to suit individual customer requires an appreciation of a key underlying dynamic: each product/service bundle holds varying levels of interest to individual customers (or segments) at different points in time. This is based on the customer’s life stage and other circumstances. Banks may be able to understand a customer’s needs from the behavioral and other data they gather and analyze; but what is crucial is the equivalent of the “last-mile”- their ability to create relevant offers on the fly with agility and flexibility.

This can be accomplished efficiently when there is a single catalog with a hierarchy of products and services from which offers can be constructed on the fly, based on individual customer needs. For example, if a customer hits “preferred” status based on the quantum of deposits or investments routed through the bank, the relationship manager should easily be able to offer additional personalized benefits (e.g., a free locker) on the fly without having to create a new product in the catalog.

The Right Selection Decisions

Putting in place the right architecture and acquiring the necessary product management capabilities are only one part of the product portfolio rationalization process. It is just as important for banks to decide on which product variants to retire and in what order customers need to be migrated to the new platforms. These are critical decisions that must take into account various factors such as the following:

- Some product variants that are candidates for retirement from a revenue or profitability standpoint may still need to be supported due to ongoing customer-specific contractual obligations (e.g., a lifetime no annual fee credit card or a no minimum-balance checking account).
- Regulatory changes may necessitate retention of certain product variants in the system.
- How customers are likely to react to proposed changes: will they agree to move, or will they prefer to end their relationship with the bank? If the latter, what will encourage them to move quickly?

Rationalization Approaches and Key Steps

Product portfolio rationalization is a complex and risky task that needs to be carried out in a carefully calibrated manner given that it has significant implications on existing as well as future customers and thus on the bank's revenues, margins and reputation.

The rationalization approach broadly involves three distinct tasks: creating a new product catalog/portfolio, moving relevant products/services to the new catalog and thereafter, migrating accounts and relationships to it.

Based on the above, banks can adopt one of the following rationalization approaches:

- Construct a new product portfolio ground-up, i.e., from scratch. Once the new portfolio has been created, existing accounts are migrated to it.
- Alternatively, banks could choose specific products from their existing portfolios and move them to the new portfolio. If new products need to be created, that is done under the new portfolio. This approach blends selective migration of products from the existing catalog with creation of new products as needed. Accounts and relationships are then migrated to the new portfolio.
- The third option is to shift products to the new catalog in a phased manner, based on prioritized lines of business. The transition to a new portfolio takes longer if this approach is adopted. Also, the entire catalog is not available under the new portfolio from Day One.

Obviously, when moving products to a new portfolio or migrating accounts and relationships, due care must be taken to ensure that "live contracts" are not impacted. The following practices are helpful in smooth planning and implementation of creating a lean catalog through product rationalization:

- Categorize product sets based on their usage- i.e., high, moderate, and low. The low usage products are typically easiest to close and remove from the catalog.
- Segregate time-based products whose migration will need to follow different paths/timelines. For example, it is best to retire them as they expire; other products can be migrated at any time.
- Devise strategies to encourage accountholders to move to new offerings (products, services or bundled combinations).

Banks must ensure that their product portfolios remain lean. Therefore, once the one-time product rationalization exercise is completed, there must be a well-defined, easy-to-implement process for tracking and review of products, accounts and customer relationships to ensure that the portfolio does not start to bloat again.

Characteristics and Capabilities of a Good Product Rationalization Solution

From the preceding analysis it is clear that the process of rationalizing a bank's product portfolio requires a solution that has a robust, easy-to-use technology component that allows personalization on-the-fly. The solution must also be rules-driven, so that it is easy to make business-driven lifecycle decisions around individual products and migration of accounts based on criteria such as customer value.

We believe that a good product portfolio rationalization solution must possess the following six capabilities:

Enable creation of a secure middle engagement layer

The solution must be able to create a horizontal engagement layer that integrates seamlessly with all the product processors (remember that each line of business may have its associated processor residing in a separate legacy core system) as well as the modern, customer-facing systems. This middle layer must not disturb the stability of the core systems, while also being easy to work on, so that time-to-market is reduced. This also makes ongoing reviews of the product catalog s easy and quick. As a result, it reduces the total cost of ownership significantly by reducing the number of people needed at the back end to manage these catalogs.

Possess the ability to create and support an enterprise-wide product catalog

The solution must allow banks to establish a centralized repository of products and services, to make it easy and operationally efficient to manage the catalog. The solution must have the ability to scale to include offerings from external partners in the ecosystem so that the bank is able to move forward quickly and seamlessly to leverage co-innovation, co-branding, and joint go-to-market opportunities.

Support dynamic segmentation of customers

The solution must help banks use the information they have/gathered on customers (e.g., behavior, life-stage, financial health etc.) to segment them. Such segmentation must be automated, using eligibility criteria that can be defined and changed from time to time as needed by product teams. This will enable the banks to identify opportunities and respond with agility to offer dynamically contextualized offers, without having to add products to the catalog.

Enable creation of personalized offerings

The solution must enable banks to bundle in-house and partner products/services to come up with personalized offerings for different customer segments to fulfil individual customer needs.

Assist lifecycle management of products and offers

The solution must allow product teams to take a standardized approach to product and offer lifecycle management, so that the catalog can be periodically "cleaned up" and future bloating avoided. The solution must enable such decisions to be made on the basis of simulated revenues so that there is a clear link with not just customer needs and expectations but also revenue management.

Deliver actionable insights based on broad and deep analysis

The solution must enable business teams to run analyses and conduct comparisons by juxtaposing customer behavior/ usage and revenue/profitability at the level of product, bundles, offers, regions, lines of business, external partners etc. to get a good idea of the big picture as well as granularities. The solution must make it easy for product teams to conduct what-if profitability analyses on multiple parameters to make better-informed decisions.

The Ideal Product Portfolio Solution Will Deliver Enhanced Customer Responsiveness, Greater Agility, Operational Efficiency and Reduced Costs

Personalization capabilities in an OTT layer works efficiently with a centralized product catalog. The introduction of a middle layer effectively decouples the market facing and core systems. A rule-based solution helps banks develop differentiated offerings (bundles, benefits and rewards) based on customer context just by changing rules inside this layer. The same base set of products can be personalized to meet customer needs in any given context without having to add new "products" to the catalog; thus, the catalog or portfolio itself remains compact and optimized. And because business rules are changed only in the middle layer, there is no need to disturb the back-end systems for routine product management activities.

Product teams at banks can easily create as many personalized offers as needed without worrying about uncontrolled proliferation in the product catalog. This single, agile, enterprise-wide technology layer acts as a bridge across product silos. In turn, this strengthens product and offer management capabilities, giving product teams the ability to manage the entire product and offer lifecycles, from ideation and simulation through launch, review, and renewal.

Technical elegance apart, such a solution improves the bank's agility and responsiveness to customer needs, while reducing operational costs by reducing the size of product and technical support teams needed to support the catalog. The solution also makes it easier for banks to take advantage of an extended partner ecosystem by incorporating their offerings into bundled offers presented to customers. This is an important capability for banks given that they are facing serious competitive threats from non-banking players who already have ecosystems in place.

In summary, an OTT-based product portfolio rationalization solution enables banks to:

- Centralize internal and external products and services and deliver innovative offerings.
- Respond to changing market needs by dynamically introducing hyper-personalized offers for various customer segments.
- Decouple the core from customer engagement and personalization layers; by avoiding the need to frequently touch the core, its stability is better protected.
- More efficient launch of new offerings (shorter time-to-market and reduced costs).
- Reduce complexity of product portfolio.
- Decrease the total cost of IT ownership.

Conclusion

Even banks with legacy core systems need ways to efficiently integrate and manage their portfolios of products. By continuously reviewing products, banks have the opportunity to eliminate duplicates and consolidate undifferentiated products. Such rationalization will improve operational efficiencies and reduce operating costs; it will also cut down time-to-market, even while ensuring a higher degree of informed personalization in the product-offer combinations that banks present to their customers. Banks will also acquire the ability to easily and quickly integrate and bundle offers from third parties, test them and tweak them based on expected impact on revenue and profitability at different levels. This significantly increases banks' ability to leverage extended partner ecosystems- a key source of future competitive advantage.

The right solution delivers all the above benefits while simultaneously freeing the bank from the architectural constraints that created a bloated product portfolio in the first place. By creating an OTT layer that integrates seamlessly with the core systems of record on one side and customer-facing systems on the other, banks also lower total cost of ownership. By transforming product management capabilities, such a solution puts banks firmly on the path to core banking modernization and digital transformation.

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