

Dreaming of a global platform

The management handicap of private banking and wealth management

Will the dream of a single platform for globally operating wealth management banks ever come true? Over the past two decades, many large banks have tried to standardize their wealth management booking centers with commercial banking packages or in-house solutions. These projects have much in common with the value proposition of today's top-of-the-line business process outsourcing (BPO) providers but also exhibit fundamental differences.

The drivers of global platforms and process standardization are cost reduction and increased efficiency. If all your booking centers or BPO client banks use the same platform, you will profit from economies of scale. Maintenance and upgrades can be managed in less time and at a fraction of the cost. In addition, standardization enables automation, which increases efficiency and reduces errors. In today's world where lower costs must offset diminishing revenues, exploiting synergies and economies of scale is vital.

However, the barriers to implementing a standard solution are high, ranging from technical to political. Assume that your booking centers use different banking platforms or a heterogeneous mix of in-house and commercial applications. Further assume that one of these platforms is suitable for serving as a global standard (in BPO terms, a model bank). When you implement this platform at other sites, though, there is never a complete fit. Be it different operating models, mismatches in the data architecture, missing functionalities, or different processes, there are always discrepancies and gaps. Banks and BPO providers alike have to perform a delicate balancing act: They need to remain true to the single platform while also deciding how to best accommodate and implement changes.

Customization must be kept to a minimum. Ideally, customization is used only for tax and regulatory requirements, and even in these cases, work-arounds and shortcuts that violate operational, architectural, technical, or data standards should not be tolerated. Requests for new or different functionalities have to be thoroughly scrutinized. If a new functionality is deemed necessary, for example, for handling new products, it should be designed and implemented as an extension of the single platform, not as a site-specific version. Changes geared toward the particulars of a site impact the implementation on other sites and, more seriously, jeopardize the future of the single platform.

Considering the tasks at hand, it is clear that, to address these challenges, you need excellent software engineers and banking experts who have profound knowledge of the business, its products, and its processes. These experts also need to be able to look ahead and anticipate future changes.

The biggest threats to the single platform, more intractable than technical and functional problems, are people and management problems. Here, banks and BPO providers diverge. For the bank, IT and operations are means to an end. If the situation so demands, business requirements are given priority over standardization. The adoption of standard processes might be questioned because of how business was conducted in the past. Only with extremely strong governance and the full

commitment of top management can the bank ensure that all involved in the project are pulling in the same direction. If management commitment is not strong or wavers over the course of the project, it will fail.

Prototypical failure of a global project

A large private bank starts to roll out a vendor package at its major sites across the globe. The program is based on a 5-year business case promising substantial cost savings. When the first site prepares for migration to the new platform, the project team requires many resources to cope with larger than expected gaps in functionalities, different product offerings, and local dependencies. Fifteen months into the project, many location-specific changes have been implemented to meet the site's needs and expectations. Due to substantial customization, the project runs over budget. While the next site on the program's roadmap is getting ready for the migration, a new global information technology (IT) head takes over. He requests an assessment of the business case and a complete review of the program. With uncertain long-term benefits, increased pressure from the business, and new short-term cost saving initiatives popping up, the IT head cancels the program.

In contrast, standardization and operational excellence are crucial for BPO providers to survive. They immediately address any obstacle that impedes standardization and streamlining. For them, the back office is the equivalent of banks' front office. BPO providers have very strong incentives to build and manage single platforms and, consequently, better chances of succeeding in these projects.

Conclusion

Large banks and BPO providers seek to implement standardized platforms. Both are driven by the need to reduce cost and enhance efficiency, but they are not equally well suited for the task. Given the challenges, banks are ill advised to embark on the path to global platforms without extremely tough IT and operational leadership and long-term management stability and commitment.