>> white paper

March 2016

DEPLOYING BUSINESS PROCESS MANAGEMENT (BPM) IN BANKING TO INCREASE EFFICIENCY AND REDUCE RISK

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Banks are facing significant challenges in terms of escalating customer expectations, regulatory pressure, and threats from new digital competitors. Forget business as usual. A clear focus on quality, speed and agility is needed. The effective deployment of Business Process Management (BPM) can facilitate significant performance improvement.

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ProcessMaker®
Workflow Simplified

“Banks need to pay close attention to customer experience management.”

INTRODUCTION

Given the current business environment, many banks need to rethink and reshape how they conduct business. First, banks need to pay close attention to customer experience management. Customer expectations are escalating, and the old paradigms will no longer suffice. Second, banks need to improve asset efficiency. Third, banks need to streamline costs and strengthen governance and controls.[1] These three initiatives can be combined to produce higher profits and lower risk — something that will please investors. Business Process Management (BPM) can be instrumental in meeting challenges such as escalating customer expectations and regulatory pressures head on. The industry has historically been slow to change and the traditional mindset of some bank executives, where the emphasis on organization structure has trumped workflow, has represented an obstacle to the rapid adoption of BPM in the banking sector.

The paper begins with an overview of the challenges faced by many banks. Next, the potential role of BPM as one way to enable improved customer experience as well as the means to achieve lower costs is outlined. Then, some tactical guidance on the deployment of BPM to meet challenges will be outlined. Finally, the key concepts will be summarized.

INDUSTRY CHALLENGES

According to one industry observer, “powerful forces are reshaping the banking industry. Customer expectations, technological capabilities, regulatory requirements, demographics and economics are creating an imperative to change. Banks and credit unions need

[1] Global Regulatory Network Executive Briefing 4 © 2015 EYGM Limited

to get ahead of these challenges and retool if they are to find success in the upcoming decade."[2]

PWC conducted a broad based survey of 560 banking executives and found that fewer than 20% of respondents felt well-prepared for the future and 55% of bank executives viewed non-traditional players as major threats.[3] This research report emphasized that technology has the potential to change everything – becoming a potent enabler of both increased service and reduced cost.

Further trends to consider according to The Economist include factors such as "fintech" competitors who are taking on banks, the impact of internet banking, and also regulation, which is tilting toward upstart competitors.[4]

If we add in the fact that the financial meltdown of 2008 is still very much on the radar of regulators, the impact of increasing customer expectations, and a that a major shift in demographics is in progress – the time has come for more rapid change and innovation.

Non-traditional competitors such as PayPal and Google Wallet will likely have an impact on traditional banks. So called "fintech" competitors are taking market share from traditional banks, and banks now face stiff competition in attracting and retaining the kind of talent they need to meet the evolving needs of customers in an increasingly digital world.[5] Banks cannot respond to these threats in traditional ways - closing down branches and rolling out new online banking services. If banks want to protect their turf against the Apple Pay, Google Wallet, WePays and PayPals of the world, they need to better connect with the needs of their customers.

"So called fintech competitors are taking market share from traditional banks…"

[2] http://thefinancialbrand.com/56988/retail-banking-strategy-2020/
[3] PwC Retail Banking 2020
[4] http://www.economist.com/news/finance-and-economics/21676826-grip-banks-have-over-their-customers-weakening-cracking-vault
[5] http://www.theglobeandmail.com/report-on-business/small-business/talent/banks-face-recruitment-challenges-as-fintech-startups-snag-talent/article28105322/

> "BPM is an important part of the answer in leveraging information technology to simplify operations…"

The deployment of technology will likely be one of the critical success factors. The growing importance of mobile devices cannot be underestimated. Smart devices will supplement, and perhaps overtake, credit cards as key instruments for payment. There are a number of opportunities that banks have to explore and capitalize upon to meet these challenges. These include:

- Developing a customer centric business model
- Simplifying business operations
- Leveraging information technology
- Proactively managing risk and the regulatory environment

Some banks are stepping up to the challenge. One example was articulated by Toronto-Dominion Bank's chief marketing officer, who believes that "As customers are interacting with technology differently and have come to expect that the businesses they deal with know more about them …it's clear that banks are placing bets on analytics."[6]

Deploying Business Process Management (BPM) is an important part of the answer in leveraging information technology to simplify operations and improve customer experience. As Gartner pointed out several years ago, Gartner's 2010, Banking and Investment Services Architecture Survey showed that significant investment was already under way in BPM technologies – but more progress is needed.

[6] http://www.theglobeandmail.com/report-on-business/td-using-analytics-to-channel-the-customer-relationship/article28761631/

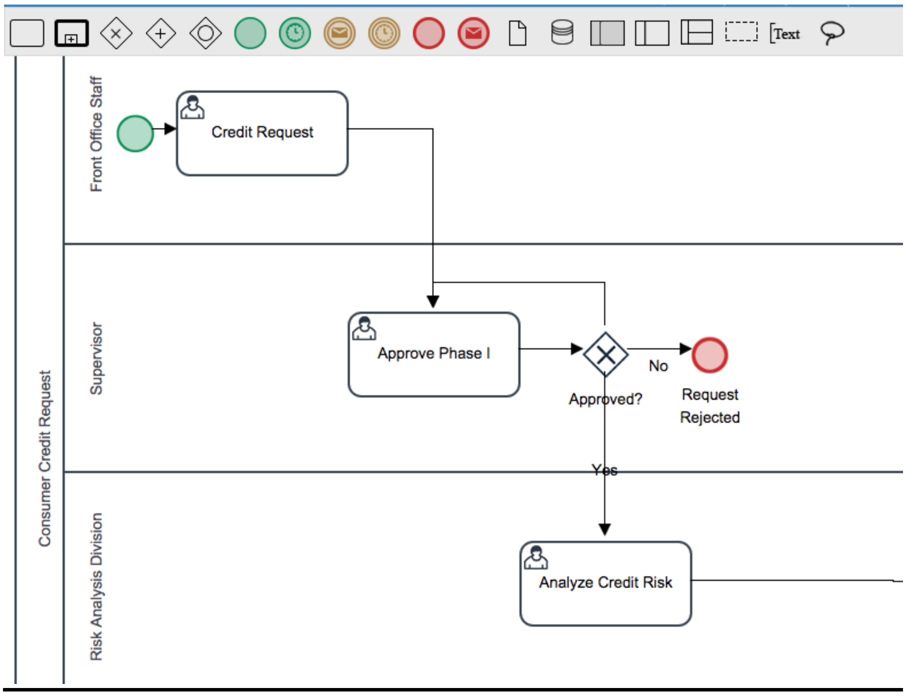

Figure 1 Sample Credit Process

> “Do employees in your bank still update excel spreadsheets manually to track some processes?”

CREATING VALUE WITH BPM

While some banks have embraced tools such as BPM, many others still rely on manual processes and multiple, disparate IT systems to manage their business operations. Simply consider the following questions to decide whether your bank has the opportunity to deploy BPM for improved performance:

- Do your customers still have to manually complete their account application documents?
- Does your bank have an automated process for gathering loan approval information?
- Do people still manually update Excel spreadsheets to track some part of the mortgage process?
- To what extent do you still have manual processes for tracking loan status?
- Do you have an automated way to track internal communications about transactions?

> “Another major area for BPM is internal risk management.”

Banks can use BPM to create value for customers and the organization by:

- Streamlining the end-to-end client management process
- Enabling ‘Straight-Through Processing’ to reduce the cost of operation
- Reducing the amount of human intervention on mundane tasks, thereby allowing people to focus on higher value creating activities
- Reduction of processing time
- Reduction of data delivery cost
- Improving Ease of use (ease of access to documents)
- Assuring End-to-End application tracking
- Facilitating document transparency

Major opportunities to apply BPM are often found in retail banking, especially in areas such as mortgage processing and loans. That’s because BPM has the capability to create a synchronized, end-to-end lending process that electronically tracks both data and documents and provides employees with customized access to different parts of the mortgage or loan transaction. However, given the likelihood that banks will need to transform branch banking, there may be value in modeling each major process in retail banking.

MANAGING RISK WITH BPM

Another major area where many banks may choose to begin their BPM journey is in the area of internal risk management. Banking regulations, security threats, and the rise of international terrorism have changed the banking landscape and made transparency and complete auditability of all banking activities more important than ever before. Most core banking systems understand the importance of security and traceability with regards to account transactions. Auditability and traceability have been a part of these systems for nearly a decade. However, most banks have not completely systematized and hardened the rest of their internal processes. In part, this is due to mergers and acquisitions in this industry which have produced complex IT architectures resulting from challenges in post-merger integration of IT systems. As all of the "other" lower profile internal activities of banks begin to draw closer scrutiny, it has become more apparent that these internal processes need to be improved with regards to security, auditability, and efficiency. Workflow automation and BPM technology represents an increasingly important asset that banking systems groups should be implementing to organize these additional activities on to a single, manageable platform. Some of the types of processes banks are automating in this area include the following:

> "Most banks have not completely systematized and hardened their internal processes."

- Access Request Form
- Case Management for E-Fraud Complaints
- Cash and Travel Expense Reporting Process
- Change Request Form
- Hardware Request
- Technology Request
- Staff Onboarding and Offboarding Process with Security Review
- Draft to Cash Request Process
- Encryption Key Issuance Process
- International Trade Facility Signoff Process
- Mobile Branch Movement Request
- New User System Access Process
- Offsite ATM Deployment Process
- POS Merchant Parameters Change Request Process

> "Banks new to BPM may wish to begin with a small project to demonstrate the value that BPM can deliver."

ISO 27001 regulations and more stringent compliance programs are making banks look for systems that can automate all of these internal processes such that there is a clear audit path for each and every process.

Banks new to BPM may wish to begin with a small project to demonstrate the value that BPM can deliver. These are sometimes called "proof of concept" projects are typically projects of small scope where the perceived degree of effort needed for success is low and the perceived benefits are medium to high. To find a suitable candidate for such a proof of concept project, it is useful to ask questions such as:

- To what extent does this process have many complex steps?
- Is there a lack of critical control and auditing features?
- Does exception handling involve many manual steps?
- Do we have high error rates?
- Is it difficult to view and track different documents from multiple sources?
- Do we have data in multiple data formats?

Credit card application and card issuance are just two examples of small processes that can be used to demonstrate proof of concept.

Once the benefits of applying BPM on a small scale have been realized, larger processes can be addressed. Mortgage processing, credit cards, and loans are often good opportunities to apply BPM. Even though credit scoring and automated underwriting have evolved, many lenders still lack a well-synchronized, end-to-end loan origination process that coordinates the movement of both data and documents from initial application through to loan closing.

SUMMARY

Escalating customer expectations, regulatory pressure, and new digital competitors represent significant challenges for the banking sector. BPM provides the means for banks to increase efficiency, ensure regulatory compliance, and promises better methods of gathering and reporting data. New and improved business process management tools will play a key role in the years ahead.[7]

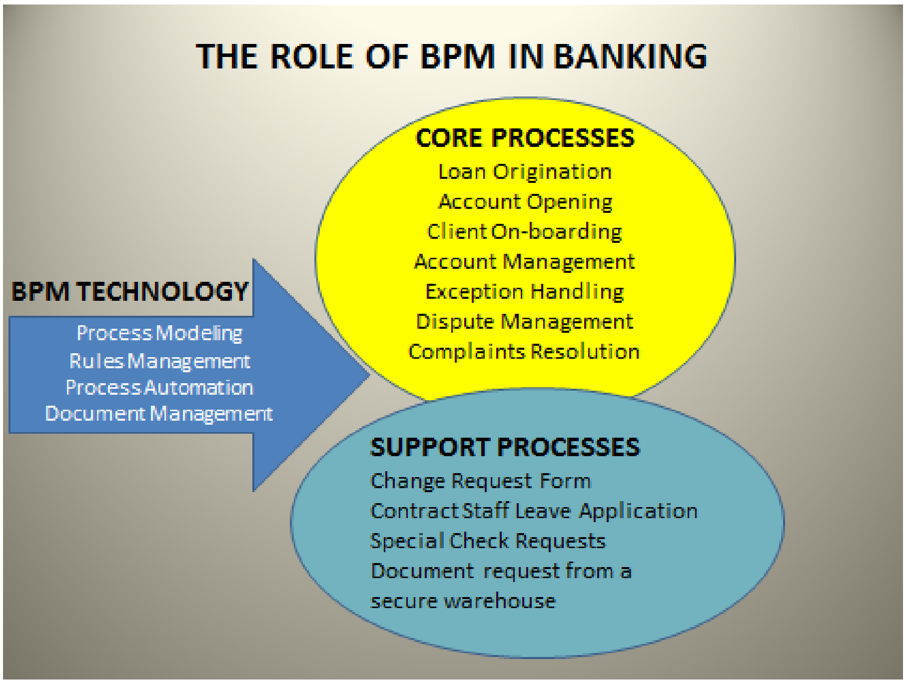

Figure 2: The Role of BPM in Banking

"BPM provides the means to ensure regulatory compliance…"

[7] http://www.banktech.com/management-strategies/8-bank-technology-trends-that-will-shape-the-industry-in-2012/d/d-id/1295045?

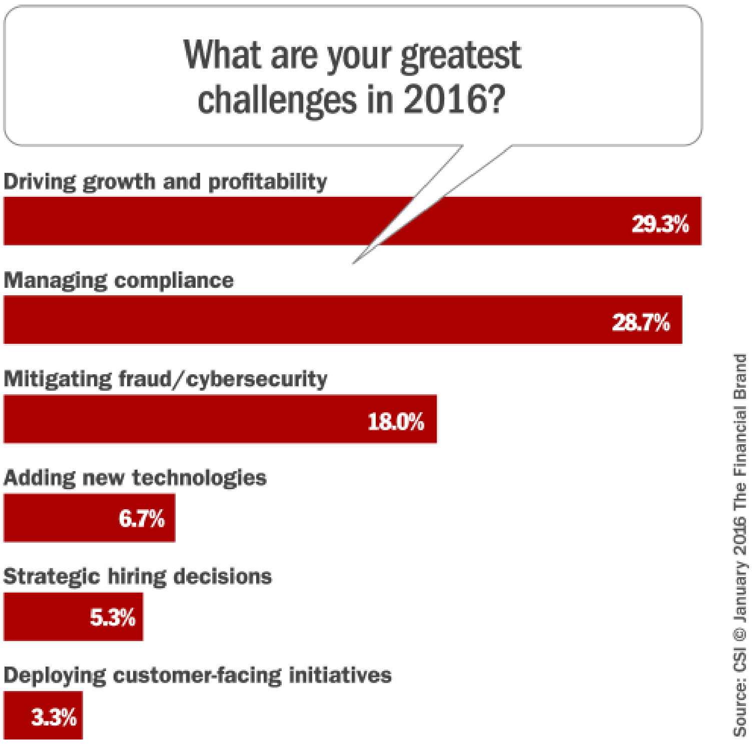

Figure 3: What are your greatest challenges in 2016?

Source: https://thefinancialbrand.com/wp-content/uploads/2016/01/banking_biggest_challenges_2016-565x513.png

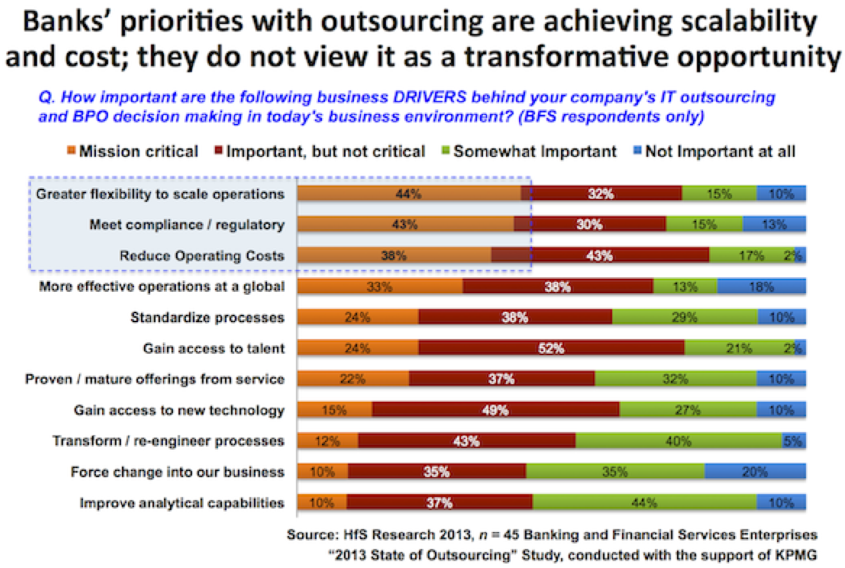

Figure 5: Bank's Priorities Achieving Scalability and Cost

Source: http://www.bpmwatch.com/wp-content/uploads/2013/04/BFS-Outsourcing-horsesforsources.png

ABOUT PROCESSMAKER

ProcessMaker is a leading open source and cloud based Workflow and BPM software suite that makes it simple for companies to automate form-based approval driven processes and interconnect people and existing company systems. ProcessMaker understands the needs of the banking sector. Our clients have used our products to automate a range of processes including call center and credit application processes.

ProcessMaker is headquartered in New York and has a partner network spread across 35 countries and on five continents. Hundreds of commercial customers including many Fortune 100 companies and many of the top telecom operators in the world rely on ProcessMaker to automate their processes. ProcessMaker is available in 17 different languages and has been downloaded over 1 million times.

ProcessMaker®
Workflow Simplified