

Chapter 13

Business Process Management in Financial Services

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ABSTRACT

This chapter examines the context, benefits, and challenges of applying business process management (BPM) to financial services. First, it reviews how processes and technology have evolved in the financial services industry, and identifies how BPM technologies can improve efficiency and profitability of financial institutions. Next, the chapter discusses the strategic benefits that BPM can provide. Agile development of new business ideas, standardization and reuse of processes, and management of business environment complexity are three strategic benefits that are explored. Finally, practical concerns related to applying BPM in banks are examined along with approaches for overcoming common challenges. The observations and analysis presented are based on experiences implementing BPM projects for financial institutions based in Asia, Europe, and North America.

INTRODUCTION

Of all industries in North America financial service companies spend the largest amount on information technology (IT) – close to 8% of revenue, over \$200 billion (Economist, 2007). However, research has shown that, both in the U.S. and Europe, increased IT spending does not have a posi-

tive correlation to profitability. In many cases, the banks with the largest investment in hardware and software have seen a negative correlation between spending and profitability (Becalli, 2007). While the source of this relationship is not clear, one explanation is that increased spending on IT leads to more numerous and complex systems. Additional complexity inhibits firms' operational efficiency and, thus, limits profitability. Each system in its own limited context may help improve a bank's

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business; however, as a group they can impair an organization's end-to-end service delivery.

At their core, financial service processes manage information flows. IT systems have enabled banks and other financial institutions to automate many processes so as to minimize processing time and service delivery costs. Over time, a large portion of business processes have become embedded in IT systems. As banking IT systems proliferated and matured, it became the case that business processes had to accommodate IT systems rather than the other way around. Thus, a complex web of interconnected systems was required to deliver core business services, and IT system integration became a key concern.

Enterprise application integration (EAI) technology helped to address some of the complexity issues by rationalizing and simplifying the connectivity between systems. However, many business processes remained fragmented across multiple disparate systems. It is not uncommon for changes to a single business process to require modifications to multiple IT systems. Improving business processes to increase operational efficiency can become a massive systems analysis and implementation exercise.

The emergence of business process management (BPM) has gone a long way towards addressing the complexity concerns that plague modern financial institutions. BPM enables information flows between systems, both manual and automated, to be centrally coordinated from start to finish. Serving as the “glue” between people and IT systems (or multiple groups of people and systems), BPM platforms help to manage organizational and process complexity. Hence, banks have been early adopters of BPM and have both benefited from and struggled with BPM's evolution.

This chapter examines the context, benefits, and challenges of applying business process management (BPM) to financial services. First, it reviews how processes and technology have evolved in the financial services industry, and

identifies how BPM technologies can improve efficiency and profitability of financial institutions. Next, the chapter discusses the strategic benefits that BPM can provide. Agile development of new business ideas, standardization and reuse of processes and management of business environment complexity are three strategic benefits that are explored. Finally, practical concerns related to applying BPM in banks are examined along with approaches for overcoming common challenges. The observations and analysis presented are based on experiences implementing BPM projects for financial institutions based in Asia, Europe, and North America.

BACKGROUND

Evolution of Financial Services Processes

The environment that banks and other financial institutions operate within has undergone substantial transformation over the past several decades. Banking, in particular, has gone from being a staid and disconnected business in the 1970's to a rapidly evolving industry that is tightly coupled with the rest of the financial services industry. Changes in the industry have been driven by the emergence of new financial products, regulatory changes, and globalization.

Modern financial products, such loan securitization and derivative instruments, have rewritten the business models of many financial institutions. Prior to the introduction of these products, banks' lending businesses were constrained by the amount of capital on their balance sheets and risk exposure limits. The advent of loan securitization – the pooling of many different individual loans into a single, negotiable security – enabled banks to reduce their balance sheet requirements so that they could perform more transactions. Likewise, interest rate and credit derivatives enabled banks to offset risks that limited the scale of their lending

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