Abstract
The banking industry is facing challenging times. With the currently stagnant economy, there is a lack of new net business — with any gains at the expense of competition — and the ability to respond to rapidly changing market needs is often restricted by a bank’s core IT systems. In addition, traditional core banking applications have limited scope and make it more difficult to create innovative products and services that can attract and retain new customers.

However, most banks are wary of modifying their core applications because they fear interruptions to their backend processes. Instead, they are focusing on specialized tools and applications that can be seamlessly integrated into their core systems and enable innovative products and pricing. This paper highlights the business benefits of moving to a centralized product and pricing platform and the potential return on investment.

Introduction
With the commoditization of banking services, emergence of non-banking players offering competing services and increased regulatory requirements, banks are struggling to sustain and grow their market share. There is an immediate need to create competitive differentiation through the rapid launch of new products, bundled with value-added services to ensure customer satisfaction. However, traditional core banking applications limit product innovation capabilities to single lines or single silos of business, making it more difficult to create and market differentiated offerings.
Table of contents

Product innovation challenges with core banking.................................................................3
Centralized product and pricing innovation – the way forward ........................................4
Benefits of a centralized product and pricing platform.....................................................4
How Dell can help................................................................................................................5
Conclusion..........................................................................................................................5

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Product innovation challenges with core banking

In the banking industry, product managers act as manufacturers and relationship managers act as sellers. Product managers must create profitable services that relationship managers can sell to customers, in some cases, by providing volume rebates and discounts. Over the years, product managers have relied on standard core banking applications to create products and services for their customers. However, they have faced challenges producing innovative products because these services are standardized (per existing core banking modules) to a particular line of business such as accounts, cards, payments, etc. These applications also limit the ability to bundle offers across lines of business, with fixed price lists for a particular product and line of business. As a consequence, relationship managers have not been able to differentiate their offerings from competitors’ products. And, with limited flexibility to deviate from price lists or offer product bundles, they also find it difficult to individualize offers with specific discounts/rebates/bundles for particular customers. In addition, if any rebates or discounts are given, they are not accounted for by the core banking applications, which can result in revenue leakage.

Figure 1: Traditional decentralized product definition and pricing.
Centralized product and pricing innovation – the way forward

To grow market share and achieve competitive differentiation, it’s important to become more customer centric by adopting a centralized product management and pricing approach. This can be achieved by moving the product and pricing function outside the core banking application/system and integrating it into all of a bank’s lines of business.

Product managers would then be able to bundle and define products across lines of business, based on customer need rather than how the bank is internally organized. It would also significantly reduce the time-to-market for new product launches.

Relationship managers would have a single view of customer relationships, across multiple lines of business, and would also have the flexibility to offer specific discounts based on the bank’s relationship with a particular customer. Additionally, any deviation from standard price lists — such as discounts — could be captured accurately, reducing the chances of revenue leakages in the system.

Benefits of a centralized product and pricing platform

A centralized product and pricing strategy offers the following benefits for banks:

- Empower relationship managers to effectively bundle products across lines of business such as cards, loans, investments, etc. — to create competitive differentiation
- Provide a single view of customer relationship, making it easier to cross-sell and upsell products to customers
- Enable relationship managers to differentiate and individualize the price lists for services based on the relationship of a customer with the bank
- Provide simulations to gauge the new product adoption rates and profitability before actual product launches
- Plug and report any revenue leakages in the existing processes due to ad-hoc discounts and rebates being offered by relationship managers

A centralized product life cycle management and relationship-based pricing platform would help banks centrally manage the end-to-end product life cycle from the creation of bank products to their retirement, and also serve as a central product repository across asset, liabilities, insurance and other consumer banking products.
How Dell can help

The Dell Banking and Securities Practice can help banks implement an end-to-end product factory solution to help them rapidly create new innovative products, strategically price them for target customers, package and offer these products in a flexible and transparent manner, and accurately bill the product charges and fees to the customer.

We provide consulting services to financial institutions across the globe to help enhance custom applications and develop flexible product factories. Most recently, we:

- Provided consulting services to one of the big four banks in China to help them implement a highly flexible and innovative product factory
- Provided support for custom product factory implementation for the retail banking segment of a leading global bank
- Helped a leading U.S. bank modernize their pricing system — enhancing flexibility to launch new products and promotions

Conclusion

It’s important that banks focus on innovative products to promote competitive differentiation. Because there is a lack of new business in today’s economy, customer retention is paramount.

Banks must opt for solutions that can seamlessly and quickly integrate into their current IT infrastructure to support product and pricing innovation. This will enable product cross-selling and lead to significant reduction in revenue leakages in the system.

Banks that have implemented these solutions have been able to significantly improve their revenues, achieve a return on investment in less than a year and report marked improvement in their customer “share of the wallet”.

Figure 2: Dell customer-centric solution enabling product innovation.

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