Commentary

The RTE in Financial Services: One Size Does Not Fit All

The application of real-time enterprise concepts is a competitive necessity in the rapidly changing financial services industry. However, financial services providers must carefully assess their specific RTE needs.

The Real-Time Enterprise (RTE) in Financial Services — An Introduction

The rising expectations of the "now economy" are exposing the weaknesses of batch-oriented processing, inefficient business processes and inadequate information access within the financial services industry. The application of RTE concepts enables financial services providers (FSPs) to overcome these problems by using up-to-date, action-oriented information to remove latencies in the management and execution of critical business processes. Different FSPs — whether Type A (aggressive technology adopters), Type B (moderate adopters) or Type C (conservative adopters) necessarily take very different approaches to the RTE.

Type A FSPs — Typically large, multinational enterprises — choose to respond rapidly to the dynamic, fast-moving conditions in the financial services industry. They aggressively develop new strategies and invest in new technologies that position them as leaders in meeting the demands of customers, partners and other stakeholders.

Type B FSPs — Typically regional or "super regional" FSPs that take a comparatively conservative view of their markets — respond to industry trends, but not as aggressively as their Type A counterparts. They place a stronger emphasis on maintaining their positions in their current market segments than in pursuing "the next big thing."

Type C FSPs — Typically small FSPs that serve niche markets — are constrained by extremely limited technology budgets. Their necessarily limited technology capabilities make it difficult for them to scale in response to natural growth in their businesses, whether into new geographies or into new market segments.

The RTE requires significant improvements in the delivery of reliable and consistent data quality. These improvements, and the associated benefits, will be achieved not overnight, but rather incrementally. For most FSPs, the key to the sound application of RTE concepts will be assessing their real-time requirements and initially applying the RTE to high-impact areas (for example, provision of enterprise risk information, reduction in credit card defaults and improvements in the competitiveness of loan pricing). These are all areas that can derive the most immediate benefit from the key characteristics of the RTE —
the improved ability to recognize changes in enterprise, market, consumer and industry conditions; and
an enhanced capability to modify corporate strategies and operations to address those changes.

**Key Facts About the RTE in Financial Services**

- **RTE strategies are critical to the financial services industry.** The financial services industry increasingly relies on multichannel information flows and distributed networks of suppliers and partners. These trends make it essential that FSPs achieve improved data-quality consistency through one-time entry and a reduced time to completion for internal and external information requests — key drivers for the transition to the RTE. FSPs with extended value chains — those with remote or mobile salesforces or decentralized offices, for example — can reap great benefits from RTE strategies. FSPs with distributed financial partner networks (for example, commercial banks engaged in international trade finance) are particularly strong candidates for the RTE. RTE strategies must meet new business demands for event-driven and workflow support for four mission-critical processes:
  - Sales/service and marketing
  - Supplier/partner/regulator (that is, external-party) interaction
  - Risk management (including exposure, credit liability and fraud detection)
  - Corporate performance management

- **The RTE is not simply a technology solution.** RTE is an enterprisewide concept — a set of business processes enabled by technologies — not just a set of technologies that can be bought or built. For this reason, RTE initiatives should be led by business management, not by IT management, and the project team members should work in the same location. These are principles that have proved effective for enterprise initiatives, such as data warehousing and customer relationship management (CRM), but their importance is far greater for RTE initiatives. Funding, management sponsorship, competence of project management and the use of realistic metrics to measure project success are all also key factors in the success of any RTE project. RTE strategies also extend well beyond e-business (that is, the use of electronic processes to improve operational efficiency and control). The RTE strongly emphasizes the timeliness of information that is to be used for internal enterprise and external relationships. For example, simply providing a transactional Web site with corresponding integration to the core system is not RTE. Business processes must accommodate data entered via the Web to connect with non-Web-enabled back-office systems — and do so without latency.

- "Real-time" does not mean "instant." The RTE does not necessarily deliver instant access, or instant response, to information for all application areas or functions. The need for instant information will vary widely across the enterprise. FSPs should work to measure and understand the "right" time for a given business process.

- **RTE is not equivalent to straight-through processing (STP).** STP — a well-known concept in the banking and investment industries, and one that has recently gained attention in the insurance industry — is more narrowly focused than the RTE. STP is largely centered on the supply chain for financial services transactions. The RTE’s broader context involves improving the timeliness with which the enterprise conducts its business, whether or not a transaction is involved. See "Straight Through Processing: Its True Role in Operational Efficiency" (http://www.gartnerg2.com/qa/qa-0902-0096.asp) for more-detailed information on STP.

**Four Key Areas for the RTE in Financial Services**
The operational requirements for the RTE vary widely, depending on an FSP’s size and type within its market segment, customer/stakeholder needs, application types and time requirements for the information within a business process. Some financial industry sectors that have been slow to adopt e-business (for example, insurance) present strong RTE opportunities. Scope and scale also play key roles in the success of an RTE project. The more complex and comprehensive a RTE project, the more likely it is that FSPs will require external consulting assistance for planning and implementation.

These are some examples of the benefits FSPs can realize through application — many of them sector-specific — of RTE concepts:

- **Sales/service and marketing.** The application of real-time concepts can enable FSPs to identify revenue opportunities in real-time and provide more intimate, consistent and timely experiences to their customers. These concepts will also allow FSPs to support real-time incentives to sales and service personnel. Investment firms, for example, are accustomed to real-time retail order fulfillment; however, institutional business processes encompass mid- and back-office processes — for example, clearing and settlement — that will increase the complexity of RTE initiatives. Insurance carriers can also use the RTE approach to improve claims and policy issuance processes; however, legacy inadequacies in claims- and policy-processing systems will require substantial investments to update infrastructures.

- **Supplier/partner and regulator interaction.** FSPs should evaluate requirements for processes that include external services and partners to identify their real-time information needs. Insurance carriers, for example, should include RTE elements in their claims management initiatives to ensure that adjusters, service suppliers, special investigation units and other parties in the network have access to the information they need when they need it. Moreover, regulators continue to increase their demands on the financial services industry, requiring FSPs to report more frequently and provide greater information in reports — for example, to comply with the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act and Office of Foreign Assets Control (OFAC) strictures. Information required for OFAC reporting focuses on interdiction lists that are constantly updated (see "Concerns Spread About OFAC Compliance"). FSPs that do not make the necessary information available risk significant fines and other penalties.

- **Risk management.** RTE initiatives can support risk-management priorities as FSPs shift their focus on risk mitigation to concentration on capitalizing on business opportunities. Some FSPs are now seeking to achieve this goal by moving to management-team "dashboards" that offer more up-to-date information than data marts. Effective back-end information access goes beyond providing connectivity; however, it also requires drill-down access to real-time managed data sources as a tool for making time-sensitive business decisions that affect the FSP’s competitive ability and survival. Banks that undertake RTE initiatives can also leverage point solutions — such as check fraud applications — that can mitigate risk at the teller window.

- **Corporate performance management.** The RTE can achieve greater organizational control through the combination of current and past knowledge with future predictability. For example, profit/loss and cost/income statements with real-time data will be available to the CEO on demand. Dynamic interaction with the general ledger and balance sheets will drive return on equity.

**Getting Started: A Real-World RTE Initiative**

The application of RTE concepts is a complex, difficult, long-term undertaking for most FSPs. The experience of one major multinational FSP, which prefers not to be identified, shows how one set of FSP processes — the sales/service and marketing functions related to account opening for Internet-based
loans — can be RTE-enabled. Although this example may be more complex than the typical financial services RTE initiative — many FSPs will have automated, at least partially, some of these processes — it remains highly instructive in showing the opportunities to automate and improve traditional information-based tasks using real-time concepts. Other FSPs with similar customer service and sales requirements (for example, insurance application submission, first notice of loss or mortgage applications), can derive similar business benefits by implementing similar initiatives.

This is the FSP’s account-opening process:

- The consumer completes an online account application form
- The application is passed to a server database, and waits for a POP3 server to conduct its regularly scheduled search for new account applications
- The POP3 server awakens, translates the account data into an e-mail format and sends it to the call center
- The centralized e-mail queue is reviewed by a call center customer service representative (CSR) and then sent to the printer
- The data from the printed e-mail is manually keyed into a campaign management system, which is checked for account applications
- A CSR routes the application from the campaign management system to a new-account-processing platform, which routes it to the credit-decisioning group for approval and the determination of a credit limit.
- Once the loan is approved, the application is moved back to the new account application for uploading to the back-office system

An RTE initiative takes these steps to real-time-enable the processes:

- Executive, line-of-business and IT management collaborate to produce a map for all major sales/service and marketing business processes. If no documentation exists, the first step must be the creation of an architectural document that aligns with the business processes.
- Project management identifies those processes that are being handled in real time and decides which of the remaining processes can be left as latent processes and which should be RTE-enabled. Economic or operational impact statements should be prepared for those processes that are to be RTE-enabled, to justify the decisions.
- The IT members of the project team assess the infrastructure and determine which IT components or capabilities — telecom, workstations, servers and application integration (for example, Web services) — will be used to support the proposed real-time processes.
- The project team develops a buy/build/source decision framework.

The result is a streamlined, automated business process that does not rely on manual intervention:

- The consumer completes an online account application
- The consumer’s identity is verified (by a credit-bureau service provider) and the consumer’s credit line determined (using business intelligence based on a third-party loan scoring system) — in real time
The account application data is immediately sent, in a standard XML format, to an event-driven workflow system — within the call center — that loads the data into the campaign management system and the back-office system.

**Bottom Line:** Every financial services provider (FSP) — and indeed every functional area within every FSP — suffers from a significant degree of latency and inefficiency. The objective of the real-time enterprise (RTE) is to identify where such latencies and inefficiencies exist and remove them. To achieve this objective, the CIO should be directly involved in determining how these inefficiencies relate to existing infrastructure and how business processes should be re-engineered. CIOs who accomplish these goals will become indispensable to their FSPs.