MODERN BANKING AND THE CHALLENGES OF PRODUCT PROLIFERATION

Abstract

With new technology advancements, banking models have evolved to keep pace with market demand. However, amid the latest shift toward customer-centric operations, existing core banking systems face inefficiencies in meeting the demand for faster time-to-market, lean product portfolios, and innovative product packages. This white paper examines the evolution of banking business models and its challenges. It offers a solution pathway and explains how Infosys Revenue Management Platform helps banks stay competitive at lower TCO.

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Introduction

Just like any other industry in the digital age, modern banking must transition to customer-centric business models. The advent of new technologies, market disruption by FinTech companies, and the recent Covid-19 pandemic have accelerated this trend.

All banks must follow the regulatory norms laid down by the authorities of the respective countries they operate in. Differentiation, however, lies in how each bank packages its products and services to cater to customer needs and demands. For instance, all banks provide basic banking features like checking, savings, and current

accounts, certificates of deposit, credit and debit cards, and loans. However, each product is differentiated by features such as preferential and differential interest rates, product bundling, fee flexibility, etc. To stay relevant, modern banks need to contextualize products based on the market and customer demands.

Evolution of Transaction Banking Business Models
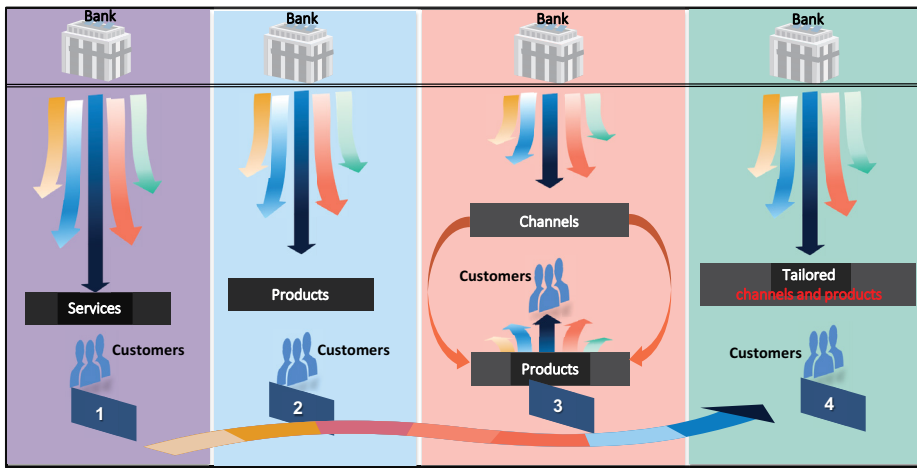
Business Models

1	**Limited services** Manual approach that charges a flat fee for selected services
2	**Product-driven** Product-driven strategy with focus on product innovation and push for products to customers
3	**Channel-driven** Customers are classified through channels. Products are created based on channel needs.
4	**Customer-driven** Customers are the focus. Products and channels are tailored to meet customer needs.

Earlier, banks would charge customers a flat fee to conduct financial transactions and consume services. As banking moved from simple to complex algorithms, banks shifted from manual to systems-driven processes. This was made possible through core banking systems that supported faster and more accurate processes.

In modern times, banking has grown more organized, shifting to product-based pricing focusing on products and services. As technologies advanced, banking further evolved to take a channel-focused approach. Recently, trends such as high customer expectations and low customer retention are driving banks towards customer centricity where each customer is treated based on their profitability. In this model, product and channels are tailored to meet customer needs.
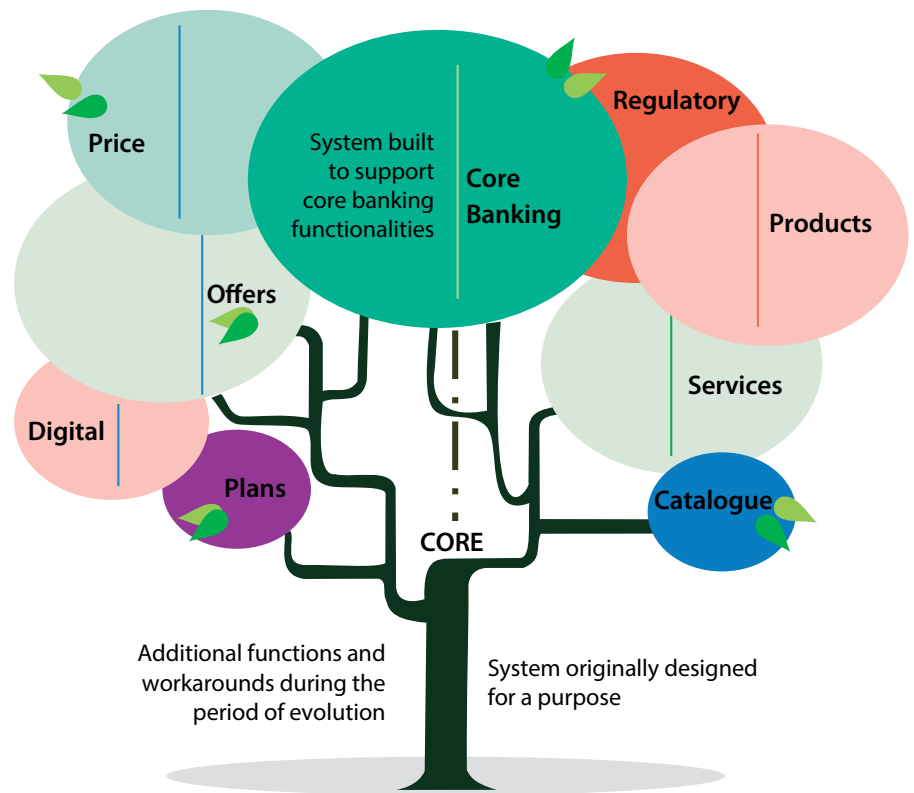
Challenges in Implementing the Models

Initially, banks re-designed or enhanced products with existing core systems to meet customer demand. Gradually, this resulted in product proliferation because of cloning, leading to high revenue leakage and steep operational costs.

Inadequate product lifecycle management

Maintaining a lean product portfolio is critical for accurate monitoring and control over revenue management. However, challenges like product proliferation, erroneous processes, and fragmented system landscapes have led to difficulties in ensuring holistic product lifecycle management.

Erroneous business processes

Core banking systems that were built to manage daily banking business operations ended up adding functions and features in an ad hoc manner to cater to market needs. Due to limitations of core banking processes and time constraints, these additions were often workarounds or quick fixes that soon became common practices. This led to error-prone processes and higher operational costs.

Price · Core Banking · System built to support core banking functionalities · Regulatory · Products · Offers · Services · Digital · Plans · Catalogue · CORE

Additional functions and workarounds during the period of evolution

System originally designed for a purpose

High IT dependencies and poor visibility

Product teams have long been highly dependent on IT to perform business functions such as product promotions, product change management, and product roll-outs. Moreover, the lack of standard contractual terms and conditions with proper deviation control has often resulted in significant revenue losses.
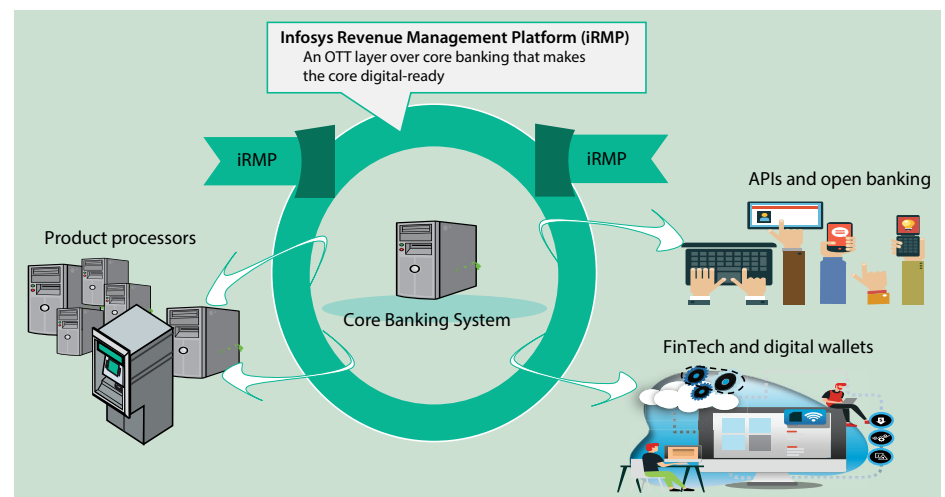
Eventually, as modern banking evolved into the customer-driven model, it exacerbated the inefficiencies within core banking systems.

Solution Pathways

There are several approaches to help banks overcome incumbent challenges and remain competitive in today's digital age. Here are some recommendations:

1. Retain the core

It is not advisable to replace or revamp the existing core banking systems due to business risks such as instability and security of voluminous data pertaining to customers, products, and transactions. Hence, the most viable and practical approach is to retain the core as a system of records, so it can continue to perform the daily banking functions that it was originally designed for.

Infosys Revenue Management Platform (iRMP)
An OTT layer over core banking that makes the core digital-ready

iRMP · iRMP · Product processors · Core Banking System · APIs and open banking · FinTech and digital wallets

2. Implement a revenue management platform

A revenue management platform as an over the top (OTT) model using a digital integration layer will enhance the legacy core with the modern digital capabilities. Revenue management platforms have advanced beyond being mere price calculators. They are built to manage products, services, and pricing needs, driving the digital enablement of banks through sophisticated product management, back-office operations, and market presence. These rule-based platforms can help banks maintain a lean product portfolio while providing better agility, flexibility, and customer choice.

3. Enable product and price lifecycle management

Product and price lifecycle management along with fee billing features can be brought into this new digital layer to give banks more flexibility in exploring new business demands. The newly added product management capability will enable banks to create advanced product catalogues from existing product libraries and migrate customers to the new catalogue in a phased manner based on key business priorities. Banks can also package their products and services more competitively.

In this way, all new and future deal management and fee charging methods can be driven by revenue and profitability though digital layers. As the modern banking model matures, such a platform, built on agile technologies, will support banks on their growth journeys.

Infosys Solution

Infosys Revenue Management Platform (iRMP), powered by Oracle Revenue Management and Billing (ORMB) is a cloud-native platform that elevates existing core banking systems to support next-generation business models. It leverages a collaborative approach that combines state-of-the-art product and price lifecycle management along with comprehensive revenue management and assurance.

iRMP key features include:

- Enterprise product catalogue creation and maintenance

- Lifecycle management of products, packages, and price plans

- Hyper-personalization capabilities

- Product performance analysis

- Customer behavior-based recommendations

Conclusion

As modern banks adopt customer-centric operations, they need to re-imagine their business models to support new growth. Existing core banking systems saddled with legacy enhancements and feature additions struggle to keep pace with market demands. The way forward is to re-provision the core for mainstream banking operations and apply digital integration layers that support next-gen capabilities such as revenue management and product lifecycle management. Infosys Revenue Management Platform is a comprehensive cloud-native platform that allows banks to deploy digital capabilities for product and price management and achieve business assurance.

About the Author

Ravisankar Kasthuril
Principal Consultant, Infosys

Ravi has over 20 years of experience in relationship-based pricing and billing products. With hands-on experience in functional implementation and solution development, he has steered critical projects for global leaders in banking, financial services as well as telecommunications. He brings strong expertise in top revenue management products such as ORMB and SunTec's Xelerate/TBMS-F.

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