



E-Solutions for Banking and Insurance



Clockwise, from top left: Bernd Dexheimer, SAP AG; Derrick Brown, Datamonitor; Luisa Bordonni, IDC; Knut Morten Aasrud, SAP Norway

SAP is a leading provider of integrated e-business solutions. SAP expertise in 21 industry-solution areas has helped companies to grow their businesses. Now there are more than 15,000 companies in over 120 countries which run more than 44,500 installations of SAP® software to improve relationships with customers and partners, streamline operations, and achieve significant efficiencies throughout their supply chains. With subsidiaries in over 50 countries, SAP is listed on several stock exchanges including the Frankfurt stock exchange and the NYSE, under the symbol "SAP."

Last month, a roundtable discussion held in London included the following participants: Bernd Dexheimer, Senior Vice President IBU Financial Services, SAP AG; Knut Morten Aasrud, Managing

Director SAP Norway; Derrick Brown, lead analyst for financial services at Datamonitor, a premium business information company, and Luisa Bordonni, Vice President of IDC, the leading global provider of technology forecasts, insights, and advice. A synopsis of the discussion is printed below.

MODERATOR: Let's begin by asking you to describe SAP's interest in and level of commitment to the financial services market.

DEXHEIMER: Worldwide, financial services account for about 35 percent to 40 percent of total IT spending, and there is no dominant global player in the market, at least at present. The most important competitor is in-house development, but there is an increasing demand for unified software. SAP offers unified integrated software whose total cost of ownership is far less than in-house development. SAP has an impressive track record and in-depth expertise in developing software for the financial services industry. We now have more than 1,200 financial services installations in over 50 countries.

MODERATOR: Is SAP focusing on any particular regions for the FS industry?

AASRUD: We are running an EMEA banking initiative, as it is clear to us that banks are increasingly thinking in a pan-European fashion. It is also clear that our presence in banking in Europe is focused around a few key countries. Hence, we are trying to leverage that presence and the capabilities we have there and

apply them to other countries in an orchestrated effort. Basically, we will collapse a lot of the country-specific borders and leverage across SAP's various internal organizational groups to form joint teams to support and address some of the topics we will be discussing here. It is more of an accelerator effect than a big corporate re-engineering.

DEXHEIMER: In addition, we see a good product fit and significant opportunities for our mySAP Insurance solutions in the United States. In view of that, we will be running U.S.-specific initiatives to further extend our financial services market presence and share, including the continued promotion of the mySAP Banking solutions. Also, we will continue to promote our mySAP Insurance solutions within the EMEA.

BORDONI: In our surveys of the financial services industries across the world, we increasingly see that banks prefer to go to the best of breed or buy standard packages. This is true of the install phase as well. The challenges facing banks are very high right now. They can't afford to wait eight or nine months for a project. They need time to market, and they see packaged software as part of the solution.

BROWN: If you look at where banks are weaker in terms of business support activities – operational, analytical, CRM, portals – where does the biggest gap exist between what they say they want to do and what they can do?



Bernd Dexheimer
Senior Vice President, IBU
Financial Services, SAP AG

DEXHEIMER: One market study said that 85 percent of all banks and insurance companies have initiatives to improve their customer relationships. Another priority focuses on how to reduce costs as soon as possible. I have spoken with banks in Europe that have 36 different current checking account systems. They could save a lot of money and enhance bottom-line profits if they had just one system.

AASRUD: That's true, and as soon as there is a process approach to CRM implementation, it is going to put a lot of the old systems under severe stress. I don't think you can have the one without doing something with the other in terms of how it is connected. You cannot say, "I will invest heavily in the analytical CRM" if you can't produce relevant data for that data warehouse. And when you start talking about real-time analytics in the CRM space, it becomes really, really challenging.

BROWN: What keeps banks up late at night is switching, because they are thinking of the lifetime value of their customer. They offer a zero percent credit card. They are saying, "Am I spending £10 million here to lose £20 million more?" In the longer term, I think getting a handle on the analytical side is probably where the real money is to be

made. In the end, it does relate to cost, but also business effectiveness by function, which in terms of opportunity costs is a lot tougher to evaluate.

AASRUD: We can look into it in terms of operational costs, and that gives you one set of pictures. Then you can look into it from an effectiveness point of view. How many marketing dollars or euros do I spend and what do I get out of it? In most cases you do not know. Given a fairly high marketing spend, it is important at least to understand that you're hitting home.

BORDONI: SAP is very strongly focused on analyzing and serving the needs of banks in order to develop and adopt a correct solution in the financial services area. The challenge is to align with the development in the different banking environments, because the local markets are at different stages of deployment, with completely different styles. Spanish banks have a completely different style from Italian banks or U.K. banks.

DEXHEIMER: Globalization will help us. I think a lot of banks are looking to go more international, if they are not already a global player. There is a need, at least from our perspective, for a core-unified solution that is suitable for all countries. It does not make sense for SAP to develop a regulatory reporting solution, but it does make a lot of sense for us to offer a solution for Basel II and IAS accounting, since international banks need this.

BROWN: SAP has succeeded by getting into something before the market was even defined because you saw a need there. The real challenge, I guess, is to get an integrated problem as well as an integrated solution.

DEXHEIMER: Some solutions are

discrete, but I think we have proven that we can deliver solutions that are multicurrency and multilingual. We have customers all over the world for both our business support solutions and our industry-specific solutions. One example is health insurance, which is very country-specific. Last year, we signed a major contract with the largest German health insurer. SAP will develop a core-unified solution suitable for all health insurance companies worldwide. Nearly all insurance companies and banks have huge legacy systems with less than state-of-the-art architecture. The solutions they have developed are evolutionary and therefore product-oriented, but the cost of maintenance is getting higher and higher. They are looking for a solution with the right architecture, and the right infrastructure, which lets them replace their existing systems step-by-step and focus on areas where they have competitive advantage.

In addition to cost savings, all insurance companies, banks and financial services providers are looking to improve their customer relationship management.

BORDONI: Depending on the specific types of service a bank offers, it is under different levels of pressure. What we see is that the greater the complexity, the more the approach is a mix of the two. On the one side, the IS manager is asking for very fast implementation and deployment, but he still wants the department to be hands-on because the bank cannot stand still for one hour, for one second.

BROWN: In the past, cost-efficiency often meant labor substitution because it is a traceable benefit to take out a business function. IT came in horizontally and the functions it took up were horizontal. With CRM, you are evaluat-



Knut Morten Aasrud
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SAP Norway

ing your business vertically by a specific product. The difficulty is that you are not quite sure how to trace the benefit to the costs.

DEXHEIMER: There are no huge benefits if you just implement a horizontal, stand-alone CRM solution; you need to link. You only get the benefits if you have the data to give your clerk or your customer the information they need. If you just have a nice call center, without a link to the operation or the back-office solution, it does not help.

Taking the claims area as an example, we won the largest publicly traded personal insurer in America as a pilot customer to develop a solution for back-office processes, and we have linked it to our CRM solution. This is the vertical process I mentioned. In front of this are our portal solutions.

Everything fits perfectly: the portal running on PDA for example, or whatever you like, and the CRM where you have a 360° view of the customer. You can see what policies the customer has, what claims he has, and you can support the whole process.

We believe we are unique in that we can offer all the important pieces: business support at the bottom, analytics, operational solution, and on top of that, CRM together with our enterprise por-

tals solution. This is what we call "connected CRM."

BROWN: Do you find that banks treat CRM as a technical issue as opposed to a marketing issue? I hear a lot of people in banks saying, "CRM, we are done. We outsourced it." It is viewed as a project rather than a business process.

AASRUD: This is a core issue: do you move the whole integration business of IT into a process-driven approach or do you keep thinking functionally or technically about it? This issue is certainly testing the decision-making capabilities of banks in terms of whether they want to be the first mover and, indeed, whether they even have a choice. I think a lot of banks do not have that choice.

DEXHEIMER: Our e-business solutions for the financial services industry cover all aspects, from business support, operational and analytical processes to customer relationship management and enterprise portals. They may be separate solution suites, but all can be fully integrated.

In business support, SAP is the leader in e-business solutions such as human capital management, financials and materials management. These are not necessarily industry-specific solutions. Next would be analytical solutions. For example, analytical banking – or what we call enterprise management for banks – provides solutions to manage profitability, risk management, and asset/liability. Our risk management infrastructure is the basis for our Basel II solution.

BORDONI: Banks at the moment have a very strong focus on analytics because customer profitability is a core issue.

BROWN: Last year we polled about

340 people at European banks about their investment priorities. The primary investment area for 60 percent of them was CRM. Being able to have online product sales is still a challenge for a third of them.

DEXHEIMER: We have shown that we can drive down operational costs. One customer, for example, has calculated that the claims management capabilities of mySAP Insurance, coupled with our e-procurement solution, "will save us \$25 million a year if done properly." These savings do not come from labor replacement, but from cheaper and earlier replacement of goods.

Last but not least is the portal solution. This is a role-based personalized user interface that brings together information from various back-end systems into one source, thereby empowering your employees with not only the right technology and approach, but also the logic behind the information.

AASRUD: One area that needs improvement is the more efficient use of opportunities to contact customers in branches, on the phone or what have you. This points strongly to integration, of being able to get a total view of what you can and should offer at that specific point in time. I am talking about user-centric or customer-centric integration, which is where the portal comes in.

DEXHEIMER: In some cases we can add functionality to a legacy system. Legacy systems do not, for example, calculate intra-day interest, which will be crucial in the future. It would be almost impossible to enhance a current legacy system with intra-day interest functionality. SAP's core banking solution offers, as standard, the functionality that achieves this effectively and efficiently.

I was surprised when I got a phone call from the U.S. asking, "Do you need to stop the application to do the batch processes for jobs that have to be submitted during the night?" This is a challenge for banks because of the different time zones in the U.S. The window for those kind of jobs is minus three hours. The SAP solution does these batch processes in parallel so you can always run it. This online capability is a new kind of solution.

We have a contract with UBS to replace their legacy core banking system with our system, and we will deliver the final version in March. We offered what we call advanced support. They need a solution which runs 365 days, seven days a week and 24 hours a day.

Another customer is Postbank, which is by far the largest retail bank in Germany, with over 24 million accounts. UBS does less volume, but with more sophisticated products. The flexibility of our core banking systems allows for either combination. Recent performance tests have shown that our solutions can process up to 5.4 million account transactions per hour. We offer the infrastructure where you can plug in different systems and store them on a very flexible basis. You need to be flexible. That's for sure.

BROWN: I have read that it took 20-odd years for IT to have a net benefit on productivity in the United States because people just used the new system to reinforce the status quo. You can talk about driving down costs, integration, in the context of inter-technology, but people are saying, "Where is my quick win?" That is something people are going to be facing with CRM in particular. They want a quick hit off the database that will show revenue results this quarter, even though the problem is a fun-

damental structural question. It keeps you running two databases at great cost, but the switchover cost in the short term will probably be significant.

AASRUD: That is also why you need to keep communicating actively with the target process architectures because it is very difficult to deploy new technology and get a quick win from the technology alone.

BROWN: Technology is not a substitute for a well-run business.

DEXHEIMER: Exactly, but there are ways to be creative and to have quick wins. Take core banking again. Some banks are struggling to offer new kinds of products since the old legacy system is not flexible enough. Some banks have used our solution for just new products, replacing the old legacy system step-by-step, product-by-product.

As you know, data reconciliation is, to be polite, a challenge in banks. Everyone has Excel sheets and does nothing but reconcile data from different systems with different results. Our analytical solution is based on one database which at least has reliable data. There is no need for reconciliation.

MODERATOR: That leads us to the technology area, which is really two areas: first, mySAP Technology and heterogeneous environments; and second, collaboration, integration and flexibility.

AASRUD: Derrick, you mentioned the possibility of collaborations in the highly commoditized financial services industry, with some companies choosing to focus on transaction processing capabilities rather than customer relationships. This makes demands on companies as to the collaboration capabilities you build into the technology base. To be able to focus your attention on transaction pro-

cessing and deliver that benefit to someone else who has the customer relationship.

Our hypothesis is that integration and collaboration are going to be extremely important, especially as you develop multiple channels, and maybe a more layered value chain than you see today. In that context, SAP has launched mySAP Technology, which is basically a tool set to enable this. It not only permits cross-border integration but it is equally important inside the enterprise, where maintenance of those integrations is driving IT spending through the roof.

BORDONI: Does this tool set have any specific models for starting integration from the CRM or the back office or the mobile channel?

DEXHEIMER: It is not a data model in the common sense; mySAP Technology openly integrates any application and Web service from any vendor in any technology environment. That enables financial service institutions to easily design, build, access and combine Web services to support their mission-critical e-business solutions across company and geographical boundaries.

AASRUD: Basically, what we are asking is, are there connectors that enable you to link more easily? Yes, a number of them already exist and more will be developed. If you talk about a heterogeneous environment and the connections inside that environment, then of course there is the challenge to standardize because you do not know what is hitting you at the other end. We are trying to solve that by having the connectors fit into a central hub. Then the only thing you need to maintain is the connection on the other side of that hub to your existing legacy or vendor system. Some of those will have ready-made connectors and some will not. □