

FIVE LEVERS TO IMPACT YOUR BANK'S EFFICIENCY RATIO

HOW THE RIGHT DIGITAL TECHNOLOGY
CAN DELIVER COST ADVANTAGE

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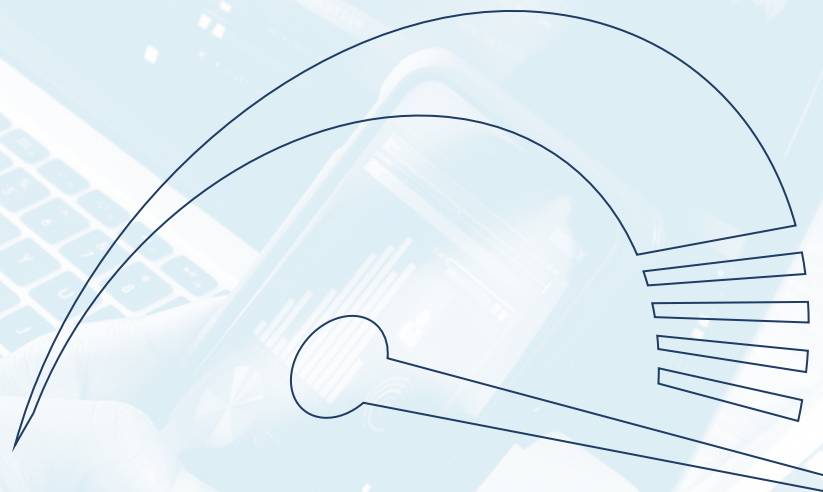
MOVE THE NEEDLE ON YOUR EFFICIENCY SCORE

Concerned about how you are performing against your peers on your efficiency score?

Financial institutions are facing an environment marked by growing consolidation, rising customer expectations, and increasingly complex and overlapping regulations. Despite strong economic growth, banks remain under significant duress amid weak profits and intense cost pressure.

This leaves senior leaders seeking ways to improve topline ROE via cost cutting measures, risk-weighted asset reductions and portfolio rebalancing. Each of these can have a significant impact on a bank's health, but they do not all add value equally. **How should a savvy bank executive set priorities?**

Adopting new technology promises to be the single biggest factor to move the needle on the bank expense to revenue ratio.



MOVE THE NEEDLE ON YOUR EFFICIENCY SCORE (CONTINUED)

But, where do you start and what elements do you concentrate on for maximum success?

Statistically the largest drivers of bank profitability include:

- >> Profitable customers
- >> Revenue per employee
- >> Low-cost infrastructure
- >> Overall market sentiment

A McKinsey study across 80 European and North American Financial Services Institutions found that driving internal efficiencies raises bank valuations. The study examined 60+ metrics impacting bank performance and concluded that top performers that improve the cost-to-income ratio, aka the efficiency ratio, realized a big boost to their valuation (market to book value ratio).¹

No wonder then that forward-thinking banks are focused on creating winning strategies that let them move the needle on cost efficiency.



¹McKinsey study - Unearthing performance gains to boost bank value



TURN RESOURCES INTO REVENUE AT LIGHT SPEED

The bank efficiency ratio is a high level measure of a bank's ability to turn resources into revenue. The ratio represents total costs as a percentage of revenue or total income.

Suffice to conclude that the lower the ratio, the more efficient the bank. When the efficiency ratio is at 0.60, this means the bank has to spend 60 cents to drive one dollar worth revenue. For North America peer group, the average efficiency ratio for year 2016 is at 61.6%, improving from 63.3% in 2015.

Bank Efficiency Ratio:

A bank efficiency ratio is a measure of a bank's overhead as a percentage of its revenue. The formula varies by industry, but the most common one is:

Efficiency Ratio = Expenses / Revenue, known as Cost-to-Income Ratio within FSI





TURN RESOURCES INTO REVENUE AT LIGHT SPEED (CONTINUED)

Business models can generate varying efficiency ratios for banks with similar revenues. Banks that focus more on cost control may have a better efficiency ratio, but they may also have lower profit margins. The degree to which a bank is able to leverage its fixed costs also affects its efficiency ratio; that is, the more scalable a bank is, the more efficient it can become.

While comparison of efficiency ratios is generally most meaningful among banks in the context of business model, best practices have formed across the landscape.

Forward thinking bankers have already turned their digital strategies into tangible improvements in cost efficiency by:

- >> Integrating across legacy applications for a single interface with multiple business views.

- >> Shifting operating models away from 'searching' for data to synthesizing actionable data.
- >> Leveraging [Robotic Process Automation](#) and complex process rules to drive coordinated task automation.
- >> Increasing data insight about run-time operational processes for continuous optimization.

And that is just the short list!

Read on for five best practice case studies that are using an innovative digital platform approach to improve the efficiency ratio.

1 REDUCE OPERATIONAL COSTS FROM THE INSIDE OUT

Forrester Research² recommends banks adopt digital technology with metrics that connect to broader business objectives. By automating back-end operations that connect through to the customer banks improve cost efficiency and create operational agility for growth.

CASE STUDY

Challenge - A universal bank with large global operations was suffering from manual, repetitive core processes that involved multiple back-end systems in order to complete work. This required more staff in order to meet growing volumes, leading to reduced profitability.

Solution - Appian enabled the bank to structure its business and gain operational agility around

the subjects of most importance — Deals, Clients, Products. The low-code platform approach provided the ability to configure apps rapidly, and deliver value to business users in iterative cycles.

Business Impact - Payment processing went from an average 8 minutes to 2 minutes, a 75% improvement. The bank now has a growth path to increase business by 30% without increasing headcount and cost base. Through an agile platform of re-engineered business process apps the bank anticipates it will substantially reduce the 200+ legacy applications that manage client deals and materially increase capacity of the existing workforce to profitably grow the business.

²Source: "Establish Customer-Centric Metrics For Digital Banking", Forrester Research, Inc., December 22, 2016

2 ELIMINATE NON-VALUE ADDED ACTIVITIES

Despite the increased demand for efficiency, PwC found that up to 40 percent of costs for banking services are wasteful activities that deliver no added value to the customer or revenues. With the right technology solution, knowledge workers can be made more productive and banks can focus on improving how work gets accomplished, removing non-value-added steps through all operations.

CASE STUDY

Challenge - A large bank with over \$15 billion in assets and 100+ locations in North America intended to build an Anti Money Laundering (AML) solution, but no point solution seemed to solve the manual intervention and data manipulation problems that layered Non Value Added (NVA) activities into the process.

Solution - Appian Cloud — specifically the Appian Records data capability — provided just that solution. Appian gave them an intelligent digitized approach to rapidly identify and resolve potential money laundering schemes. The solution delivered visibility into the work effort and improved how the work is accomplished, eliminating late filings and related financial penalties.

Business Impact - The bank reduced more than 1,000 work-hours annually across their AML tasks, significantly reducing non-value-added tasks and avoiding penalties.

***“Appian gave us a performant, secure, and reliable cloud platform on which we could quickly implement AML Case Management”
— IT Director at the bank.***

3 LEVERAGE AGILE FOR 'DIGITAL BY DEFAULT' PROCESSES

Operational complexity and increasingly demanding customer expectations continue to challenge cost efficiency. Delivering a complete digital service that is both customer-focused and cost effective requires the ability to balance process-enhanced activities with straight through processing, plus a rapid application development and deployment platform to move with speed toward “digital by default” services.



CASE STUDY

Challenge - A superannuation fund company in Australia managing over \$19 Billion AUD with 1+ million members and 67,000+ employers wanted to deliver great customer experience, make funds switching easier, and reduce operational costs.

Solution - With Appian's application platform the company built an end-to-end Rollover automation solution. The Appian Records capability united all pertinent data with required verification and completion processes. Rollovers now cost the bank 50% less to process than before and customers experience flawless journey.

Business Impact - The bank slashed operational costs 50% and reduced processing time from weeks to overnight.

4 FOCUS ON THE CUSTOMER EXPERIENCE

Enhancing the customer experience can deliver rich rewards to financial institutions. McKinsey research³ found customers are seven times more likely to increase their deposits and twice as likely to open an additional account when they perceive bank service as excellent. Delivering excellent customer experiences enables banks to capture and better serve the most profitable customer segments.



CASE STUDY

Challenge - A leading bank with \$60+ billion in assets serving 1.6 million customers determined to reorganize all business units to better align to servicing the customer, working with partners, and focusing on innovation.

Solution - The bank used the Appian low-code digital platform to quickly roll out customer-focused enterprise applications across the business, including ATM Management, Credit Card Management, Fraud Management, Mortgages, and Merchant Services. Collected information is available to every subsequent application and user, with the goal that the

³Source: McKinsey Research, Putting customer experience at the heart of next generation operating models

4 FOCUS ON THE CUSTOMER EXPERIENCE (CONTINUED)

customer never has to repeat themselves. Whatever activity the customer undertakes with the bank, Appian preserves and presents the full customer context across all business lines.

Business Impact - 26 Tier 1 customer-focused enterprise applications deployed in 18 months.

By efficiently focusing on profitable product and customer segments banks add incrementally higher operating revenue that, in turn, reduces the bank's cost efficiency ratio. Effectively, the impact of customer satisfaction on Total Return to Shareholders (TRS) is significantly higher. If we compare the TRS of companies with above- and below-average customer satisfaction scores, the leaders achieve four times the growth in value of the laggards over a ten-year period.



5 AUTOMATE TO REDUCE EMPLOYEE COSTS

Employee cost can be one of the most significant levers in a bank's efficiency ratio. Automation to reduce FTEs (Full Time Employees) either to eliminate or redirect employee efforts in heavily manual processes can not only reduce costs but also accelerate business results.

CASE STUDY

Challenge - A large diversified financial services company with 700+ branches across 20 states and \$80+ billion in assets faced efficiency impacts from aging systems. Customer service was adversely impacted and required significant manual intervention.

Solution - The bank rapidly implemented a set of applications across 20 systems and processes that

replaced manual effort against outdated systems and paper burdened processes. The Appian Digital Transformation Platform — with its Appian Records capability — united the processes with all required data in a single view, reducing resolution times by more than 60%.

Business Impact - 60% process acceleration and a 42% efficiency gain; equivalent to nearly 14,000 annual person-hours saved.





THE RIGHT DIGITAL TRANSFORMATION PLATFORM

Improving your bank's efficiency ratio is critical in today's market, with the industry remaining under pressure amid weak profits, intense cost pressure and relentless compliance requirements.

The best way forward?

Follow proven best practices and take an innovative technology approach with a digital application platform.

In order to move the needle on cost efficiency, choosing the right platform will be important.

Appian's low-code Digital Transformation Platform is at the forefront of digital technology with the capabilities necessary to help banks improve cost efficiency and:

- >> Deliver superior digitized customer experience to drive topline revenue growth

- >> Manage business holistically with a transformation platform powered by business process and case management capabilities
- >> Implement a digital overlay to strengthen governance architecture and stay ahead of conflicting and overlapping regulations
- >> Get more agile and transform risk into core strength to deliver customer-centric products and capabilities
- >> Deliver cutting-edge apps 10x faster with a low-code application development platform on- premises or in the cloud

All of this ties together for the ultimate goal: drive top-line revenue growth while becoming more efficient.

Appian



Appian for Financial Services - Appian provides a leading low-code software development platform that enables Financial Services Institutions to rapidly develop powerful and unique applications. The applications created on Appian's platform help companies drive digital transformation and competitive differentiation.

For more information, visit www.appian.com.