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Transforming Cash and Payment Operations

A range of client, technology and regulatory forces are having a significant impact on the payments business. They are driving margin compression, prescribing infrastructure investment and demanding quality improvement. ABN AMRO is not alone in having a commitment to providing payment services to its clients. It is certainly not alone in the challenges that such an offering implies. In order to make the right strategic decision the Bank undertook a review to see whether payments was a product offering in which the Bank could lead or whether a white label or outsource solution would provide more value to its shareholders.

The ABN AMRO Strategic Choice
At the time of the review it was clear there were no obvious leaders in the market, that could provide the Bank with the services or global reach its clients demanded. It was also clear that ABN AMRO had a unique set of assets, a payments core competence and a potential to lead in the market. The challenge was set; ABN AMRO should build to lead and deliver a profitable payments business.

The ABN AMRO Challenge

The challenge was intimidating. If the Bank was going to lead, the payment operations base would need to transform beyond recognition. It would need to embrace quality, establish a new delivery model and embed a zero defect aspiration. After much consideration it became clear that such a “Global Transformation” could be achieved in 3 steps.

- ◆ Move from a branch centric configuration, establishing regional and global processing hubs, to a resilient, optimal and global configuration.
- ◆ Standardise and simplify processes to achieve lean, scalable and efficient operations.

- ◆ Embed a culture of continuous improvement to drive quality improvement.

The Global Transformation Programme

A New Delivery Model

Choosing suitable locations for the Hubs, both regional and global, would play a key role in determining the success of such a transformation. In particular, the Global Hub would need to play the role of transformation catalyst.

Chennai, India was selected as the location for the Global Hub. Why Chennai? It had a large skill base in IT, finance and accounting. It was already a preferred outsourcing destination for MNC’s. It could provide scalable bandwidth and had excellent infrastructure and communication links. It also offered significant operating efficiencies. The Bank also enjoyed excellent local knowledge. With a presence in India for over 85 years it is a well-known and respected brand. Amsterdam and New Jersey were selected as the locations for the regional hubs. Both sites could leverage existing capacity and scale and both provided a natural regional fit for a global bank. Once in place, these Hubs would load share to provide a natural contingency and business continuity solution. Resilience would be inherent in the configuration.

Best Practise Migration Methodology

To realise such a configuration blueprint a “best practise” migration approach was needed. It had to enable speed of execution while ensuring quality and mitigation of risk. To develop the methodology, a transformation team was assembled with a mix of internal talent and experienced change practitioners from other institutions. Aggressive targets were set to achieve ROI of 18 months with significant, positive EP impact. Roll out would occur across multiple regions simultaneously.

World Class Operations

A World Class Operations methodology was developed around three specific tiers of activity. The first was to understand the “as-is” environment through process mapping and definition of baseline metrics. Next, a portfolio of change management tools, such as 6 Sigma and Lean Operations, would be provided to the “process practitioners” in the Hubs. Finally the methodology would be embedded in the Hubs to ensure Continuous Improvement and Best Practice. In summary;

- ◆ Create an inclusive Quality Program that positively impacts all staff
- ◆ Empower staff through provision of, and training in, change management tools
- ◆ Embed Continuous Improvement and “World Class” culture
- ◆ Embed comprehensive and standardised reporting structure
- ◆ Identify and develop “Best Practice”, standardised processes
- ◆ Initiate cross-functional improvement with all stakeholders

It was clear such a programme could provide the basis for a new tier in the quality of operational delivery. Yet, this could not be a one-off exercise. No, the essential element was embedding the programme, giving ownership to the “process practitioners”, so that Quality became not just a management mantra but the shop floor culture.

Process Hub as Transformation Catalyst

This consolidation of process and application of World Class Operations methodology would ensure that the new Global Hub would act as transformation catalyst. As it absorbed functions, built scale and applied this methodology it would reduce unit cost, improve process quality, improve productivity and provide

flexible capacity.

Global Transformation Programme Results

To judge the success of the programme, we should consider not only the original challenges that the blueprint implied, the “how much”, but also the constraints deliberately imposed by the Migration and World Class Operations Methodologies, the “how well”.

- ◆ We delivered an optimal operations configuration based on the Global Hub in Chennai and the Regional Hubs in Amsterdam and New Jersey.
- ◆ We transformed operations in 17 countries, across multiple regions, in 18 months. All with an internal project team of just 8 people.
- ◆ We improved productivity and efficiency across the board and have demonstrated scalability by rapidly increasing the Global Hub to 20% of payments workforce, processing some 350,000 payments per month.
- ◆ Continuous Improvement projects have delivered an average accuracy rate of 99.97%, less than 300 errors per million observations.
- ◆ Customer Service functions are showing a marked decrease in processing error related queries.

The Global Hub in Chennai has become our catalyst, our “quality engine” and our “force multiplier” for quality improvement. Internal source cause analysis is driving prioritisation and optimisation of change. STP reports have been developed for clients, so empowering client engagement teams to have fact based discussions with them. We now have a large portfolio of employee defined, organised and implemented improvement projects that demonstrate that quality really has been embedded in the operations organisation.

Lessons Learned & Critical Success Factors

Having been through such a large change

programme it is important to look back and understand what happened and why we were successful. From the initial decision we had a clear strategy, senior management buy-in and a clear mandate to follow. We had a well-established local presence in the Hub locations and an effective and efficient migration process. To minimise the potential, detrimental impact of change on this scale we had stakeholder involvement throughout the project lifecycle and we had pragmatic compliance and legal support. Concentrating on business process migration and setting up remote access to existing IT platforms and systems, allowed us to accelerate both the migration process and the realisation of value. We had demonstrated both an expertise in execution and the inherent value in the proposition.

Transformation in a Market Context

The Bigger Picture

We have seen how the Global Transformation Programme has, quite literally, transformed the Cash and Payment Operations base in ABN AMRO. It is important, however, to put these in the context of the market forces described earlier. Is ABN AMRO now in a better position to deal with these forces and still provide the right offering to its clients? The following case study provides an answer.

Case study; combating margin compression

In a market where external forces are continually compressing margins how do you transform a product’s profitability? Reduce costs? Increase revenue? How about both? Leveraging quality, lean, scalable and cost efficient operations can do just that. Prior to the Transformation Program, by common consent, the operational processes supporting the International Lockbox product were unstable and inefficient. Lacking faith in the operational support, the Business was not actively selling the product to clients. Existing clients were unhappy and volumes were falling. The solution seemed obvious. We needed to improve

the process quality, reduce the cost and restore Business confidence. We could then sell more product, increase volume, increase revenue and positively impact EP. The Transformation Program has delivered.

- ◆ Offshoring has delivered a 53% reduction in unit cost for this product.
- ◆ 6 Sigma methodology has delivered zero defects.
- ◆ Lean operations methodology has delivered a 20% reduction in process cycle time.
- ◆ Business confidence has been restored.
- ◆ The client portfolio has been increased by 126%.
- ◆ Volume has increased 110%.
- ◆ Productivity improvements have enabled absorption of volume with flat headcount.
- ◆ Revenue has increased 65%.

Add the improved application reliability and process improvements, such as duplication detection and proactive client feedback, and the scale of the transformation comes into focus.

ABN AMRO has demonstrated a real expertise in the migration of processes. It has also demonstrated a real understanding of the value inherent in such a transformation. It is the pursuit of quality, not just cost reduction, which will allow financial institutions to prosper against a background of such severe market forces. It is a measure of the Global Transformation Program’s success that ABN AMRO has been approached by other financial institutions to see if they too can leverage this quality engine by outsourcing payment operations processes.

Group Shared Services (GSS) Payment Operations is an Action Track (transformation programme) of GSS, established to optimise the delivery of

internal services within ABN AMRO world-wide. Partnering with the Strategic Business Units, GSS acts as the delivery vehicle for synergy opportunities bank-wide.

It does this in two ways: firstly GSS provides 'best in class' shared services through its client-focused Shared Services Units (SSUs); secondly GSS operates as an SBU partner in facilitating the delivery of change in services areas through the GSS Action Tracks. GSS will support ABN AMRO in realising significant and sustainable savings, culminating in annualised savings of at least EUR 600 mln from 2007 onwards.