

Build, bundle, and tailor – a guide to product development

Building new products, bundling them to make them more attractive, and tailoring them for specific customers requires a modern 'product factory' component, writes Cecilia Janos, Director of Product Strategy for Fidelity Information Services.



Retail bankers are constantly told by advisers and analysts that they operate in “a rapidly changing competitive environment”. They are warned that for banks to survive “in these difficult times” they must “meet customer demand” for products and services as “quickly as possible”, and at the “lowest cost”.

Should they heed such warnings? Yes, I believe they should and some are actually doing so. Bankers around the world would not have spent such significant sums on customer relationship management, on developing new products and services, and on the associated technology investment in core banking systems, had they not believed it would help them win and retain customers, increase revenue potential and profitability, and ultimately deliver shareholder value.

Today's sophisticated retail banking customers have a much greater awareness of the many products available, from a huge number and variety of traditional and non-traditional providers. This demands of banks the ability to create ever more complex financial products, bundled and tailored to meet individual customer needs.

Many banks have this ability, many don't. Those that do have this capability have, in some cases, even been able to develop “one-stop-shop” accounts. These incorporate virtually everything a customer could want: a current account, linked to a credit card, linked to a savings account, linked to a loan and/or a mortgage account, linked to insurance and with an interest offset facility.

Being able to offer various offsetting options is attractive to customers as it wipes out some of the unfavourable (for customers) interest margin differential between savings and borrowings. It can also help minimise the effects of lop-sided tax regimes which tax interest on savings but do not allow tax relief on interest on borrowings.

In the UK, Barclays Open Plan and Virgin's One Account are prime examples of such accounts. In the US, Merrill

Lynch is doing something similar with Beyond Banking. James Gorman, president of the company's Global Private Client division, has said that with this product he sees “no reason for our clients to maintain a traditional bank account somewhere else”.

Those banks that don't have the ability to create complex products are finding the going increasingly tough. They are still selling basic current accounts, with standard bolt-ons. However, by their inability to sell complex products, these financial institutions are not realising their full revenue potential. It is these banks in particular that need to heed those warnings.

Statistics show that the more products a bank can provide to a customer, the longer the customer will remain loyal to the bank. This will not only increase revenue growth, but will maintain the revenue stream for longer, producing significant increases in customer value over the lifetime of the relationship.

Mark Sievwright, president and chief executive officer of TowerGroup, said in a presentation recently that there were four ways in which financial institutions should aim to maximise shareholder value. One key way was to grow revenue. To do this they had to gain a better understanding of customer needs and tailor products accordingly.

How a core banking system builds and bundles products

To be good at “product build” and product packaging, a bank needs the right tools and a highly capable “product factory” that can deliver products to high service-level standards. It also needs an accurate customer database and the ability to understand its customers. In short, it needs an up-to-date core banking system.

A modern core banking system will include a robust product build and bundling component. This component will be able to change product features – such as interest rates, fees or terms and conditions - without having to modify or write new code. Typically it will provide product building blocks to create flexible and innovative products or product packages. It will operate in real-time, will not need support from IT programmers, and will allow products to be quickly tailored to an individual customer's needs.

All product categories will be covered - current accounts, savings, investments, loans, mortgages, lines of credit, guarantees and many more. It will also be possible to add various other services such as insurance, within these products. The system will facilitate the bundling of

