

Justifying Process Automation in Banking: Four Business Areas That Are Prime Targets

Financial institutions have embraced a variety of technologies to help drive new business, improve customer service, reduce costs and become more competitive. From document management systems to online and mobile banking services, the financial industry has seen considerable technological advancement over the past two decades. Yet many financial institutions still rely on paper-driven processes for both front- and back-office services and tasks. The benefits of business process automation (BPA) are too significant for financial institutions to continue to ignore, and the time to act is now.

In the early 1990s, the banking industry experienced its first big shift away from time-consuming, manual processes to electronic processes as the majority of banks replaced aging and tedious microfilm and microfiche systems with document management, or imaging, systems to archive forms, reports, statements, checks and documents. The next big advancement was the introduction of ATMs and other self-serve devices designed to improve customer service and extend services beyond the local neighborhood. More recently, digital banking has been embraced by most financial institutions with many offering both online and mobile banking services.

So why do so many banks and credit unions still rely on paper-driven processes for a variety of front-office and back-office services and tasks? From the consumer's perspective, think about the amount of paper one must still complete when applying for a mortgage or loan, or when enrolling in an investment or wealth management service. The time required to complete paper-intensive processes can be frustrating—not a great first, second or third impression.

From an employee's perspective, relying on paper to drive business processes can be challenging. There is a higher propensity for errors, lost or misfiled paperwork and delays in processing times when employees are out of the office. How often do forms need to be copied so tasks can be started in parallel? Inefficient, tedious and time-consuming processes can be a big drain on employee morale and productivity.

Eliminate Paper and Inefficiency

Today, savvy financial services organizations are taking steps to eliminate inefficiency and to streamline front- and back-office processes. BPA is being used to automate task assignments, information and documentation workflow, and population of information from reports, forms and documents into disparate banking systems. Most BPA solutions are integrated with enterprise content management (ECM) or document management (DM) solutions to provide on-demand access to information required for process decision-making.

BPA is also used to satisfy demanding regulatory compliance and internal process and audit requirements. Some financial institutions use BPA and complementary technologies such as optical character recognition (OCR) and data review/auditing to eliminate costly, time-consuming and risky "stare-and-compare" tasks, leading to reduced risk and costs associated with penalties.

Built-in reporting found in most BPA solutions enables financial institutions to analyze data on task/process status and completion, helping to improve accountability and providing critical business insight into business efficiency and productivity—all of which helps drive increased profitability.

Phased Approach to Automation

Many banks that implement BPA technology follow a phased, pilot-and-expand approach, starting with a single department or process. This approach makes planning, preparation, deployment and testing easier and is less disruptive on staff and daily activities.

There are numerous front- and back-office processes that can benefit from automation; this can make the decision of where to start a difficult one. Financial institutions should look at this as an opportunity to implement technology that offers a high return-on-investment—now and in the future. For this reason, it is important to select a comprehensive solution that provides the scalability and flexibility to accommodate expansion into new functional areas.

While there are many business areas that can benefit from BPA, there are four areas that typically rely heavily on paper-driven processes and, as such, are primary targets for BPA.

1. Mortgage Lending

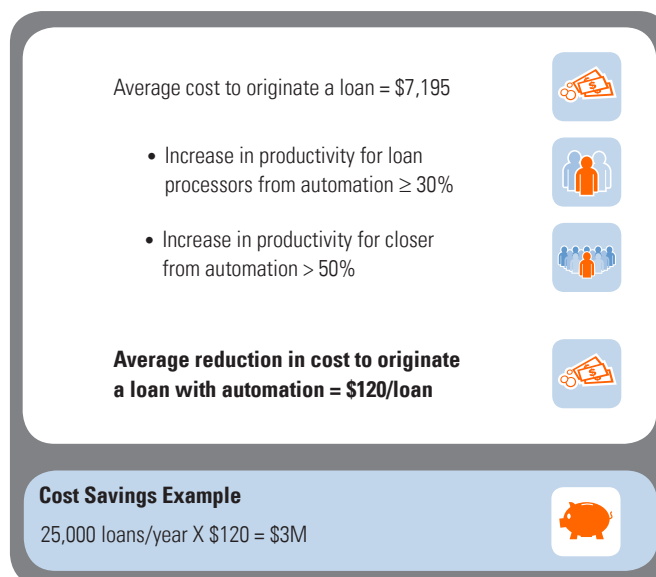
Loan origination tends to be a paper form and document-intensive business process with many complicated steps and tasks. Lending also has numerous industry compliance requirements and internal audit and process controls to address. From application and document preparation to underwriting, closing and servicing, lending is surrounded by manual-intensive tasks.

Additionally, the lending process has a number of sub-processes, each with its own tasks, task owners and regulations. After loan origination, the loan is serviced by the originator or sold to a servicing organization, involving even more people and more paper-driven activities.

In an article that appeared in Housing Wire in August 2015, the Mortgage Bankers Association quoted the average cost to originate a loan as \$7,195 per loan. Much of this operational cost is driven by salaries for employees performing manual processes such as document review and audit, data entry, document

tracking, internal and external communication and collaboration with third parties. To compound matters, incorrect documentation and processing errors increase the cost of loan processing as do fines and penalties.

By automating the mortgage loan origination process, lenders can significantly increase staff productivity and reduce costs. Based on research by PMR Consulting, a global market research firm, loan processors could see a productivity increase of 30 percent or more and closers could see an increase of more than 50 percent with automation. Based on the average salaries for loan processors and closers, financial institutions could reduce the cost of each loan by about \$120 per loan. For a bank that originates 25,000 loans each year, the cost savings from automating loan origination alone would be \$3M. Banks that perform their own mortgage servicing would achieve additional cost savings. While the cost of a BPA solution varies, the annual savings illustrated here would more than cover the cost.



2. Wealth Management/Trust

Another area ripe for process automation is investment services or wealth management. Many banks have a dedicated trust department to handle high net-worth clients. Onboarding new clients, managing ongoing investment and account requests, ensuring good client communication and addressing regulatory compliance with a paper-based, manual process impacts operational costs and increases risk.

Many banks today have created, or are planning to create, a wealth management or trust department, but according to Robert Matthews, president & CEO from Fieldpoint Private, at the 2016 American Bankers Association Wealth Management & Trust Conference, 75 percent of financial institutions that have tried to create a wealth management service have made less than 3 percent and almost 37 percent have lost money. The primary reason—high operational costs.

How much time does a highly paid financial advisor waste doing paperwork and driving the onboarding process? What tools do advisors have at their disposal to follow up on open tasks? Besides assets under management, how does bank management oversee and track departmental productivity, performance and profitability? How can the bank ensure each advisor is meeting both internal policies and compliance requirements while supporting the client through the client life cycle? Regular auditing is mandatory to ensure each advisor's actions are legal and compliant. With so many paper-based processes and a lack of easy reporting, the nearly 40 percent of wealth management services that have lost money is not surprising.

BPA can help wealth management and trust departments:

- Accelerate new client onboarding
- Eliminate manual forms and document review
- Automatically update client information into the system of record
- Synchronize the wealth management system with the core banking system
- Provide the built-in controls and real-time auditing necessary to ensure compliance and minimize risk

In general, process automation can deliver significant productivity gains, which means advisors can spend time recruiting new clients to drive business while satisfying client requests faster, leading to improved satisfaction and retention.

3. Finance

Accounts Payable (AP) is one of the first back-office functions that organizations across multiple industries choose to automate. AP may seem like a simple process, but it has multiple steps, involves staff from multiple departments and requires a lot of supporting documentation and auditing to meet internal policies and compliance requirements. For many financial institutions, the typical AP staff desk still has a huge pile of paper invoices waiting to be processed. Add to this the manual time spent searching for supporting documentation and gaining approvals from various departments across the bank, and it becomes clear why finance is on the list of primary BPA targets. In its 2014 white paper, "Automating AP/AR," the Association for Information and Image Management (AIIM) stated that, on average, organizations spend \$12.90 to manually process an invoice, and that this figure can be as high as \$25. This does not account for lost or missing documents or the lost opportunity to further reduce AP costs through early payment terms and better price negotiations. Respondents in the AIIM whitepaper reported a 29 percent average operational cost saving after automating their AP process.

If we apply this 29 percent savings to a business processing 5,000 invoices a month (60,000 per year) and use the average cost of \$12.90 per invoice, the result is more than \$200,000 in total savings per year. For larger organizations processing 25,000 invoices per month, the savings would be over \$1M (assuming the \$12.90/invoice cost). That does not include potential early payment discounts, nor does it include cost savings for simplifying both internal and external AP auditing.

Assumptions:

- Average cost to process a manual invoice = \$12.90 – \$25
- Average operational cost savings from automating AP processes = 29%

**Cost Savings Example**

- 60,000 invoices/year x \$12.90 = \$774,000 total cost/year
- \$774,000 x 29% = \$224,460 total savings/year

**And for larger organizations...**

- 300,000 invoices/year x \$12.90 = \$3,870,000 total cost/year
- \$3,870,000 x 29% = \$1,122,300 total savings/year

4. Human Resources

Another popular spot for BPA is Human Resources (HR). Within HR, one particular process many companies focus on is employee recruiting, onboarding and separation as these processes tend to be paper and document-intensive and require interaction and coordination among multiple departments. Additionally, managing the recruiting and interviewing of multiple candidates across multiple geographic locations is a time-consuming and costly process when it relies on paper.

Onboarding is even more paper-intensive and can involve up to 10 or more internal and government forms plus scanning documents to capture supporting documentation; imagine onboarding new employees across numerous geographically distributed branches. When it comes time to separate with an employee, this process also involves multiple forms and requires adherence to specific company and state guidelines to ensure compliance and minimize risk.

Savvy HR executives who have already automated their recruiting, onboarding and separation processes are seeing significant increases in staff productivity and lower operating costs. Automating the onboarding process also helps speed new employee ROI by enabling them to be productive more quickly. And increased employee satisfaction during the onboarding process helps reduce employee churn.

If it takes a new employee a half a day to manually complete onboarding forms, at an average annual salary of \$50K plus benefits, the half day of filling out paperwork costs approximately \$96 per employee. This does not include HR staff time required to assist the new hire with paperwork. Assume an average annual salary of \$75K plus benefits for HR staff, and that they spend two hours on onboarding tasks (i.e., making copies of forms and documents, distributing and answering questions, filing, etc.) per employee—that equates to \$72 plus per new employee.

Multiply these costs by 200 new employees per year and the cost of onboarding can be more than \$34K per year. This doesn't include other staff time (i.e., IT, finance, facilities, security) or the cost of copying and printing forms and documents. Let's assume BPA could help reduce employee and staff time by 50 percent, the savings would be approximately \$17K per year—and that is just one HR process. Other HR processes that are good targets for automation include contract renewals, benefits selection, time-off requests and expense reporting.

Assumptions:

- Average time for a new hire to manually complete onboarding paperwork = 1/2 day
- Average new hire salary = \$50,000
- Average cost of manual onboarding = \$96/employee
- Average time HR staff spends with new hire = 2 hours/employee
- Average HR staff salary = \$75,000
- Average cost of HR time spent onboarding new hires = \$72/employee
- Time savings from automating onboarding = 50%

**Cost Savings Example**

- 200 new hires/year x \$168 = \$33,600 total onboarding costs/year
- \$33,600 X 50% = \$16,800 total savings/year



Act Now

The previously mentioned examples just scratch the surface of opportunities financial institutions have to benefit from automating front- and back-office processes. From lending to HR and virtually every business area in between, the savings outweigh the costs. BPA can help improve customer service and support, significantly accelerate task completion, increase efficiency and accountability, reduce risk and better address compliance—all while reducing operational cost. Bottom line: Automation will result in more satisfied customers, more productive and engaged employees and higher profitability.

About the Author

Bennett Klein currently manages the ECM product marketing group for Fiserv and possesses more than 20 years of experience in software product marketing, having worked for industry leaders including IBM, Iomega, Citrix Systems and CA Technologies. His technology and services solutions have helped financial services organizations across the world increase business efficiency, improve data security, address compliance and ensure system availability.

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