

# Banking and Financial Services: Cost Transparency Performance Blueprint



### **Achieving a clearer picture of technology cost drivers**

The costs for supporting the delivery of critical banking business functionality continue to rise at more than 15% per year. This has resulted in intense pressure for banks to reduce spending while increasing value, and ultimately, the bottom line. Compounding the problem is the sense that there is nothing that can be done to manage these expenses.

What managers need is to be able to articulate technology cost drivers and provide visibility into their operations so they can work with banking business managers as partners to plan, predict and forecast consumption of assets and related costs. They are looking for a solution that provides:

- The financial transparency to enable them to focus on operating efficiencies that lead to higher performance and opportunities for savings, expressing costs in business terms
- The means to demonstrate the value their department adds to business
- Metrics with multiple views of departmental performance

By making costs transparent, a bank can fundamentally change the way business units consume resources, drive down total enterprise costs, and focus on spending that delivers real business value.

Traditional approaches to providing a solution have met with limited success because of complexity, the time they take to implement and the resources they require to achieve results. So, banks default to a simplified cost allocation method.

The problem with the cost allocation method is that, because most efforts are driven by finance as a cost allocation exercise rather than by the line of business as an operational improvement effort, the costing data is too high level (Figure 1). Such data cannot sufficiently explain the consumption of resources by the bank, the fluctuations in costs charged, nor can it support business cases. It also limits ongoing cost management and promotes short-lived cost savings that can't be sustained.

Most importantly, traditional cost allocation methods create a high degree of volatility that is mainly driven by the timing of expenses being recorded to the general ledger and seasonality. This volatility creates variances that cannot be explained, making it difficult for banks to predict charges.

To achieve the visibility into cost drivers and effectiveness that is created by financial transparency, value demonstration and metrics, banks need a more rigorous analytical approach. The *IBM Cognos® Banking and Financial Services: Cost Transparency Performance Blueprint* provides that approach.

### **Introducing the Cost Transparency Blueprint**

IBM Cognos Performance Blueprints are pre-defined data, process and policy models that help organizations accelerate their software deployments and drive faster return on investment. The *Cost Transparency Blueprint* helps banks:

- Gain continuous visibility of the drivers of cost and consumption of resources
- Strengthen the partnership between technology and the business
- Enable decisions that support growth, maximize return on investment and sustain rapid cost savings

The foundation of the *Blueprint* is cost transparency, a next-generation solution that brings together costing and chargeback; driver-based planning and forecasting; service catalog; and advanced analytics to provide a new view of services, cost of delivery and service levels. Once in place, cost transparency allows for a new conversation to occur between management and lines of business

Cost transparency provides a business with three things: a catalog of products that specifies features, prices and service levels; bills showing the assets consumed by these products and the cost of their consumption; and management reports that roll up total costs by product type and business unit.

The catalogs, bills and reports generated by cost transparency can be used to demonstrate how user demand drives consumption and costs in their units. Armed with this information, managers can start forecasting their future needs more accurately, track and manage usage, and make more thoughtful choices. They might opt to save money by using less of a specific resource or by switching to lower-cost alternatives. A manager might, for example, decide to cut back on e-mail storage by limiting the size of mailboxes or discontinue the use of an application tied to high-cost storage or underutilized servers.

The *Cost Transparency Blueprint* is an integrated solution based on a best-in-class planning process and technology with the following attributes:

- Driver-based costing
- Modeling flexibility
- High participation
- Top down/bottom up reconciliation

With this *Blueprint*, bank and line of business managers receive critical cost transparency information and analysis that helps them reduce costs, demonstrate the value their unit adds to business and determine performance.

The key activities it supports include reporting, analytics and data. For reporting, it delivers monthly and quarterly reports packages based on need. It also performs ad hoc reporting to support analytics, re-forecasting and the budget process and updates report packages. For analytics, it develops and delivers standard Activity Based Management (ABM) analytics and supports ad hoc rate and volume analysis, the budgeting and planning process and the reforecast process and analysis. It also updates the service pricing catalog. The data activities the *Blueprint* supports include managing and updating data models and ETL components, data quality checking and data error reporting.

## How the Cost Transparency Blueprint

The *Cost Transparency Blueprint* includes these components:

- **Costing**—Pre-defined cost models, pre-defined drivers, business transaction costing and online time tracking tool
- **Chargeback**—Chargeback models and invoicing
- **Data infrastructure**—Activity based costing (ABC) data model, data extraction and transformation
- **Reports**—User configurable reports that support ad hoc functionality, including dashboards and Web-based planning processes

The dashboards (Figure 1) deliver key cost insights to the business. Using robust cost data to manage service delivery and cost, business units collaborate to manage variable demand, identify how much services are costing them and much more.

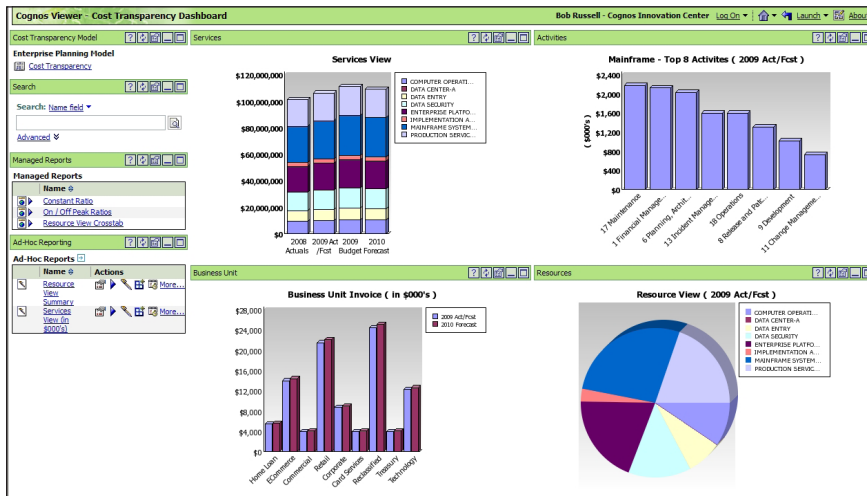


Figure 1. Cost Transparency Dashboard

The *Blueprint* provides standard views (Figure 2) for accessing data that include drill-down and drill-up functionality. Implementation is streamlined and a rigorous security model addresses requirements for remote access and Web-based interaction, provides role-based access to firm data.

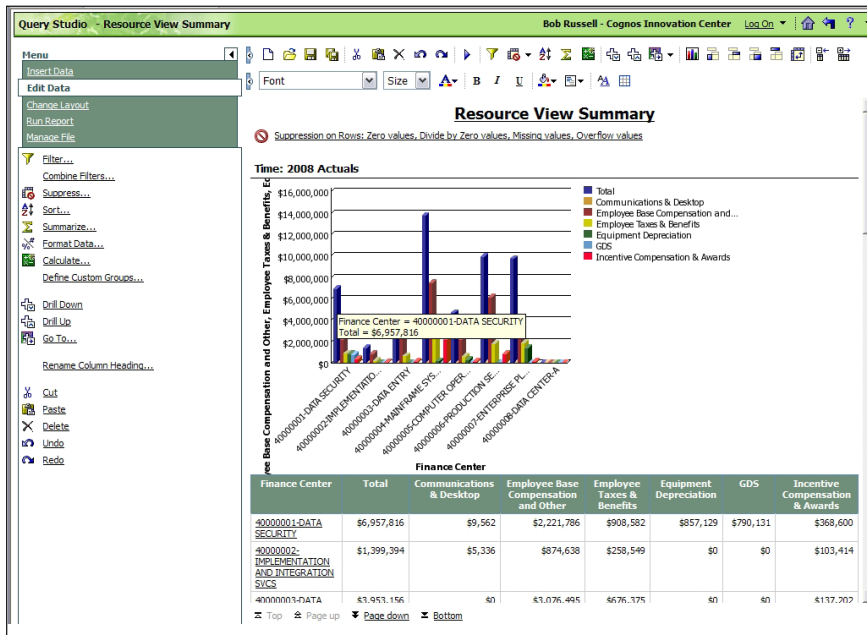


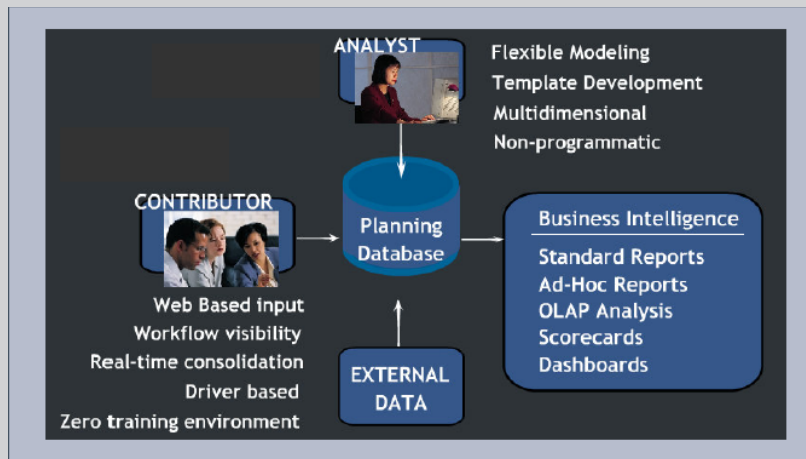
Figure 2. Resources view summary

Powering the *Blueprint* are IBM Cognos planning and business intelligence (BI) tools that facilitate business and budget planning and “what-if” analyses. By simulating changes in key metrics and by looking at changes in expenses and utilization, power costs and labor, organizations can see the impact of new investments.

## The power of IBM Cognos 8

Integral to the *Banking and Financial Services: Cost Transparency Blueprint* is the enterprise planning architecture powered by IBM Cognos 8, which provides:

- Strong modeling capabilities and easy, efficient, flexible technology planning that is not limited to forced structure or tied to an account
- A superior planning environment with robust breakback, scenario analysis, Microsoft® Excel® and Web interface with full functionality
- Business user ownership of models and updates—without dependence on IT developers
- A distributed architecture that supports a large volume of remote users with consistent quality performance



### **Cost Transparency Blueprint benefits**

The *Cost Transparency Blueprint* helps banks overcome traditional costing challenges, while reducing costs and improving decision-making. Its primary focus is providing performance analytics; finance/cost allocation is only a by-product.

Other benefits include:

- Cost information is more detailed, actionable and measures actual consumption of services, and differing levels of service provided.
- Business units can influence cost charges.
- Costs are segregated to provide needed visibility.
- The ability of business units to plan for and predict charges is enhanced.
- The decision time horizon is reduced because actions are fact-based.
- Business units and management have a single view of performance.

### **Conclusion**

For bank departments, the costs of delivering critical banking business functionality continue to rise. There is intense pressure on departments to reduce spending while increasing value, and ultimately, the bottom line. Most banks use the cost allocation method when it is time to budget, which is problematic, because the data created is not detailed enough for evaluation. It is very difficult to get a sense of IT spending and performance.

The *Cost Transparency Blueprint* provides bank and line of business managers with the cost transparency information and analysis that helps them reduce costs, demonstrate their value to the business and determine performance. Using the *Blueprint*, they can gain visibility into the drivers of cost and consumption of resources, make decisions that support growth maximize return on investment and sustain rapid cost benefits.



### **About the IBM Cognos Innovation Center For Performance Management**

The IBM Cognos Innovation Center was established in North America and Europe to advance the understanding of proven planning and performance management techniques, technologies, and practices. The Innovation Center is dedicated to transforming routine performance management practices into “next practices” that help cut costs, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility.

Staffed globally by experts in planning, technology, and performance and strategy management, the Innovation Center partners with more than 600 IBM Cognos solutions customers, academics, industry leaders, and others seeking to accelerate adoption, reduce risk, and maximize the impact of technology-enabled performance management practices.

### **About IBM Cognos BI and Performance Management**

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

For further information or to reach a representative: [www.ibm.com/cognos](http://www.ibm.com/cognos)

### **Request a call**

To request a call or to ask a question, go to [www.ibm.com/cognos/contactus](http://www.ibm.com/cognos/contactus). An IBM Cognos representative will respond to your enquiry within two business days.



© Copyright IBM Corporation 2009

IBM Canada  
3755 Riverside Drive  
Ottawa, ON, Canada K1G 4K9

Produced in Canada  
October 2009  
All Rights Reserved.

IBM, and the IBM logo are trademarks of International Business Machines Corporation in the United States, other countries or both. For a complete list of IBM trademarks, see [www.ibm.com/legal/copytrade.shtml](http://www.ibm.com/legal/copytrade.shtml).

Microsoft, Windows, Windows NT, and the Windows logo are trademarks of Microsoft Corporation in the United States, other countries, or both.

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products or services do not imply that IBM intends to make them available in all countries in which IBM operates.

Any reference in this information to non-IBM Web sites are provided for convenience only and do not in any manner serve as an endorsement of those Web sites. The materials at those Web sites are not part of the materials for this IBM product and use of those Web sites is at your own risk.

IBM Cognos  
**Innovation Center**  
for Performance Management