

Component Business Modeling BMO Operations Group

Final Report – Executive Summary
April 12, 2005

BMO Operations Group would like to transform its recently consolidated environment, and began by using IBM's Component Business Model (CBM) methodology

Engagement Mandate and Expected es

BMO Operations Group has recently assumed responsibility for all of P&C, PCG and IBG product support functions;

BMO Operations Group has initiated a transformation of the new consolidated functions with the objective of:

identifying areas of duplication and inefficiencies;

identifying opportunities to increase capacity

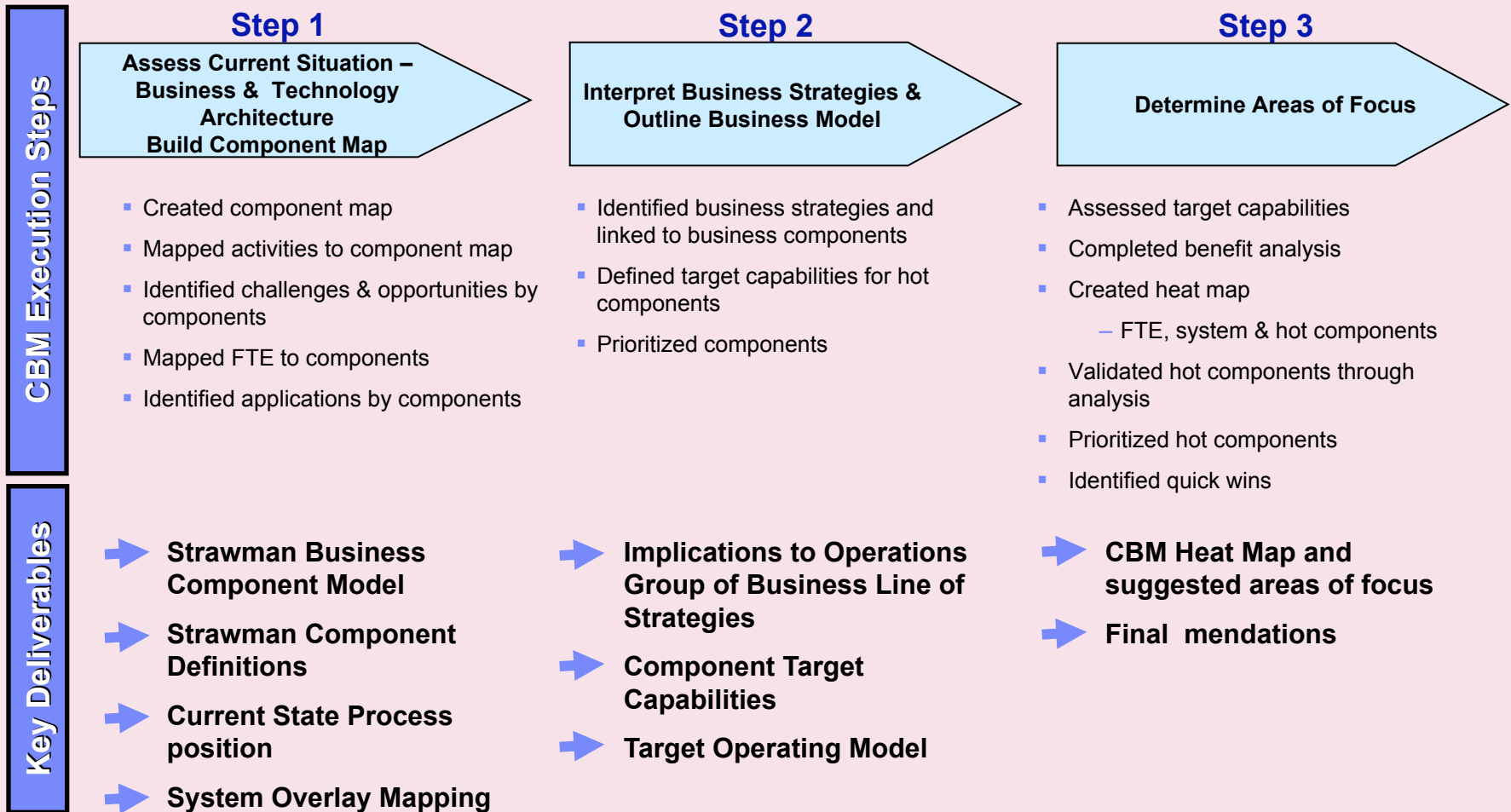
optimizing the Operations Group's operating environment;

The IBM Component Business Model (CBM) methodology was used to arrive at the desired e

The Target Operating Model developed should provide an overview of components that are common to P&C, PCG and IBG and business functions that will remain aligned with a specific business unit or product area.

The engagement was focused on the Insight Phase of IBM's CBM methodology, and involved three key steps to determine the areas of focus for the next phase

CBM - BMO Product Operations – Insight Phase



A component business model has been created that defines a target portfolio of “utilities” for the BMO Operations group

Activity & Competency-Based Processing CBM

Processing Components

Business Operational Support	Fulfillment				Risk & Financial Management
Business Policies & Procedures	Account Applications, Set-Up & Modifications	Credit Document Preparation & Review	Security Settlements	Third Party Payment Processing	Risk Management
Supplier & Service Provider Management	Credit Decisioning/ Underwriting	Query/ Investigation Management	Item Processing	Electronic Payment Processing	Position and P&L Reporting
Business Support	Customer Profile	Transaction Authorization	Fund Administration & Accounting	Fees, Interest & Service Charges	Cash Management
Printing & Distribution	Contact/Event History	Customer Implementation Support	Custody / Safekeeping	Tax Services	Management Reporting
Document Management & Archive	Data Input	Corporate Actions	Collateral Handling	Statements & Transaction Confirmation	Reconciliation
Inventory Management	Transactional Processing	Market Information	Collections & Recovery		Suspicious Activity Management

Note: The model captures all “in scope” activities; Operations’ support functions, such as HR, Finance, Project Management, etc were deemed to be out of scope

To arrive at our final list of hot components we considered the additional components that would be added as a result of business strategies

- Since growth and the resulting need to generate capacity is a consistent theme throughout the business strategies, the strategic assessment supports the prior component prioritization based on 60% weighting for capacity generation and 20% weighting for each of customer satisfaction and reuse
- The Customer Profile and Document Management & Archiving components are critical to the realization of strategies for P&C, IBG and PCG; In addition the capabilities associated with these components are critical enablers to most of the previously prioritized components; as a consequence, both of these components should be added to the list of “hot components”
- The Credit Decisioning/Underwriting component will be a strong contributor to the realization of P&C’s growth strategies (consistent with providing the market with a Standard Delivery model, etc.) and will result in significant benefits to both Operations and the Business; It should therefore also be added to the list of “hot components”
- Security Settlements is a relatively centralized group in PCG currently, but there exists an opportunity to consolidate the other settlement activities that take place across PCG and IBG relatively quickly. Creating a Security Settlements component is also consistent with a view to position the utility for outsourcing (e.g. to ADP), or in-sourcing (e.g. positioning the component to absorb work from outside of the Bank). Consideration should be given to excluding from the scope, any non-settlement activities currently being performed
- Though Item Processing has been prioritized it will likely not generate significant benefits from componentization since there is little reuse opportunity outside of Chicago; Cost/benefit analyses conducted recently did not support outsourcing. NAIP self-provisioned capital investments related to image technology. With additional investment, the image technology can be further leveraged to provide significant incremental savings in Item Processing and Transactional Processing components. There continues to be available efficiencies to be gained through re-engineering and automation, and this is a prime candidate for Six Sigma after the roll-out of current initiatives

The number of critical applications and FTEs were mapped to the components, helping to reveal the complexity and size of the Product Operations environment, and providing a foundation for our analysis

Activity & Competency-Based Processing CBM

Processing Components

Business Operational Support

28	Business Policies & Procedures	4
3	Supplier & Service Provider Management	1
74	Business Support	124
139	Printing & Distribution	29
107	Document Management & Archive	54
91	Inventory Management	2

Fulfillment

237	Account Applications, Set-Up & Modification	73	205	Credit Document Preparation & Review	12	51	Security Settlements	31	36	Third Party Payment Processing	2
195	Credit Decisioning & Underwriting	19	197	Query/Investigation Management	93	386	Item Processing	33	109	Electronic Payment Processing	33
14	Customer Profile	26	4	Transaction Authorization	9	42	Fund Administration	15	23	Fees, Interest & Service Charges	27
6	Contact/Event History	13	3	Customer Implementation Support	10	34	Custody / Safekeeping	15	38	Tax Services	11
238	Data Input	34	57	Corporate Actions	33	39	Collateral Handling	32	51	Statements & Transaction Confirmation	35
852	Transactional Processing	135	9	Market Information	10	52	Collections & Recovery	12			

Risk & Financial Management

389	Risk Management	66
31	Position and P&L Reporting	22
10	Cash Management	8
39	Management Reporting	33
168	Reconciliation	74
39	Suspicious Activity Management	21



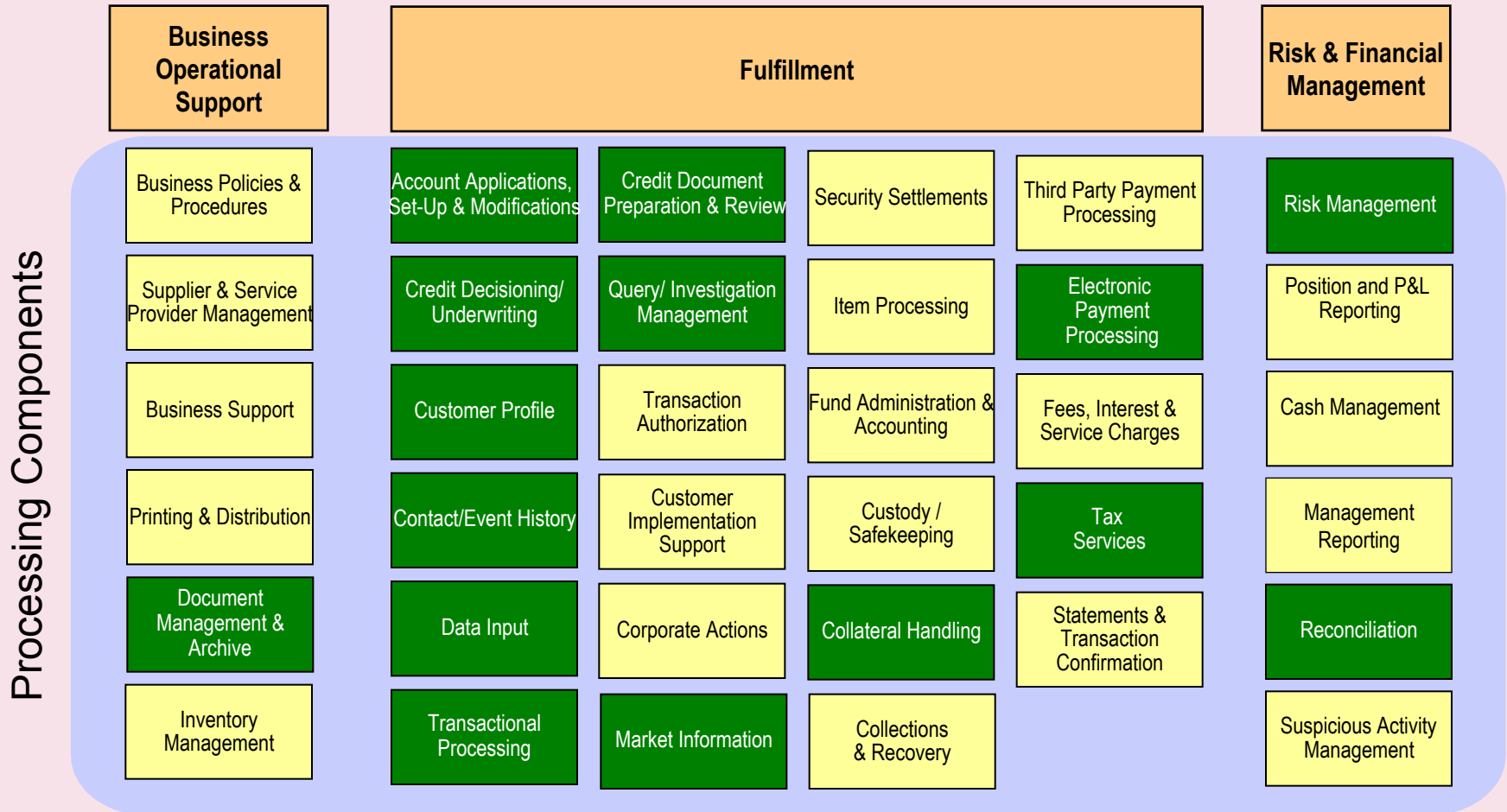
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Number of critical applications supporting component

A number of technology opportunities were identified, where current projects, initiatives, or applications could potentially be leveraged to provide some of the necessary capabilities required in the components

Opportunities identified by Product Operations	Related initiatives, projects, reviews, or applications currently underway or in use that can be leveraged
<p>End-to-End Straight Through Processing (STP):</p> <ul style="list-style-type: none"> Introduce automation in order to reduce/eliminate paper flows and manual data entries between front and back offices 	<ul style="list-style-type: none"> BMO Connect (Client Order Fulfillment, Service Requests (Workflow), Web Services for legacy system functions (e.g., MECH, OCIF, Optimizer, etc.)), Univeris, InvestorLine/RIS Workflow Integration
<p>Single View of Customer for All Products:</p> <ul style="list-style-type: none"> Create a centralized customer profile providing a bank wide view of the customer’s holdings, credit and usage 	<ul style="list-style-type: none"> BMO Connect/CII (OCIF/Optimizer) – Customer Profile, One-stop-change of customer information, Customer Solutions based on customer profitability, Priority Leads based on customer contacts/events
<p>Credit Application Process Flows:</p> <ul style="list-style-type: none"> Automate the fulfillment of credit applications as well as the integration of credit systems in order to enable inter-operability between the front and back offices for credit processes 	<ul style="list-style-type: none"> There is no enterprise-wide initiatives to assess integration, each pillar is pursuing distinct credit process improvement strategies (e.g., CPI project (LTS/APMS, LS2 and CenterPoint), ChicagoLand Banking projects/initiatives (“FNF Empower”, “Deep Dive”, “Loan Flows” project), P&C Canada “Credit Process re-design)
<p>Document Management and Archive</p> <ul style="list-style-type: none"> Implement a common imaging platform and document indexing standards across the Bank (Operations) 	<ul style="list-style-type: none"> Enterprise Document Management Standards
<p>US/CDN Integration</p> <ul style="list-style-type: none"> Merge/leverage US and CDN P&C groups technologies, where possible (limited to regulations and industry practices) 	<ul style="list-style-type: none"> MUST (Managing US T&S), Harris Connect (Infrastructure), TouchPoint Applications, IBG (CPI)
<p>Enterprise Technology and Business Process Standards</p> <ul style="list-style-type: none"> Automate regulatory reporting via an XML conversion utility (e.g., tax filing, Basel, etc.) 	<ul style="list-style-type: none"> Enterprise Standards need to be defined. This is an opportunity that must be pursued in the near future
<p>Common Risk Management:</p> <ul style="list-style-type: none"> Standardize processes and consolidate/centralize data in order to provide efficient management and investigation of internal controls and audit as well as conduct customer trend analysis to manage bank risk 	<ul style="list-style-type: none"> Basel; SOX; Enterprise Risk & Portfolio Management (ERPM)
<p>Common GL Reconciliation:</p> <ul style="list-style-type: none"> Implement a common G/L reconciliation system 	<ul style="list-style-type: none"> There is no enterprise-wide initiatives however some automation exists today (e.g., IntelliMatch and GLCA for GL governance)

The components effected by the opportunities identified in the Technology review closely resembled the potential “Hot” components that had been identified through the business criteria developed throughout the engagement



Components related to specific technology opportunities

Assessment of the technology associated with the component requirements identified potential opportunities to consolidate redundant functionality, fill some functional gaps, and increase technical support; however, detailed analysis is required in the Feasibility phase to identify specific opportunities

Technology Challenges

Guiding Principles & Opportunities

Benefits

Fragmented Architecture

- Many of the components have a large number of applications supporting them, which could represent an opportunity for consolidation
- There are pockets of functionality in many components that could likely be leveraged in those areas requiring greater automation (leveraging investments already made, or underway)

Gaps

- There are many small / non-critical departmental applications across Product Operations, most compensating for functionality not resident in legacy systems.
- Compared to the required capabilities there appears to be functional gaps across key components; e.g. document management, workflow, and customer profile

Support

- The majority of applications in use across Operations are supported by T&S development or an external vendor
- However some critical and key departmental applications that are user supported (not supported by T&S development or an external vendor) may present an operational risk

- **Common, Enforced Technology Standards – ensure that critical systems supporting each component are designed, implemented, and supported according to enforced enterprise-wide technology standards**
- **Straight Through Processing (STP) – Extend the pockets of STP more widely within Operations.**
- **North / South Consolidation – Leverage the example already set in IBG and PCG, merge and / or leverage P&C technology North / South**
- **Application Consolidation – Review total application suite and identify the capacity to leverage existing investments component-wide, or ponent**
- **Enterprise Credit Platform Integration –Product Operations should seek credit integration across Operations components, working with the business units**
- **Small System Functionality Review – Review the functionality of small systems, and use this map as a requirements template for legacy system enhancements / extensions and new investments**
- **Reporting Review – Review the reporting requirements at the component and management level to create a roadmap towards more efficient and effective management reporting**

- ✓ Increased operational efficiency through system integration (e.g., no duplicate data entries to multiple systems)
- ✓ Increase in capacity in both front and back offices (e.g., elimination/reduction of paper request flows and multiple human touch points)
- ✓ Reduced operational risks, and potentially a reduction in operational risk capitals by having the data captured once at source accurately (i.e., elimination/reduction of human errors)
- ✓ Re-use across organization
- ✓ Cost savings in maintenance, support and system operations resulting from consolidation and re-use
- ✓ Better alignment with enterprise architecture and standards with streamlined business processes, end-to-end

The components were then prioritized by considering various factors: customer satisfaction, capacity, re-use, FTE, application overlay, and strategic imperatives

Component Prioritization Method

Three component prioritization scenarios were considered

- **Component Prioritization – Scenario 1**

- Prioritized components against the following criteria:
 - Customer Satisfaction
 - Capacity (ability to do more with the same FTE)
 - Re-use – based on the Lines of Business – P&C, PCG and IBG
- Assumes equal weighting for all criteria

- **Component Prioritization – Scenario 2**

- Arrived at a component prioritization based on the following weighting: Customer Sat – 20%; Capacity – 60%; and Re-use – 20%

- **Component Prioritization – Scenario 3**

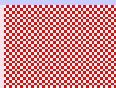
- Assessed the impact of the business line and operations strategies on the component prioritization
- Updated the list of “hot components” to include components that are critical to the realization of the business strategies

- Final prioritization was based on the weighting described in scenario 2 and include components identified as strategically critical via scenario 3

The final prioritization includes twelve hot components – 8 driven by a combination of scoring and strategy alignment, and 4 driven primarily by strategic alignment alone

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COMPONENTS PRIORITIZED BASED ON STRATEGY ASSESSMENT ONLY



COMPONENTS PRIORITIZED BASED ON STRATEGY & WEIGHTED FACTORS

Both “Account Applications/Set-Up & Modifications” components have high reuse potential within P&C and PCG, and “Credit Decisioning/Underwriting” has high benefit potential for P&C

Account Applications, Set-Up & Modifications

Business Line/Product Leverage

- High reuse across most products and customers for P&C
 - Less applicability for upper end of MID commercial customers (<1% of commercial customer base)
 - Asses implications of North/South viability
- High reuse between P&C and PCG – some sharing of customer base within respective geographies with high degree of commonality in terms of up-front data requirements
- Less reuse opportunities into IBG – likely smaller proportion of common customers with P&C with more unique data requirements

Information Technology Opportunities/Leverage

Assess opportunity to reuse functionality being deployed: BMO Connect, Univeris, InvestorLine

Implement STP for end-to-end account setup process and improve tracking of account application activity/status

Automate system linkages to enable data consistency and avoid repeated manual data entries with a potential for human errors

Automate the production of documents related to Account Setup (e.g., marketing. Add-on products, e packages, etc.)

Information Technology Opportunities/Leverage

- ✓ Assess opportunity to leverage systems which have automated the decisioning process
- ✓ Assess ability to leverage FNF Empower to automate the Mortgage Process in P&C Canada
- ✓ Leverage learnings from initiatives related to credit integration to create an enterprise view
 - Harris’ Deep Dive, IBG’s CPI program, Harris LoanFlow, IBG’s CenterPoint Replacement
- ✓ Automate the fulfillment process related to credit

Credit Decisioning/Underwriting

Business Line/Product Leverage

High reuse within P&C for:

Personal customers

SOHO and plex IB customers

Likely little reuse potential for and IBG (limited volumes, complexity)

IBG Credit Decisioning/Underwriting requires different skill set and will not lend itself to significant automation

Consider extent of reuse into PCG for margin accounts

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