Banking and Financial Services: Cost Transparency Performance Blueprint

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In the latest breakthrough from the IBM Cognos Innovation Center for Performance Management, IBM Cognos® enterprise planning solutions and IBM Cognos 8 Business Intelligence are combined into Performance Blueprints that will accelerate your implementation of performance management capabilities. In this demonstration, you will see how the *Banking and Financial Services: Cost Transparency Performance Blueprint* can help you gain visibility into your organization's cost drivers and effectiveness with financial transparency, value demonstration and metrics.

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IBM Cognos financial services performance management solutions help financial institutions align corporate objectives with operating plans so they can operate more profitably and efficiently. IBM Cognos enterprise planning solutions effectively and efficiently coordinate plans, budgets and forecasts for your institution so everyone accountable for business results has visibility into how their role supports the company's strategic initiatives and financial goals. IBM Cognos 8 Business Intelligence provides world-class analysis so that you can track your progress against forecasts and plans and access critical information easily.

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As the cost for supporting the delivery of critical banking business functionality continues to rise, banks often default to a simplified cost allocation method. Since cost allocation is usually driven by finance rather than by lines of business, the costing data is too high-level and is not represented in business terms. Such data cannot sufficiently explain the consumption of resources by the bank's line of business users, 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, cost allocation creates 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.

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Cost transparency is the answer to the limitations of cost allocation. Cost transparency continuously provides 'visibility into cost drivers and resource consumption', strengthens the partnership between 'lines of business' and 'bank IT and operations', and enables decisions that 'support growth', 'maximize return on investment', and 'sustain rapid cost reduction'. It brings together 'costing and chargeback', 'driver-based planning and forecasting' and 'advanced analytics' to provide a new view of services, service delivery costs and service levels. Once in place, cost transparency allows for a new conversation to occur between IT and operations management and lines of business.

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IBM Cognos Performance Blueprints are predefined data, process and policy models developed to help you improve 'planning, budgeting and forecasting' and 'reporting and analysis'. A Blueprint pre-populates your plan with common operational drivers and business structures, dramatically reducing the time required to deploy a new performance management process.

The *Cost Transparency Blueprint* is an integrated solution that provides driver-based costing and modeling flexibility with scalability for multiple participants, and top down/bottom up reconciliation.

The key activities it supports include reporting, analytics and data. For reporting, it delivers monthly and quarterly reports packages based on need. For analytics, it develops and delivers standard Activity Based Management (ABM) analytics and supports ad hoc rate and volume analysis. The data activities the *Blueprint* supports include managing and updating data models and ETL components, data quality checking and data error reporting.

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The *Blueprint* consists of 'cost models', 'pre-defined drivers', 'business transaction costing', 'chargeback models and invoicing', 'an activity based costing data model', 'data extraction and transformation' and 'user configurable reports' that support ad hoc functionality, including dashboards and Web-based planning processes.

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The *Cost Transparency Blueprint* provides 'business units' with 'IT and operations charges' in formats and terms they understand and at various levels, drilling down to an individual service activity level if necessary.

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Not only does the blueprint provide a clearer view of how your business is consuming IT and operations resources, but it also provides IT and operations with a comprehensive view of how, who and at what levels. You can compare actual usage versus projected or planned usage in the resource services view.

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Now we will give a brief demonstration of how the *Banking and Financial Services: Cost Transparency Blueprint* can help you move to best practices in your business segment and product management.

[DEMO]
I log into the Cost Transparency business intelligence portal as a Business Analyst and I'm presented with a dashboard that provides an overall summary of our costs by services, activities, business units and resources. This dashboard is receiving real-time updates from our Cost Transparency planning model so any changes in the model are immediately visible in my dashboard.   I may choose to interact with the multi-dimensional content to investigate trends and performance in more detail.   For example,

in the upper left dashboard quadrant, I'm interested to see a monthly breakout of online peak versus non peak costs. So I drill into the 2009 Actual/Forecast to see the monthly trend.   In the upper right hand dashboard quadrant, I'm interested in seeing the costs associated to the Operations area so I drill in by clicking on Operations.   I then see Mainframe costs (in blue) making up a large part of our Operations so I drill in further to see that 'Monitoring the Environment' activity is contributing the majority of our Mainframe costs. In the lower left hand dashboard quadrant, I see that our 2009 actuals are slightly below our 2010 forecast so it appears we have forecasted accurately for the 2010 year.   And in the lower right hand quadrant, I hover over our pie chart to see that Mainframe System Services makes up 27% of our overall resource expenses.   The interaction with this dashboard requires no training and is easy for any web user to navigate and gain insight into costs and trends.

In addition to the overall dashboard, the menu on the left hand side of the page has additional built in capabilities including the ability to update our Plan, Search our content, execute Managed Reports, or build an Ad-hoc Report. For example, I may be interested to get a detailed report on our labor and non labor resources so I execute the Resources View managed report. The prompts allow me to customize the report for my interests so I select the 2009 actuals/forecast and select all measures and services organizations. The resulting report represents a real-time summary of our Resources. I can now distribute, download or print this report for further use.

Next, I'm interested to see how our Business Units are being charged for the services they are receiving. I click on the Business Unit Invoice dashboard and quickly see a breakout of Batch Processing Peak charges (in blue) versus non-peak charges (in red). When I focus in on the Technology business unit, I see that peak period charges exceed 200 thousand dollars which is roughly 30% of our spend compared to non-peak.

Now that I have insight to our charges through the Cost Transparency business intelligence portal, I'm interested in seeing the effects of moving some of our peak processing to non-peak processing to help lower costs. I can perform this what-if analysis and make changes to the plan by opening up the Cost Transparency model   I access the model within the same environment as my dashboard and reporting content and can quickly launch it for edit by clicking on the Cost Transparency TM1 page.

After I open the model, I see that information grouped by tabs. The first tab that is highlighted is the Resource view tab.

In the Resource View I can quickly see the total Operating expenses for each member of the Financial Services Organization represented by month for both Actuals and Forecast. These operating expenses represent labor and non-labor resources that provide specific Information and Technology services to the front office line of business users within the Bank.

I may want to see a more detailed breakdown of operating expenses by IT operating unit. With a simple click I can quickly re-orient this resource view to see a list of operating

expenses for prior year 2008, current year 2009, budget 2009 and forecast 2010. Our solution allows the analyst to quickly adjust any of the views to answer key questions they may have as they conduct their analysis, by drilling down and providing more detailed information within any dimension. Additionally, they can pivot dimensions to change how they want to view information contained in the Resource view or any of the other tabs.

The solution provides the analyst a logical way to follow how these IT operating expenses are being charged back to the business units.

The Activity View provides a functional breakdown of the various activities performed by the IT organization along with associated costs. Again, I can quickly re-orient this view to see the activities related to just one of the Operating expenses.

Services View provides a detailed view of the IT services delivered by the IT operating units and the specific costs aligned to these services. These represent the services costs that will be charged back to the Banking business units utilizing these services.

At this point the I have viewed the cost information from the charger or information technology service provider perspective. But I also want to see the charges associated with the business unit receiving those services and the associated servicing costs charged.

This brings us to viewing the actual IT services and operating costs being charged to the Banks business units. I can view the actual charges by business unit via the business unit invoice tab. The first view shows total costs charged to the various business units by month for both actuals and forecast.

Additionally I can view detailed IT service charges for each of the business units using those services. If I filter by 2009 actuals, you can see the Batch Processing Peak charges for our Technology Business Unit totals just over 200k.   This directly matches the dashboard we viewed earlier since the planning model and business intelligence content are built off an integrated, closed loop solution.

The other tabs support the various calculation rules that are being used to support the chargeback methodology. Users can view these tabs to understand the key drivers that are being used as the basis for the cost distribution methodology.   For example, I can select the Activity Based ratio tab to see key ratios used as part of our costing methodology. Before I make changes to the overall model and submit them for widespread use, I may choose to create a 'sandbox' which allows me to create a limitless number of custom scenarios.   Let's assume that we previously created a scenario that we want to incorporate back into the master plan.   So I'll open up the Default view to make some global changes.

Based on our earlier findings, I know that decreasing the Batch-peak processing amounts and increasing the batch-off peak processing will help lower my overall costs.   I also know my 'Total Batch' number of 116.334 cant change. So I simply use the built in

function to perform a Host Consolidate on this number to essentially lock that amount. I can now alter the Batch Peak number by using one of the many built in analytical functions. This time, I'm going to apply a Percentage Change and enter a 25% decrease to see the relative impact that it will have.   You'll notice that our Batch Off-peak number was dynamically re-calculated along with all the other fields below that amount which have been updated and highlighted in blue.

If we switch back to the Business Unit Invoice tab, we can see the effect of the change we just made and all of the recalculated totals are shown in blue color.   This is made possible through the embedded drivers and business rules which make up the Cost Transparency model.   If we focus our attention back to the Technology Business Unit and the associated Batch Peak charges, we can see that the total has decreased from slightly over 200k to just under 170k. I know this is a change that will benefit our business so I'll go ahead and commit the update so it can be shared with the other users of the system.

To conclude our demonstration, we'll go back to the Business Unit Invoice dashboard. Before refreshing the dashboard, you'll see the totals from before our modeling updates since we last ran this report prior to our changes.   If we simply re-fresh the dashboard, the integrated Cost Transparency solution updates in real-time to show the identical totals which we just made to our plan.   I now see our batch peak processing costs have been reduced as a result of moving more of the processing to off-peak times.

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The *Cost Transparency Blueprint* can benefit your company in a number of ways. It segregates costs and provides business units and bank management a single view of performance that can help them plan for and predict charges. Its primary focus is providing performance analytics, with finance and cost allocation as a by-product. As a result, cost information is more detailed and actionable, measuring actual consumption of services, along with differing levels of service provided. Because actions are fact-based, you reduce the time horizon of decision-making. Additionally, it enhances the planning and forecasting of IT and operations resources because both the provider (IT/Operations) and the consumer (line of business) understand clearly the key usage drivers supporting the growth or decline of the business.
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For a full list of IBM Cognos Performance Blueprints available for other functional areas in your organization please visit the IBM Cognos Innovation Center at www.ibm.com/cognos/innovation-center.

Thank you for your interest in this *Blueprint*.