

How Financial Services can use Product Lifecycle Management to ensure regulatory compliance

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About David Adams

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David Adams is a freelance journalist, editor and copywriter. Formerly editor of Financial Sector Technology (FST) magazine, he turned freelance in 2002. David still regularly contributes to FST and other publications including Pensions Age, European Pensions, Continuity Insurance & Risk, Charity Times, International Custody & Fund Administration, Retail Systems, Cable & Satellite International and Britain magazine.

Other publications in which his work has appeared include Mobile Europe, Communications News, Heritage, Engage, New Business, New Video Technology, Pay and the Money section of the Guardian website.

David also works regular shifts as a features sub-editor at the Daily Mirror and has worked as a sub for The Publican, Stuff and Insurance Age.

Copywriting work has included advertorials, press releases, case studies, white papers, text for brochures and websites, and articles for in-house magazines. David has also written copy for sponsored supplements published in the Daily Telegraph.

David lives in Winchester, Hampshire, with his partner and two children.

Introduction

Although it has a deserved reputation for innovation – in product features, for example - the financial sector could still learn some valuable lessons from other industries, not least in terms of product development. In particular, financial companies might enjoy faster, more effective and economical product development processes if they implemented Product Lifecycle Management (PLM), a methodology that already has an impressive track record in the manufacturing and pharmaceutical sector.

At present, product development within financial companies often entails unnecessary repetition of effort and calculation; an uncoordinated and unstructured collection of projects that waste resources and make it harder for the company to ensure – and to prove – regulatory compliance.

PLM is a disciplined approach that incorporates elements of portfolio management, business intelligence and workflow to reduce development costs by 15-20%; cut the time spent on development and redevelopment by 20-30%; and reduce the costs of research and concept development by as much as 30-40%. Studies indicate that aggregated benefits gained across the industries where PLM is already in use add up to a 16% reduction in overall product development costs; and revenue increases of 19%.

Improvements as significant as these offer financial companies a valuable competitive advantage in their own right – but using the PLM methodology also creates a fully auditable development process, helping to ensure regulatory compliance and improve risk management. And there are further benefits it could offer to financial companies seeking to refine business models and operations in the current economic and regulatory climate.

Key challenges for financial sector organisations

Some financial companies are already using some of the elements incorporated in the PLM concept and benefitting as a result. But many people working on product development within the financial sector would admit there was room for improvement in their company's behaviours and performance in this area. That's because product development projects can easily become very complex, involving the input of so many different functions within the business and demanding costly support from other parts of the company not directly involved in the project. One of the key reasons is that there is often no framework to guide, monitor and coordinate different development projects that might otherwise be able to share business intelligence to the mutual benefit of development teams.

This makes product development an unstructured, uncoordinated and costly process, leaving the business to bumble its way uncomfortably through the post-development, pre-release phase. It undermines the competitiveness of the company, while lack of clarity in the development process creates extra risk and compliance vulnerabilities – not a good idea when every indication points to a new determination among regulators to assert themselves in the financial sector. Mistakes and bad decisions can end up being very costly, in financial and reputational terms.

Without a coordinating framework, the development process is frequently convoluted and confused. A typical symptom of costly, uncoordinated product management is the use of retrospective fixes for problems that could and should have been identified and dealt with at an earlier stage: this is always more expensive than 'getting it right first time'. The trouble is, product development stretches across multiple departments and requires the input of so many different teams and individuals. For example, the creative individuals who devise the best ideas often need more active direction and guidance as to where they should focus their talent and effort. Elsewhere there may be managers with responsibility for pushing forward different parts of the development process (within legal, compliance, financial or marketing functions, for example) who cause delays through over-cautious – often because it is also under-informed – decision-making.

How PLM helps companies meet these challenges

PLM addresses the three key issues - high costs, lack of coordination and the need to demonstrate compliance - head on. It does this in three main ways:

- It provides the ability to coordinate the resources used in product development more effectively, allowing for the identification and removal of activities that add no value to the development process
- It integrates project workflows and uses portfolio management techniques and centralised business intelligence to generate productivity improvements of 30-40%
- It uses 'stage and gate' workflow helps to create a full and detailed audit trail to satisfy regulators

The methodology can help the business in other ways too:

- Helping to align product cost and pricing more effectively
- Adapting and repricing misfiring products and to rectify problems quickly, while prioritising support for successful products
- Capturing and analysing customer and intermediary feedback
- Improving decision making on product redesign, replacement or retirement

Accelerating and improving the processes of product development and refinement mean the business no longer has to rely on the use of expensive retrospective fixes. Instead, product managers have a new ability to manage products more closely and comprehensively, from conception onwards, throughout their active life in the marketplace.

PLM solves the problems that a costly and uncoordinated development process creates not by replacing existing processes and workflow, but by helping companies to improve them. PLM helps companies identify these costly, problematic wrinkles in the system: smoothing them out to achieve greater productivity.

PLM breaks products down into components, borrowing a technique from pharmaceutical and manufacturing companies that is rarely used by financial companies. It may not be immediately obvious, but the development of financial products entails the coordinated combination of multiple components, from the construction of the necessary back office support processes and IT systems to new training for customer-facing staff, in the same way as multiple components would be used in development and manufacturing processes within these other sectors. Breaking the products down to this component level enables more granular analysis of, for example, underwriting input into a new product, or the IT system used by call centre staff, or the training given to staff to sell a new product.

The way PLM enables companies to prove regulatory compliance is another key advantage of the methodology. For example, an insurance company can break the development process down into components including the scripting for call centre staff and the training programmes designed for staff selling the new product. This could be used to produce evidence countering claims of mis-selling, for example, proving that the company did all it could to ensure staff were trained to act correctly during the sales process. The ability to monitor the creation and performance of these individual components makes them more effective in the first place, but also proves to the regulator that the company's actions during the development process were all fully compliant.

Implementing PLM does not necessarily mean the purchase of new technology, but if it does, Hitachi Consulting (while remaining entirely vendor-independent) recommends Oracle's Agile PLM solution, already used by major brands in other sectors, including Microsoft, Siemens and Johnson & Johnson. The consultancy recommends this software because it can offer comprehensive networking capabilities that enhance use of the PLM methodology through sharing ideas and business intelligence and because it is configurable enough to be adapted to meet the needs of a range of financial companies. It uses a scientific scoring and prioritisation system to help companies identify and address these areas of under-performance and weakness, so can be used to underpin the portfolio management, workflow and business intelligence elements of PLM.

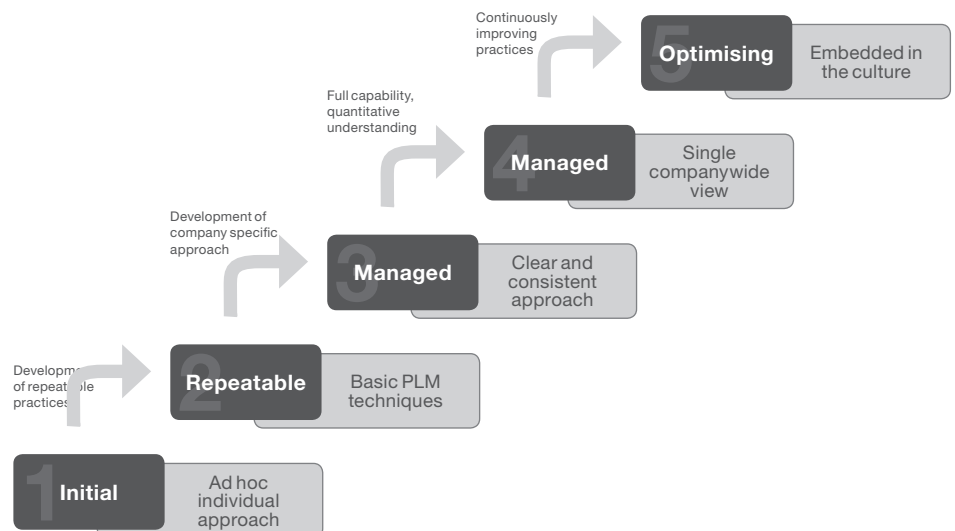
Having been used to invigorate and renew product development, the next stage of PLM implementation is to move towards continuous improvement of all development and redevelopment processes. Hitachi Consulting has developed a five-step maturity model to facilitate this:

- Step one represents the pre-PLM approach
- Step two involves the establishment of repeatable PLM techniques
- Step three features the evolution of those techniques into a defined, consistent approach across the company
- Step four includes a single, managed, company-wide view of processes
- Step five is where PLM is fully embedded in the company's culture

help companies identify and address these areas of under-performance and weakness, so can be used to underpin the portfolio management, workflow and business intelligence elements of PLM. Reaching the fifth stage will be a long journey for many financial companies. Only when a company is sharing business product component information actively across different parts of the company can it be said to have reached even the third of these five steps.

A PLM solution allows a company to assess its overall progress against this five-step model and to break processes down as part of a capability assessment, using observed evidence to identify under-performance. The product lifecycle process can be broken down into a series of components running from conception through development, introduction, growth, maturity, decline and retirement.

PLM Maturity Model overview



If, for example, it appeared that the introduction stage of the lifecycle was most in need of improvement, it could then be broken down into a further eight components: idea generation, customer research, customer analysis/segmentation, proof of concept, scoping, prioritisation, competitor benchmarking and cross-product coordination. Where there are large gaps between what is actually happening and what the company would like to happen it should be able to devise a strategy to make the necessary improvements and set a target for those improvements.

But this is not a generic approach. Both the PLM methodology and the technology used alongside it can be configured to suit a company's specific requirements, workflow and existing IT infrastructure. It helps companies to bring the best out of themselves.

Key derived benefits of PLM for financial services companies

PLM is not a silver bullet, but an important tool that enables companies to take a step up in performance. Many companies in the manufacturing and pharmaceutical sectors are using the PLM methodology to develop, launch, review, adapt and relaunch products far more rapidly than before. There is no good reason why financial companies should not also be able to enjoy similar benefits.

By improving communication, visibility and process integration across different parts of the company, it is possible not only to identify the least effective components of the product lifecycle process, but also to sidestep other problems and delays as they occur, by reprioritising business processes; for example by rescheduling a marketing campaign if a legitimate IT problem forces a delayed launch.

Developing a sound understanding of products at this component level and linking this to other business intelligence helps product managers to carry out more effective costing, to forecast sales and profit and to predict a break-even point. Moving a new product through legal and underwriting approval phases and the creation of a marketing strategy all become easier and more effective processes.

Using PLM can also improve the way financial companies adapt and reprice existing products, hugely important in this sector, as so many products, from insurance policies to loans or mortgages are adaptations of existing offers. PLM provides a framework through which feedback from sales teams or intermediaries can be captured, informing a review of the product at component level. A product manager can then identify possible improvements, liaise with developers to create and test a new version, work with marketing teams to devise a new marketing strategy; and work on pricing the new product.

What PLM does is help companies answer the questions they need to ask themselves during the development and lifecycle of a product; from how to address regulatory requirements at an early stage or to minimise development costs while increasing speed to market, to how to adapt, reprice and prolong the profitable life of a product.

It creates a 'corporate memory', enabling individuals and teams working on development projects across the business to benefit from previous projects and to share the lessons they've learned with their peers elsewhere in the company, informing decisions on the potential viability or value of other product concepts and projects. New ideas can be tested against this knowledge, allowing developers to see, say, exactly what happened the last time a particular type of pricing or cost-cutting strategy was followed.

Using PLM improves product development and product lifecycle management processes: more effectively coordinated, quicker, more efficient and continuously improving. This increases productivity, competitive edge and ultimately, profitability – while also creating detailed audit trails to prove regulatory compliance. It makes it easier to manage the company's product portfolio more profitably, bringing products to market more quickly and cost-effectively and at lower risk and helping the company to survive and prosper in today's harsh competitive and regulatory environment.

Hitachi Consulting's experts are convinced that a strong business case will appear quickly as soon as they take financial companies through the proof of concept process. They are already working closely with a number of clients, including insurance companies, retail banks and building societies to tailor and develop PLM implementations, to push products from drawing board into the marketplace as quickly and as profitably as possible, ensuring that the product development process is not a weakness but a core strength, driving the business forward.

About Hitachi Consulting Corporation

Hitachi Consulting's advantage lies in our ability to bring the best people together with the benefit of the frameworks and intellectual property developed from numerous successful projects.

We are uniquely positioned to gain an in-depth understanding of the business issues your organisation faces and to recommend the best solution, to ensure the best outcome, with the least disruption.

Hitachi Consulting combines deep, specialist Financial Services understanding with a pragmatic approach to deliver a step change in our clients' performance. We use methods, tools and acceleration techniques based on real-world experience to deliver better outcomes. Our Financial Services Consultants combine extensive industry experience with broader business improvement skills to meet the challenges our clients face.

About Hitachi, Ltd

Hitachi, Ltd. (NYSE: HIT / TSE: 6501), headquartered in Tokyo, Japan, is a leading global electronics company with approximately 390,000 employees worldwide. Fiscal 2007 (ended March 31, 2008) consolidated revenues totalled 11,226 billion yen (\$112.2 billion). The company offers a wide range of systems, products and services in market sectors including information systems, electronic devices, power and industrial systems, consumer products, materials, logistics and financial services. For more information on Hitachi, please visit the company's website at <http://www.hitachi.com>.

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