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# **Celent Model Bank 2010: Case Studies of Effective Technology Usage in Banking**

This authorized reprint of a Celent report contains material excerpted from the Celent Model Bank 2010 report which contains 18 case studies and is 46pages long.

This report was not sponsored by Nucleus Software in any way. This reprint was prepared specifically for Nucleus Software but the analysis presented has not been changed from that presented in the full report. For more information on the full report, please contact Celent at [info@celent.com](mailto:info@celent.com), or +1-617-262-3120.

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# Introduction

## What Is a “Model Bank?”

The vision for Celent’s Model Bank research was to try to answer an apparently simple question: “What would it look like for a bank to do everything right with today’s technology?” Of course, the question is not nearly as simple as it appears. The terms “everything” and “right” will mean very different things to different banks depending on their size, the complexity of their operations and product sets, and their technological starting points. While there is no such thing as a “Model Bank”—every bank does some things well, and others not as well when it comes to technology—it is possible to conceive of a “Model Bank” through real world examples of effective usage of technology.

In order to build a “Model Bank,” Celent presents the case studies as “Model Bank Components”—components of a theoretical model bank’s IT systems and practices. The “components” are:

- Infrastructure and Architecture
- Product Development
- Marketing / Sales / Customer Service
- Distribution / Channel Management
- Transaction Processing
- Loan Processing
- Security and Risk Management
- Healthcare Banking

Since there is a high degree of overlap in best practices for effective use of technology between retail and wholesale banking, Celent has combined both into a single volume to avoid unnecessary duplication. However, differences between the sectors are noted where appropriate, and the Model Bank Component case studies are separated by sector so that banks may focus on those most directly relevant to them first.

## Nomination and Selection Process

For this report, Celent identified model bank components through the following process:

- Invitations and self-nomination forms were sent to Celent clients and non-clients. In addition, to assure the broadest public outreach, the model bank initiative was promoted on Celent's website, through Celent's banking newsletter, and in the signature line of banking analyst emails.
- Nomination forms were reviewed by senior analysts in Celent's banking group, and cases that demonstrated effective use of technology were selected.
- Banks were interviewed to review their cases and provide additional information if necessary to create the case study.
- Celent analysts drafted the case studies, which were approved by the banks for accuracy and confidentiality.

## Client Disclosure

There were no fees charged to banks or vendors mentioned in this report. Some of the nominating firms, and many of the selected banks, are or have been clients to Celent's retained advisory service. However, Celent was not directly involved in the creation or deployment of any of the initiatives that have been recognized, and no preference was given to clients in the selection process.

# Loan Processing

## HDFC Bank Ltd.: Loan Origination System

Until 2006, retail loan application processing at HDFC Bank was being done manually, using Excel spreadsheets in coordination with its agents. The bank was in need of a centralized system and was looking to lower the turnaround time (TAT) and improve quality, control, and risk management for processing loan applications. The bank decided to implement Nucleus Software's FinnOne Loan Origination System (LOS) in branches across India. FinnOne-LOS provides workflow technology to control and monitor the various work steps in the loan processing, starting from lead generation to closing and booking of the loan in the system. The solution supports numerous categories of retail loans in HDFC including mortgages, personal, consumer durables, two-wheeler, commercial vehicles, and auto loans.

FinnOne-LOS is based on a three-tier architecture with an Oracle database at the back end and IBM Websphere middleware on IBM pSeries servers. One of the main reasons that HDFC chose Nucleus is because it offered an entire suite of loan management products. The product handles the entire lifecycle of a loan through integration with other Nucleus solutions such as FinnOne Lending Management System (LMS), FinnOne Finance Against Securities (establishes credit lines to individuals and corporations against financial securities), and FinnOne Collections (tracking and management of delinquent customers). It has also allowed HDFC to interface with its enterprise business rule engine to support credit scoring and with external credit bureaus in India and various data warehouse systems in its infrastructure.

Since the implementation, HDFC Bank has been able to handle substantial volume growth, with around 7 million consumer loans booked to date. Currently, the application is accessed by more than 2,500 concurrent users every day, and a peak load of around 7,000 loans are processed per day. HDFC has also saved on operational costs to the tune of Rs. 27 million per annum, being able to reduce outsourcing, data entry costs on staff, and infrastructure. The bank has succeeded in the reduction of TAT with the automation of manual tasks and has also maintained the high quality of its retail loan portfolio.

## Conclusion

The 18 “Model Bank Components,” while not exhaustive, reflect numerous key elements of a Model Bank. By presenting these examples of best practices and their results, Celent has strived to illustrate the degree to which banks are making effective use of technology today and provide inspiration to banks contemplating how to improve their own technology strategies.

It will be interesting to monitor how banks and technology evolve. What is “model” in 2010 will likely be a basic requirement in a few short years. Banks are constantly on the lookout for competitive differentiators and are attempting to innovate within the confines of their IT budgets. Celent plans to continue its collection of best practice examples in the usage of technology and will refine its Model Bank Components list throughout 2010 and produce a fourth edition of the report in the second quarter of 2011.

## Leveraging Celent's Expertise

If you found this report valuable, you might consider engaging with Celent for custom analysis and research. Our collective experience and the knowledge we gained while working on this report can help you streamline the creation, refinement, or execution of your strategies.

### Support for Financial Institutions

Typical projects we support related to banking include:

**Vendor short listing and selection.** We perform discovery specific to you and your business to better understand your unique needs. We then create and administer a custom RFI to selected vendors to assist you in making rapid and accurate vendor choices.

**Business practice evaluations.** We spend time evaluating your business processes. Based on our knowledge of the market, we identify potential process or technology constraints and provide clear insights that will help you implement industry best practices.

**IT and business strategy creation.** We collect perspectives from your executive team, your front line business and IT staff, and your customers. We then analyze your current position, institutional capabilities, and technology against your goals. If necessary, we help you reformulate your technology and business plans to address short-term and long-term needs.

### Support for Vendors

We provide services that help you refine your product and service offerings. Examples include:

**Product and service strategy evaluation.** We help you assess your market position in terms of functionality, technology, and services. Our strategy workshops will help you target the right customers and map your offerings to their needs.

**Market messaging and collateral review.** Based on our extensive experience with your potential clients, we assess your marketing and sales materials—including your website and any collateral.

## Related Celent Research

[Celent Model Bank 2009: Case Studies of Effective Technology Usage in Banking](#)

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[Celent Model Bank 2008: Case Studies of Effective Technology Usage in Banking](#)

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