



Industry

Financial Services

Business Issue

Identifying and reducing costs in operations and technology functions

Solution

SAS® Activity-Based Management

Benefits

Greater efficiency, lower costs

Partner

Hudson Williams



Thierry Delroisse
chief operations and technology officer and a member of Dexia BIL's executive board

SAS® Activity-Based Management creates a “service quality renaissance” in Dexia BIL’s operations

Dexia BIL has implemented activity-based management within its operations and technology department – an unusual step but one that provides transparency on costs and identifies actions that can improve efficiency. SAS® Activity-Based Management is helping to transform back-office functions from a cost centre into a service centre.

Dexia was born out of the 1996 alliance between the two major European players in local public finance: Crédit Local de France and Crédit Communal of Belgium. These two institutions, together with Banque Internationale à Luxembourg, were united under the brand Dexia in 1999 – one of the first cross-border mergers in the European banking sector. Dexia operates internationally and now ranks as one of the top 15 banks in the Euro zone with a net profit of €1,431 million (US\$2.8 billion) and a return on equity of 16.5 percent in 2003. It has three main business lines: financial services to the public sector, retail financial services and investment management services (IMS). Additionally, Dexia is a major player in international capital markets.

Dexia’s investment management services offer private and institutional clients a range of services, grouped together under three complementary headings: private banking, fund administration and asset management. The Dexia BIL operations and technology group supports these customer-facing business lines with a range of back-office, IT and facilities management services. Recent trends in the international financial services sector – for example, competition and

globalisation, opportunities to increase efficiency, and external factors such as new regulations and EU enlargement – have forced banks to adapt, and Dexia is no exception. The operations and technology department was created in 2002 to provide a technologically advanced and efficient service centre to meet the needs of increasingly demanding customers. Thierry Delroisse, chief operations and technology officer and a member of Dexia BIL’s executive board, describes it as a “service quality renaissance”. The mission of the operations and technology department is to help the business lines focus on core customer-facing activities by relieving them of operational tasks and responsibilities.

Of course, all this has to be done on a budget, so Delroisse must manage people, IT and other resources optimally to deliver the best possible service while minimising costs and risks. For some time, Dexia’s IT division had been using SAS to manage and charge costs. So when Delroisse’s team found out about SAS® Activity-Based Management, they decided it was the right solution to support their project to embrace cost management across all operations and technology functions.

Activity-based management (ABM) is based on the principle that resources are consumed by the activities carried out by the organisation. That may sound simplistic, but when activities are examined, it is possible to identify how these activities contribute to the true costs of providing services.



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“Before we embarked on this project, we didn't have enough ways to measure the amount of human intervention required to deliver a product or service. So it was difficult to know how cost-effective we were,” says Delroisse.

Activity-based management examines company activities across two axes. Vertically, it determines what things cost (the cost view); and horizontally, it determines the causes of those costs (the process view). In the cost view, the cost objects (for example, IT services) and the amount of resources consumed by the activities that provide those cost objects are examined. In the process view, the aim is first to identify the processes (i.e., those processes not necessarily related to a cost object, such as system maintenance) that have the highest costs (the cost drivers) and then to measure the performance of those processes.

Dexia BIL used SAS to model five operational services: money transfers, financial markets, loans, securities and client master file, which together cover all of the activities of the bank. The entire implementation project was completed in just six months. A typical project using activity-based management involves a four-step methodology. First, carry out a process inventory and analyse the

flow of these processes. Next, based on this analysis, the activities that contribute to the processes are highlighted and described. “Together, these first two stages are the most time-consuming, but you have to know and understand activities before you can get a grip on true costs,” says Delroisse. To truly understand costs, the next step is to list cost pools (resources) and cost objects. Finally, as resources are consumed by activities to produce cost objects, they need to be linked by cost drivers, so the fourth step is to describe activity drivers as accurately as possible so that the modelling tool can calculate activity-based costs.

To take one concrete example, Dexia wanted to understand the true cost of making a money transfer by optically reading the data on a paper form supplied by the customer. The money transfer itself is the cost object, and the different steps to process the transfer – scanning, transfer, correction and validation – are the activities. The cost pools include human resources, logistics and IT. And the drivers are the elements on which Dexia could work to improve its processes. In this example, SAS Activity-Based Management

demonstrated that an optically read transfer cost 20 percent less than a manually processed transfer. More significantly, it discovered that the company could save a lot of time and money if the scanning was transferred from the operations function to facilities management, which has a dedicated scanning function. “Activity-based management can reveal that apparently identical activities, using the same tools, can have very different costs. SAS software has already revealed numerous activities where simple adjustments can make dramatic changes to our efficiency,” says Delroisse.

He was particularly impressed by the ease of use of the SAS tool: “SAS Activity-Based Management presents a very pragmatic methodology and helps to build a simple and understandable cost model, which allowed us to focus on the non-technical success factors of an ABM project.”

His advice? Before you start on the project, you should make sure that documents describing procedures are updated and that you have a clear view of time allocation. The really critical success factor is to understand what you want to achieve – the purpose of the project and how you intend to achieve it. And once you have understood this yourself, you

must explain and communicate it very carefully to get other people to buy in. Finally, attitude is fundamental. You have to be open and critical. You need to be ready to question the way you do things.

During the project itself, you need to adopt a flexible and iterative approach, communicating and reviewing to arrive at a stable model, one that accurately replicates reality. “You won’t achieve this by working alone in a corner. You must look beyond departmental walls and evolving internal clients – processes are part of a business value chain, not ends in themselves. Finally, as the project proceeds, the users of the ABM analyses should progressively appropriate the model – so they can control it and improve it themselves,” says Delroisse.

Activity-based management is now an established practice within Dexia operations. “It has been a rich and rewarding experience in terms of understanding our strengths and weaknesses,” says Delroisse. “We have built continuous improvement into our business. Through analysis and refinement of the model, we’ve been able to improve our organisation and processes, and reduce costs. We believe SAS was the ideal solution. Not just because SAS Activity-Based Management offers the required

functionality, but also because SAS is the expert in data quality and data management – so it can provide a true end-to-end solution. We also made a wise choice in Hudson Williams, the SAS partner that provided the project methodology, consultancy and knowledge transfer.”

In conclusion, Delroisse says that the new cost transparency will result in significant benefits for the operations and technology department’s internal and external customers. “It is very unusual, perhaps even unique, for ABM to be used to measure costs in banking support functions, such as IT and back office. But these activities also contribute to the final cost of bringing products and services to the market, so this innovation represents a significant competitive advantage for Dexia BIL.”



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