



“A good number of strategic initiatives have been well-accepted, and management’s focus is on execution.”

–Bill Bradway,
 Group Vice President, Banking Practice

Top Ten Issues - Banking

While banks tend to be cautious IT spenders, most banks are betting big on new customer services designed to aid loyalty, increase transactions, and better integrate across service lines. Banks are looking for IT partners that can help them roll out these new initiatives while improving IT integration and efficiency on the back end.

Adoption Trends

- **Enterprise performance management.** Critical to long-term survival, this initiative involves improving the precision, consistency, timeliness, and value of business metrics.
- **Risk management.** A wide view of many factors — product, geography, customer segment, and others — is necessary in order to properly manage portfolio risk.
- **Enterprise payments.** Dynamic payments systems reduce costs and eliminate redundant processes, but require an underlying infrastructure.
- **Channel renewal.** Banks must have a combined plan for rolling out new ebanking initiatives and replacing obsolete branch offices.
- **Fraud management.** The sheer number of online transaction types that modern banks support has opened them up to new types of fraud.

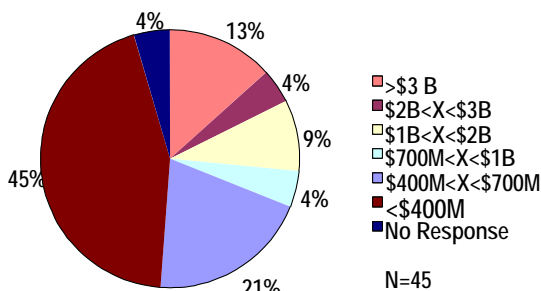
- **Rightsourcing.** In response to cost issues and the need to focus on core competencies, banks are evolving new sourcing arrangements with IT suppliers.
- **Integrated delivery systems.** Banks are trying to rationalize branches, call centers, Internet services and other channels onto a common delivery infrastructure.
- **Compliance reporting.** New legislation has imposed tighter requirements for transparency and accuracy.
- **Intelligent interaction management.** Banks must optimize each customer interaction. Using analytics, banks can achieve greater customer loyalty and effectively market new services.
- **Exception-based banking.** This model of retail banking allows customers to define preferences to their day-to-day financial needs.

Enterprise Concerns

- **Point of sale (POS) payments.** Banks must support a growing variety of payment technologies, such as online debit cards, smart cards, check conversion, and RFID tags.
- **Business process management (BPM).** BPM provides a way to avoid the common disconnect between business and IT strategies.
- **Privacy.** Customer preferences and new laws are putting pressure on banks to offer new privacy protections, without affecting service.
- **Cross line-of-business product integration.** Banks are merging formerly separate products, providing new opportunities for customers but also creating back-office integration headaches.
- **Cross-border payments.** The European Union is providing the test case for how cross-border payments within a common currency will affect merchants, consumers, and banks.

Source: *Top 10 Strategic IT Initiatives in Retail Financial Services for 2004: Tuning the Engines Cautiously*

Total Level of IT Spending Among Banks, 2004



Source: Financial Insights, 2004 IT Spending Survey

Banks are at a tipping point. Most have recently enacted several initiatives in their IT and services that will greatly affect their success or failure going forward. Their ability to carry through with these efforts over the next two years will largely determine their future success.

What most of these changes have in common is that they tend to reflect back-office adjustments that are intended to support customer-facing initiatives. The general goal of banks has been to offer customers a growing variety of services, linked together with increased visibility and interoperability. Most banks, unfortunately, require major IT overhauls behind the scenes to make this vision a reality.

These initiatives start in the back office with efforts to break down the silos that have separated different types of information. The next step is to move information and services onto a common infrastructure, which can provide greater security and ease of use, while also forming a framework for future developments. The goal, of course, is to do all this without causing dislocation for existing customers, who are demanding not only more services but a smoother overall experience.

IT changes are also being accompanied by changes in the way banks approach the question of resources. The range of services that are acceptable to outsource is constantly growing, with an emphasis of repetitive processing activities (especially credit card processing) and a variety of IT needs. Compliance, smooth transactions, and other bank needs are increasingly being addressed by IT suppliers with standardized, outsourced solutions.

With many, if not most, of these efforts already in effect, competition between banks will focus on execution. In fact, execution is the key differentiator in any market. With the customer side of the equation so important, banks will be rolling out services over a period of months, working carefully with outside consultants in order to make sure they do not confuse or alienate users.

This sensitive period of change, in turn, will help determine which IT providers become trusted partners of these banks, called upon the next time that these institutions want to upgrade their customer experience.

Forecast: To understand the magnitude of the IT spending decisions by our survey participants, we asked them about their IT spending budgets. Thirty percent of our survey sample had IT budgets exceeding \$1 billion, and seventeen percent had IT budgets exceeding US\$2 billion. Thus, the aggregation of IT spending among the largest institutions continues to build. Overall, the level of IT spending among banks is enormous, with the largest banks positioned to have some of the biggest IT budgets in the world.