



United Business Media

Citi's Survival: What Role Will IT Play? p.9

Assessing the Costs of Consumer Deposits p.12

A Different Attitude At ING Direct p.15

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2009 BANK TECHNOLOGY OUTLOOK

Despite industry retrenchment, banks' technology organizations are busy implementing systems to improve compliance, risk management and operational efficiency. Where else will IT budget dollars go in 2009 — and what kinds of projects will be put on hold? p.16



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The Delicate IT Balance

As their organizations experience the pressures of the economic downturn, bank technology executives surely will face austerity in the coming year. CIOs will be charged with keeping IT investment under control, but also will have to do some savvy prioritizing to address expanded regulatory and risk management requirements, as well as new customer service and retention needs. BS&T asked a number of executives from the technology solutions community to offer their forecasts as to the key challenges bank IT executives will face in the coming year, as well as likely areas of IT investment. (For more responses, visit banktech.com.)

Doing More With Less

WITH THE CAPITAL and consumer banking markets faltering, banks will shift their investment dollars to the fee-based and transaction-processing business lines — preferably with no (or a managed) credit component. There will be general tightening of the standards for IT project review: shorter paybacks, higher hurdle rates and less tolerance of “soft” benefits.

Significant investment in the next couple of years will go to executing the bank mergers and realizing the efficiency savings; improving risk management, regulatory reporting, etc., and dealing with the increased regulatory oversight; overhauling financial reporting — as formerly off-balance sheet instruments are put on the balance sheet — and further automating the financial supply chain to reduce operating expense from the banks and their corporate clients.



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This will tie up the banks’ staff and will divert funding from innovative, revenue-growing opportunities. But since banks still need to grow the top line, they still will focus on discrete investments in high-margin (e.g., wealth management) or low-risk (e.g., payments) areas; investments in solutions that don’t require support from the overburdened IT staff (e.g., outsourcing and SaaS); and experimenting (on a larger scale) with technologies to do more with less — for example, banks might look to execute certain merger activities using service-oriented architecture.

Reducing the IT Risk Profile

IN TODAY’S environment, financial services executives have plenty to keep them awake at night: earnings declines, toxic portfolios, the lack of liquidity in the inter-bank markets, decisions on accepting governmental investment and looming new regulation. Yet current market conditions offer some unique opportunities.

First, the many bank failures and voluntary and involuntary mergers have left some 20 million customers wary, putting them essentially “in play.” At the same time, one clear lesson of the current crisis is the value of a strong core deposit base. Accordingly a focus on improving customer acquisition, engagement and retention will be a critical differentiator. We expect to see increased IT investment in channel integration, customer self-service and improving the overall customer experience.

At the same time, there are many functions within the retail bank that remain people-intensive and inefficient. This had led to ongoing operating cost burdens that have reduced earnings as well as customer service. Accordingly we expect to see a renewed focus on automating and streamlining high-volume business processes such as account enrollment, payments processing, loan origination and account servicing.

The current crises have also highlighted issues of operational risk and compliance, particularly in areas such as customer communication, loan document processing and credit. Further, the current crises will almost certainly lead



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to calls for new regulation and transparency. As a result we are already seeing new IT investment in risk and compliance systems associated with customer communications, document management, loan origination and other functions, especially where these investments can also drive cost reduction or better customer service.

Finally there will be structural changes in the IT investment strategies for banks worldwide. We have already begun to see large, complex, multiyear projects being shelved in favor of smaller, more manageable programs that are either self-funding or have a relatively short payback.

Similarly banks are seeking to reduce their IT risk profile by consolidating vendors and focusing on more-strategic relationships with large, financially strong suppliers. Where appropriate, they are also looking to outsource more business and IT functions.

Gaining Transparency

NEARLY ALL discussions regarding the current global financial crisis quickly lead to questions of what could have been done to avoid it and what needs to be changed to ensure that it does not happen again. Banks are taking a very serious look at their business processes and are seeking ways to exercise better control and measurement of their traditional business models.

By trying to do too many things in a siloed approach without flexible IT platforms and financial systems to support and integrate their many business processes, banks end up creating unnecessary redundancies and work. They also lack visibility over the entire enterprise. When standardized enterprise information is part of a bank's IT infrastructure, it realizes better operational transparency, better control and, ultimately, better relations with its customers.

With the market still in flux, what should be important to banks right now are their customers. New technologies and mediums for communicating are changing consumer expectations. The current generation is expecting things to happen *now*, and they have added a new dynamic to banking by demanding individualized products and real-time services. Winning their long-term trust and loyalty



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requires equally aggressive, but agile, business strategies, mainly technology-driven.

What will 2009 bring to the banking industry? More regulations for improved transparency and better control are a strong probability. The wealth of data this will produce could spark new activities around business process management, workforce management and customer relationship management. The winning formula for a bank to be successful is better service at lower costs. Real-time and predictive analytics to understand costs, profitability and risks are crucial elements in servicing customers.

By streamlining their heterogeneous IT environments, banks can move to a service-oriented architecture that can drive down costs while spurring product innovation and speed to market. Banks need systems that are integrated across their enterprise to support end-to-end processes while managing their multiple product types.

Compliance Via Automation

THE EFFECTIVENESS of banks' IT strategies is more crucial now than ever before. Though cost savings is a major factor when mapping out companies' IT strategies, banks are adjusting their structures to accommodate a number of new factors to remain competitive. Furthermore it is critical for banks to not only convey stability and security but to continue to reassure customers during turbulent economic times.

The biggest change in banks' 2009 IT strategies will map to the U.S. government's Troubled Asset Relief Program (TARP) funds with increased oversight, regulations and accountability. Banks will be tasked with responding quickly to regulatory oversight with greater transparency through reported data and auditing. In order to quickly and efficiently comply with the increased regulatory requirements, it will be necessary for banks that are dependent upon paper-heavy processes to automate their systems.

Additionally, this year presents a major opportunity for banks to automate core paper-based processes. In addition to allowing easier reporting, by implementing a digital process banks will see greater efficiencies and a stream-



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