



Highlights:

In a competitive landscape that favors the fastest and the smartest, financial services firms that invest in building sophisticated insight and predictive analytics will be better positioned to emerge as market leaders.

Forward thinking banks will use this strategic insight driver to:

- Attract and retain customers
 - Develop new sources of revenue
 - Streamline operations
 - Proactively address risk and regulatory requirements
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Banking on the Future

Financial services firms are capitalizing on global opportunities by pursuing information-led transformation

For three years now, financial services firms have navigated a truly turbulent global economic environment. And it's not over yet: slow growth and the sovereign debt crises in major markets are slowing demand for financial services; regulators are ushering in a new era of government oversight; and the rise of non-banking firms as competitors is remaking the industry landscape.

Amidst these challenging times, the needs and nature of the financial services customer base are also shifting dramatically. Banks continue to struggle to regain the trust of customers, counter-parties, regulators and governments after the real and perceived failings of the financial system in 2008. Customers expect more than just trustworthiness, however. They are also demanding transparency, varied offerings and multiple channels through which to do business.

For those that meet these challenges with action and intent, the global financial services market offers unprecedented growth potential. The projected value of global financial assets in 2020 is expected to be \$371 trillion, an 87 percent increase over the value of 2010 assets. Through this period, emerging economies' share is expected to grow from 21 percent to 30 percent.¹ And 2.5 billion people, half the world's adults, do not currently use formal financial services to save or borrow.² There is no doubt that financial services companies will have the opportunity to manage this enormous global growth in wealth.



Smarter Banking

Point of view

The only question is whether financial firms today are in a position to take advantage of this opportunity. We have seen that they understand they must innovate in product design, time to market and customer service, but they struggle to control operating costs. We know they aspire to develop new markets and segments, but are hamstrung by siloed operations and overlapping or duplicate processes and IT systems. In addition, uncoordinated evolution of their IT systems has conspired to create an inflexible web of technologies that cannot easily respond to the pace of change required in today's markets.

We believe that for an industry as data-intensive as this—where getting the right information to the right people at the right time is paramount—there is only one path to breaking free from this morass of waste and inefficiency and claiming the opportunities before us. That path is through information-led transformation.

The information-led transformation

In a competitive landscape that favors the fastest and the smartest, financial services firms that invest in building sophisticated insight and predictive analytics will be better positioned to emerge as market leaders. These firms will turn insight into a strategic driver to attract and retain customers, develop new sources of revenue, streamline operations and proactively address risk and regulatory requirements. Through our work with some of the top financial services companies in the world, we have identified four imperatives financial institutions must focus on to achieve an information-led transformation:

Create a customer focused enterprise: Leading banks develop and use deep insight in order to attract and retain profitable customers with compelling product offerings and multichannel experiences across all touch points. Channel strategies that offer personalized service based on what, when and how customers choose to interact offer value for both the bank and the customer. They also use the power of social media to build constituency and confidence in the brand among clients and prospects. In doing this, they create a superior customer experience that differentiates them from competitors and attracts and retains employees.

This step begins with integrated customer information, an authoritative source of data that provides a single view of the customer. From this pool of data, deep customer insights can help banks constantly improve their understanding of product usage, profitability, risk, buying behavior and client financial needs. Using real-time events and customer data, banks can offer cross-channel marketing campaigns where “moments of truth,” or key customer interactions, are capitalized on as a way to effectively generate more revenue.

For example, a large European bank integrated data from various source systems—including customer, sales and database applications—into meaningful, real-time information. Instead of executing ad hoc, mass market campaigns, the solution enables the bank to segment customers based on previous communications and interactions, and then target those customers with personalized, relevant product offerings. The bank decreased direct marketing costs 35-percent due to increased automation and more efficient processes. And reduced its campaign lifecycles by 84-percent, from 26 weeks to four weeks.

Increase flexibility and streamline operations: To become a market leader, banks must have adaptable core banking systems that create a flexible and agile banking environment. Banks with agile core systems adapt to ongoing structural shifts, continuously realign to new business needs, proactively manage customers and deliver products faster and more consistently than the competition. Leading firms see better customer acquisition rates, increased revenue per customer and lower operating costs.

Firms need to start with the alignment of business, operations and technology using a common architecture and infrastructure platform that drives out complexity and cost while increasing flexibility. Business processes need to be standardized through the introduction of modular business services comprised of common data, business rules and processes that can be configured quickly to get new products and services to market. By streamlining operations in this way, barriers that prohibit deep business insight will be eliminated, allowing the bank to use information to better compete.

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Point of view

A top global bank in Europe recently embarked on a major core systems transformation effort. The bank analyzed its value chain from manufacturing to distribution of products and services, compared these findings against its business model, and then targeted selected areas to improve its operating margins. Within six years, the bank achieved a reduction in its cost-to-income ratio from 50 percent to 30 percent, and a four-fold improvement in operating leverage (a measurement of the degree to which a firm incurs a combination of fixed and variable costs).

Drive innovation while managing costs: Information-led banks create a transaction banking operating model that embraces constant change across the financial supply chain and product lifecycles. They deliver global, regional and local transaction and payment services efficiently. They use transaction insights to deliver the right services at the right price to the right client segments. As the structural shifts refocus the industry on 'utility' banking, the seeds of innovation will focus on processing, data management and supply chain optimization. Inspiration and best practices will increasingly come from outside the financial services industry.

To do this, banks will need to centralize operational data and processes across consumer, commercial banking and payment channels. This will allow both client and bank personnel to access up-to-the-minute information on the status of each transaction as it is processed. With better information, banks can use behavior pattern recognition to address regulatory requirements and risk while improving services and satisfaction. This agile transaction banking operating model allows rapid product and service innovation and improves quality of service and client relationships while lowering cost of operations.

For example, a Canadian bank recently worked to transform its legacy payment transaction system. In the past, when new payment business needs would arise, the bank would meet the challenge by creating, in many cases, a new application solution or payments silo that addressed its current requirements. Over the years, this led to a complex and fragmented payments infrastructure. To resolve this, the bank built an enterprise payments hub solution. The solution provides an integrated view of transaction histories, including volumes and types of payments platforms used, and allows customers to access a real-time view of their transactions. The result has been a better understanding of product and payments platform utilization and improved efficiency.

Optimize enterprise risk management: Well-run financial services firms have superior information, allowing them to identify and manage all types of risks (financial, operational, reputation and IT) holistically across the enterprise. New, more actionable risk-based insights are benefiting every aspect of the banking environment, from customer acquisition and product pricing to regulatory compliance and business strategy execution. They are advancing risk adjusted value management by aggregating cross-enterprise views of risk and finance data to improve operational effectiveness and financial performance. Overall, banks need to move beyond achieving regulatory compliance and instead focus on optimizing capital allocation and creating value that delivers competitive advantage.

To accomplish this, financial services firms need a platform with integrated and reliable real-time information for finance, risk and compliance teams across the bank. These teams are able to utilize sophisticated analytics and scenario analysis tools to model portfolio risk exposures, stress testing, risk return, capital allocation and reporting to improve overall risk management. They gather timely, accurate, consistent insight into customer, supplier and counter-party data, and risk indicators across finance, trading, sales and geographies to improve risk intelligence. They fully integrate the output of risk analysis into management information for consistent and timely decision-making. These solutions will allow the firm to implement board-level governance, business processes and systems that define and enforce the balance between risks and expected profits.

For example, an American multinational financial services institution worked to improve and standardize its reporting practices and anticipates saving millions of dollars in penalty fees as a result. The solution provides several new dimensions for risk analysis, such as line of business, region, product, and so on, to help the bank better manage its internal risk.

At IBM®, we believe that driving new growth in banking means improving information systems that can develop and act on new insights ahead of the competition. We call it information-led transformation. We have seen that firms taking this approach are better positioned to respond to economic uncertainties, interconnected global financial systems and demanding clients. They use information to enhance client segmentation techniques, develop more focused services aligned with client needs, optimize their channel investments and differentiate themselves through client service excellence. Leaders use insight to identify and eliminate the cost of complexity in their operations and utilize new and existing forms of information to optimize risk. The world's leading financial services institutions have turned to IBM for help in addressing these issues. Clients draw on our deep industry experience in integrating the hardware, software and services needed to help them transform their businesses.

Despite some dark clouds over the industry, there is tremendous opportunity for financial institutions that invest in building new insights and the capacity to act upon them. And there's no better time to create new opportunities and start to build a smarter bank.

For more information

For more information on how banks are pursuing information-led transformations, visit ibm.com/banking.



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- 1 McKinsey Global Institute, The emerging equity gap: Growth and stability in the new investor landscape, http://www.mckinsey.com/Insights/MGI/Research/Financial_Markets/Emerging_equity_gap (December 2011).
- 2 The Financial Access Initiative, a consortium of researchers at New York University, Harvard, Yale and Innovations for Poverty Action, Half the World is Unbanked, http://financialaccess.org/sites/default/files/110109%20HalfUnbanked_0.pdf (October 2009).



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