

Leveraging core IT transformation for top-line growth in the financial services industry

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Core IT transformation is not just a vital part of being efficient in the new regulatory and competitive landscape of the financial services industry, it is also a formidable opportunity for CIOs to foster new revenue generation.

Introduction

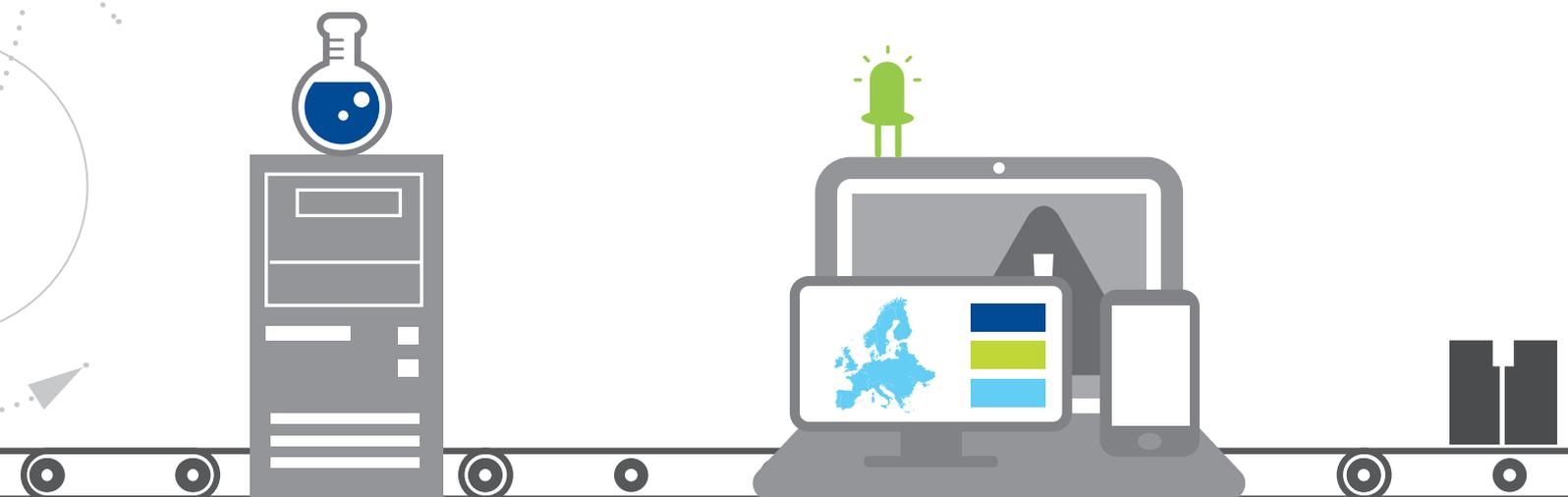
Now more than ever, IT transformation is a hot topic for CIOs, as the current regulatory, economic and technological conditions are pushing the financial services industry to either adapt or lose market shares.

The reasons to transform

The crisis has brought increased **regulatory pressure**. More and more KPIs and reports are requested by regulators, which can lead to an explosion of costs. 69 percent of banks interviewed in the Deloitte Luxembourg IT effectiveness survey rank “regulatory and compliance” first in terms of investment priorities, and this topic represents on average 18 percent of their total IT costs. EMIR, FATCA, AIFMD, tax transparency, and MiFID II are just some of the regulations on an ever-growing list. To avoid the explosion of costs to remain compliant, many companies have launched efficiency initiatives to rationalize the collection and aggregation

of data into data stores that can be used as sources of quality data for reporting and performance measures. However, many ad hoc reports remain, which negatively impact IT costs.

New players are threatening current business models as they typically offer cheaper services to clients and have lower baselines since they do not have to support the heavy maintenance costs of legacy systems. The payments industry, for instance, has shown strong growth in 2014. Tech giants Amazon and Apple do not hide their ambitions to invest and expand in this market for the long term. More and more start-ups are also investing in the various niches of this industry (remittance/money transfer, payment methods, payment processing, payment gateways, etc.), which are not only taking market share from the traditional banks, but also creating a disconnect between those banks and their clients as they are replacing banks in the relationship with the end-users.





Clients are much more demanding as they expect all industries to keep up with the pace of technology that giants like Samsung have fully embraced. Tech giants today serve as benchmarks of the successful use of technology to create a better client experience. A number of banks are currently investing in that area by developing and building flagship branches, for example. But the road is still long to the ultimate client banking experience. Prototypes like Diebold's Responsive Banking Concept (a pre-configured high-tech mini-branch prototype in a kiosk-like environment) are paving the way for banks of the future.

The **competition** is also stepping up the pressure. For instance, in the financial services industry, a recent survey from Forrester shows that 42 percent of participating financial services firms are currently executing a major platform transformation initiative, 9 percent have already finished and 37 percent are planning to start such a transformation before 2016. Here again, improving client service and experience as well as sales capabilities are seen as main drivers for these programs.

Using transformation as an opportunity to increase the topline

Until recently, CIOs were required to control cost and reduce the baseline. They can either continue to do this or use the current context as an opportunity to position their company one step ahead of the competition and increase their company's topline. To achieve this, CIOs need to work hand-in-hand with their business counterparts (Chief Marketing Officers, Chief Digital Officers, etc.) to identify the opportunities for new revenue generation. This can be achieved in several ways.

Perhaps the most obvious way is **to deploy new innovative features** as a means of not only retaining an existing client base but also drawing new clients away from the competition and attracting next-generation clients. This means that companies have to be able to innovate rapidly, repeatedly, and incrementally. For that to be possible, it requires a core system that can integrate small changes within a short time frame and at reasonable cost, which legacy custom-built core systems are scarcely able to do.

Another option is **to open the information system to new interaction channels**. Clients would then be able to choose their preferred communication channels. Of course, the core system should provide accurate, up-to-date information and execute end-to-end transactions in real time, instead of simply providing endpoints for clients to consult already outdated data posted in batch overnight or posting orders to be executed by the back office hours later. But this does not only affect clients. By opening their information system to business partners, companies also generate additional revenue. Again, being able to offer rapid straight-through-processing (STP) execution on electronic channels at a reasonable cost is a pre-requisite to being seamlessly integrated with third parties.

Client service and commercial productivity can be improved through the use of predictive analytics. All too often, companies wait until clients are sufficiently dissatisfied to make a call and complain. Generally, clients change providers without giving any notice or reason. It is now possible to leverage the wealth of client data to anticipate their needs and behaviors and proactively propose adequate services. Predictive analysis, advanced business rules, and automated processes can be used to identify opportunities for cross selling or point out issues and propose solutions even before the clients knows that they need it or that there is a problem. The possibilities are endless. For instance, if clients pay monthly payment fees for accounts that they only occasionally use, it is possible to contact them to propose a type of account that is better suited to their needs before they become frustrated. "Next best action" solutions can also help to deliver value consistently and appropriately through the different channels, proposing tailored offers that are relevant, timely, and promoted through an appropriate channel.

Another way to boost the topline is to leverage the latest artificial intelligence engines to **handle more volume through increased automation** of tasks, which, until now, have been performed by humans. More and more "clever work" can be delivered by robots, and this is becoming a huge trend. Robotic investment, for instance, is providing a way to build and develop an investment portfolio for people who lack the cash assets needed to access most private bank services.

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And even though robotic investment is currently generally based on passive investment strategies, it does not necessarily mean weaker performance in the long term compared with the active investment strategies typically offered by private banks. Can this be considered a threat to the wealth management industry? Not necessarily, as private banks usually have access to investment opportunities not available to financial technology companies. Also, human interactions are still a cornerstone of most banks' strategies to deliver personalized services to their HNWI clients. It can even be seen as an opportunity as banks could leverage robotic investment to increase the speed and volume of investment advice they give to clients.

Ultimately, a bank can **offer existing or newly built IT capabilities as a service** either externally or to other subsidiaries of the same group that can see an advantage in outsourcing parts of their operations to an IT partner that has already modernized their infrastructure and can therefore offer some services with better value for money. It also makes sense to provide such services to new entrants that do not necessarily have the required capabilities to operate the entire value chain themselves. Moreover, it can prove logical for a bank that has gone through a core transformation program to valorize this huge investment by offering their back-office services through BPO. Nevertheless, banks have to be careful not to restrict themselves by becoming new entrants' back office.

So, where do I start?

So, how should we transform the IT? By adopting a big bang approach? An iterative approach? Should it be delivered internally or externally? We have distinguished four different target models, all of which require different skillsets from the CIO and its team: replacing, revamping, multi-sourcing, and full dematerialization.

Replacing consists in migrating to a new core package, which generally involves a fundamental shift in the company's core operating model in order for the staff to adapt to the processes proposed by the newly deployed core system.

Revamping is a different type of transformation whose objective is to rewrite huge parts or all of the legacy code in more modern technology, thereby also restructuring the software architecture. Generally, the processes are not touched and so the transformation does not entail such a change to the core operating model.

To make such an extensive transformational program a success, the CIO should be a "navigator," ready to sustain the transformation effort until go-live and to reinforce the capabilities of the organization in terms of large-program delivery, the most critical aspect.

The **multi-sourcing** approach is more a best-in-breed concept in which parts of the activities are outsourced to different external business process outsourcing providers, supported by different market packages, or custom-built either internally or by a contracting software development company. The company can focus on what it does well or what are considered differentiators and leave the other aspects to the experts. In this case, the CIOs are the "intermediators." They need to have all the different parties integrating together not only in terms of operations (working together to provide lean end-to-end processes), but also in terms of project delivery and application support. This configuration is increasingly being adopted by big players and requires the implementation of a new role: the multi-sourcing integrator or MSI. This role may have two facets. The first one is more operational to ensure that when a service request (simple request, incident, or problem) arises, it is properly handled and eventually escalated to the correct third-party service supplier. The second one is more project-based to ensure that the

various parties work together to build, test, and deploy effective and efficient end-to-end solutions. This role can be fulfilled by the company's IT department or, otherwise, outsourced to a third party. In both cases, a big challenge is to define the right architecture and to deploy the proper governance to ensure that the roles and responsibilities are clearly defined and known to minimize disputes between the different parties in case of issues.

Full dematerialization is when the company's information systems are reduced to a strict minimum. In this concept, information and execution are distributed amongst different service suppliers, deployed likely on the cloud but possibly on external private infrastructure. The CIOs' role is one of an "aggregator" whose responsibilities are to build and maintain this nucleus information system that aggregates the executional services and consolidates the information supported by external service suppliers. In a sense, CIOs of these types of dematerialized companies are coming back to the essence of their job title, where information—not operational execution—is at the heart of their responsibilities.

Transformation is not a one-off anymore

Such transformation programs typically involve considerable investment and present very high rates of failure. One of the main risks lies in the lack of involvement and adoption by the business, which frequently sees the project as an IT initiative and initially fails to provide the required input, especially in the early stages for the definition of requirements. The CIO is particularly exposed as he or she would be deemed accountable should the project fail. Another typical challenge is that posed by the lack of experience of the organization's IT and business departments, which are not usually used to delivering such large-scale transformation programs. Finally, when moving to a new package, securing vendor involvement is critical to the success of the endeavor as there will be several other projects competing for their attention and for the availability of their resources.

In order to minimize the risk of failure, businesses should adjust the program and integrate new requirements along the journey. To avoid the tunnel effect of such long-lasting programs that are ultimately deployed as big bang projects, CIOs implement

dual-speed IT to gradually bring the IT platform to its desired end state. This means that part of the business is still running on the current architecture while other parts of the business or existing and new functionalities are gradually being migrated to and built on the new architecture, as and when they become available. This approach is particularly suited to digital initiatives, which by their very nature require a different implementation approach than traditional IT. Running digital projects on a different platform will let business and IT take a "learning by doing" iterative approach with rapid feedback loops, development, and testing cycles. But to be a success, both business and IT leaders need to go beyond their traditional relationship as client and provider. They must build a strong partnership, where both leaders need to broaden their mind-set and step in the other party's shoes to drive alignment, innovation, and collaboration between the business and IT teams. Success also requires IT to optimize its processes to be able to release and iterate quickly on software developments.

The need to increase IT efficiency, together with the opportunities for topline growth, largely justifies embarking on a profound IT transformation project. But this change cannot be considered a one-off project as the pace of technology will drive the need for constant adaptation in the future. This constant state of change will require CIOs to build the right functional and technical capabilities internally to drive and sustain these transformation programs in the future. That requires implementing lean IT processes for delivering projects, such as DevOps, a software development method that aims to bridge the gap between build-and-run activities within the IT department. This is the kind of initiative that directly supports business demand for more flexibility and agility from IT and will help transition CIOs from IT providers to true business partners.

Conclusion

- Transforming their core legacy systems is not only a necessity for companies to survive in the current economic and regulatory environment but is also an opportunity to achieve topline growth and differentiate themselves from the competition by bringing innovative services and better client experience to the market.
- The company should know where to land before embarking on such an IT transformation. Different target models are possible depending on the ambition and size of the company: replacing, revamping, multi-sourcing, or full dematerialization.
- The different models require the CIOs to possess different skillsets and adopt different mind-sets, such as those of a "navigator," "intermediator," or "aggregator".

