

# IT Effectiveness Survey 2015

## Focused on financial services

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The current post-crisis environment is placing CIOs under high pressure to deliver more with less. It is therefore crucial for them not only to run their business efficiently but also to focus on the right areas for supporting the growth of their enterprise. In this context, Deloitte Luxembourg decided to organize the IT Effectiveness Survey to provide local CIOs with a way to compare themselves with their peers in terms of efficiency and effectiveness. This first edition of the survey targeted banks and involved 13 participants, whose results can be divided into the following major sectors:

- Universal banking
- Asset servicing
- Private banking

The survey focused on five main areas:

- IT cost provides insights into IT expenditures: is the IT budget spent effectively? How much is spent on change vs. run? What are CIOs' priorities in terms of capital spending?
- IT business relationship looks at the effectiveness of the relationship between IT and the business. How do CIOs ensure alignment? How mature are the processes to ensure an effective and satisfactory relationship?
- IT processes and governance provides a view on the maturity of IT departments in the key areas in which they typically operate from a process, tool, and governance standpoint
- IT organization structure explores how IT performance is measured and how services are shared or outsourced
- IT talent explores whether IT departments have the right people with the right competencies to support the business and whether there are any major gaps in roles and skills

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# IT spending needs to be reviewed but not as a question of how to reduce costs and to do more with less

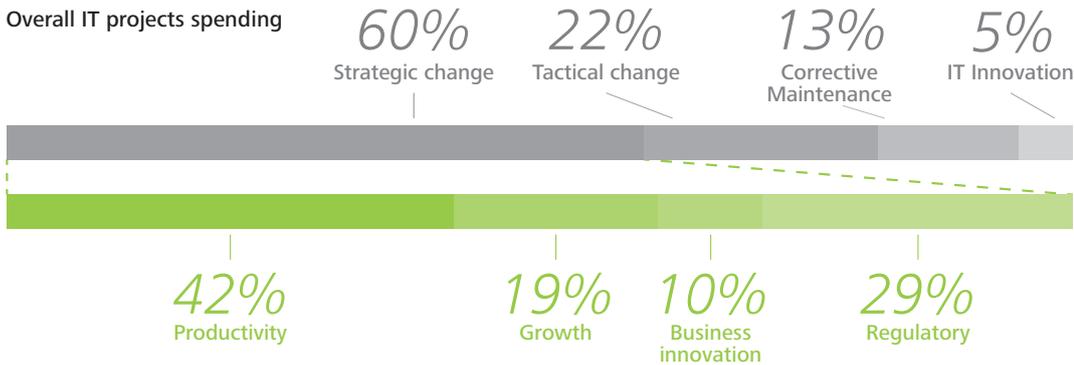
## IT cost

One of the key indicators for IT cost efficiency is the ratio of IT spending to company revenue, which is on average equal to 7.5 percent in EMEA according to the latest Deloitte global surveys. In Luxembourg, our results indicate that we have room for improvement, as the average value of this ratio is 9.5 percent. Nevertheless, significant differences exist between the different participants, as results range from 10.8 percent in small banks to 7.8 percent in large banks. This ratio is also largely influenced by the overall profitability of the banks (i.e., cost/income ratio), which was probably more impacted in Luxembourg institutions than in larger international banks.

IT spending needs to be reviewed but not as a question of how to reduce costs and to do more with less. This spending needs to be reviewed to see how to build more effective IT. As Patrick Laurent, Partner, Deloitte Luxembourg, has said, there is an alternative way of looking at IT expenditures. They can be viewed as discretionary and non-discretionary with different ways of tackling each category of spending. The non-discretionary spending keeps the business running, while the discretionary spending should create some improvements in business performance or have some strategic benefits.

The survey identified significant differences in IT projects' spending between the different sectors. Universal banks focus more on strategic changes for which they dedicate more than 70 percent of their IT resources, whilst private banks dedicate 64 percent, and asset servicing only 54 percent.





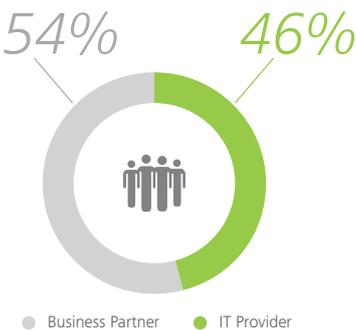
**IT business relationship**

The survey revealed that CIOs recognize the need to improve their relationship with their business partners. In small companies, IT is considered more as a service provider than a partner, and none of the participating companies see IT as a business leader or entrepreneurial department.

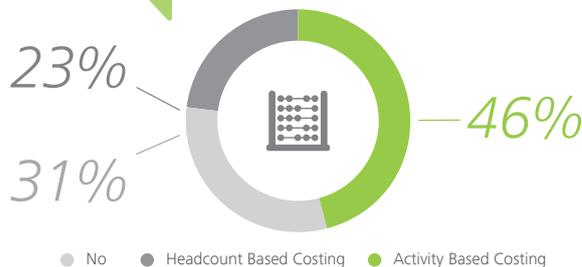
According to Hervé Maillot, Director, Deloitte Luxembourg, one way to become more effective in a business relationship could be to setup a business

relationship manager (BRM) function, where the BRM can act as a facilitator in delivering IT services that would satisfy their business clients. Currently, only 46 percent of all financial institutions confirmed that they have a business partner function or similar role in place. If financial institutions consider investing in a BRM function or similar role, it would primarily be a part-time position. The BRM function seems to contribute to a better perception of IT efficiency by companies as 70 percent of CIOs are seen as business partners when such a function exists.

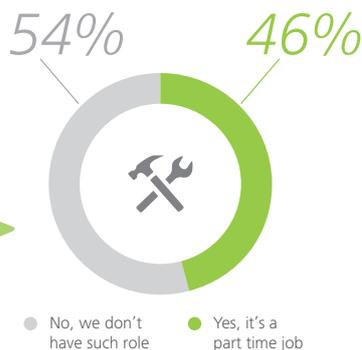
**Business relationship**



Do you have a transparent IT charging model? What model do you adopt?



Does a role exist within your organization to help IT and its business customers work effectively together such as that of a business partner?



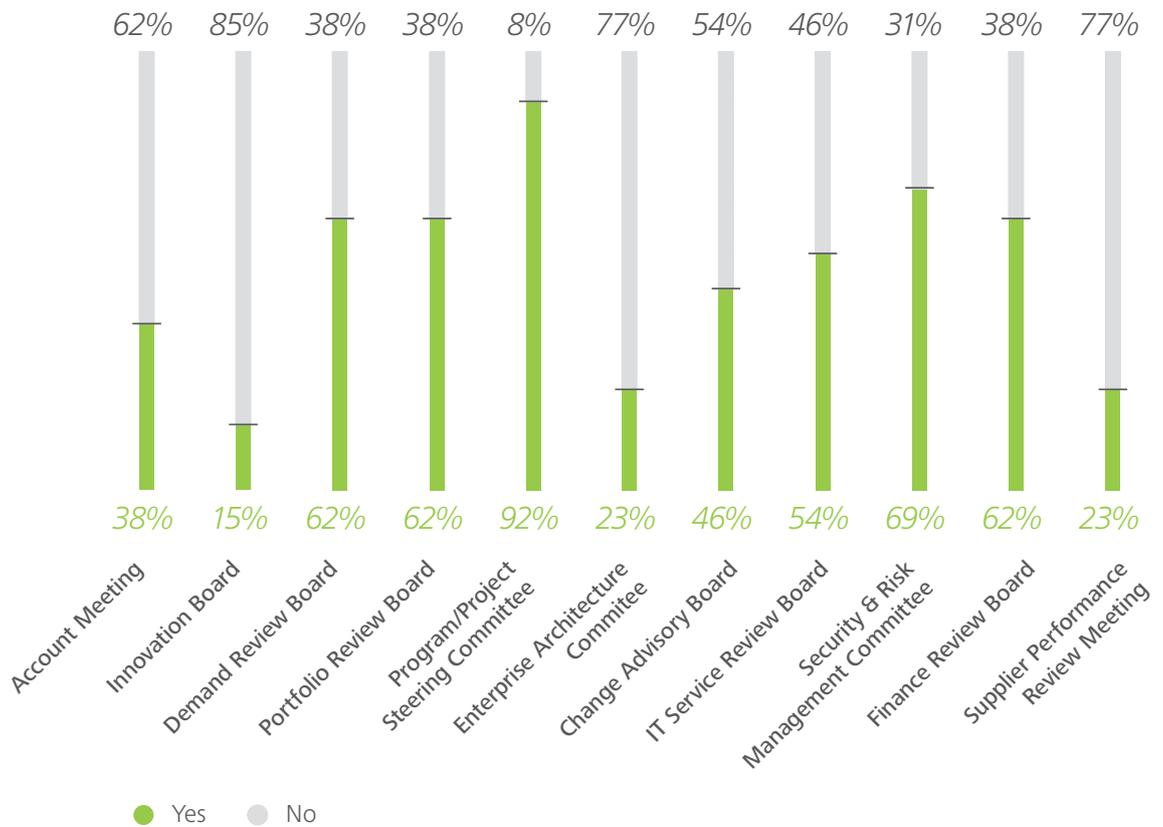
### IT processes and governance

The raise of IT spending observed over the past few years in the FSI industry has increased the emphasis on working effectively, implementing controls and governance to manage risks and compliance issues, communicating the IT strategy, building relationships with business units and internal stakeholders, and integrating across multiple external service providers. CIOs know how to successfully run IT, and these processes have clearly the highest level of maturity. Half of the companies deem their service operations as “managed” (level 4), but the other aspects of service

delivery (service strategy, architecture, design, transition, and improvement) are not at the same level of maturity (see next page).

The main areas for improvement lie in the field of business and vendor management. This is evidenced also in governance bodies that are currently in place in FSI organizations in Luxembourg. The low rates of using “account and supplier performance review meetings” reveal that there is room for improvement in the management of relationships with business and suppliers.

#### What governance bodies do you currently have in place?



# Maturity of IT processes

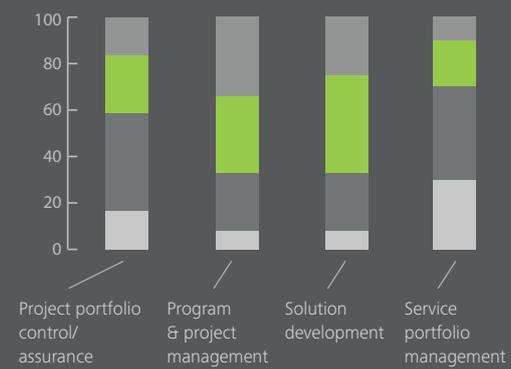
## Manage business & customer relationship



## Plan



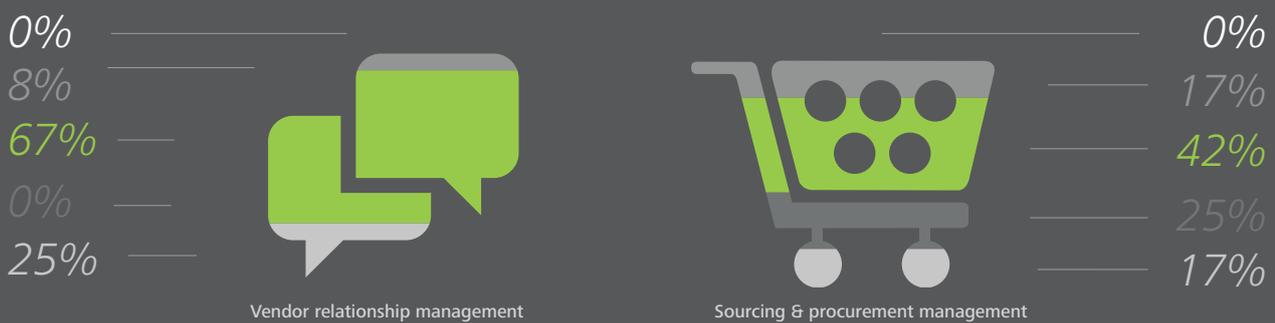
## Build



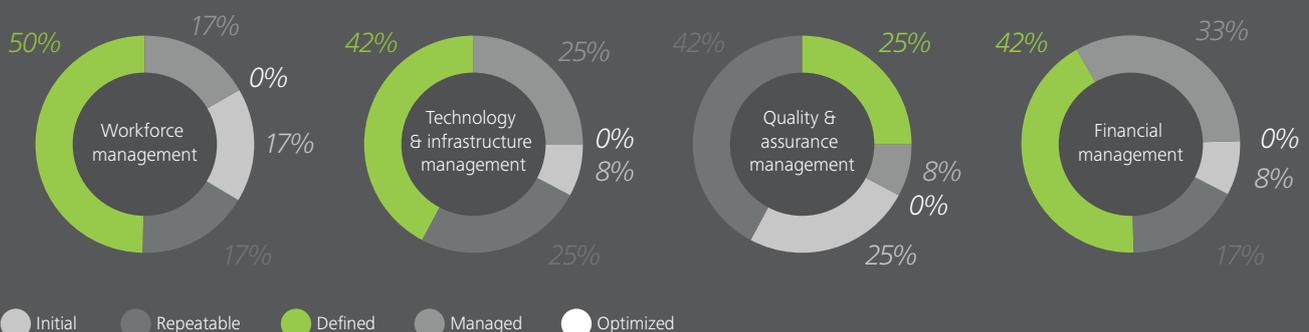
## Transition & Run



## Manage supplier & vendor relationship



## Manage & control



● Initial ● Repeatable ● Defined ● Managed ● Optimized

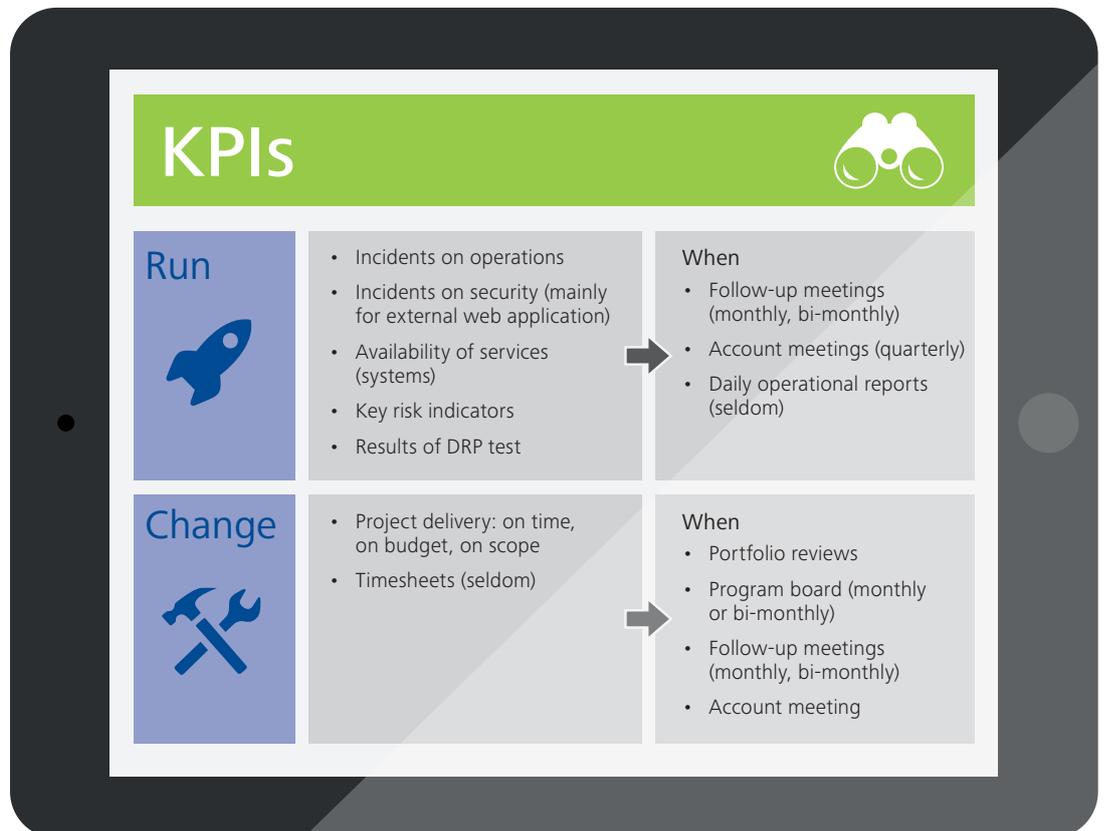
### IT organization structure

Most of the banks adopted a centralized IT servicing model, which allows more operational synergies and lean governance. In the survey, we also observed that IT leaders tend to repatriate second level IT teams appearing from time to time within business organization into their central IT functions to keep control over the data and maintain consistency and performance of the overall enterprise architecture. Nevertheless, CIOs should ensure alternative delivery options to foster innovation and to prototype fintech and digital solutions. The distributed IT servicing model is not adopted within a single entity and is observable within a group. Indeed, there is a clear trend for groups to consolidate part of their IT services and follow a federated model to create synergies and to reduce operational costs.

Regarding the “run the bank” activities (RtB), basic key performance indicators (KPIs) and key risk indicators (KRIs) seem to be in place in most organizations, but advanced key indicators that measure the performance of the services in (near) real time are rarely in place. For the “change the bank” activities (CtB), basic KPIs on projects are also in place to measure the deviations against budget and to measure the respect of deadlines. Deviations from scope are seldom measured as well as deviations from initial business cases. Timesheets are mainly used for external people but more rarely for internal persons.

KPIs are collected by IT department, but they are not always or not systematically reported to business lines. If they are reported, it is done mainly during the regular meetings (monthly, bi-monthly, or account meetings). Push reporting of KPIs (and SLAs) is barely in place.

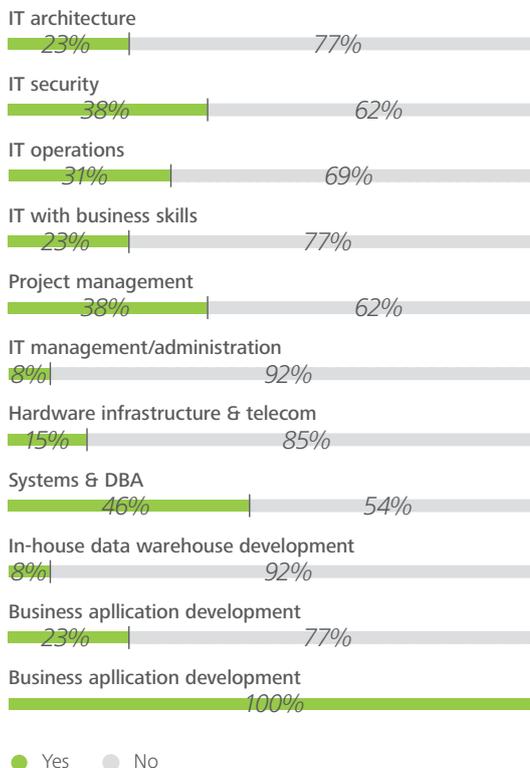
Which KPIs do you have in place to measure the performance of your IT organization?



### IT talent

The current Luxembourg IT resources market is tightening up, but IT experts with good backgrounds currently find employment more easily than a couple of years ago. As the economic condition of the FSI market in Luxembourg is improving, there is a high turnover in the IT resources market. Companies, which had been previously cutting costs, now want to innovate and are in need of qualified people with various skills. As the questions on IT effectiveness revealed, the most sought-after and the most difficult to hire resources are expert profiles like DBAs, IT security experts, or experienced project/program managers. Profiles such as IT architects, IT with business skills, and developers are also scarce but in a smaller proportion.

#### What skills/resources are required and currently missing from your IT organization?



According to our study, 50 percent of FTEs in Luxembourg’s financial services industry are dedicated to RtB, which is aligned with global average (53 percent in 2014). Large or universal banks invest more in CtB projects than small or medium structures.

### Conclusion

Banks are undertaking IT landscape transformation programs to improve their ability to realize their long-term business strategy and to increase the efficiency of their daily operations in all business lines. This can help to secure and support further expansion of financial services in the Luxembourg market.

Current CIOs should be able to put transformation in the broader perspective of the target IT architecture and then decide on the optimal sequence of implementation projects on the IT landscape implementation roadmap.

IT in the financial sector should become a strategic asset to an organization. Helping IT to become an effective business partner requires careful planning and execution. Deloitte can provide subject matter experts who are focused on the challenges in designing and delivering an optimised, business aligned, efficient IT function and who can help you on your way in meeting your goal of effective IT organization.

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