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Realising the promise of new technologies
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Can banking platforms meet tomorrow's requirements?

Technology investments in the financial services sector continue to surge as banks and other firms compete to take advantage of the benefits enabled by technology-driven innovation. From new ways to service customers to deeper insights into customer preferences, streamlined delivery models to enterprise capabilities for measuring and managing risks, the examples span geographies, sectors, and products. Technology has reshaped the financial industry, and customer expectations.

In Kenya, with a few key strokes on her cell phone, a house cleaner in Nairobi buys food for her children from the local grocer and then transfers money to her mother to buy medication at a pharmacy 100 kilometres away. In China, a man uses an instant messaging app on his phone to invest in money market funds while waiting for the bus. Technology-fuelled competition is continuing to grow for financial services companies, much of it in non-traditional sectors. And it is not restricted to "unbanked" customers in emerging markets.

More traditional customers increasingly expect to be able to manage accounts, transfer funds, and access an array of reports, services, and other functionality – all from a smartphone.

Retail banks, credit card companies, and even online shopping sites offer financial products and services, often custom-tailored to the customer's location and circumstance, directly to customers through their phones and social media. And with consumer-focused digital players like PayPal, Apple, Zynga, and Facebook encroaching through payment innovations that bypass financial institutions entirely, financial institutions' investments to enhance customer experience may struggle to keep pace with heightened customer expectations.

At the same time, regulatory requirements, including more stringent risk management and reporting, bring a whole new set of operating challenges. In countries around the world, new rules and requirements – and even new agencies -emerge constantly while financial institutions have become increasingly large and complex, webs of affiliates generating vast amounts of transaction data. In the aftermath of 2008, banks seek to assess and better understand risk across businesses and counterparty relationships. Large financial institutions require technology platforms that can converge risk positions across business units, regions, and countries to provide comprehensive, enterprise views.

Given these changes, it is surprising how deeply dependent the industry is on legacy operating systems that can be ill-equipped to support, or even allow, the types of new product, service, and operating models banks need to survive. In a 2013 survey of financial services executives, nearly 30 per cent of respondents indicated their companies need to address core system issues to support changing business requirements and growth objectives. Add in the evolving regulatory requirements and some financial institutions may barely be able to comply, much less compete, with their inflexible, old systems. Sixty per cent of respondents deemed the relationship with regulators a key concern.

Big technology investments require business support

Transformation of core platforms is typically a complex, costly multiyear effort. To be effective, technology decisions cannot be driven only by technology – business leaders have to help co-lead technology transformation programs. Business and technology leaders should consider working closely together to understand the impact of new technology investment on current operations and future capabilities.

From the business side, leaders need to fully appreciate that they are in a technology business and that technology decisions are strategically important to the business in terms of brand, customer experience, and capabilities that drive market positioning. Giving chief information officers a seat and a voice at the table when strategic decisions are made is likely to be an important step toward business/technology alignment.

Another is to have business units co-own IT projects and be jointly accountable with IT for project success. Finally, eliciting and sustaining support across the life cycle of a multiyear IT transformation requires clearly defined business- and IT-cost benefits and impacts across business and technology.

Business and technology share responsibility

Neither IT nor business leaders have a crystal ball to know tomorrow's requirements. By working together, business and IT can better ensure they build the right capabilities and focus on upgrading the platforms and infrastructure needed to support whatever new products, service models, and financial innovations emerge to address industry opportunities and changing customer expectations.

One area of focus – customer intelligence enabled by social, mobile and customer data – is a pervasive effort to cleanse data and build customer-facing channels that capture data and provide intelligence to drive product and business decisions. With the right information viewed through the right lens, a financial institution can reap real customer insights that could enable financial products being custom-designed, -priced, and – distributed when and where they are needed.

Yet a business leader is unlikely to understand all of the underlying technology requirements – such as data analytics providers, software, and infrastructure – and capabilities needed to inform business and product strategy. Another key area for financial institutions – core banking platform replacement – is a multiyear effort that requires deep business involvement to ensure that the program achieves the intended impact.

To effectively prioritise, design, and build these capabilities, business leaders should be active participants in IT transformation programs – from their inception – framing the investment case, design decisions, and testing and guiding the rollout of new product platforms.

For their part, chief information officers and other IT leaders should prioritise and frame IT systems issues in terms of the business priorities, capabilities built, and overall business impact. Both sides should communicate in a shared language of the company's strategy, objectives, and capability requirements. Effective joint governance over complex, expensive, multiyear IT change programs requires a shared view of what drives cost and timing and how to achieve the intended impact.

What tactics have you found useful in getting business and technology leaders to share a common view of expectations and effectiveness? What else should financial services leaders think about to ensure that IT transformation programs meet current and future requirements?

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