REDRESS THE BALANCE

SURVEY REPORT: HOW CAN I.T. LEADERS STOP SPENDING TOO MUCH ON ‘RUNNING THE BANK’ AND START SPENDING MORE ON ‘CHANGING THE BANK’?
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1:1 Finextra

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1:2 CSC

CSC is an IT services company serving retail, commercial and investment banks, as well as capital markets and trading firms (buy and sell side). CSC takes an architecture driven and technology agnostic approach to deliver solutions that improve the spend ratio between Running the Bank and Changing the Bank. CSC’s talent and new generation technology address issues including customer experience, regulatory and compliance requirements, payments disruption, and the drive to improve efficiency.

CSC recently won two prestigious UK awards for the work it is doing with a global financial services organisation to transform its IT infrastructure. In the National Outsourcing Association Awards for Best Practice in Outsourcing, CSC and its client won the International Outsourcing Contract of the Year.
1:3 A snapshot of approaches to IT and efficiency strategies

This survey was conducted by Finextra at the end of 2014 targeted financial institutions worldwide to take a snapshot of financial firms’ efforts to deal with leadership challenges, structural and infrastructure change, and IT simplification – all while growing their business, complying with regulations and maintaining a programme of innovation.

We received 91 responses from 55 different financial organisations and 24 countries. Where multiple responses came from a single large financial group they were frequently from different geographies or business units - e.g. cards, retail, transaction banking or financial markets.

Job titles surveyed included: Change director, CIO, COO, director innovation and investments, group head of operations, head of digital banking, head of integration, head of IT, investment director, and senior vice president.
EXECUTIVE SUMMARY

- 75% of banks are already taking a steady, sustained approach to achieving operational efficiency and cost reduction, rather than short-term cyclical measures.
- Banks recognise the importance of IT efficiency to competitiveness and ability to innovate. But at least 67% of IT budgets are still being spent on maintenance and compliance rather than transformative projects that can create value.
- 82% of respondents say their ability to compete and/or innovate would suffer if they were forced to fund any growth in the IT budget allocated to changing the bank’s activities from efficiency gains such as run-rate savings. This highlights the need for more application and platform consolidation, but more importantly, IT delivery models that move away from a fixed-cost, own-and-operate model to a variable ‘as a service’ utility model.
- The current largest enterprise IT projects within banks are most commonly platform consolidation, making use of converged infrastructure systems, and core application upgrades, with a mix of in-house development and vendor software.
- The owner-operator mindset is still somewhat entrenched, but there is growing use of managed services, utilities and new partnership models.
- Nearly half of banks are reducing the number of contractors and consultants they use. But 91% of them are maintaining or increasing their outsourcing relationships.
- 49% of respondents believe there are opportunities for new or expanded network-centric services for the industry that are not currently being served. 32% believe there are further opportunities for utilities that support the large ongoing regulatory compliance initiatives in the financial sector.
- 35% of respondents already have some kind of utility that serves all parts of the organisation, which shows that they are embracing one of the most effective ways to achieve IT simplification and efficiency gains. But infrastructure silos, departmentalism, and establishment costs are considered the most prominent barriers to progress in this area.
BANKS AIM FOR SUSTAINED, STEADY IMPROVEMENT

3:1 Weaving operational efficiency and cost reduction into the organisation’s DNA

On the face of it, it’s easy to say that financial organisations should always be taking a long-term view of sustained cost control and efficiency gains, as well as targeting tactical wins. But in practice, it’s easy for organisations to be pulled here and there from one quarterly reporting cycle to the next, from one department’s priorities to another, with no overall view of what the organisation is trying to achieve. Reducing costs while reapportioning budgets and trying to stay ahead of changes driven by customer, market and regulatory demands is hard.

Given this, the industry is to be congratulated that 75% of respondents say their organisation is taking a sustained approach to operational efficiency. For many organisations the sustained operational improvement activity will be driven by the regulatory change portfolio. If you ask any bank where they
spend their IT investment budget, a significant proportion will be allocated to regulatory compliance projects.

Where those projects are quite long term, banks are trying to wrap in some operational efficiency targets too so they get some kind of business benefit from the changes they have to make to meet regulation.

For the 25% who say their approach is more short-term and cyclical, this can be a communication or engagement issue, if C-level leadership has a strategy it’s trying to get the organisation behind. But it can also be that because there is little budget left after regulatory and maintenance projects, any other initiatives are smaller and therefore have more short-term tactical goals.

Drilling down for more detail on efficiency goal timelines, we see a close correlation with question 1. A combined 79% say their timeframes for achieving stated efficiency goals are from one to more than five years in the future, or are simply ongoing. 21% are working to achieve efficiency benefits within six to 12 months.

Many of the banks stating longer timeframes will be considering the impact of regulatory compliance deadlines that are often years in the future. But aside from regulatory drivers there is an increasing number of banks looking to create long-term transformation projects that propose quite radical changes to truly transform the business.
There is almost universal agreement that IT efficiency is a key requirement for overall competitiveness, though the extent varies. Some of those who are not directly responsible for IT might put less weighting on its contribution to competitiveness, but 92% of respondents considered it very or somewhat important.

IT and data are a critical part of financial institutions’ strategies for business survival and success. IT can enable business-driven projects that sustain and create growth. But just as important as supporting revenue growth, is reducing costs to free up additional funds for investment. Larger financial institutions in particular are finding it difficult to affect their large fixed costs bases if they are running lowly utilised, duplicated and poorly integrated IT infrastructure. This fact influences many of the project and strategic decisions being discussed in this report.
4.2 More than keeping the lights on, banks hope to increase IT investment that generates returns

For many financial organisations, there are core systems and platforms labouring with the demands placed on them that in some cases are more than 10 years past their effective end of life. In this situation just keeping the lights on is very expensive. The cost of maintaining and making and continuing to make them compliant is massive and means less budget is available for improvement.

This is further exacerbated with the rise of digital channel usage, which places more strain on IT systems that were not designed for such high transaction volumes (e.g. balance checks on mobile phones on an hourly basis).

Across the options given to respondents to indicate how much of their overall budgets are available to change activities, there was a wide range of responses. To get a weighted average figure for the industry, we took a midpoint of each range, and for the 45% and greater range, gave an adjusted midpoint value of 57.5% This was done because experience suggests no banks, not even start-ups unencumbered by legacy, have “changing the bank” allocation that is more than 70% of the total budget, so that is effectively the upper end of the range.
These calculations give a weighted average across all respondents of 33% of budget being allocated to change the bank, while 67% of budget is devoted to keeping the lights on.

Other industry research with different methodologies depict an even bleaker picture. For example, Celent says that across European, North American and Asia-Pacific banks 75% of IT budgets for 2015 were devoted to maintenance and compliance.

To change this, efficiency gains are crucial otherwise all organisations are doing is pushing the transformative investment they need into the future because they can’t afford it today and spending most of their investment budget to just stand still.

But there are green shoots. The percentage dedicated to maintenance is expected to fall in the next few years, which should help change the bank activities move beyond short-term tactical gains driven by the limited funds available.
While the next few years are expected to see small increases in IT budgets at an industry level, for many banks budgets will remain flat or even decline. Even when IT budgets do rise in the short term, there is pressure from boards and C-level executives who look at industry benchmarks to spend less on IT overall as a percentage of revenue or operating expenses, while increasing spend on transformative IT. The ability to take from the run and maintain allocation, often by moving away from fixed-cost models, can give banks the ability to undertake these new projects that can create business value or further efficiency gains.

We asked respondents to indicate how confident they were that they could innovate and remain competitive with frozen IT budgets and only being able
to fund new investment from efficiency savings. Given that this is a reality for many organisations, it seems that confidence in their ability to innovate is suffering, with 44% saying innovation would be limited even though they could remain competitive. 38% said that both competitiveness and ability to innovate would be constrained.

While 14% remained unsure, only 4% were confident that their efficiency gains alone would be enough to fund value-generating investment.

5:2 Brand and scale no longer guarantee future success
Those 44% who expect to remain competitive even if they cannot innovate as much as they would like 'due to budgetary restraints' are mainly among the large tier 1 retail and universal banking brands. Their current market share, strong brand awareness and balance sheets may give them the confidence that they can remain competitive.

But very few bank brands have gone untarnished in recent years, whether from legal, risk and security issues or management performance. Leadership at large banks might scoff at the nimble start-ups’ ability to scale up and compete for their business but disintermediation has already happened in the area of payments, with PayPal, and more recently Google Money and Apple Pay.

And there are a huge number of new entrants to market that will soon start making a dent in some of their more profitable customer segments, not by getting bigger and serving multiple markets at scale, but by innovating in their specialty focus, whether it’s mobile payments, SME lending or wealth management.
### BARRIERS TO REDUCING IT COMPLEXITY

**6:1 Many and varied obstacles to simplifying technology and delivery models**

**WHAT ARE THE MAJOR BARRIERS TO REDUCING THE COMPLEXITY OF YOUR IT ESTATE? (1 MOST IMPORTANT, 9 LEAST)**

<table>
<thead>
<tr>
<th>Barriers</th>
<th>1%</th>
<th>2%</th>
<th>3%</th>
<th>4%</th>
<th>5%</th>
<th>6%</th>
<th>7%</th>
<th>8%</th>
<th>9%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>The need to stay on top of emerging technologies</td>
<td>21%</td>
<td>9%</td>
<td>7%</td>
<td>14%</td>
<td>16%</td>
<td>14%</td>
<td>13%</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of technology required for major change programmes</td>
<td>18%</td>
<td>23%</td>
<td>9%</td>
<td>10%</td>
<td>5%</td>
<td>9%</td>
<td>14%</td>
<td>7%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Changing demands and expectations from customers</td>
<td>16%</td>
<td>8%</td>
<td>4%</td>
<td>18%</td>
<td>16%</td>
<td>12%</td>
<td>14%</td>
<td>7%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>New regulations and regulatory change</td>
<td>15%</td>
<td>14%</td>
<td>22%</td>
<td>23%</td>
<td>12%</td>
<td>6%</td>
<td>6%</td>
<td>7%</td>
<td>5%</td>
<td>30%</td>
</tr>
<tr>
<td>Culture and organisational “fiefdoms”</td>
<td>13%</td>
<td>12%</td>
<td>10%</td>
<td>2%</td>
<td>5%</td>
<td>5%</td>
<td>9%</td>
<td>14%</td>
<td>3%</td>
<td>30%</td>
</tr>
<tr>
<td>Being locked into contracts and previous IT choices</td>
<td>13%</td>
<td>7%</td>
<td>12%</td>
<td>6%</td>
<td>3%</td>
<td>10%</td>
<td>10%</td>
<td>20%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Lack of qualified workforce</td>
<td>12%</td>
<td>12%</td>
<td>2%</td>
<td>2%</td>
<td>24%</td>
<td>32%</td>
<td>6%</td>
<td>4%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Cost of people required for major change programmes</td>
<td>15%</td>
<td>13%</td>
<td>11%</td>
<td>11%</td>
<td>8%</td>
<td>14%</td>
<td>18%</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of resources to educate workforce on new standards and utilities</td>
<td>13%</td>
<td>13%</td>
<td>17%</td>
<td>12%</td>
<td>23%</td>
<td>4%</td>
<td>18%</td>
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We asked respondents what their main barriers were to reducing IT complexity, and the chart of their answers shows immediately that there are no clear front runners. Barriers are everywhere, and respondents in different management roles and business units experience a wide range of them, although there were a few lowly ranked options that were clearly not considered a critical barrier.
The cost of technology required for major change projects and the need to stay on top of emerging technologies are both considered the biggest obstacles in the way of simplifying IT infrastructure. 41% and 30% respectively of respondents ranked these as first or second biggest barriers. New technologies continue to emerge at an increasing pace, and banks will always need to stay abreast of this change. But as approaches to standard architectures for integration and cost models become more sophisticated, it should become less of a barrier to efficiency.

New regulations and regulatory changes was ranked third with 29% considering it the first or second biggest barrier. While some organisations are using regulation related IT projects to wrap in efficiency gains, the rate of updates and introduction of new regulations means a constant flow of requirements that can override previous IT change plans. This is particularly the case if the bank has gone down the route of bespoke, in-house approaches to compliance.

It’s interesting to note that there is no hint of a skills shortage, and resources to educate the workforce are not really an issue either. This is different to the general reality in many industries where there is an absolute shortage of the very latest application and technology skills. If we look at the complexity and the actual technology deployed in financial organisations’ IT estate, particularly in the back office, it’s not always the most modern skills required. In many ways legacy technology skills are even more important.

6.2 Role of organisational structure and culture should not be discounted

At the other end of the scale 30% of respondents ranked culture and organisational fiefdoms last as a barrier to IT simplification. This demonstrates that the most enlightened organisations have embraced a working model wherein COO and CIOs collaborate and cooperate with business units to break down barriers and break out of the mould of the traditional owner-operator model where business groups demanded their own applications, data centres, storage and related systems, tailored only to their needs without thought for the entire organisation’s efficiency.

But not all organisations have reached this point. And some may be in denial about the impact of departmentalism in holding back efficiency gains. In Section 10, we see that 54% of organisations cite culture and territorial ownership of systems as a significant barrier to moving to a shared services function (i.e. utility) within those organisations’ that provide centralised infrastructure, applications and security services. Given that this is one of the most effective ways to reduce IT complexity, it is curious to not see it ranked higher for this question.
The most common large enterprise IT projects, technologies and approaches

7:1 Platform consolidation and core application upgrades take most of the resources

Which are your top three biggest enterprise IT projects currently?

- Platform simplification and consolidation: 60%
- Core banking modification and upgrade: 53%
- Leveraging data more effectively and on an enterprise level: 40%
- Creating a single integrated view of customer accounts: 37%
- Maintaining legacy architecture: 34%
- New and upgraded customer-facing channels: 31%
- Business intelligence and predictive analytics: 15%
- Connectivity to new market and payment infrastructures: 10%
- Voice and data network consolidation across groups and locations: 8%

To get a view on what was currently occupying resources and planning in the financial sector, we asked respondents to identify their three biggest current IT projects, as well as the technologies and approaches to execution being used to support them.
The two most common projects by a clear margin were platform consolidation and simplification on 60% and core application upgrades and maintenance on 53%.

Most system architectures and applications were implemented by banks in the era before digital channels became such a critical part of business strategy. So to try to overlay digital applications and meet requirements from digital customers is quite a task. It requires lots of APIs and connections from old world and new world areas within the IT estate.

Business intelligence and predictive analytics are ranked fairly low, which could reflect the small size of deployments and pilot projects currently being run. This is an area that banks can drive value from turning data into information, and it would seem that more banks have started on the journey to realising benefits in this area.

There was a higher response for leveraging data more at enterprise level, which is a requirement for effective business intelligence. More of the work right now is about discovery – finding what data exists across the organisation and exposing it to those who need it.

In the coming years we could expect that most organisations will have moved past the point where exposing data is the biggest issue, and are starting to make use of that data.

This has already happened to an extent in the retail industry. But banks, with access to arguably the most valuable information about individuals, find it difficult to transform this data into viable revenue generating opportunities. This is often as much due to the disparity of data formats and storage solutions built up piecemeal over time, as it is to regulatory restrictions. Big data solutions are helping with this, but are not yet exploited to the extent they could be – again because the focus is on regulatory compliance and cost reductions.

7:2 Converged infrastructure systems dominate, but cloud playing a growing role

Converged infrastructure systems are hardware and/or software defined virtual environments that dynamically tie together networking, storage, systems administration, servers and software. Tying in with platform consolidation being the biggest IT project for most, it makes sense that this is the most commonly deployed technology in the largest IT projects, with 65% of respondents selecting it.

Bespoke software is just as important to these large IT projects as packaged vendor software (both on 60%). This reflects the traditional DIY approach
that many banks have adopted over the years, and as they have developed their own systems or modified vendor software beyond the point of support compatibility, they must continue to retain staff experienced with these applications and the technology they run on.

Cloud computing is playing a lesser role in the larger IT projects, reflecting the financial sector’s reticence to fully embrace it in light of security scaremongering and some valid concerns about approaches to management of cloud partners. Where it has been adopted, it is predominantly private cloud services. But as cloud providers become more mature and tailor their offerings to the financial sector, they have been able to gain some acceptance from regulators. This will likely increase the adoption of all forms of cloud as banks overcome fears in the hope of gaining greater IT flexibility and efficiency.

Forward thinking markets are moving fast here. DNB (Netherlands) has assessed and satisfied itself with AWS’ cloud platform for use in financial services. BBVA has moved to using Google Mail and Docs as its standard platform to boost collaboration.

The converging of different capabilities (networking, storage, systems administration, servers and software) and different technologies and platform consolidation requires strong governance and orchestration. Consolidation of technology from business siloes allows increased standardisation, especially for non-differentiated services and non-vital services, e.g. systems identified for replacement or run off – providing cost saving opportunities through increased efficiencies and scale, freeing up budget for investment in new projects.

Increasing the use of standardised specifications enables the move from one-to-one supplier relationships to one-to-many, creating a technology marketplace with increasing competitive tension that drives innovation delivering both new technologies and cost savings. But, all this requires a far greater coordination effort, a true partnership approach to vendors, a mature performance management capability and opportunities for co-investment in innovation to compensate for the loss of exclusive contracts.

As with cloud management platforms, an automated orchestration layer can be introduced to maintain standards and manage complex partner relationships in an ‘as a service’ community. However orchestration can go much further by building innovation opportunities through innovation communities, bringing the partners closer to the organisation and sharing more insights and intelligent information, prompting them to find solutions.
Orchestration works across business functions breaking down legacy operational siloes and aids the vertical integration of technology and business services. The cost savings from this type of approach are compelling, and will continue to encourage banks to find ways through the security concerns associated with the cloud.

**7:3 Owner-operator mindset still entrenched, but growing use of managed services, utilities and new partnership models**

Looking at the delivery approaches used on these large IT projects, the high score for in-house development shows that many banks are still keen to do a lot of the heavy lifting themselves. This largely reflects the high proportion of budgets being spent on compliance and system maintenance. But to the extent it reflects the approach to new initiatives, banks will soon find that the same old way of doing things, maybe labour arbitrage through offshoring or 10% efficiency gains through process improvement, is not enough to effect real transformational change.
That outsourcing and managed services feature quite high on this list shows that banks are looking at how they can get a completely different shape to their cost base by not being an owner operator of some of the services they have in-house.

When done well, that’s not just shipping it on to someone else. It’s asking questions such as: How do we not have this on our balance sheet? How do we consume this as a service and how do we look to those leading the way in commoditised delivery of compute, storage, data centres as well as business functions such as regulatory compliance or settlement?

**WHAT STRATEGIES ARE YOU USING TO ENSURE THESE PROJECTS CONTRIBUTE TO IMPROVED EFFICIENCY?**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>In-house development</td>
<td>69%</td>
</tr>
<tr>
<td>Rationalising enterprise platforms</td>
<td>58%</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>47%</td>
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<tr>
<td>Managed services provider (separate from outsourcing)</td>
<td>46%</td>
</tr>
<tr>
<td>Renegotiating vendor contracts</td>
<td>41%</td>
</tr>
<tr>
<td>Consolidating on enterprise wide data standards</td>
<td>40%</td>
</tr>
<tr>
<td>Standardising on common employee communication and collaboration</td>
<td>35%</td>
</tr>
<tr>
<td>Participating in shared industry utilities</td>
<td>27%</td>
</tr>
<tr>
<td>Reducing headcount</td>
<td>25%</td>
</tr>
<tr>
<td>Insourcing</td>
<td>20%</td>
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<tr>
<td>Pay-per-click hosted services</td>
<td>5%</td>
</tr>
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</table>
8:1 Banks aim for more judicious use of consultants and stronger outsourcing relationships

It’s not surprising that as we see pressure on costs, consultants are first in the firing line, with 42% of respondents planning to use fewer consultants. Often they are twice the daily rate of contractors, so it’s a quick way to shed costs. The results indicate more judicious usage of consultants mainly for advisory and design activity, leaving the implementation to the bank themselves or through outsourced parties.

This reflects both a more mature buying approach from banks, and the response to over-consulting and some seeing poor returns from expensive and large-scale consulting engagements.

Use of contractors looks to be up slightly overall, with 40% using more compared to 37% using fewer. This is an area that requires close attention because banks historically haven’t been great at managing contractors, both in terms of output to the standard they need, but also managing their exit. Many banks are littered with contractors who’ve been there for five to 10 years, but are really not adding anything over and above a full time employee, except that they’re twice the cost. Some banks prefer the flexibility of engaging contractors so they don’t show up on the official headcount reporting, but they do show up on the cost line.

Outsourcing is the biggest growth trend in financial services resourcing, according to the survey, with 42% looking to increase their use of outsourcing partners, and only 9% looking to reduce. A wide range of flexible models incorporating outsourcing, offshoring, and even insource-offshoring deals (foreign workers on the ground in the bank’s location for foreign prices) are being pursued.

Guaranteed quality of resource and supply are two of the important things banks are looking for as well as price. Particularly in repetitive environments, these outsourcing models are often displacing the use of contractors.
### In the Next 12 Months How Do You Plan to Use the Following Resources?

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<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractors</td>
<td>23%</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>40%</td>
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<tr>
<td>Consultants</td>
<td>36%</td>
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<td></td>
<td>22%</td>
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<tr>
<td>Full-time headcount</td>
<td>32%</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>35%</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>42%</td>
<td></td>
<td>9%</td>
<td></td>
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<td></td>
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<td>49%</td>
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</tbody>
</table>

- **Same**
- **Using less**
- **Using more**
MERGERS AND ACQUISITIONS: VALUE CREATOR OR EFFICIENCY MIRAGE?

9:1 Most have been acquirers or acquired, with a recent spike in smaller deals

Two thirds of respondents have been through some kind of M&A in the past five years. So it’s a major issue affecting efficiency and driving the need for platform consolidation and more use of internal and external IT services.

It seems there have been two waves of M&A activity in the past five years among respondents. Firstly, 29% were involved in some kind of M&A activity three to five years ago. And more recently, 29% have had some activity in the past year.

Most recent deals have been smaller strategic bolt-on acquisitions to gain new capabilities or to enter a new market. This is quite different to the mega-mergers that took place in the wake of the global financial crisis.
Ignoring those who had experienced no M&A activity in the past five years, we asked those who had, what level of integration had been achieved since the deal completed.

On a positive note, 23% of respondents say they had achieved the ideal state of choosing the most efficient systems from each organisation and moving the other organisation onto that.

But for 39%, there had been no integration at all. And only a quarter of these had the excuse of it being because the merger took place within the last year.

Achieving IT and operational efficiency by reducing the costs it took to run the separate entities that have now joined is usually factored in as one of the benefits driving M&A activity. But in reality, things don’t always pan out that way. Some banks have begun scoping out the potential for internal standards and interoperability to be able to plug and play systems and applications across business units. That thinking hasn’t really taken effect yet at a platform level.
49% of respondents believe there are opportunities for new or expanded network-centric services for the industry that are not currently being served. This view could be tempered by a hesitance to be first to push for an idea or join with a partner to launch. Historically, even when there has been widespread interest in a utility being established, it’s only when one or two big banks take the plunge that others quickly follow.

There is also widespread interest in utilities that support the large ongoing compliance initiatives in the financial sector. Banks are worried not only about cost of compliance for when regulation lands, but also remaining compliant and meeting ongoing reporting commitments. If there is a utility providing those services then it’s incumbent upon the utility to ensure the banks they provide services to remain compliant. Although they can’t
outsource the responsibility for being compliant they can outsource the costs of ensuring continued compliance.

Regulators have been supportive of the model where the bank is ultimately responsible for compliance and answerable to the regulator. But they can also see industry value in collaboration between banks and involving technology firms where those requirements can be met in a standard compliant way. If one or several of these utilities end up serving the needs of the whole industry in a particular country or region then the regulators only have to audit one or two approaches and methodologies.

Loss prevention and fraud reduction are good examples of this – the regulator can see industry level aggregated data easily, and the utility participants benefit from insights from a larger data pool, which improves their ability to combat fraud and reduce losses.

19% of respondents felt, although utilities exist for certain areas such as settlement or regulatory compliance, they did not see any competitive advantage in using these services. Some organisations feel that they have particular expertise or quality in the way they do these functions in-house that gives them a competitive advantage. These self-confident banks responded that industry utilities are already meeting all their needs in non-competitive areas, and can’t see further benefit in engaging with new utilities. Or they haven’t discovered potential cost savings that could change their mind.
10:2 Internal utility adoption growing as cost and resource allocation benefits can pave way for more efficient industry utility participation

**WHAT ARE THE DIFFICULTIES AND BARRIERS TO MOVING TO A SHARED SERVICES FUNCTION (I.E. UTILITY) WITHIN YOUR ORGANISATION THAT PROVIDES CENTRALISED INFRASTRUCTURE, APPLICATIONS AND SECURITY SERVICES? (PLEASE TICK ALL THAT APPLY)**

<table>
<thead>
<tr>
<th>Difficulties and Barriers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure silos and incompatibility of systems between departments</td>
<td>60%</td>
</tr>
<tr>
<td>Culture and “territorial” ownership by departments</td>
<td>54%</td>
</tr>
<tr>
<td>Initial cost and resources required to establish the utility</td>
<td>46%</td>
</tr>
<tr>
<td>We already have such a utility internally that is serving all parts of the organisation</td>
<td>35%</td>
</tr>
<tr>
<td>Not a priority for group IT leadership</td>
<td>22%</td>
</tr>
<tr>
<td>Our organisation is not big and diverse enough to warrant this</td>
<td>7%</td>
</tr>
</tbody>
</table>

Before making more widespread use of industry utilities, a significant number of organisations are building internal service utilities to serve the needs of their company across business units and geographic operations.

35% of respondents already have some kind of utility that serves all parts of the organisation, which shows that they are embracing one of the most effective ways to achieve IT simplification and efficiency gains.

But it seems there are still some barriers to adoption. If these are overcome that should also pave the way for more industry utility usage.

Infrastructure silos (64%), departmentalism (54%) and establishment costs (46%) are considered the most prominent barriers.

Banks have huge differences between departments so simplicity and greater interoperability would be a great benefit, but there are substantial challenges to overcome within the bank to agree on a standard for services and how much if any tailoring they will allow between departments.
By Mike Steinharter, VP, Banking & Capital Markets, CSC

CSC is pleased to have sponsored this Finextra study. The results confirm the challenges banks are facing today particularly around improving operational efficiency. Capital requirements have become more stringent, and the regulatory burden is increasing costs across all areas of financial institutions, not least IT budgets.

When IT budgets are mainly spent on maintenance and compliance, few resources are left to dedicate to transformative projects that could improve innovation and differentiation in the market. Improving the experience of the bank’s customers is an area of transformation that will bring competitive advantage to the very best.

The existing IT complexity that comes from legacy systems not only draws resources dedicated to the ongoing maintenance, or “Running the Bank” environment, but also makes successful execution more difficult. As banks have traditionally retained a lot of their own in-house development, often on a departmental basis, the result has led to an explosion of applications, and redundant collections of technology and infrastructure, making “Change the Bank” strategies difficult for many.

Spending less on IT and reducing the overall spend by consolidating applications, infrastructure and end-to-end business processes is a way forward.

There are great opportunities for banks to achieve this through the establishment of internal service utilities, working collaboratively with trusted partners to break down barriers and align internal groups, customising a utility offering with the bank’s own policies as a second layer on top of standardisation and application decommissioning initiatives. Flexible outsourcing arrangements can also help reduce costs and increase efficiency in certain areas. But greater use of partner ecosystems and industry utilities is the next logical step, as service offerings in areas such as collateral management, Know Your Customer, clearing and settlement, reconciliation, market data and compliance all gain traction.
Four actions to consider

1. Look at your organisation and the functional service areas and capabilities as they’re currently structured and how they perform. Assess which ones offer some differentiation in terms of value to the customer or the way in which you deliver them. Understand what drives value and separate out the commodity areas that provide no competitive advantage.

2. Once the functional service areas are defined, look at which areas of business the organisation still wants to be in going forward. If something is pure commodity with no differentiation, and the business is not a top provider in that market, or in a position to get there, then perhaps that capital and resource could be better allocated elsewhere.

3. Closely evaluate your approach to partnerships and consider whether you’re stuck in long-term relationships that are purely transactional. Are the partners still stuck in licensing mode? Is your organisation effectively being penalised for underutilisation as the business changes? Aim to define the ecosystem needed to deliver commodity services in an agile way.

4. Once these steps are taken, the success of any subsequent action comes down to skill of execution. As part of this, don’t underestimate the role that people and culture change management can play in uniting all business departments, IT and operations behind common goals.