Changing Landscape for Banking and Financial Services – Redefining the Business through Compliance and Connected Marketing

The year gone by has accentuated the role of compliance in preparing ourselves for the future. For the Banking and Financial Services (BFS) Industry, the need of the hour is to invent an operating model that relieves the industry players of the capital investments replicated within each enterprise. This in turn would free up critical resources to focus on their respective core competence.

The passage to transformation is mired with shocks of the May’06 Flash Crash, the deepening Euro crises and the struggle to support the US economy on the softer soil of its sovereign credit rating. As the regulator is seeping closer into the maze of transactional data, risk analytics and capital adequacies, the industry is facing the challenges of shrinking markets, pressure on margins and client retention. The future of the BFS industry is being chiselled with the trident of Regulation, Connected Marketing Solutions and Third Party Platforms / Utilities that not only provide options for freeing up capital, but define the collaboration model and interoperability across players to out-risk ownership of IT and non-core assets.
The impact of regulation is fast permeating to the front office from the erstwhile back office or support function limited to sending post facto reports to the Regulator. The compliance requirements now dictate the execution venues, business models, products being offered, clearing and settlement locations, as well as collateral placement for products not explicitly covered within the bare Acts. An increasing number of solutions are being developed across the industry to implement Compliance Technology, Transaction Hubs and Analytic tools that scrub off redundant data, archaic and iterative workflows and latency in reporting. Regulators are actually awarding incentives on reporting a “Compliance Ready” status (e.g. CDIC) or penalties on Non-Participation (e.g. FATCA), rather than waiting for numbers to arrive in a failed state. The compliance solutions for the future need Proactive Impact Analysis, Data Traceability and of course, real time remediation and reporting.

At the same time, the pressure on margins is influencing firms to leverage online and social media marketing solutions and manage the new age media technologies to change the way we communicate…and now, the way we work. The transformation is being seen in establishing more pervasive Web Channels, creating a community of advocates (replacing passive members) and measuring Economic Value additions, rather than traffic, through channels. Client prospecting is now Bi-Directional and Proactive, Customizing Solutions and interacting with the Customer across the entire
Supply chain. Now, Product Cross sell and profitability analysis has to happen not within the firm’s data, but outside of it – creating and identifying influencers, forging alliances and business partnerships and creating perception – not just brands.

Looks like that the only lever remaining to be pressed within the organization for aligning with the industry of the future is to reduce costs to improve productivity. Return on Capital Employed trivializes all other initiatives. Cloud Computing, Gen2 Outsourcing, Transaction Utilities are all examples of an industry veering away from billions of dollars worth of assets created for delivering functions, which can now be outsourced, shared or externalized. Business case for creating Data Centres, Delivery Centres (read Offshore Captives), Communication Infrastructure and any or all of operations that do not promise incremental returns above the cost of capital, are fading into oblivion, paving way for proposals that mitigate risk (not own operations), retain clients (not portfolios) and deliver committed CASH POSTIONS agnostic of industry turbulence.

A view on the Book of Work for major industry players validates a preference for programs that deliver a Cost Effective, Compliant and Client retaining business model – forcing the enterprise to look beyond, rather than within its shop for future growth opportunities.

This paper analyses the impact of above three drivers of change on the future IT investments, nature of solutions expected and their contribution in redefining the industry operating models.
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**Introduction**

The recent turmoil in the Banking and Financial Services industry triggered by the European Debt Crises, which further exacerbated by the updated Sovereign Rating for the US have pushed the industry – not to the brink, but to a solutioning horizon that encourages it to leverage collective wisdom and invent operating model, products, customer segments and profit models not by looking within, but beyond the enterprise. At the cornerstone of transformation of the BFS industry are sweeping changes in Compliance, Connected Marketing and Cost containment. These translate into a positive perception about an Enterprise which can be monetized through connected marketing solutions, and also generate higher returns on capital employed, through compliance. It is therefore not a co-incidence that all of them are powered by the events happening outside the enterprise, and the solutions that the industry invests in, also enable and empower it to mine such data outside the scope of the conventional BFS firm.

**Compliance Technology**

The industry has come a long way from Regulatory agencies seeking post trade data or end of the year Capital Adequacy Reports. The turn of events in the last decade has put Regulators in the driving seat – converted all-terrain vehicles into rail-road tracks – clearly laying out where the tracks go, how far, what load can be carried and “the junctions” where the players must meet and comply. Of course, the players have the flexibility to choose how much passenger or freight traffic (read retail vs. wholesale or B2C vs. B2B) to carry, whether to ply bullet trains (aka program trading) or metros and whether to power such trains with conventional or unconventional fuel (read vanilla or structured trades).


As a result, regulators now dictate the execution venues, business models, products being offered, clearing and settlement locations, as well as collateral placement for products not explicitly covered within the bare Acts. An increasing number of solutions are being developed across the industry to implement Compliance Technology, Transaction Hubs and Analytic tools that scrub off redundant data, archaic and iterative workflows and latency in reporting.

This report card, however, is expensive and cannot be produced overnight. The basis of compliance is transactional behaviour, and all transactional reporting requires clean and well-managed Data. The capacity to commit compliance can come only from a robust Data Management Framework, Data Quality Procedures, Metadata Management and stringent Data Governance.
What makes a good Compliance Solution

Choosing from a multitude of third party platforms that report on Anti Money Laundering, Know Your Client, Positions managed on Forex or Derivatives is just part of the solution. Organizations are increasingly getting nervous of implementing too many third party platforms, each with its own cycle of customization, configuration and integration with the internal IT suit. An effective Compliance Solution needs to deliver the following goods:

- An Enterprise Approach - The compliance solutions need to take and enterprise approach to compliance and risk management, with minimal incremental efforts needed to add functions by the IT Organization, for addressing the holistic risk, compliance and governance requirements of the Risk Manager.

- Easy Data Archival and Retrieval –The increased retention period for archives, as mandated by law, highlights the challenges of storage medium and channels as technological obsolescence creeps in. The storage, server, interfaces, channels will change many times over the life of digital assets. In the meanwhile, nonstop data growth requires ever expanding amounts of storage, and regular refreshes of technology. While any compliance solution may not insure against technological obsolescence, a good solution would invariably contain building blocks for the future.

Being Ready is Half-Done

Not only do the regulators want absolute compliance, there are incentives for confirming readiness with the infrastructure and processes, and penalties for non-participation, irrespective of whether the skies fall or not, on the doomsday. For example, confirmation by Member Institution (MI) firms about their readiness to apply recommended holds on Customer Accounts in the event of a bank failure, as mandated by Canada Depository Insurance Corporation (CDIC) promises steep discounts in Deposit Insurance Premiums, for compliance reported before June 2012, irrespective of the probability of a bank failing anytime in future. Similarly, the IRA has defined a 30% withholding tax for any Foreign Financial Institution that does not identify US persons and forward customer data, not only from US revenues (e.g. interest or dividends received) but also from all sales proceeds from instruments which yield revenues from US sources.

Balancing the cost of Compliance vs. Non-Compliance

As per industry estimates, the gap between cost of compliance vs. non-compliance for the financial services industry is mere 25%. The prime costs for non-compliance are Business Disruption (e.g. revoked licenses) and Productivity Loss while the prime investments for Compliance are towards IT and Line of Business. Refer to the figures below)
The remedy lies in quickly ascertaining, within the Regulator’s defined time frame, the applicability of the law, impact on core systems and processes, and a roadmap for implementing the reporting requirements. Mere confirmation to comply has attractive incentives and big costs to save.

Compliance Technology will therefore drive the IT investments in the firms, depending upon their business mix, archival policies and opportunity costs for non-compliance.

**Connected Marketing Solutions**

For BFS Industry today, the complexity of their product portfolio, expansion of footprint beyond their comfort zone, and changes to business both forced and enabled by the Internet make for an intensely competitive environment, bringing in its wake challenges to build customer trust, drive loyalty, and deliver an optimal customer experience.

While these market conditions span both personal and commercial investors, the benefits of Connected Marketing solutions in retail segment far outweigh those in the wholesale category. Empowered by social media tools, digital consumers are proactively questioning, critiquing and recommending products and services on blogs, forums, and communities and increasingly completing entire transactions online.

### Key drivers for Connected Marketing

- Customer Engagement
- Brand Equity
- Personalization
- Crowdsourcing
- Guiding or Mentoring
- Measurement & Analysis

### Technologies / Solutions

- Rich Internet applications
- Straight through processing
- Online video
- Application pre-fill
- E Signatures
- Banners, widgets, mash-ups
- Communities targeting specific audiences
- Website Segmentation
- On-site behavioral targeting
- Recommendation Engines
- Cross-Channel Campaign management
- Website customization
- Web 2.0
- Blogs
- Reviews
- Advocacy - Expert forums on earned media
- Conversations - Twitter, Facebook
- Click to Call back / click to chat
- Proactive chat
- Secure Inbox/ secure messaging
- Web-Conferencing
- Voice of Customer - Listening
- Voice of Customer Analytics
- Online advice tools
- Social Analytics

**Source: The True Cost of Compliance – Ponemon Institute – 2011**

The business disruption, productivity loss, revenue loss, fines, penalties & other costs are shown in the pie chart. The percentages are as follows:

- Business disruption: 35%
- Productivity loss: 23%
- Revenue loss: 26%
- Fines, penalties & other: 16%

Correlation between Corporate IT, Line of Business, Legal, Compliance, Human Resources, Internal Audit, Security & Privacy, Finance & Accounting, and Other are depicted in the pie chart.

**Source:** The True Cost of Compliance – Ponemon Institute – 2011

**Key drivers for Connected Marketing**

**Technologies / Solutions**

**Corporate IT**

**Line of Business**

**Legal**

**Compliance**

**Human Resources**

**Internal Audit**

**Security & Privacy**

**Finance & Accounting**

**Other**
New channels like mobile phones and tablets as well as technologies like, rich Internet applications, social networking, and solutions like social media monitoring and Voice of Customer analysis are changing the ways customers interact with financial firms.

Social media offers niche market opportunities with the "long tail" of the customer demand curve much easier to assess, access and target. Social Media and networks are a powerful way to re-establish dialogue, regain trust and drive business. Moving beyond simply re-building trust however, leading financial services are leveraging social media for everything from community building to product research, financial management and crowd-sourced ideation.

Technology plays a vital role in customer engagement, personalization, mentoring or even building the brand by way of real time solutions and automated workflows that support connected marketing solutions. One of the outstanding examples of leveraging connected marketing solutions for gaining competitive advantages includes ING Bank's We The Savers blog featuring six consumers who each share their experiences with money and talk with other consumers about overcoming their financial challenges. Diverse audiences use this platform and can relate to at least one of the bloggers and can talk to others who face similar financial challenges as their own. Another example is Fiserv offering My Money, a Facebook application that enables banks to offer secure account access from within the social networking site.
The resultant scenario can be characterized by:

- Verticalization or creation of a “Customer of Entire Supply Chain”
- Crowd Sourcing and customization of products and services
- Micro segmentation and Intense Personalization
- Leverage of “Social Currency” and injecting social profiles in customer relationship management
- Advisory “Perception of a banker”, and not just Operational

The evolving customer landscape has moved from the Bank or the Client reaching out, to “Bank AND the Client” connecting together. Client prospecting is more Bilateral and Proactive with customized solutions that not just build Brands, but Perceptions and Prospects.

The way forward

In the current market scenario, the mantra for the Banking and Financial Services industry is to Comply, Connect and Cost-innovate. Compliance is no longer a support function. It now drives the business products, processes, performance and prospects. Having said that, being compliant now calls for enormous IT computing power, purest form of Data and Regulators almost doubling up as data administrators!

At the same time, growth for business is being increasingly powered by products and services demanded by Consumers, at prices discussed in Community forums and perceptions made or greyed in open blogs. Connected Marketing therefore plays a vital role in not only mining customer intelligence, but influencing what comes out thereof. The only button that a CXO can press to alter the course is that of COST_CUT, while all other buttons have been taken off the dashboard. But this button has powerful connects with emerging technologies, outsourcing models, risk sharing potential and solution accelerators that must be harnessed to deliver the goods.
About Tata Consultancy Services Ltd (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India’s largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

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