Out of the chaos, New Order

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Even three years ago there were some lone economic voices warning of an impending crisis, but they were largely ignored. Regardless of how long the credit crisis embers were smouldering, August and September, 2007 were the months when people started to take notice. First Countrywide and then Northern Rock hit the headlines.

On 17 August, 2007 we saw an unusual sight, a run on Countrywide Financial, the biggest home loan company in the United States at the time. While some thought it just an aberration – after all, it wasn't really a bank, was it? – it was just under a month later, on 14 September, that lines began forming outside Northern Rock bank, then the third largest mortgage lender in the UK, ultimately resulting in a bail-out by the Bank of England.

Since those months, dozens of banks have failed, mergers, demergers and nationalisations of banks and now other businesses have risen dramatically and global unemployment has risen sharply. Riots have been spreading as economic woes take their toll and most recently, the Icelandic Government has collapsed. What was thought to be a US problem became a global crisis.

As a vendor providing software for financial institutions globally, TCS has been affected as well, as decisions have slowed, projects are curtailed, and IT spending funds are dropping. However for TCS we have also seen a flight to quality as organisations seek more stable, financially secure business partners.

In terms of the future we do see a light at the end of the tunnel, and a clearer path. Is the credit crisis the disruptive event that was required to turn around bank operating models? We're beginning to see signs that it may be.

The last decade's IT trends have shifted from one end of the spectrum to the other, landing in the middle.

- Implementations of single-vendor behemoth applications, CRM, ERP
- Moved to finding the best of breed (individual specialists for lead management, payments, outbound marketing, etc.)

With TCO as a factor rising in prominence, banks have begun to shift towards reducing numbers of vendors, while optimising capabilities

- Helped by advances in architectures (SOA)
- Targeted business cases supporting IT investments
- Increasing emphasis on cost of operation and potential outsourcing of commodity processes.
- Insourcing to reduce cost of ownership

The US market has been a mature market for ITO and BPO operations and there are many home grown service providers in the banking space. We are now seeing increased focus on evaluating outsourcing options from financial institutions elsewhere in the world. Furthermore the lower cost models inherent in on-shore offshore models that TCS and others can provide are making inroads into the US market.

Drive for profitability

Banks are moving back to basics. Business trends in banks show shifts in priorities moving from acquisition to organic growth and retention. After catastrophic losses brought on by acquisition of bundled debt, the drive for profitability is being led by standard retail banking activities. Suddenly what was considered bland and unremarkable retail banking business is being seen as stable and attractive. Similarly customers are increasingly looking to safe havens as banks fail or have the potential to do so.

But one thing hasn't truly changed in banks – the organisational model still presents product silos and risk is still somewhat fragmented over the enterprise.

- Despite a focus on cross-channel capabilities, banks are still organised to support individual products and channels.
- Profitability is measured by products, rather than by customers making it difficult to see which relationships are important to cultivate and maintain.
- Compensation programs still support individual success rather than collaboration across products and channels.
- IT investments are still vetted by individual lines of business and in times of reduced discretionary spend this could become accentuated.

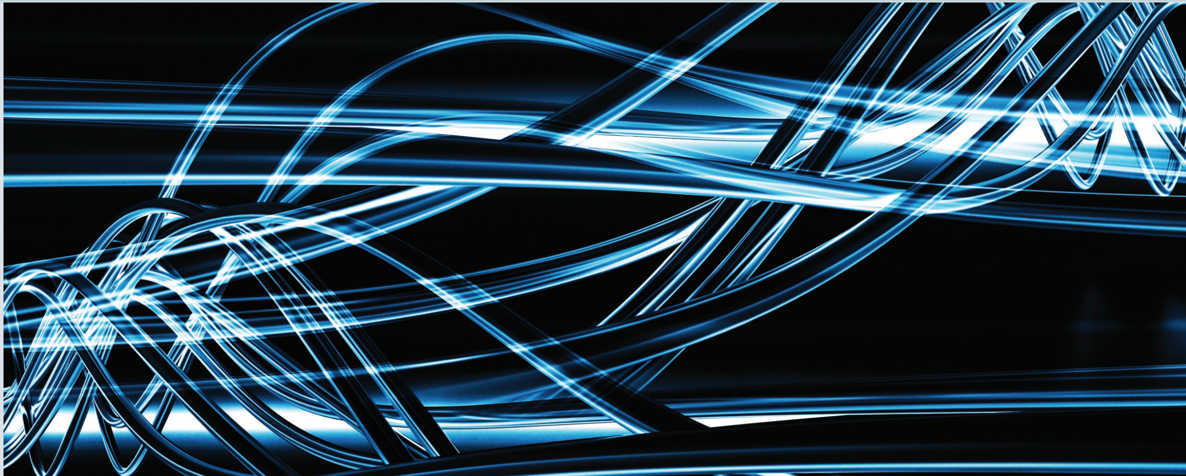
A new economic framework

Responses to today's economic crisis requires the ability to manage risk, sometimes on an hourly basis. Being able to see what exposure a bank has in terms of finances leaving the bank and the coverage of positions has become vital, at certain moments in the past six months. When financial collapse beckons, such as the Lehman's episode, it is imperative for banks to manage their immediate exposures.

Most critically, the management and ownership of data is taking on an urgency unparalleled in the industry. The single fastest growing business need over the past decade, supported by technology investments has been GRC – governance, risk, and compliance.

A revised global economic model accompanied by governing frameworks that will mean yet more compliance. It is increasingly likely that more governance will be applied to banks, whether as a result of direct government control or indirectly through regulation. Banks will need to respond by rapidly adopting new regulations.

- The United Nations is considering updating the Bretton Woods financial rules developed in 1944 that created the World Bank and the International Monetary Fund.
- The incoming United States Congress is focused on rewriting financial regulations. According to the Wall Street Journal on 6 November, 2008, Barney Frank, chair of the Ways and Means Committee, has spoken about "creation of a "systemic-risk regulator." It could have unprecedented powers over a wide range of financial institutions, from insurance firms to hedge funds, with responsibility for protecting the soundness of the whole financial system, not just one sector. He has likened it to the establishment of the Securities and Exchange Commission, charged with maintaining fair markets and



investor protection, five years after the market crash of 1929."

- The Basel Committee on Banking Supervision announced in January, 2009, a series of enhancements to the Basel II capital framework aimed at strengthening the regulation of internationally active financial institutions.

Seeing the total view

Importantly the ability for Financial Institutions to view their business risks more holistically, by changing operating models and processes may well be at the fore. It will be important for Financial Institutions to present an accurate position of their business in near real time, whether significant parts of their business are outsourced or not.

This will require a business and technology model alignment that moves us in the direction of configurable processes from which financial risk metrics are easily obtainable. It will require a change in the way financial institutions do business:

- Business collaboration networks will need to be continually reconfigured and adapted to support global economic changes.
- Internal and customer processes will need to become standardised whether outsourced or internal to the organisation.
- A collaborative and agile business processing environment will need to emerge.

Globalisation of financial services is opening new markets for surviving firms, but the notion of assimilation will be less acceptable. Localised know-how in customer relationships and preferences will need to be maintained. The same framework of standardisation will need to take into account local requirements:

- Local compliance and regulatory requirement vary
- Local customs vary
- There are regional differences in labour, property, and other expenses, requiring modifications to the standard operating model
- The pace of growth and change vary by region, and the bank needs to be able to adapt to these variables

This all lends itself to processes and offerings that are standardised and yet at the same time flexible enough to encompass diversity. Organisational shifts toward 'enterprise thinking' versus 'line of business think' should lead to improved customer growth and retention and thereby an improved bottom line.

Here, even before the current crisis, financial institutions have been placing a greater emphasis on the overall customer relationship, manifesting itself in relationship pricing and life-stage offering alignment, as well as collaboration across the wider financial services group.

To support such initiatives the following have become important:

- Time to market for new products and services – the ability to respond to customer needs
- Dynamic relationship based pricing focused on the customer as a partner
- Collaboration across the enterprise, subsidiaries, and partners

So what are we seeing from financial institutions in response to all these pressures. They are rationalising their businesses and business platforms. A shedding of peripheral businesses for one organisation is another's merger and rationalisation issue.

Looking to the future

Overall we will see reduced spend but spend that is focused on fixing the problems that have caused such large IT budgets in the first place. IT and Business Process outsourcing will be a fundamental response to reducing costs. Architecturally this will mean that the promises of service oriented architectures and 'on-demand' processes, will need to become realities sooner rather than later.

For TCS this presents plenty of opportunities. As an end to end, full service provider to Financial Institutions, with a complete set of applications and outsourcing offerings, together with a global reach delivery practice whose track record is second to none, TCS is perhaps uniquely placed to assist. Surviving organisations can come through the worst of the current downturn and emerge with much more agile and collaborative business models, models that will help them thrive in future.

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