

Financial Services: Where Do We Go From Here?

Financial Technology Insight

October 1, 2009

Dave Potterton

VP, Global Research





Agenda

- Four Key Themes in 2009
- How we got here
- Impact on Fintech
- Impact on Banking
- Capital conservation and Lean
- Four Key Themes in 2010

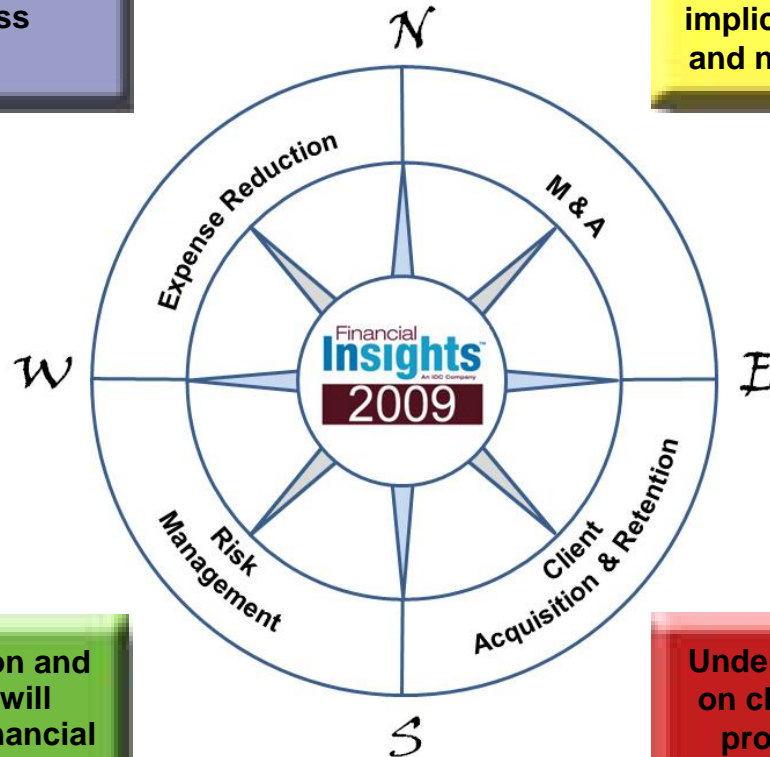
Research Practice Areas



Four Key Banking Themes in 2009

Future survival will depend on doing more with less

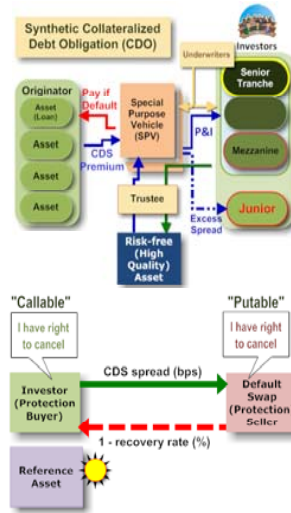
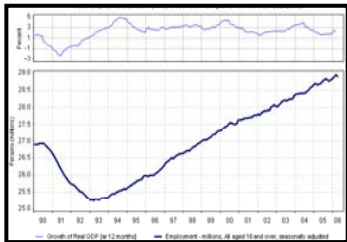
Who are the winners and losers and what are the implications for both acquired and non-acquired institutions



The proper identification and management of risk will determine not only a financial institutions survival, but its long term success

Understanding and delivering on client expectations about products and channels is critical and will determine the leaders in financial services

Sequence of Events...



**Growing Economy
Wealth Effect**

**Increased
Homeownership
Speculation**

**Collateralized
Debt Obligations
Credit Default
Swaps**

**Economic
Slowdown
Overleveraged**

**Soft & Hard
Capital
Rationing**

Financial System

Expansion, competition, house values up, risk lapses, exotic securities, leverage, liquidity, insolvency

Human Nature

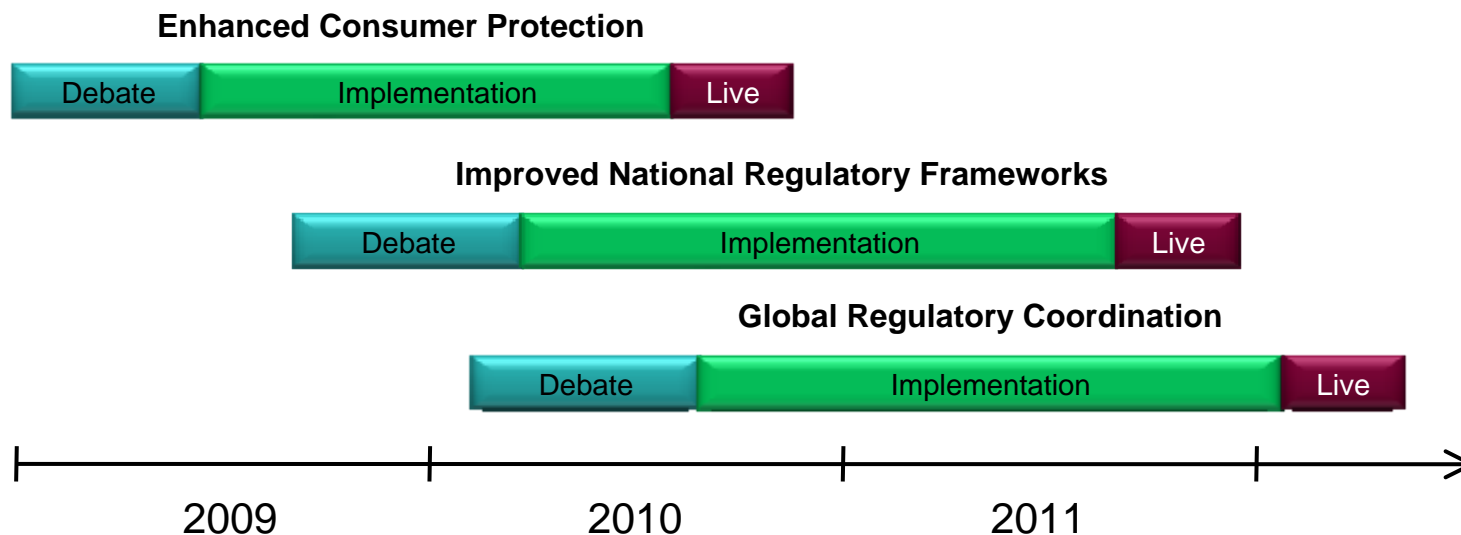
False wealth effect, increased consumption, money for nothing, record debt, bankruptcy

Governments Role

Low rates, Pressure on GSEs, lack of oversight, de-regulatory environment, capital pressure, bailout

Three initial waves of regulation

Three waves of regulation



Many projects need to start in 2009 but without crystal clear requirements

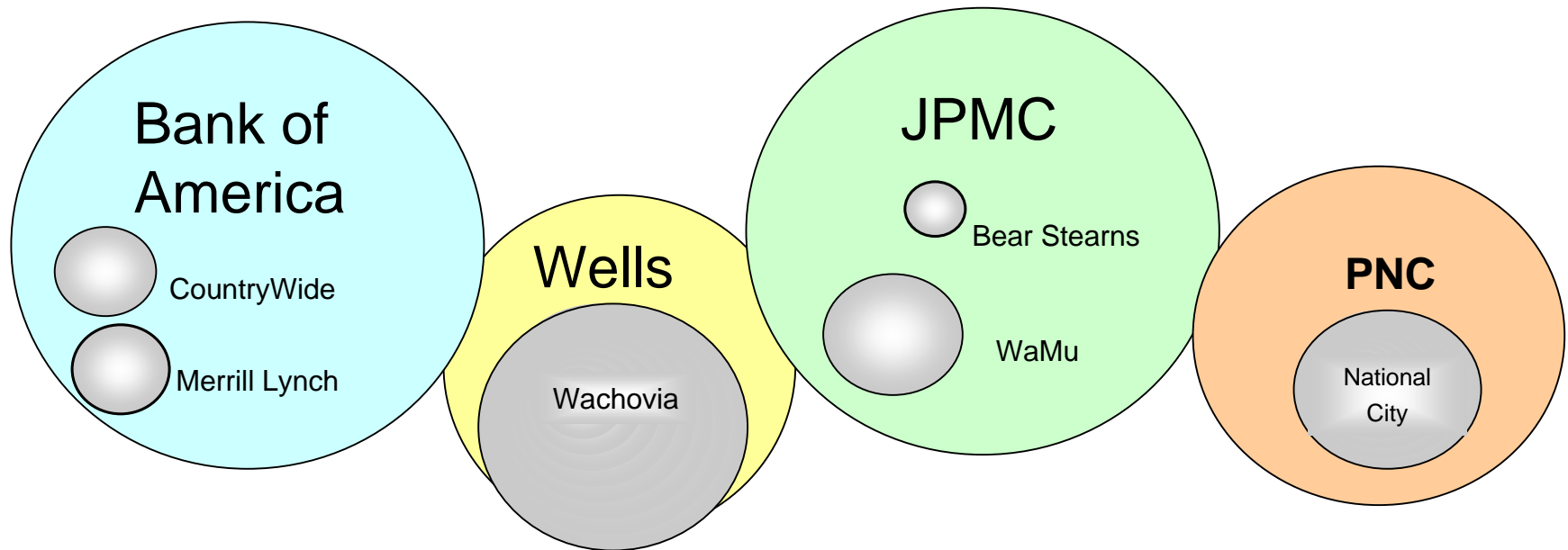
2009 – The Outlook for FinTech

- Banks, life insurers and capital markets in the eye of the storm
- Flight to quality as institutions seek safe partners
- FinTech consolidation
- Some bright spots – Smaller institutions (example in the U.S., credit unions), risk, collections, SaaS
- Large acquiring institutions will increase spending over next 18 months
- Well capitalized institutions will continue projects



Landscape for US banks continues to change

For large institutions:



And small:

- YTD, ~~40~~, ~~42~~, ~~45~~, ~~52~~, ~~77~~, ~~84~~, 95, ? institutions with assets under \$5 billion (with exception of Colonial) have been merged/closed by the FDIC YTD

Size of balls represents asset size

New Reality in Banking

- New/additional regulation and oversight
- No more "business as usual" – perception is key
- Not all banks are created equal
- Doing more with less
- Impact of mergers and acquisitions
- Attracting and retaining customers and their deposits more important than ever



Capital Conservation

- Even capital rich institutions are hunkering down and questioning all investments
 - Contract renegotiations
 - SaaS to reduce investment and speed time to market
 - All projects highly scrutinized, even if budgeted
 - Time to plan – fewer projects means more time to strategize and plan for the future
 - Lean can help direct capital where it is needed the most



Lean

- Purpose: The reduction/ elimination of non-value-added work in processes, operations, and activities while consuming the fewest resources
- Value: Defined from the customer's perspective
- Approach: Utilize VSM (value-stream mapping) to identify and eliminate waste .
- Principles:
 - Data-driven approach
 - Methodology-focused
 - Involve ALL employees to maximize the results

Lean In Today's Environment

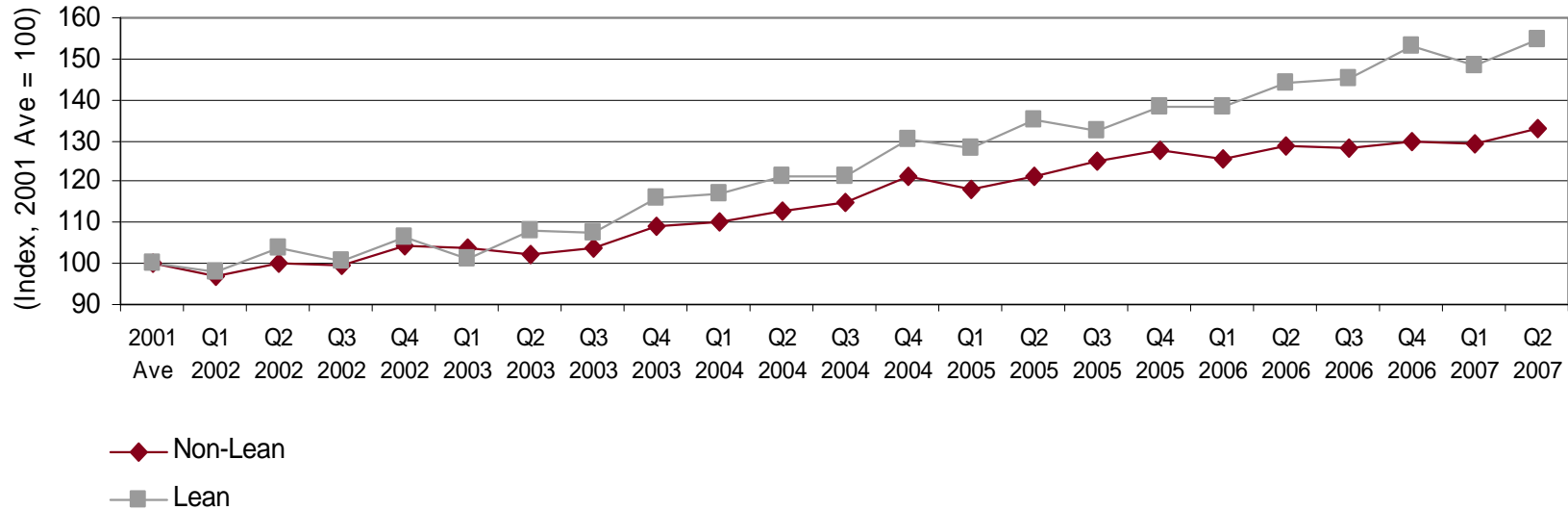
- Executives struggle to find new ways to reduce cost while delivering high-quality service
- Lean concepts enable institutions to expand existing cost reduction opportunities while creating customer value
- Executives who deploy Lean programs can:
 - Identify on average 40% waste in cost base across operational units
 - Improve process flow by optimizing cycle times
 - Embed Lean thinking in staff and the organization to drive sustainable transformation

Sample Financial Services Results - Overall

- Executives who deploy Lean Programs report 20-40% reduction in operating costs within 12-18 months
- Lean companies record 35-50% improvement in labor productivity and require half the product development time
- System throughput times also decreased by 80-90%

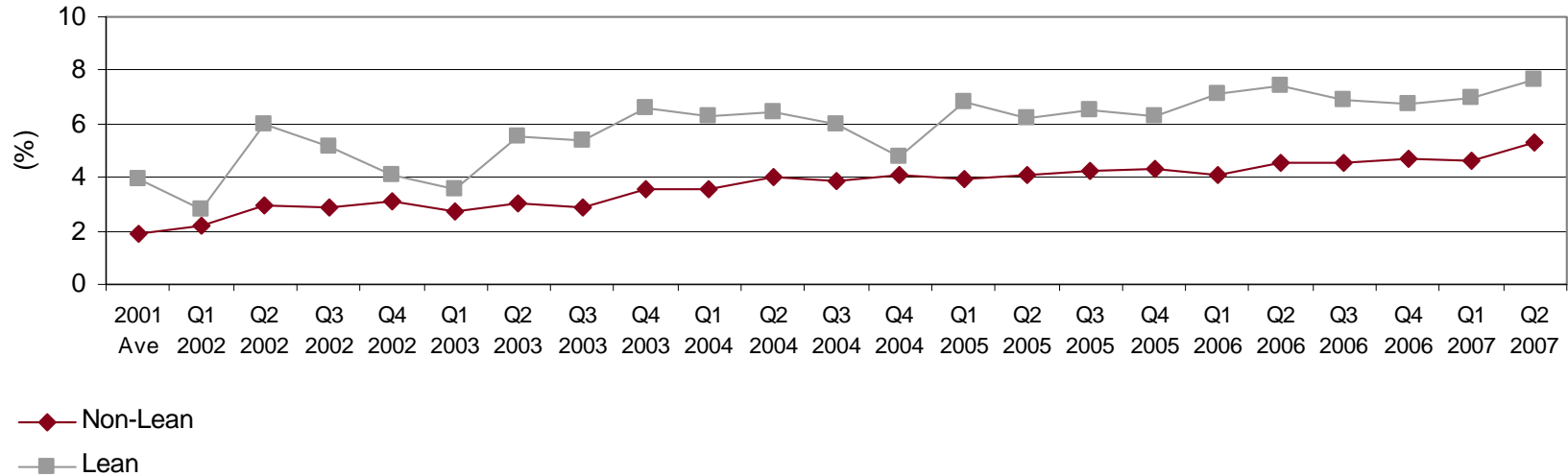
Source: Guidon Consulting – Operations Council™

Sample Results - Better Revenue



Source: Manufacturing Insights – Manufacturing Council™

Sample Results - Higher Margins



Source: Manufacturing Insights – Manufacturing Council™

Opportunity for Lean within IT

- Minimizes the unproductive costs of keeping the infrastructure running while:
 - Delivering and improving IT services that directly support the business
 - Producing savings which can be redirected to strategic projects with direct value to the business
- Once engrained in corporate culture and committed to by executive management, can pay significant dividends regardless of whether overall it spending at an organization is rising, flat, or declining

IT Matters in Lean

Productivity improvement requires a combination of best practices and IT

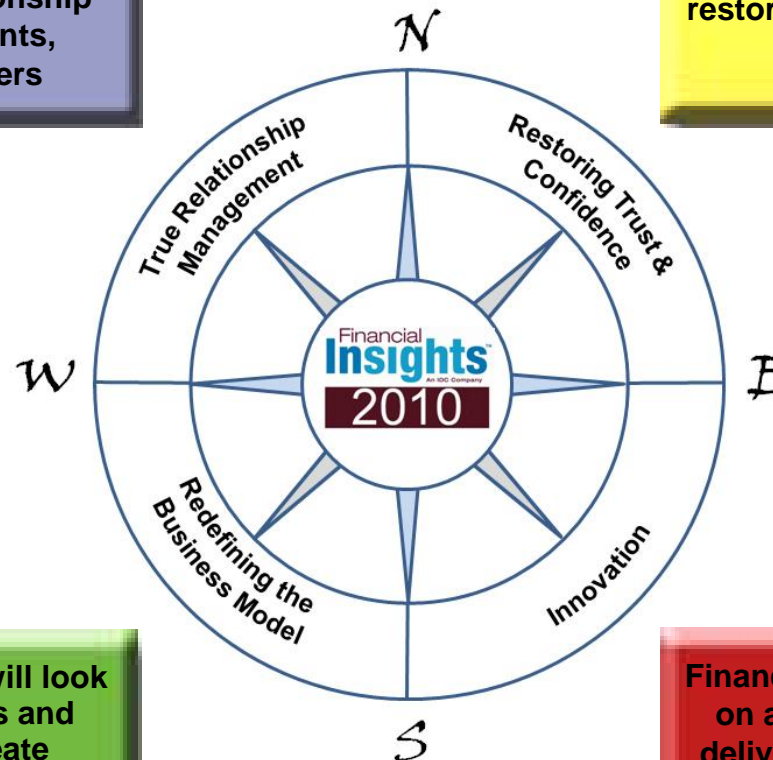
Management Practices	+8%	+20%
	0%	+2%
	Intensity of IT deployment	

Source: London School of Economics and McKinsey study of 100 manufacturers (France, Germany, UK, U.S.)

Four Key Banking Themes in 2010

Financial Institutions will actively look for relationship growth with key clients, vendors, and partners

Financial Institutions need to restore their image of trust and stability



Financial Institutions will look towards new markets and technologies to create sustainable differentiation while managing risk

Financial Institutions will focus on a client centric model to deliver the next generation of value added products/services

IDC Financial Insights Community

The screenshot shows the IDC Financial Insights Community website. At the top, there is a navigation bar with categories: Cross-Industry Home, Financial, Health, Retail, Manufacturing, Energy, and Government. A search bar is also present. Below the navigation bar is a header with the IDC logo and the text "IDC Financial Insights Community - Where Business and IT Professionals Connect". A secondary navigation bar includes "Summary", "About", "Members (209)", "Resources (5)", and "Search". The main content area features a "Recently Active Members" section with a row of profile pictures. Below this is a "FinTech Industry Perspectives Blog" section with two entries. The first entry is titled "What is the next evolution of risk management?" and the second is "FDIC Premium Prepayment - Good Idea or Not?". To the right of the blog entries are several promotional boxes: "Brought to you by: IDC Financial Insights", "Join our community", "Follow Us on Twitter", "Bookmark & Share" (with a social sharing button), and "Video Research Update" (with a video thumbnail).

Community Goal:

- To create a forum for IT and business professionals to discuss technology issues within the context of their business

Features Include:

- Networking – Invite, Find and Interact with Analysts and Other Members
- Global Analyst Blogs and Videos
- Discussion Forums
- Live Chat
- Polls
- Events Calendar
- Resource Library/ Complimentary Research

<http://idc-insights-community.com/financial>

Contact/Questions

David Potterton

VP, Global Research

dpotterton@financial-insights.com

Financial Insights

5 Speen Street,

Framingham, MA 01701 USA

Join me & your peers in the conversations in our
[IDC Financial Insights Community](#)



<http://idc-insights-community.com/financial>