



7 Ways Financial Institutions can Leverage Technology for Competitive Advantage

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Abstract

In today's economic scenario, whatever key business purpose and strategy your company emphasizes; customer intimacy, technology optimization, cost optimization or disruptive innovation; workplace practices must reflect and actively drive behaviours to deliver on that purpose, strategy and your corresponding market positioning. Unless the two are integrated, financial institutions will realise that they are putting their businesses at high risk. Some of the risks that are specific to this sector include misaligned business processes, insecure work environment and information silos which affect both processes and information security. This whitepaper outlines the impact of technology failure and its crippling impact on a financial organization and how technology can help reduce risk, be more cost effective and provide strategic value.

Introduction

A financial establishment includes several players such as commercial and investment banks, insurance, mortgage and brokerage companies, credit unions, and non-banking financial institutions. Before embarking on a detailed understanding of how technology can influence and benefit financial institutions, it is important to define the segment's key players and their challenges.

Current Challenges

Insurance Companies

Three of the biggest disrupters for this industry include customer expectations, innovation and emerging SME players in the market place.

Insurers are continuing to face marked changes in what customers expect in terms of products and service, how they obtain and utilize the information that informs business decisions, and their underlying business and operating models.

Customers want solutions which are personal, fine-tuned and address specific needs. Insurance companies have embraced innovation, but only in smaller devices. What is happening in the outer world requires radical changes at a faster pace. For example, autonomous cars, IoT, usage based models are redefining economies. Insurance companies need to push the pedal to cope with these innovations or face the possibility of losing out to smaller companies. Which brings us to the third challenge, i.e. competition from new, smaller players. These companies identify themselves as technology solution providers “Fintech companies”. These new players that have the ability to innovate quickly are taking advantage of the opportunity to fill the gaps that incumbents have not. They play with platforms, frameworks, cloud computing, on demand solutions and so on and so forth which the new-age consumer understands and identifies with.

“ The insurance industry has remained much the same for more than 100 years, but over the past decade it has seen a number of exciting new innovations and new business models.

– PWC Annual Report 2016 on ‘Top Issues’

<http://www.pwc.com/us/en/insurance/publications/assets/pwc-top-issues-the-insurance-industry-2016.pdf>

Commercial Banks

Commercial banks today face all the challenges that financial institutions face post-economic downturn. In spite of news about banking profitability, the fact remains that banks continue to struggle with return on equity. Consumers are demanding and banks along with remaining profitable have to exceed customer expectations. The pressure is high. Also,

financial technology has led to the mushrooming of start-ups which provide financial services. This is disrupting the way traditional banking has been conducted. Finally, as regulatory requirements continue to increase, banks need to spend a substantial amount of their discretionary budget on being compliant, which involves building systems and processes. To summarize they are experiencing increased and aggressive competition, security threats to sensitive customer data and finally margin pressures. To combat these pressures, banks need to quickly change the way they view their processes, operations and even their culture.

Investment Banks

The economic scenario has been difficult to say the least for financial services on the whole and investment banks in particular. They suffer from prolonged low interest rates, economic volatility and depressed commodity prices. The larger players are continuing to feel the brunt of the regulatory crackdown. Compared to other financial institutions, investment banks have less jurisdictional flexibility. They also need to demonstrate comprehensive and effective risk management. Local and global regulations are forcing financial services institutions to operate in a more capital-restrained environment and regulators are stepping in to ensure stability.

“ Hedge funds suffered a \$15bn outflow in Q1'16.

– Financial Times
<https://www.ft.com/content/c0f0b4a0-087c-11e6-b6d3-746f8e9cdd33>

Credit Unions

US credit unions serve nearly 100 million members which is almost half of the active banking population. The biggest challenge for credit unions today is navigating the regulatory landscape. However, they are much smaller than traditional banks in terms of average assets and as a result of this difference in total managed assets, they have smaller spending budgets in comparison to banks. They simply do not have the resources needed to train, integrate and improvise their existing systems and processes. As direct lenders, credit unions need to focus on customer service and the ability to control the entire loan process, offering customers a seamless experience. However, automation is key to improved customer experience and continues to be an area of serious concern for credit unions.

Non-Banking Financial Companies (NBFCs)

NBFCs form an integral part of a nation's financial system. They play an important role in financial inclusion and complement the banking sector, by providing credit to micro, small and medium enterprises. With the ground level understanding of customers, and their credit needs, NBFCs have an edge over other financial institutions, however, they struggle with regulatory constraints. Most NBFCs work with smaller budgets which does not give them the advantage of data analytics and innovation. For example, how do they focus on lending based on data from mobile phone records? Where is the budget for technology innovation? Do they have the wherewithal to change their processes and business functions to automation?

In another more impactful manner, NBFCs are not heavily regulated. These shadow banks as they are more popularly known have the power to upset the financial stability of a nation, simply because of the non-stringent regulatory climate that they enjoy.

Leveraging Technology for Competitive Advantage

Technology has moved to the forefront of the financial segment and it is critical to provide cost and competitive advantage. But ask any financial institution whether they agree with this, and their answers may be predictable. What about security? What about the data that we have? What happens if during migration, systems fail and we lose data and worse customers?

A reason for this could be the fact that financial institutions cannot move away from the way they view themselves. How can they be expected to see themselves as technology companies offering financial solutions?

Gartner estimates that \$486 billion will be invested in Information Technology by banking and securities institutions

However, the call of the hour is for a paradigm shift in thinking which will define the future. To elaborate, many financial institutions do not have the technology expertise that they do so much require in today's scenario. They don't even sometimes have clarity on what exactly they need, to jump over the fence. However, they will all unanimously agree that there is pressure – pressure to outperform, stay agile, save and regulate, in the hope that financial downturns will not hurt them like it did in the past.

What if they could view digital transformation in a new way? What if they could see the outcome instead of the process? What if they could envisage a world where they are available 24/7 to their customers, on multiple devices and transactions happen on-the-go? What if they are given enough and more information about their customers? What if this information itself becomes sales opportunities? Hasn't technology solved most of their problems already?

So where do they start?

Many large institutions have 'core systems' which date back several decades. Their systems are in the current scenario outdated, unwieldy and ill-suited to adapt to the digital and mobile era. The capacity of financial institutions to manage their existing IT infrastructures, cope with the changes taking place and address growing cybersecurity risks is being closely

scrutinized by regulators. They now regard technology as a potentially systemic issue with implications for the overall stability of the financial system. Despite the centrality of technology, many existing boards of financial services companies are singularly ill-equipped to assess and make critical decisions about strategy, investment and allocation of IT resources.

In this scenario, which are the key IT business drivers that this industry needs to focus on?

- Business-Critical Benefits
- Advanced Content Security and Data Loss Prevention
- Digital and mobile presence
- Out-of-the-box Business Solutions
- Advanced Compliance Workflows
- Integration of Data
- Enhance existing reports and Business Intelligence

Business Critical Benefits

Customer expectations for banks, wealth management companies and insurers are on the rise. In 2013, more than half of consumer bank interactions around the world took place through online or mobile channels, according to Bain & Company customer surveys. Include ATMs and the share of electronic, digital interactions exceeds 85% today and could hit 95% by 2020.

- Rebooting IT:
Why Financial Institutions Need a New Technology Model, Bain and Company.

Technology is at the heart of transformation and with the right capabilities financial organisations can become more nimble and sophisticated. While executives are already accepting the need to innovate, IT departments struggle to deliver. Their reasons include legacy systems, complex business processes, and inflexible architecture and talent limitations.

Information technology therefore cannot remain isolated. It needs to be viewed as a business challenge and only when the two work together can miracles happen. Also, it is important for executives to view the limitations that their tried and tested models are bringing about. When they start seeing their own processes as technology driven, only then

will they be able to envisage their business critical benefits. They need to 'think' like technology companies and not in terms of financial transactions. When this transformation happens, financial institutions will be able to implement technology solutions that better their businesses.

For example, digital sales numbers are twice, if not more, than offline transactions. Time to convert transactions is reduced to half. Customer satisfaction levels go up several times, as they are now available to meet customer demands.

Finally, they end up saving costs associated with non-critical projects, they can optimize infrastructure by adopting cloud-based solutions and adopt a futuristic attitude to their business models. One leading European bank was able to stop about 40% of projects after identifying them as non-critical, which released capacity and funding for more important digital projects and architectural enhancement.

[\[http://www.bain.com/publications/articles/rebooting-it-why-financial-institutions-need-a-new-technology-model.aspx\]](http://www.bain.com/publications/articles/rebooting-it-why-financial-institutions-need-a-new-technology-model.aspx)

By adopting a software development lifecycle (SDLC) model, financial institutions can implement new solutions on an incremental manner. This can vary on a case by case basis. For one company it could be mobility and for another customer reach. Whatever the end requirement, transition can happen slowly and calculatedly. In addition to flexible and rapid development, companies are increasingly adopting scalable, cloud-based development environments to reduce cycle times for provisioning, development and testing. While adopting new technologies, these institutions should focus on agile environment as it provides them with a peek into end user benefits. It gives them the flexibility to innovate on-the-go. Backed by test automation and testing functionality, adapting technology for business benefits can be smooth and hassle-free.

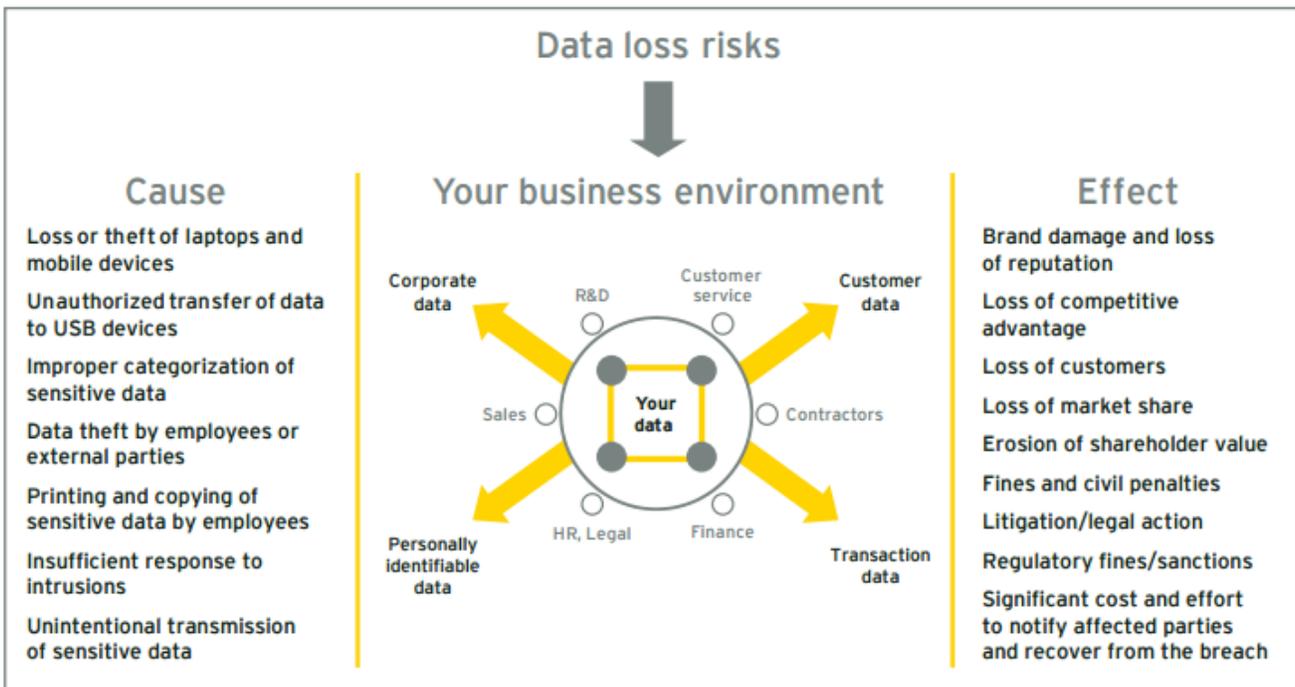
Advanced Content Security and Data Loss Prevention

Loss of data can be expensive, i.e. millions of dollars in direct and indirect costs, damage to brands and reputations. However losing data in comparison is extremely easy. Both intentional and unintentional factors can attribute to data loss such as loss of laptops, mobile devices, USB sticks and black market sale of valuable customer data to external parties, and so forth.

Data loss prevention requires a holistic approach. It starts with identifying data, the value of the data, how obligated an organization is to protect it. From here stems the next step, i.e. where does this data actually

“ Two thousand customer records from a national retail bank were stolen by employees prior to leaving and joining a competitor firm. Records included customer bank account numbers, Social Security numbers and other highly sensitive personal data such as tax returns and pay statements.

[http://www.ey.com/Publication/vwLUAssets/EY_Data_Loss_Prevention/\\$FILE/EY_Data_Loss_Prevention.pdf](http://www.ey.com/Publication/vwLUAssets/EY_Data_Loss_Prevention/$FILE/EY_Data_Loss_Prevention.pdf)



reside, does it go out and if yes, where? If you have answered these, then the next question, i.e. how do you protect your data, should be easy to answer. By mapping protection to risks it is possible to identify gaps and build solutions to protect the same.

Adding complexity to data management is the simple truth that data is not stationary. It moves and evolves during its lifecycle. For some time it resides in a place, then it moves when an internal user accesses it and at that stage it becomes data in use. A data governance model ensures that data is protected through all the three stages. For example, network monitoring, internet access control and similar controls can help to control data in motion. When data is in use, access control, export and save control and similar gateways can be in place. When data is at rest, storage points can be protected for data loss prevention.

Data can be so easily protected if the right systems are in place along with stringent security measures. By adding passwords and protections, security and network gateways most data losses, both intentional and unintentional can be prevented.

Information security ensures that multiple layers of security are in place and these are monitored on a regular, defined manner. Having a structured data loss risk management program and a clear set of controls to mitigate data loss risks can provide a holistic view of data loss potential. A good technology solution provider can offer a customized solution which offers a dashboard view of data loss risks and assessments.

Digital and Mobile Technology Adoption

In the past twenty years, financial institutions have invested billions of dollars in CRM solutions, with advancements such as artificial intelligence, machine learning etc. to provide multiple ways to reach and communicate with customers. While these investments were good and generated revenues, customer churn is not slowing down. However, in the current scenario, these same financial institutions are stuck with legacy software which does not provide the flexibility to embrace digitalisation and mobility.

A.T. Kearney research finds that US financial institutions' ability to innovate and deploy digital and mobile capabilities are the key factors in driving market share movement. According to this agency, approximately 20 million US adult banking customers, have switched primary banks in 2015. The reason for the switch? Lack of Innovation! A.T. Kearney's survey also confirms that among those who switched primary banking relationships, strong digital and mobile capabilities such as online banking, mobile banking, and reputation for data security play an important role in bank selection decisions.

Customers therefore demand innovation and digital and mobile transcends their list of what they want from financial institutions. As a result of this mind set, many of them moving away from traditional financial institutions can be stopped, if innovation happens fast. It is therefore no more a choice but imperative for financial institutions already burdened with their own set of woes.

While the task of migrating legacy software to new next generation technology seems expensive and work intensive, the fact remains that this needs to be done to not only attract new customers but to retain existing ones. New platforms and technologies offer mobility and digitalization options which once unleashed can be unstoppable in terms of revenue generation and customer retention.

Out-of-the-Box Business Solutions

There is a misconception especially within the financial sector that 'one size fits all'. This is definitely not true seeing that every player offers a different solution, using a different model, whose approach, strategy and payoffs are unique and different from his unique competitor. Comparing, for example, all insurance companies and saying that they are all the same, their needs and challenges similar and therefore the solutions offered to one will fit another is not only wrong but expensively wrong.

It takes again the business – technology marriage approach to identify the right solution for a business. Various other parameters also contribute to the same, the size of the business, geographical presence, target customer base and the list goes on. For this reason, it is important that technology partners or the IT department within the organization understands what the real need or challenge is. It is from this step, that glimpses of the solution emerge. However, even at this stage, it is wrong to presume that the total solution can be seen, which is why it is important to go with Agile methodology which provides for a customized solution based on end-user requirement.

Enhance existing reports and Business Intelligence

Business Intelligence is integral to catalysing, effective business decisions. While financial institutions mostly have standard technologies to store transactional data making this data

available for intelligence is another matter. Also disparate systems, information silos and traditional architecture have made deriving intelligence and reports a nightmare. By adopting Big Data platforms and making incremental changes, financial institutions can benefit from the intelligence that they can derive.

Customized analytics and reports goes one step further by providing these organizations with data which actually makes business sense. To go this far requires technology partners or IT departments to think beyond technology. The requirement is a keen understanding of the business which in turn leads to strategic reporting solutions which only domain experts can provide.

Advanced Compliance Workflows

Tighter regulations have challenged financial institutions for some time now. Yet, the fact remains that early adapters have definitely enjoyed a competitive advantage. Compliance risk is extremely important for financial institutions. Mortgage servicing was a learning opportunity for the US regulators that, following the crisis, resulted in increasingly tight scrutiny across many other areas (for example, mortgage fulfilment, deposits, and cards).

While traditional compliance had a set of issues, for financial institutions today, compliance is misunderstood from the business operations perspective and the underlying risk exposures that it can throw up.

Even in the technology era, many institutions struggle with fundamental issues of compliance such as compliancy literacy, accountability etc.

To ensure that the company's policies and procedures and compliant, a consistent, secure, auditable workflow is needed. As the number of compliance regulations increase, the need is felt for automation of workflows. Whether one needs to comply with Sarbanes-Oxley, ISO Standards, the Gramm-Leach-Bliley Act, HIPAA, SEC, FINRA, OCC, internal security protocols or any other compliance requirements, workflow automation allows you to build compliance workflows that provides a safety net for your organization.

In the compliance workflow process, the first step can be identified as Approvals, as this is a

crucial responsibility of the compliance officer. Without an automated process, submission approvals can be slow and even erroneous. Approvals are followed by Audit trails, and here too compliance workflow automation comes in useful. The same continues for attestations, service provider assessments, legal holds and litigation services.

Not only will automating compliance workflows mitigate risk, they will also help to reduce regulatory and litigation burdens. It reduces process time and therefore frees up employees to focus on other more important jobs.

Data Integration

Most financial institutions operate across multiple channels. As a result of ongoing mergers, acquisitions and consolidation, these institutions are weighed down by information silos, large, disparate legacy systems all resulting in a disparate technology ecosystem. This is a huge challenge both for gaining a top level view of the organization and for actionable insight within the company. By integrating data, these institutions can leverage technology to integrate all of their data along with new datasets, to get more precise and dynamic insights into fraud management, risk management & compliance and improved customer experience. Using the scalability of the platform and its cost-efficiency, banks can also realize significant cost improvements on their existing BI landscapes. Finally, banks can now generate new revenue streams from value added services they can offer to their customers or partners and begin to monetize their data and insights.

This ability can include visibility into Fraud Detection Optimization using a Deeper Transaction Trends History, customer analytics to optimize existing relationships, Create New Services by Leveraging Customer-related Data, Optimize Your Existing BI and Reporting Environments with Big Data.

Summary

Research suggests that although 62% of companies lack the modular and flexible architectures needed to succeed in digital, only 8% have committed to a complete core systems replacement. Unless, financial institutions are ready to replace or transform their IT architecture, their challenges in the next decade will be daunting.

Financial institutions are tired of the proliferation of technology innovations. They also by now realize that rapid, iterative software development is not enough as it addresses a need already replaced by a new one.

What is required is a holistic approach to seamlessly integrate development and operations via automation, standardization and resource management, which is the mantra for futuristic financial institutions. When they have reached this stage of stability they will realise that new innovations are often an offshoot of existing ones making it easy to integrate when required.

However, while financial institutions believe that their problems start and end with technology adoption, their real problem lies in identifying the right technology partners who can help them.

They need to search for partners who are not only technology experts but have a deep understanding of the domain, and then from there a good idea about their own unique business model/strategy. Only a technology company which has a deep domain expertise backed by technology knowhow can convert the IT operations into an agile, nimble and strategic well-oiled machine. The effort lies in identifying the partner. Once that step has been crossed, for financial institutions, there will be dramatically shorter delivery cycles, reduced errors and fixes and budgeted costs.

As part of Trigent's Financial CoE, we've interviewed and worked with numerous industry leaders and have identified several key business opportunities that incumbents need to take advantage of as they try to meet customer needs while improving core functions.

About Trigent

Trigent is a privately held, professional IT services company and a Microsoft Gold Partner with its U.S. headquarters in the greater Boston area and its Indian headquarters in Bangalore. We provide consulting services in various technologies including Microsoft Solutions. Our operating model is to conduct sales, customer relationships and front-end consulting (e.g., business case, requirements, architecture) onsite with our clients and perform the detail design, development, integration, testing and quality assurance offshore at our world class development and support center in Bangalore. We are a SEI CMM Level 4 company and is ISO 9001:2000 TickIT certified organization.

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