

Chapter 1 (Book)

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Aspects of value-adding of Financial Services Through IT

- Address needs of key stakeholders
 - o Customers
- Functions
 - o Business
 - o Operation
 - o Risk Management
- Regulatory Bodies

Challenging Task

- Complex process
 - o Balancing conflict business requirements
 - o Managing technology limitations
 - o Navigating through organization and external politics

How IT benefits and support Financial Institution growth

- Customer-focused solution makes it more competitive
 - o Enables domination in the market segment
- Customers enjoys better convenience and accessibility to diverse products

Drawbacks of ineffective use of IT

- Inability to use IT fully
- Customer dissatisfaction
- Employee frustration
- Business stagnation

Business Drivers of Financial Services

1. Increase Competition

- Shift in protected market to a competitive market
 - o Higher standards
 - o Attaining position in strength for subsequent industry consolidation
- Reduce profit margins
 - o Traditional and the commoditizing of products
 - leading gap of dominant and lagging institution begins to diminish

2. Increase Scale

- Competition allows banks to take advantage of economies of scale
 - o Universal Banking - Providing for forms of financial products and services
 - Reduces unit cost
 - Lower risk through diversification
 - Improve returns for large IT infrastructure investment.
- Expansion of existing products to new markets
 - o Consideration in entering new markets
 - Regulation
 - Customer preferences
 - Business practices
- Increase scale played a huge impact on IT and operations
 - o Necessary to integrate siloed business function
 - Remove duplicate functions and improve efficiencies
 - Find synergies across business lines
 - Create greater value

- New opportunities

3. Changing Revenue Sources

- Focused on fee-based income from interest-margin income
 - Fee-based is less sensitive to interest rates and business cycles
 - Fee-based do not require growth in balance sheet size
 - Interest-margin income products require institution to have margin of capital investment

4. New Delivery Channels

- Accessibility to new delivery through phone, internet banking
 - Supported growth and profitability
 - Less Cost
 - Greater reach
 - Improve turnover and handling capacity
 - Customer convenience
- Need for staff education
 - Bank staff to be IT literate
 - Bank IT staff to be more customer and business oriented
- new risk
 - Need to identify such risk and mitigate these risk
 - Business users and IT staff to work closely together

5. Regulatory Changes

- Financial Institution have to adapt to changing regulation on products and processes
 - Hurt profit and cost of change
- Type of regulation changes
 - Risk management guidelines
 - Security management

Technology Drivers for Financial Services

1. Technology Infrastructure

- Tremendous improvements in hardware, software and networks
 - User interface becomes flexible, powerful and intuitive
 - Processing speed has become more powerful to handle more customers and products
- Influences the financial products
 - Foundation of these products
 - No more limitation by IT
- Challenges emerged
 - Choosing of best platform for given solution purpose
 - Cost, performance, stability and skills availability
 - Rate of development VS obsolete speed of technology
 - Concern over the need to constantly change to accommodate technology platforms

2. Distributed Processing

- Move from central computer mainframe to servers and desktop applications
 - Easy relocation of computer resources
- Capturing and processing information becomes more decentralized
 - Extended range to customer home, offices and branches through internet
 - Crucial factor as banks become diverse in location
 - Allow banks to route manual processing electronically to lower cost location
 - Allow customers to use banking services through different location
- Challenges of decentralizing of computer
 - Monitoring and Managing of decentralized processes and functions
 - Need to decide on which processes and functions are to be centralized and decentralized
 - Need to choose which parts are for regional or local business units to source, manage and customized

3. Data Processing and Management

- Real-time information to be transmitted, process

- Allow practises to be expanded (FX trading)
 - Allows automation
- Distributed processing creates issues
 - Duplicates of information
 - Management and aggregation
 - Challenge of risk management
- 4. Solution Building Blocks**
 - Speeds up construction process of system
 - Allowing of assembling of combination of component and best-practice business logic
 - Layered architecture models
 - Allow better customization of system to suit business needs
 - As compared to stand-alone and off the shelves
- 5. Enterprise Application Integration**
 - Allows flexibility and better communication between applications
 - Allow automation and triggering through communication
 - Enterprise Service Buses - links system and platforms
 - Enterprise Application Integration - presents communication link way between applications
- 6. Business Process Orientation**
 - Allow constant improvement and monitoring of business process and flow
 - Business Process Management Systems allow integrating and consistent management of interactions between systems and users
 - Allows paperless environment
 - Business Process Management allows automation of past manual process
 - Reduction in processing time, and improvement in accuracy and efficiency

Business Opportunities for Financial Services

- Varies for different markets due to technology and current business capabilities
- Rate of innovation increases rapidly
- Increase in competition has forced financial institution to become innovative
- 1. New Product**
 - Enhancing and differentiation existing products
 - Address the needs of different market segments
 - New products provide short-term competitive advantage
 - Pricing is less transparent and provide higher profit margins
 - Competitors will catch up with their own new products to reduce profit margin
 - Not easy to develop
 - Regulations, technological and operation hurdles
 - Hidden Risk
- 2. New Services**
 - Direct benefits
 - Generate fee-revenue
 - Improve volume of transaction process, cheaper modes
 - Reduces cost and improve profitability
 - Greater operational efficiency
 - Indirect Benefits
 - Customer convenience of real-time information
 - Create loyalty for free services
 - Improve customers perception of responsiveness
- 3. New Channels**
 - Extending existing channels and introduction of new channels
 - Extend the reach to its customers (services, social media)
 - Create possibilities of mobile solutions
 - Increase sales volume through easier access to products and information
 - Reduction of cost and replacing of obsolete and costly channels
- 4. New Business Models**
 - Provide innovative practises

- Pricing schemes
- Extending of customer segment
- Combining of different industries
- Leverage growth in markets that become saturated
- Counteract against larger rivals
- 5. Improving Service Levels**
 - Improvement of current business process and IT infrastructure
 - Automation to improve process time of transaction and efficiency, accuracy
 - Reduces delays, bottlenecks (streamlining of manual processes into automation)
 - Improve customer satisfaction
 - Faster processing time (loan application from days to hours)
 - Faster turnover rate (shorter queue times)

Business Challenges For Financial Services

1. Competition

- Changing environment resulted in a need to fend off competitors to stay in the market
 - Regulations
 - Technology advances
 - Channel advancement
 - International expansion
- Other industries are now introducing products to rival bank products
 - Ownership of payment modes

2. Complexity

- Business processes and IT system environment becomes more complex
 - Mergers and acquisitions
 - Regulatory changes
 - New technology
 - New service delivery channels
- Global expansion and services sourcing
 - Dispensing of IT system and business processes across location
 - Led to higher operational risk
 - Internal controls of business processes are easily circumvented
- Creates inefficiencies and diseconomies of scale as complexity increases
 - Profitability curve as product increases
 - Conflicts with other products, handling capability
- Legacy system creates problem as business processes becomes complex
 - Need for streamline and integrate system
 - Faster processing
 - Reduce operation risk
 - Better automation between process
 - Clearer communication of information
 - Integration of system
 - Remodelling of interfaces, structure
 - Impact of other system

3. Risk

- Risk Management affects the long-run profitability
- Consequences of operation failure in financial institution is huge
 - Poor implementation of risk management
 - Failure of data control and process
- Financial Institution have to take risk seriously
 - Operational risk
 - Potential Risk
- Identifying Risk
 - Significance of risk
 - Cost of risk
 - Mitigation of risk

4. Regulatory Changes

- Compliance of the regulation
 - o Cost of change to address requirements
 - o Draws resources away from profit generating and cost saving initiatives
- Handling of fast changing regulations
 - o Combine them with other initiative, so as to create momentum
 - Take advantage of the changes to push business forward
 - o Choose to relocate to areas where regulations are more favourable
 - Business process, IT system requires the least disruption of regulation enforcement

Stakeholder Alignment

1. Management Concerns

- The need to ensure that the IT solution are aligned with company's overall strategy
- Weigh the merits of different solution, and prioritize them
 - o Cost
 - o Return on Investment
 - o Risk
 - o Benefits
- Categories of solution to highlight benefit focus
 - o Strategic
 - o Tactical
 - o Maintenance related

Best to focus on all three categories and not too focus on a category
- Ensure that IT solution are flexible
 - o Pace of change are fast
 - Changes are need to adapt to the pace (regulatory, market)
 - o Legacy system hamper the changes of IT solution

2. Customer Concerns

- Solutions are focus on customers
 - o Internal customers (Employee)
 - o External customers
- Factors of customers concern
 - o Cost
 - o Ease of use
 - o Convenience
 - o Service quality
 - o Security
- Some factors might have conflict
 - o Trade off depends on the type of customers
 - o Current trend is a more customer-centric (External) approach
 - Design business process and IT solution around customer preferences (as compared to organizational structure)
- Important to consider the indirect effects
 - o IT solution for operation staff can affect external customers

3. Operational Concerns

- How IT solutions affect operational performance in the short and long run (SLA, KPI)
 - o Processing time and Throughput
 - o Cut-off times
- Solution should embrace the SLA, KPI
- Resistance to adopt solution
 - o Affect short-term to achieve long term
 - Mitigation of operation processes and working practise
- Operational concerns on IT solution
 - o Internal control
 - o Flexibility
 - o Efficiency

Ensure that control points incorporated into operation process are not circumvented

IT solution can affect the KPI, SLA

o Positively and negatively based on the design of solution

- Exception management
- Consistency
- Continuity
- Greater number of change will lead to higher likelihood of defection
 - Affects KPI and SLA
 - Need to find optimal balances implementing changes to improve efficiency and limit frequency of change

4. Information Technology Concerns

Standardization of hardware and software , networking	Simplify the IT environment at lesser cost
Technology Risk	<ul style="list-style-type: none"> - Defects in software application - Security vulnerability - Poor design of IT solution
- Cost of development and maintenance	<ul style="list-style-type: none"> - Cost of address operation risk <ul style="list-style-type: none"> • Spending of development (8% revenue) • Maintenance over the years (20% of development cost)
Geographical logistic	<ul style="list-style-type: none"> - Linking of operation processes in dispersed system - Allocation of resources in each location

- Management of IT solution
 - Single unit (Technology and Operations)
 - Business processes are executed by IT system and people
 - Cost and benefits to reduce number of operational units and interface
 - It and operational concerns may be combined or intertwined

5. Regulatory and Compliance Concerns

- IT solution must address regulation and compliance
 - Regulatory directives
 - Review for potential concerns
 - Identification of control and security vulnerabilities
- Compliance functions
 - Focused on controlling business risk
 - Compliance Staff to educated
 - Business staff to understand IT strengths and limits
 - IT staff to understand the business risk
- Fundamental requirement of developing banking solution
 - Consider, address and obtain consent of key stakeholders as early as possible
 - Conflict between the regulation and stakeholders objective
 - Each stakeholder and elements have different objective
 - Finding of optimal compromise between stakeholders, compliance function

Understanding of reciprocal concerns
 - IT and compliance functions can find common understanding