



> **BRYAN O'CONNELL** FAIBF, B@NKFIN CONSULTING, ATTENDED IBM FOCUS 2002 AS A GUEST OF IBM. EMAIL bryanoc@bankfin.com.au WWW.BANKFIN.COM.AU

# AT THE TECHNOLOGY FRONT LINE

## REPORT FROM IBM FOCUS 2002.

**IBM'S INDUSTRY FORUM, FOCUS 2002 WAS HELD IN APRIL AT SYDNEY'S DARLING HARBOUR AND BROUGHT TOGETHER EXPERTS FROM AROUND THE WORLD TO DISCUSS THE LATEST TRENDS AND FUTURE DEVELOPMENTS IN TECHNOLOGY. BY BRYAN O'CONNELL**

One of the most important aspects of the forum was the focus on the convergence of business and technology across various industries, including the banking and finance sector. A number of key issues emerged from a range of highly regarded speakers.

In his opening address, Dr Kenneth Courtis, vice chairman of Goldman Sachs, said the unrelenting force of technology would influence world economies in the future. Dr Courtis, also a regular contributor to the *Harvard Business Review*, *The Economist* and *Wall Street Journal*, added technology would continue to be a major force of change across a wide spectrum of work and business activity.

A number of speakers outlined issues in regard to the convergence of business and IT in the financial services industry. In particular, how you get value in the business from IT investment.

Bill Pieroni, general manager of insurance for IBM worldwide, outlined a number of IT strategies that all financial institutions, including banks and insurance companies need to consider to generate value, create cost efficiencies and improve customer loyalty from IT.

Pieroni's extensive research indicates that, globally, financial institutions are still spending significant sums on technology and will continue to do so in the future. However, many financial institutions are spending in the hope of value creation, rather taking a highly disciplined approach to ensuring that this occurs.

"What is required is that financial institutions must have a planned and detailed approach to IT spending," Pieroni says.

IBM's global research, supervised by Pieroni, suggests that many financial institutions do not take such a disciplined approach – there is not sufficient analysis of the real numbers

around the IT spend and the application of comparative case studies which can show how real value can be created.

An additional problem in many financial institutions is ensuring the most appropriate skilled and trained people are dealing with the value propositions. These people are "accountable for, can understand and can implement the numbers", says Pieroni.

In many situations, Pieroni says, there is a shortfall in value creation because the business people who deal with technology projects do not understand the detail of the IT spend.

For any investment spend, Pieroni says, there needs to be an appropriate level of detailed analysis and consideration of the issues that are affecting the financial institution's IT infrastructure. This will ensure the best solutions and achieve the highest returns from the investment.

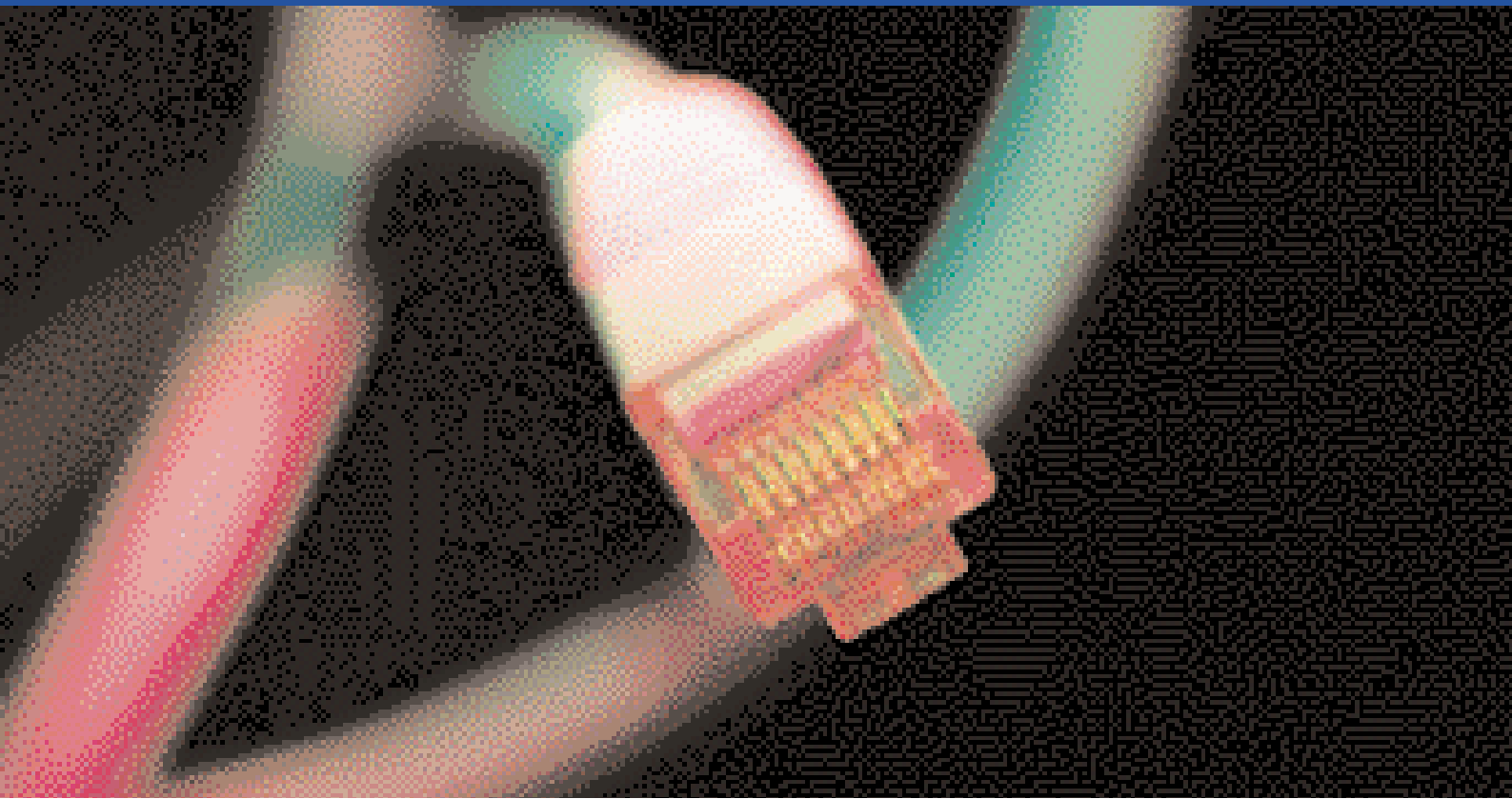
Pieroni believes many financial institutions simply take the wrong approach to IT spending. Instead of taking the position of how little they can spend on IT, the issue should be how to spend so that the marginal benefit exceeds the marginal cost.

"This is a key example which illustrates the approach of many financial institutions of not applying proper business criteria to IT spend and living in hope that some IT spend will create value," he says.

### Emerging opportunities in payments

On a more specific note, IBM global payments executive Alec Nacamuli identified three emerging issues in the payments systems.

Firstly, in the credit card business Australian banks must find new sources of revenues, or else lower their costs significantly if the Reserve Bank moves to lower interchange fees (the



wholesale fee charged between the banks for processing each other's credit card transactions).

Nacamuli has a number of suggestions for banks to tackle this. Banks should look at sharing more of their infrastructure to bring down costs, while on the revenue side data mining should be used so they can better understand their customers. Knowing their customers' occupation and lifestyle choices can, for instance, help banks to develop loyalty or coupon arrangements with merchants.

Second, in the wholesale market, local banks face increasing competition from foreign banks in the small to medium-sized enterprise (SME) market. This is because the costs of selling are reducing, particularly because of internet-based wholesale corporate banking services and marketing.

Nacamuli's view is that many of these foreign banks will be drawn to the SME market and we are likely to see more competitive heat being generated by these players.

"Internet-based technology will give a new low cost avenue for these banks to market to the SMEs – this could impact in such areas as trade finance where low cost marketing methods may pose some threat to existing players," says Nacamuli.

Third, given that the payments system is effectively a franchise of the banks, the banks have the opportunity to integrate their payment offerings with other financial services. This will help to retain their premier position and role in the whole business-to-business commerce arena.

Nacamuli believes banks should be looking at companies which are working together on integrated supply chains and offer financial services across these corporate clusters: for instance credit finance, invoice discounting and factoring.

According to Nacamuli, the payments business needs to span all of a bank's business lines, to create a "holistic" business payment strategy. This is needed so as to underpin lines of business such as trade finance, securities and clearing and corporate banking, particularly corporate treasury cash management services.

"Without a coordinated approach, everyone runs around with their own liquidity and own processes and are not getting the benefits of having an overall view on settlement exposure," says Nacamuli.

Another point that Nacamuli makes is that real time foreign exchange settlements through what is known as CLS is due to start in Australia by the end of this year. This will affect all Australian banks dealing in foreign exchange.

"This means that you will need to look at your liquidity very carefully because of the extremely tight time-frame restrictions and specific times that settlement must be made in," says Nacamuli.

### Fostering operational resilience

IBM's global financial strategist Francis Lacan presented a framework the company has developed over the last three to four months, giving customers a mechanism for better managing operational risk.

The framework is about aligning initiatives across what IBM calls the "risk chain".

"If you look at risk as a chain, you have different links and connections," Lacan says. "Along that chain... you can anticipate events, detect, monitor and adjust your exposure, make yourself more robust and optimise recovery abilities."

IBM's framework allows some degree of unification and integration of those activities. Part of this involves creating good communication between the people throughout the chain.

"The focus is not only on the risk management process – it is also about implementing technology tools to assess risk," Lacan says.

"This is a powerful additional force when combined with our work on the risk management process. Our suggested path is first with the infrastructure solution, getting the right information/communication and then using technology tools like work flow management to create a total framework solution." ■