

point of view

The State of Modernization in Financial Services

What it means, how to achieve it, and why it matters

agility

The Modernization Challenge

In many large companies today, IT spans many generations of technology. You could stock a small computer museum with all the gear. Decades-old legacy systems running custom applications co-exist – not always easily – with open, standards-based systems running new and more flexible applications.

IT organizations spend most of their time and money keeping everything up and running, leaving less available for innovation and promising technologies like SOA, virtualization, analytics and collaboration tools.

Multiple islands of IT limit the availability of real-time information for compliance requirements, operations analysis and revenue initiatives.

And all this is happening in an environment where IT is often viewed as a cost center or support function rather than a strategic business partner.

This may sound like an IT problem, but it's really a business problem, because IT doesn't just support the business anymore. For more and more companies, it is the business.

Nowhere is that more true than Financial Services. Enterprise payments, retail banking, business and customer intelligence, core banking, mortgage front and back office processing, security and fraud detection, and new product development all depend on IT more than ever.

This is especially true for credit risk management, which has taken on new importance in the wake of the sub-prime mortgage crisis, and operational risk management, which is becoming even more critical because of increasing regulation and compliance initiatives.

CEOs are under pressure to increase revenue and profitability through organic growth or acquisitions, which bring substantial business and IT challenges of their own.

New growth opportunities like mobile payments, mobile banking and customer loyalty programs require an agile, flexible IT infrastructure – and a level of business and customer intelligence that few companies have today.

And the business side of the house is beginning to recognize that without the renewal of core banking systems, they can't drive growth.

“With this emphasis on upgrading architecture and investing in new technologies, the office of the CIO is gaining control over more IT budget, with the support of business heads who recognize that these are the investments that will empower their efforts in the future,” says Financial Insights in its report, “Worldwide Banking 2008 Top 10 Strategic Initiatives.”

At the same time, CEOs and CIOs are expected to do more with less and increase operational efficiency. Demanding customers expect easy access to complete data, integrated channels and intelligent interactions. And demanding CEOs want a single version of all the company's customer information available in real time.

It all comes down to this: if IT and the business aren't working in synch – harmoniously and toward common, clearly defined objectives – growth, innovation and cost efficiency become elusive goals.

Yet there's a significant strategic disconnect between business aspirations and IT reality. Companies are thinking about the future, but they're often stuck in the present, if not the past.

Companies that want to get the full business value of their IT investment need to free IT from the restraints that prevent it from being a strategic business asset and a force for growth and profitability. And IT organizations need to run IT as a business rather than as a cost center.

It's all about modernizing your IT, modernizing your revenue streams and modernizing your enterprise.

Time to Free IT

Freeing IT means freeing the business to:

- Pursue growth without concern about the limits and constraints of systems and applications
- Design processes to do what goals dictate and customers need, not just what technology allows
- Break the innovation barrier
- Align the asset portfolio against bottom-line goals
- Target investments so that money is freed up for innovation

That's how IT modernization drives enterprise modernization.

The Meaning of Modernization

There are many myths and misconceptions around modernization. One school of thought says it equates to “big bang” infrastructure implementations, or “rip and replace” on a grand scale. Others think it means using only open source assets. Or virtualizing and automating everything. Standardizing on one platform, and/or deploying all the “next big thing” applications as an early adopter.

When thinking about modernization, optimists think leading edge; skeptics think bleeding edge. The biggest fear is that modernization is an “out with the old, in with the new” approach that will be massively expensive and hugely disruptive.

The truth is that modernization means different things to different organizations. There’s no reason it needs to be expensive or disruptive. And while modernization programs can impact both hardware and software, and a range of enabling tools and components, it can also be highly targeted and self-funding. By no means does modernization require starting over.

The key is to view modernization not just in IT terms, but rather as a holistic, enterprise-wide undertaking that connects the dots between business and IT. Unisys believes enterprise modernization is best defined as:

A holistic and ongoing evolution of business processes, applications, and technology where business and IT are aligned to produce flexible, low-cost operating models that reduce risk, improve performance, and increase agility.

As you can see, modernization impacts a lot of things – hardware, infrastructure software (operating system, virtualization, middleware and databases), architecture, business applications and people.

More important is that this definition focuses on the business-to-IT linkage – the way core strategies and mission-critical processes are executed and fulfilled by IT assets.

Many organizations start with the “stuff” of IT, and worry about updating the portfolio. But those world-class performers who get the most out of their IT investments think first of the business problems to be solved and goals to be achieved, and then how the portfolio can serve those ends.

Modernization must start with such alignment and insight. Ambitious? Absolutely. But also pragmatic and within reach.

The modernization journey begins with understanding and validating what you have; clarifying potential value and current vulnerabilities; seeing the interconnections between strategies, processes, applications and infrastructure; and, with that insight, crafting near- and long-term action plans for re-use, refinement or replacement of individual assets.

The Dimensions of Modernization

It’s useful to think of modernization as a framework of six dimensions, upon which enterprises can evolve their capabilities:

- **Business Resilience:** processes, information, networks and applications are managed and controlled in order to secure and provide continuity for all business assets
- **Collaborative Business:** communication channels and tools optimize the use of trusted knowledge and relevant data across the enterprise in secure environments
- **IT as a Business Enabler:** the degree to which IT is valued by the organization as a means to optimize available resources and deliver against synchronized business objectives
- **Open Business and IT:** the use of open standards to promote integration and easier access to tools and data – for employees, suppliers, partners and customers
- **Green Business:** the degree to which the consumption of energy and resources is efficiently, flexibly and ethically managed by the organization and its suppliers to achieve “green” objectives
- **Business Execution:** the ability of the organization to execute business and technology initiatives in support of overall business objectives

These dimensions are not just a to-do list of capabilities to be developed. They’re also useful as a measuring stick for overall performance. And they reflect the notion that modernization is not an endpoint, but an ongoing journey. The business and IT portfolio will need to continue changing (and modernizing) just as business and market conditions change.

It’s also important to note that while all of these dimensions are important to consider – including the interplay between them – not every organization will have next-generation capabilities or be a world-class performer in every single dimension. Instead, the focus should be on those dimensions most critical to specific goals. Some of these dimensions will be more important to you than others.

As you can see, modernization means more than having the latest gadgets or embracing the latest programming trend. In our view, modernization is more about the value IT produces – through lower costs, reduced risk, better services and increased agility – than what it comprises. Therefore, it's about skills, resources and investments as much as SOA, or virtualized data centers. When CIOs think about modernization, they should emphasize the services IT delivers to the business and the contributions it can make to growth and profitability.

The State of Modernization

Modernization is an information-driven exercise, so it's important to have a base of business intelligence not only about your own company but about your peers as well. To that end, Unisys developed a benchmark that helps customers assess where they are and where they need to be when it comes to modernizing IT and the enterprise.

In conjunction with Saugatuck Research and Business Week Research, Unisys recently conducted an independent, double-blind survey to gauge the state of modernization across a range of industries. Approximately 1,200 organizations – of which 30% were financial services companies – participated in the study. Roughly 45% of the organizations surveyed are in North America and another 45% in Europe (mainly the UK, France, Germany and Italy). The balance came from Australia, New Zealand, Brazil, China, South Korea and South Africa.

Survey respondents made it clear that modernization matters – especially in terms of next-generation capabilities like strategic decision making, collaboration and innovation. The results also show that modernization is expected to deliver big value and profound change, starting now.

In addition, Unisys found that the industry hasn't received the payoff it expected from a broad range of modernization programs. But that doesn't keep respondents from being optimistic about the future. In fact, the research shows that several modernization programs are expected to deliver significant value – including clear gains in the areas of collaboration, IT investment and strategic decision making capabilities within three years. It seems that many financial services executives are pessimistic about internal capabilities today, but see a much brighter future.

This expectation gap is cause for concern because financial services companies have a shrinking margin of error when it comes to determining which initiatives or investments will pay off. Tight budgets and market uncertainty mean that all new investments are under intense scrutiny. As a result, modernization programs need a clear and predictable ROI.

Our analysis suggests that many financial services firms aren't entirely clear about linking a range of programs into one concerted, synchronized modernization drive that supports the business.

Further, the notion that IT modernization is somehow separate from enterprise modernization underscores a lingering strategic issue – the lack of alignment with the specific business objectives.

Fundamentally, Unisys believes the promise of enterprise modernization lies in the value it produces – reduced costs, lower risk, increased agility – rather than in what it's comprised of. When organizations shape a working definition of modernization and gain clear insight into where they are today, it's easier to move forward on the modernization journey. That's when IT will finally become free to help the business address its most important challenges and pursue core goals. That's how IT modernization will become an enabling – and irresistible – force for enterprise modernization.

The Modernization Benchmark for Financial Services

With more than 350 banks, insurance companies and investment banks/brokerages participating in the survey, the responses provide a clear set of benchmarks for individual financial services to compare their own performance and expectations to those of their peers.

Consistent with the results of the overall survey, financial services companies view business execution as the most important modernization factor in driving their success during the next three years, followed closely by business resilience. Given the recent turmoil in the banking and investment banking industries, these dimensions have taken on even greater importance.

Customer Centricity: One message that comes through loud and clear in the survey is that financial services companies are renewing their focus on the customer. In fact, acquiring new customers was even more important to financial services companies than it was to business as a whole. Nearly two thirds – 65% – ranked it as one of their three most important business objectives during the next three years. And 48% said that building close relationships with existing customers was also in their top three.

External customer service and relationship management was also one of the top-ranked technology initiatives – second only to ensuring data security and integrity. But there was a gap between what the respondents believe is important and what they believe their company will execute during the next three years. Closing that gap is what modernization is all about.

Many financial services companies have built extensive data warehouses and deployed new analytic tools. But far fewer have developed a truly enterprise-wide view of their customers and the tools necessary to turn that information into new business and new revenue. Modernizing revenue streams will be a significant challenge – and a significant opportunity – for all financial services companies.

The Security Imperative: Financial institutions are under steady attack from such threats as phishing, pharming, viruses and many other forms of electronic assault. Customers worry about fraud and identity theft and the ability of hackers to intercept payment and account information. These customers would probably be surprised to find that 14% of financial services companies reported that they had no security standards today, and only 15% said they have rules-based systems for internal and external security. But their aspirations are much higher. Three years from now, 50% of the companies participating in the survey expect to have a rules-based system and 95% expect to have security standards in place.

The stakes around data security and integrity are extremely high, reflecting the concerns of both customers and regulatory agencies. Although it's easy for companies to slip into the mind-set that security is defense, it should also be viewed as a competitive advantage – particularly in an industry where trust is so critical. Secure business operations give customers greater confidence in their financial institutions, a proactive approach that translates into greater customer trust and loyalty.

The Status of IT: Financial services companies spend a higher percentage of revenue on information technology than any other industry, yet 40% said that their IT is purely operational or that business has limited involvement in setting the direction of IT. Only 14% say that IT strategy is built into the business plan.

It's not too surprising, then, that more than 50% look at IT either as a support function or a facilitator for business productivity. Only 15% regard IT as a differentiator with a strategic role in the innovation and growth of the business.

Businesses that persist in the view that IT is simply overhead are preventing their IT departments – as well as their companies – from reaching their full potential. IT should be viewed not as a cost drain but as a source of revenue that supports business innovation. Financial services companies need to get more strategic about their IT investments and IT management.

Beware of Optimism Regarding Innovation and Collaboration:

Perhaps the most surprising finding of our financial services research is the optimism of respondents. In three years, they expect things to get a lot better. They will develop new skills, see investments come to fruition and implement new, high-value capabilities. For instance, only 13% of respondents say they offer easy collaboration among internal teams, suppliers and customers today, but 44% expect to get there in three years. Similarly, decision making incorporates both internal and external stakeholders at only 13% of companies today – a figure that will triple by 2011. While less than 15% say IT strategy is built into business plans today, 40% believe that will be the case in three years.

We are not so optimistic. There are significant gaps between what respondents cite as their top priorities and their ability to execute on those priorities. Financial Services organizations are clearly thinking about innovation, but they don't appear to be developing the tools and resources that enable it on a broad scale. These gaps will be tough to bridge, especially as budgets tighten and customers grow ever more demanding. New non-bank providers, especially in the area of payments, have an advantage over banks; they don't have legacy systems, geographic restrictions or process burdens.

Key Research Findings: Strategic Disconnects

Issue/Question	Today	2011
IT focus is purely operational	24%	8%
IT viewed as support function	25%	13%
IT strategy built into business plans	14%	40%
IT a differentiator with strategic role	15%	35%

Unisys Point of View: Companies that hold to the view that IT is simply overhead won't reach their full potential in terms of agility, innovation and growth. Now is the time to get strategic about right sourcing and IT management. Actually, it's long past time.

Key Research Findings: Security Moves Up the Agenda

Issue/Question	Today	2011
Rules-based models for internal/external systems	15%	50%
No security standards	14%	5%
Systems are slow and cumbersome	21%	17%

Unisys Point of View: Security is critical and financial services has more work to do. Security investments should be linked to performance-enhancing initiatives.

The Way Forward

For many organizations, “Where to start?” is the most important question when it comes to modernization. It helps to understand that modernization is a journey, and it will take longer to reach some destinations than others. The key is to understand where you are today in terms of assets, capabilities, vulnerabilities and opportunities – and to have a clear view of where you want to go.

That’s why benchmarking is such an important first step. It helps chart a course to long-term transformation, with tangible value being generated along the way through targeted investments aligned to core objectives. Benchmarking:

- Clarifies underlying business issues and challenges
- Provides quantitative and objective measures to guide technology discussions and track ROI
- Allows for comparisons with peer groups and competitors
- Helps IT make its case in the board room
- Establishes milestones to track progress on the long-term transformation journey

An Independent View

Based on independent research, the Unisys Modernization Benchmark uses objective measures to gauge current levels of both IT and enterprise modernization for individual organizations, against their competitive set and across other industry sectors. Individual organizations can measure their readiness and ability to modernize moving forward and assess whether current resources and capabilities are aligned with strategic goals.

The Unisys Modernization Benchmark is:

- **Strategically-aligned and business-oriented:** clear linkages of business goals vs. IT investments and capabilities; assessment of IT skills/resources to objectives
- **Tangibly high-value:** actionable Unisys Blueprints™ that show connections and gaps between strategies, process, applications and infrastructure; models of “to-be” states and long-term optimization roadmaps
- **Fast and low-hassle:** the entire process takes less than 30 days and requires a minimal investment on your part
- **Cost-effective and low-risk:** only nominal fees apply

Once you’ve completed the benchmark, you’ll have a prioritized path to achieving an optimal IT model for your financial services organization – at your pace and in line with your budgets and priorities. And you’ll have created common ground for further business-IT collaboration.

Unisys Point of View

- Understanding unique organizational barriers to modernization – including those that are hidden from view – is critical to charting the right course forward.
- Modernization efforts can – and absolutely should – be self-funding.
- Modernization can start almost anywhere and produce value – provided you clearly understand the connections among processes, applications and infrastructure.

Conclusion: Helping you Chart the Course

Modernizing the enterprise is a journey, and it takes time. It's a process of identifying your challenges and developing solutions – of understanding the IT view of business and the business view of IT and bringing them together. You need a strategic partner who is committed to your long-term success and who can help you every step of the way. Unisys is fully equipped to do that.

We have a deep understanding of the financial services industry around the world and decades of experience helping banks, insurance companies and financial organizations address their most demanding problems. With guidance from the Unisys Modernization Benchmark and the insight we can provide to our customers, we're in a unique position to help you modernize your enterprise and improve your revenue streams so that your core banking is aligned with IT.

Our Unisys 3D Blueprinting™ approach enables you to see every process, every interaction and every application that will be affected by the modernization choices you make. We give you organizational visibility into all the elements of your operations, from strategies and processes to applications and infrastructure – and how each proposed change will cascade across these elements. This will allow you to make the right modernization choices while at the same time considering an enterprise view – one that takes into account security, fraud and risk management, which remains the number one priority for financial institutions. We take a holistic view of modernization incorporating this enterprise view.

At the same time, we bring deep global expertise in enterprise payments, enterprise content management, retail delivery, insurance, mortgage, core banking and financial transaction security, helping you manage risk, prevent fraud and ensure regulatory compliance.

With our Unisys Modernization Benchmark, we integrate all that expertise into an approach that will enable you to assess your current state, design “future state” initiatives to keep pace with the changing business climate, and, ultimately, outperform the competition with an enterprise that senses and responds quickly to challenges and opportunities. An organization that is proactive, not reactive.

In the end, that's what modernization is all about – building a company where efficiency, innovation and real-time business and customer insight come together to create an enduring competitive advantage.

Free IT through modernization and it all becomes possible.

Modernization for Financial Services – Business Value You Can See

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