

GFT Newsletter
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Client Newsletter

Steering a course for the future?



Graham Underwood,
Managing Director, GFT UK

As we head into the last months of 2009 it seems that the economic turmoil which has influenced the first part of this year is beginning to abate. Uncertainty is being replaced by cautious anticipation that the upturn will come. Companies which have survived so far are beginning to come out of survival mode and starting to address the strategic issues they face. GFT's research earlier in the year took a Europe-wide view of challenges facing the banking sector and identified varying degrees of competition, consolidation and the need for cost-efficiencies. In the UK we have also added the impact of compliance to this list. To meet these challenges, financial institutions are searching for examples of good practice amongst the chaos. Although the smaller banks in Spain have been at the mercy of their formerly loose lending practices, the larger institutions have posted positive, upbeat results for Q2 and Santander is efficiently merging three UK building societies. With its core southern European development centres in Barcelona, Valencia, Zaragoza

and Madrid, GFT is wellplaced to pass on the lessons of the Spanish success. We have already identified regulation, risk management and effective investment in new technology, as areas where large Spanish banks have excelled and their UK counterparts could improve.

GFT has long argued that innovation is the way for astute companies to navigate their way out of recession. This can mean new technology or new business ideas, and flexible resourcing is one such innovative solution. It allows businesses to respond to the demands of the economic cycle and changing technology through a third-party managed, European-wide, pool of flexible workers. This sort of innovation could help solve the problem of balancing fixed headcount with the work to be done.

Although we may not yet be in calmer waters, the instability has ceased and we can now begin to think about steering a steady course for the future.

A handwritten signature in blue ink, appearing to read 'Graham U.' followed by a stylized flourish.

Graham Underwood

IT innovation needed to combat 3Cs of banking

The turbulent year, or two, in the European banking sector has prompted many companies to adopt a batten down the hatches and ride out the storm approach to doing business in 2009. Whilst we all hope that the storm will ease and the skies start to clear towards the end of the year, this must be the moment to resolve some of the issues which have bedevilled the sector, by unlocking the potential of IT and using it to shape the future of banking. Technologists will be tasked with finding areas for rationalisation this year and yet, for too long the IT side of financial institutions has been a backroom process, focusing only on tactical cost-efficiencies. IT is seen as an enabler but its additional potential, full IT utilisation, has not yet been exploited. It's time for a strategic, innovative response from the IT side of the bank.

GFT's recent banking trends research, conducted by Pierre Audoin Consultants¹, shows that the business side of large, retail banks across Europe is already demanding more innovation from its IT counterparts. The research asked the same questions of both the business and IT sides of the banks. Both sides seem to recognise that they don't always understand what the other does, but they do recognise three key issues which the European banking sector is facing; competition, consolidation and cost-efficiencies. In the UK the issue of compliance could probably be added to this list. Still often seen primarily as a regulatory obligation rather than a value driver, nevertheless compliance does provide significant benefits with respect to financial performance, operational excellence and business relationships with partners.

Across Europe there are some variations in the perceived significance of each issue. German respondents (54%) listed globalisation/internationalisation (competition) as an important issue, whilst the French named competition and 38% cited mergers & acquisitions (consolidation). In Spain, consolidation in the form of M&A featured highly (46%), but the banks seemed much less troubled by the need for efficiency improvements or cost-reductions. Perhaps because, according to a recent article in El Pais², they are already among the most efficient banks in the world?

In the UK, possibly the European country most affected by the banking crisis, consolidation (35%) and cost-efficiencies (21%) were seen as having most impact on the sector, conceivably as a result of the tremendous write-downs we've seen in the City.

All over Europe banks are feeling the impact of the internationalisation coupled with the economic crisis. But, if financial institutions are going to position themselves for a more benign environment, IT must begin to offer innovation and not just operational solutions.

This may mean considering a cross-European approach, to take advantage of Spanish efficiencies, German innovation and British understanding of a competitive market. It will mean identifying neutral external partners to work with internal IT departments and give strategic input into consolidation projects, such as banking platform integration for example. Banks are going to need to redefine ownership and risk management dependencies. Successful financial institutions will need to be far more fluid than before, as technology moves towards cloud computing, and learn how to deliver the right information from a single-source, thus breaking down the traditional silo mentality. Most of all, offering innovative solutions will mean understanding the challenge of the 3Cs.

The Pierre Audoin research shows that it's time for IT to come out of the shadows. Rather than merely being a service provider, IT needs to reposition itself as a consulting partner, offering different strategic solutions at differing levels of budget and scope.

Even in this demanding period, banks must seize the opportunity to unlock the strategic potential of IT; to get the bank at full, innovative strength, ready for the end of the storm...when it comes.

¹ Banking Trends 2009 – Impact of IT in shaping business success in times of crisis. GFT & PAC research. June 2009

² Calculated as cost/income ratio. Information from Esto es obsession con los costes, El Pais. 22 March 2009

Lessons from the Spanish experience

At the end of July, Banesto, BBVA and Santander reported very positive Q2 results, with BBVA describing them as "its best ever". At Santander UK profits are up by 30% and it seems to be integrating three UK Building Societies with comparative ease.

Do these achievements in Spain mean that UK financial institutions could benefit from examining the approach of the big Spanish banks? Once derided as an over-cautious approach to retail banking, the Spanish strategy is now often proposed as a cure-all for the European banking system. The UK sector may see itself as a mature market, because of the high levels of competition and international experience collected together in the City of London, but perhaps large UK financial institutions should ask themselves how they can tap into what Forrester describes as Spain's "large, well-qualified IT labour pool [and] world-class vertically-focused services resources"? Perhaps we should look at the secrets of Spanish success; is it all down to regulation, risk management and efficient platforms?

Regulation?

It's not just about the people. The Spanish government responded to the fallout from reckless industry loans in the 1980s with tighter central bank control towards the end of the decade. It seems that just as the UK was freeing up its financial markets and regulation, in Spain they were facing a ban on off-balance vehicles and an insistence on making extra provision during boom times. As UK retail and investment banks took on greater exposure and secured greater income, the regulation and compliance in Spain ensured that its banks had solid foundations.

Risk Management?

It's true that many smaller savings banks in Spain have been hit hard by bad debts resulting from loose mortgage lending, however the approach of the larger banks to risk management might have been seen as over-kill even relatively recently. The creation of substantial, well remunerated and long-term risk committees, which met regularly, differs from the UK where the Chief Risk Officer has all too often been a bolt-on, fleeting solution. UK banks might now do well to heed the words of Emilio Botín (Chairman, Banco Santander), who as far back as last year commented; "[risk management] consumes a lot of our directors' time. But we find it essential. And it is never too much."

Efficient platforms?

Real-time retail banking, rather than next day (mañana) reconciliation, has already arrived in Spain. Investment in modern platforms means that the Spanish consumer has access to real-time reconciliation of their personal financial information via multiple channels, including the ATM, whilst the UK consumer is still reliant on end of day reconciliation. This focus on home market customers would have sounded very old-fashioned just a few years ago, as UK banks chased ever more complicated offerings. Today José Antonio Alvarez's recent comment looks sagacious.

"What matters to us is to have a customer on the other side and to provide a service". (CFO, Banco Santander) So perhaps UK banks could benefit from tapping into the Spanish solution and considering a new approach to regulation, risk management and investment in technology platforms. City financial institutions could shake off the mañana approach to efficient banking during this difficult economic period and take advantage of the expertise and style of their Spanish counterparts.



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Flexible Resourcing: right people, right place, right time

One of the challenges of the economic downturn for the IT department is ensuring that access to the right skills remains even after cutting the personnel cloth to suit these demanding times. Work doesn't stop just because the climate is difficult and technological developments mean that gaps in the core team's skills can quickly appear. It's never easy to keep up with the demands of the work and the technology.

Traditionally this issue would have been solved by contractors; individuals coming in to particular projects or to solve particular short-term problems. However this still causes management issues and can often lead to the creation of silos of information. Crucial knowledge gets tied-up in one person, who then becomes irreplaceable. What started as a short-term solution has become a long-term and increasingly expensive problem.

It's at this point that a company needs flexible resourcing, which enables it to run a core team of employees within the IT department and buy in skills from elsewhere as they are needed. Operating as a managed service, flexible resourcing involves a third-party supplier managing a pool of skilled IT workers, from which the most suitable can be selected to fulfil the exact skills and abilities required for each project.

Knowledge transfer is also an important element of flexible resourcing. Rather than a contractor being the only person who understands the system, flexible resourcing workers tend to be better integrated with the in-house team and able to share and transfer knowledge within the business. As a managed service, flexible resourcing can also handle change resolution, ensuring that a project or team is supported despite inevitable personnel changes and developments within a project.

Nor is flexible resourcing limited to individuals. The nature of the pool or database means that whole teams of onsite or offshore workers can be quickly identified and established; moving on once the project is complete. For example during a key phase of a development project, specialist onsite workers could be supported by an offshore team.

Flexible resourcing can therefore be a long term solution to keeping headcount stable, whilst also responding to the changing demands of financial institutions. It's a way of reducing the impact of new technology and the economic lifecycle on a business. It helps CIOs to augment their internal teams and respond in a managed and controlled way to developments within the business and external pressures such as compliance and consolidation.

Outsourcing this issue gives a company access to a wider talent pool than they might be able to manage themselves; a European database or global talent management facilities. The ability therefore, to solve skill shortage issues at both local and international levels; to find the right people, at the right price, in the right place.



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News

Cowes Week 2009 – best ever result with 5th place



GFT entered Cowes Week in the Isle of Wight in August, joining nearly 900 boats and 8,000 competitors from around the world, novices and Olympic athletes alike, to race on Britain's south coast.

Captained by Nick Goodhew (Finance Director, GFT UK) for the company's fourth year, the GFT yacht raced in IRC Class 5 in a fleet of 40 and achieved its best result, 5th over the water on the Wednesday; equalling GFT's best ever result at Cowes Week.

The crew all enjoyed the competitive and social aspects of the regatta, as well as taking an active part in the racing. Being on board the GFT yacht allows plenty of time for bonding through a unique shared experience; the good days, bowling along in sunshine and a good breeze, to the slightly less good days on the rail in a strong wind and high seas. Still, there's always the networking after the racing to look forward to!

Editorial & Disclaimer

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