FUJITSU

Two Years On:
The Financial Services Landscape
Is your organisation super-powered?

shaping tomorrow with you

Fit for the future:
The changing role
of financial services IT

What does tomorrow's financial services business look like?

The financial services (FS) sector is undergoing enormous change and with change brings uncertainty. Where will its priorities lie? What will it invest in? Will it be structured for success and how will IT play a role in creating a super-powered organisation?

When we set out to benchmark the modern FS IT department in an initial piece of research in 2012, the resulting report – which interviewed 55 FS CIOs – spoke of the need for organisations to become more agile in order to keep up with everything from regulation to customer trends.

In 2014, we wanted to benchmark that research to see what's changed, what's stayed the same, and what the differences mean for the sector and the part IT plays. To do this, we surveyed more than 175 CIOs and IT decision makers from insurance and banking (Retail and Investment) companies.

The first report resulting from this new insight, *Missed Opportunities*, explored the technology side of the equation. It looked in-depth at the attitudes – and barriers – towards the adoption of new and developing technology. Vitally, it found that the market has stagnated in areas like Cloud, mobile and big data, some small progress outweighed by the slow-moving majority.

Would the same be true for factors like operational priorities, budgets, and people? Or has the market shifted to reflect the sector's changing fortunes?

While every FS organisation is different, our research points to some fast-moving and sweeping trends that could dramatically alter the industry landscape. This report looks at the areas in which companies need to focus if they're to activate their IT superpowers and drive their business towards future success.

Above and beyond:
where is today's FS IT department focused?

The economic recovery is in full swing – for many, at least.

Optimism in the FS sector is at a record high, according to the latest FS sector survey, released by the CBI and PwC in January this year. The 68% rise in business confidence, combined with the fastest growth in business volumes since the start of the crisis, seems to indicate a return to better times for the sector, and not a moment too soon.

While things might be looking up today though, it's hard to forget the lessons of the past few years. As recently as October 2012, the sector was still dealing with the fallout of the global economic crisis, business volumes dipping unexpectedly and leading some to speculate that the road to recovery might be longer than anyone had foreseen.

Last time we surveyed this audience one issue came through louder than any other. Reflecting the FS industry as it was in 2012, more than half of the organisations we spoke to said that reducing costs was one of their top three priorities for the year ahead. And this was cost cutting in its purest form; far outweighing, for example, any thoughts over increased efficiency (15%) or managing on a restricted budget (13%).

Two years down the line, we wanted to know if those priorities had changed. Would we see a sector enjoying its new-found buoyancy, or one still labouring under an economic hangover?

The answer lies somewhere between the two. While cost-cutting has fallen away, it certainly hasn't vanished. 27% stressed its importance, compared to 52% two years ago, but that still makes it the third most important challenge being faced by today's FS IT department. It might not be top of the agenda any longer, but trimming the fat is still high on the priority list.

Cost reduction has given up its top spot on the league table of FS IT priorities. So what takes its place?

A renewed focus on the customer.

1. Improving the customer experience

This is now the number one priority for most IT departments within financial services organisations in the UK and Ireland, and it is easy to see why. Living in the era of the "7-Day Switching Guarantee", personal finance customers are able to jump between banks with greater ease than they ever have before. There is, of course, the additional issue of consumer trust. In the 2014 edition of Edelman's well-regarded annual Trust Barometer, banks and financial services once again placed at the bottom of the consumer trust league table. Confidence is hard fought, and harder won in financial services.

One path to improvement may be mobile applications and services; in our accompanying report looking at technology investment in financial services, 49% of this audience told us that a customer-focused mobile app or service strategy was an effective way of satisfying customer demand, 48% said that it was useful for customer retention and 44% that it can enhance the customer experience.

Fujitsu's own research – *Dataheaven vs. Datageddon* – conducted last year, shows that less than a third of UK FS customers believe that their data is used to create a better customer experience; a missed opportunity for greater customer understanding driving more targeted engagement and more relevant products.

2. Improving efficiency

There's a big difference between reducing cost and becoming more efficient, and we're pleased to see that the latter is now just as important to FS organisations. Just 15% cited the need to become more efficient as a priority in 2012, testament to the idea that sweeping cuts were seen as more beneficial than improving the performance of existing IT. Today, that figure has risen to 27%. The swing towards efficiency represents the desire to do more for less, without sacrificing quality.

This is important, as it embodies a sector with the breathing space to think about the consequences of its IT approach over the longer-term. And there are many options available to financial services firms looking to enhance efficiency; from Cloud delivered technology such as virtualisation that revolutionise the desktop environment, to performance fundamentals such as the maximisation of network effectiveness, which can cut costs without compromising on the user experience.
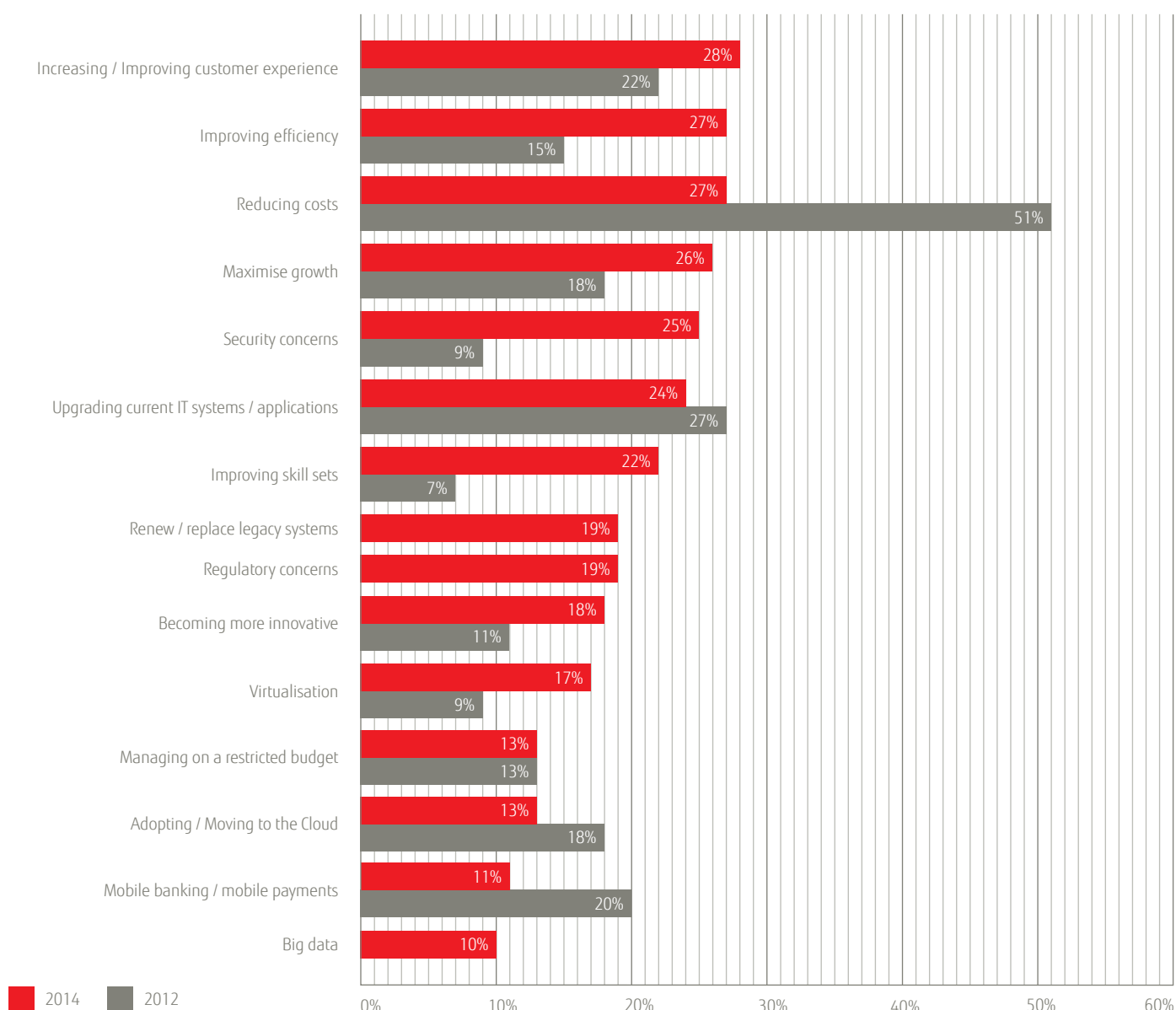
3. Maximising growth

This was a particularly promising area of improvement. More than a quarter of FS IT departments are now gearing up for a future in which growth – not contraction – is the standard. With just 18% focusing on growth in our 2012 survey, it was an issue that firmly occupied the middle ground of the IT department's priorities. This time around, it sits just below cost reduction, in fourth.

In many ways, success here will depend largely on a combination of the sector's top two priorities. After all, if the IT team can make a tangible contribution to improving the customer experience, and helping the company become more efficient, growth should be a logical outcome.

At the same time, this is an area in which we see some degree of risk. As our corresponding technology report, *Missed Opportunities*, reveals, too few IT departments are investing in the kinds of tools and services that could help them make maximise growth. The percentage with mobile, Cloud and big data strategies was markedly lower than we expected it to be two years on from our initial benchmarking survey, and those technology options actually occupy the three bottom places on the priority league table here. What we are observing is a sector that understands what it needs to achieve but is reticent to make the leap to invest in transformational technologies.

Q. What are your top three priorities over the next three years?

Priority	2014	2012
Increasing / Improving customer experience	28%	22%
Improving efficiency	27%	15%
Reducing costs	27%	51%
Maximise growth	26%	18%
Security concerns	25%	9%
Upgrading current IT systems / applications	24%	27%
Improving skill sets	22%	7%
Renew / replace legacy systems	19%	
Regulatory concerns	19%	
Becoming more innovative	18%	11%
Virtualisation	17%	9%
Managing on a restricted budget	13%	13%
Adopting / Moving to the Cloud	13%	18%
Mobile banking / mobile payments	11%	20%
Big data	10%	

■ 2014   ■ 2012

Budgets and the wider business: where does the money come from?

FS organisations may be clear on their priorities in the coming years, but are they equally certain that they'll have the funds to support those initiatives?

Any ambitions around supporting the wider business – even cost reduction – need some degree of investment in order to turn them from dream to reality. With lofty goals around improving the customer experience and maximising growth, FS IT departments will need to invest to help them deliver on those goals. The question is: will they be able to afford the tools to do the job?

Earlier this year, Ovum's *Financial Markets Technology* report suggested that "after a few tumultuous years following the banking crisis, IT tech spending in the financial markets is set to rise". Indeed, Ovum's European figures predict that technology spending by European banks will grow to around £40bn by 2016, a CAGR of some 4.3%.
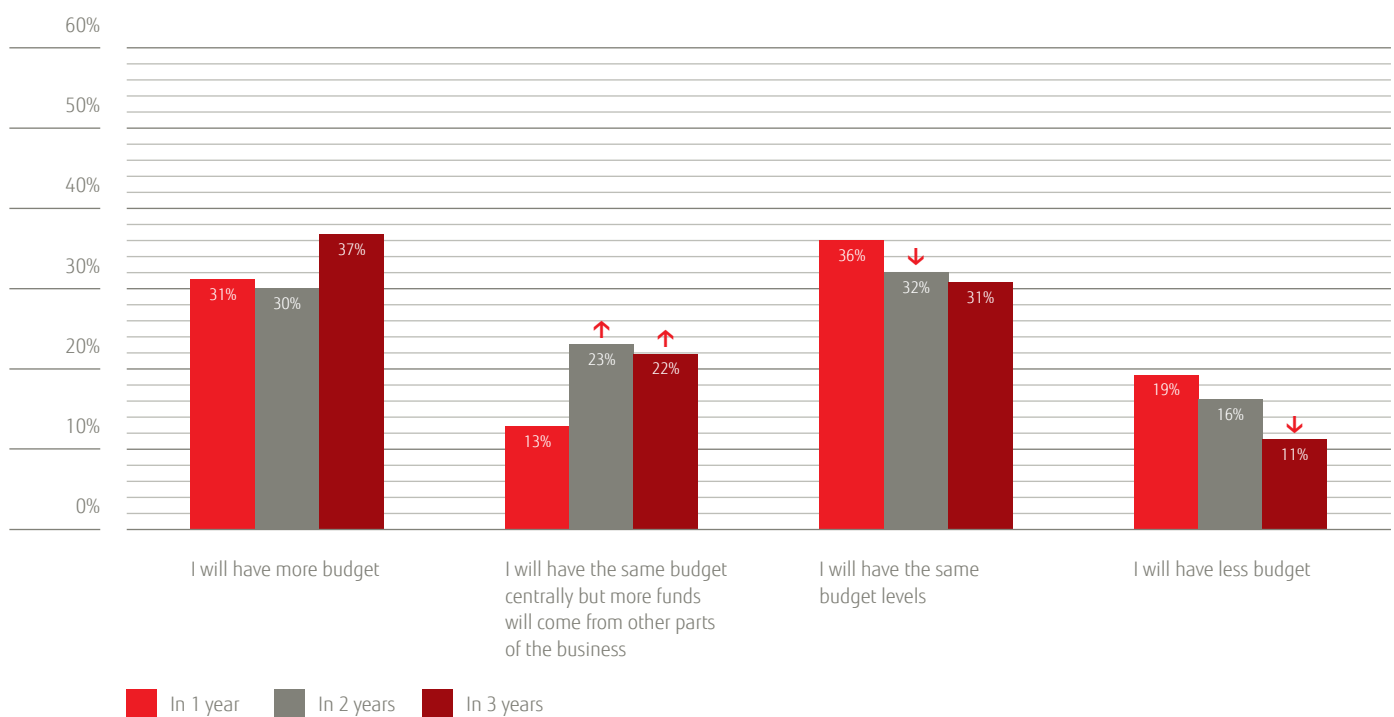
Returning for a moment to the CBI and PwC, their January 2014 report also noted that technology expenditure was on the rise amongst UK FS organisations, driven mainly by the need to upgrade existing systems.

Are FS IT departments beginning to see the signs of that spending increase, though? Are they gearing up for a future in which IT investment is easier to come by, or are they predicting a longer, steeper path towards budgetary growth?

Long-term optimism, short-term stability
The first thing that is apparent when questioning IT departments on their budgetary outlook is that the longer-term the view, the greater confidence becomes. More than a third expect to have more budget in three years-time, compared with just 11% who feel that they will have less to spend on technology.

Budgetary outlook for the three years ahead

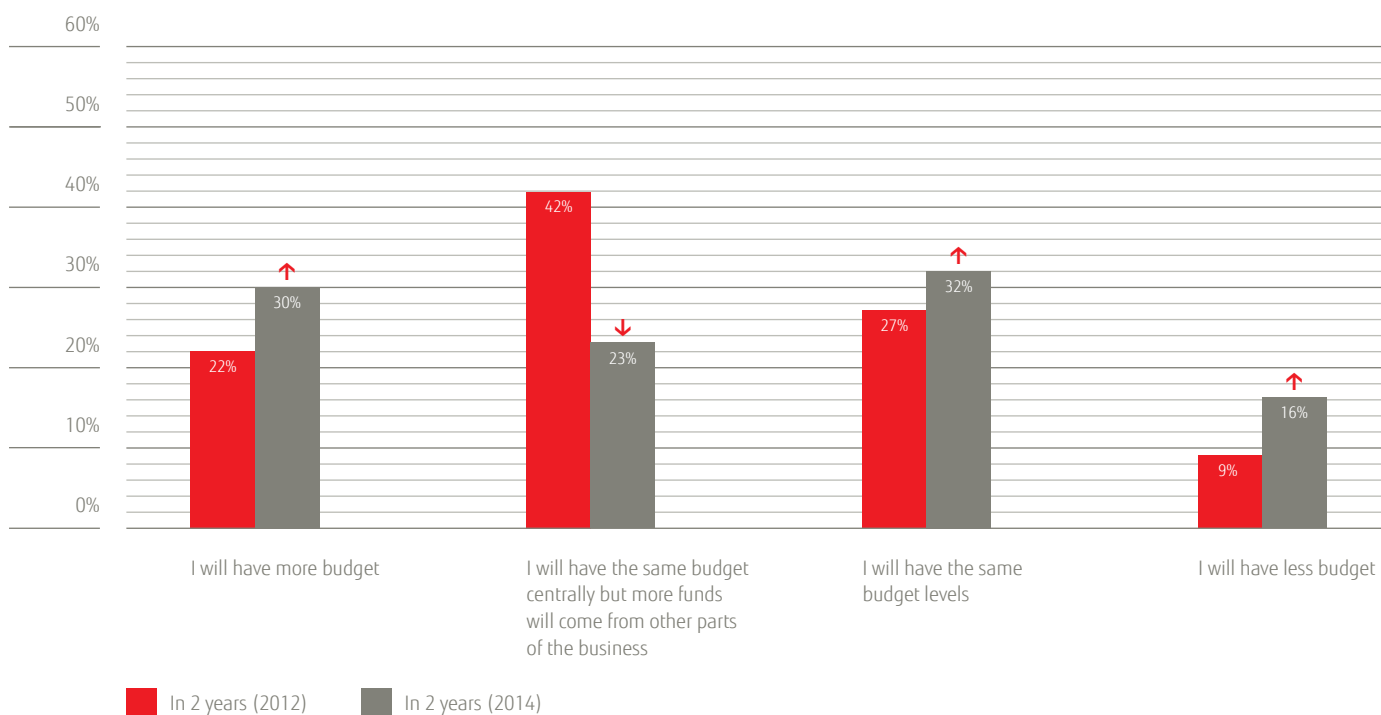|	I will have more budget	I will have the same budget centrally but more funds will come from other parts of the business	I will have the same budget levels	I will have less budget
In 1 year	31%	13%	36%	19%
In 2 years	30%	23%	32%	16%
In 3 years	37%	22%	31%	11%

Beyond the overall swing towards confidence, perhaps the most interesting change that we see is around budget being provided by other parts of the organisation.

In 2012, the focus seemed to be squarely on drawing financial support from the wider business. Looking two years into the future, almost half (42%) of those we questioned said that while they would have the same budget centrally, more funds would come from the rest of the business, pointing to broad optimism about being able to rally funds from around the organisation. Two years on, a reality check seems to have grounded those expectations.

Just 13% expect to see IT projects funded by the wider business in the next year, though this rises to 22% by the time we look at the three years ahead line. While this is still a marked change from our 2012 research, it perhaps represents a more realistic view of the funding picture going forward.

2 year budget outlook, 2012 vs. 2014

	I will have more budget	I will have the same budget centrally but more funds will come from other parts of the business	I will have the same budget levels	I will have less budget
In 2 years (2012)	22%	42%	27%	9%
In 2 years (2014)	30%	23%	32%	16%

■ In 2 years (2012)   ■ In 2 years (2014)

While no one can be certain of their budget in three years, the trend is clear and the suggestion that a fifth of the IT budget will come from decentralised sources by 2017 has big implications for FS organisations.

Matthew Oakeley, Head of Group IT, Schroders, commented on this finding "I think there's quite a lot of interest in where disruption to the industry will come from, so therefore there is additional money for investigative work on technology initiatives – whether it's big data projects or online propositions and so on."

There is, of course, another possibility here: that departments other than IT are purchasing their own technology and driving the agenda around it. If that were the case, what would that mean for the IT department?

Changing shape to better serve the business

If the wider FS business is paying for around 20% of IT projects and day-to-day activity, is the department itself structured in the right way to provide value to its new, wider set of stakeholders? If it isn't currently, then it may soon begin to become so. Bordering on two-thirds of those surveyed noted that IT change is no longer driven by the department itself and that it is important for them "to have IT staff deployed throughout the organisation."

This is particularly important when we consider that one of the complaints most commonly levelled at the IT department is that it struggles to understand the business it is in, more likely to be interested in the minutiae of new technology than the specific challenges facing lines of business like marketing, HR or sales.

The widespread admission from the department itself that it could be time to decentralise – to dissipate across the organisation in order to provide greater value – is a potent one. It is testament to a department that is focused on delivering value to the functions around it, and is keen to understand the form which that value should take.

At Ovum's 2014 Industry Congress event[1], John Lewis' IT director Paul Coby noted that he had spent time working across many of the business' functions in order to get a better understanding of how technology was empowering them or holding them back. That, said Coby, helped him prioritise technology deployments that would help, not hinder staff.

While the world of high street retail may be a little removed from that of FS, it's that kind of in-depth, hard-won understanding that could make the difference between technology for technology's sake and the provision of innovative, high-value digital transformation that helps the business become super-powered and makes a significant contribution to the bottom line.

A recent, independent study[2] suggests that areas like marketing are now the areas of the business most adequately equipped to drive innovation. To our eyes, it is not about any single department "owning" innovation. Instead, IT needs to step into a more senior, more distributed potentially more strategic role within FS businesses, working closely with each of the departments around it to deliver genuine value and a demonstrable benefit to the business units.

That has much to do with the department's ability to transform itself and become not just a provider of technology services, but a genuine consultant on how IT can address the myriad of issues facing the business as a whole. Moreover, it relies on IT being able to consistently and effectively deliver to the goals of those departments too.

That, as we'll come to see, is an area that demands its own focus.

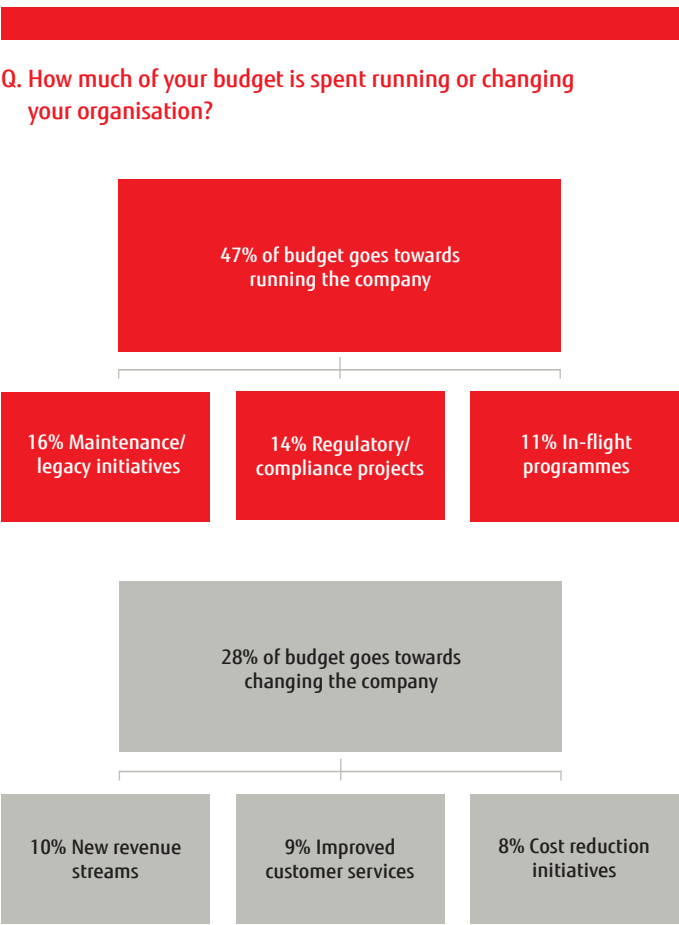# Stick or twist: the cost of standing still

The idea that IT would be better off leaving innovation to the rest of the business is a provocative one. As the department closest to new technology, there's a compelling argument that the department should serve as the bastion of fresh ideas; a kind of innovation "hub".

Overall, there seems to be a huge buzz around the potential for technology to redefine the entire sector. When Barclays CEO Antony Jenkins stood up to speak at a *Future of Financial Services* conference recently, he noted that the industry is "on the leading edge of a technology revolution." "You can't see it," he continued, "but it's coming; it's coming hard, and it's coming fast." And who better to drive that revolution forward than the IT department?

We've already discussed the need for embedded innovation – that in which IT takes a broader role across the business to foster new ideas where they're needed most. But what about innovation applied more generally? Just how much time and money goes into changing the organisation as opposed to keeping it running? More importantly, exactly how does that cash get spent?

Running on the spot, or taking great strides forwards?
Around half of today's FS IT budget goes on "keeping the lights on", according to our respondents. Asked to estimate the split between maintenance and innovation, our audience explained that 47% goes on the former, with around a quarter (28%) spent on the latter.

Q. How much of your budget is spent running or changing your organisation?

47% of budget goes towards running the company

| 16% Maintenance/ legacy initiatives | 14% Regulatory/ compliance projects | 11% In-flight programmes |

28% of budget goes towards changing the company

| 10% New revenue streams | 9% Improved customer services | 8% Cost reduction initiatives |

NB: these numbers do not round to 100% as they also reflect the fact that IT budget can be spent elsewhere. For the purposes of this question, we only explored the estimated percentage spent on maintenance or innovation.

Overall, this feels like a relatively healthy split. Industry estimates suggest that an average of 70% is spent just keeping the business running in other sectors so[3], by those standards, FS appears to outperform the competition. Indeed, if less than half of the IT budget is spent on maintenance, this would be a good deal lower than many other organisations.

When we start to drill down further into those numbers though, we begin to see areas in which improvements could be made. As much as 16% of the total IT budget, for instance, is used maintaining "legacy initiatives", while 14% is spent on regulation and compliance. While these numbers may not look like much on the surface, they could equate to hundreds of thousands, perhaps even millions of pounds when extrapolated across the overall budget.

While percentage spend on these activities may never dip below double figures, they are still areas to be mindful of, and efficiency should be sought at every opportunity or they may begin to creep up further. After all, in a separate question, 70% of respondents still told us that they wish IT staff could focus on more value-enhancing IT initiatives rather than resolving issues created by legacy systems.

And what of innovation? What fresh ideas is that quarter of the budget invested in? Primarily (and positively), it is spent on creating new revenue streams. One tenth of FS IT budgets are spent exploring new ways for the business to grow, with a similar amount invested in improving customer first services (9%) and cost reduction initiatives (8%).

From our earlier report – *Missed Opportunities* – we already know that FS IT teams see technologies like mobile and Cloud as key to becoming more cost efficient and deliver a more compelling customer proposition. At the same time, we know that there is stagnation when it comes to adoption of those technologies within FS organisations in the UK & Ireland. That points to a disconnect between the amount being spent and where it goes.

Financial services IT teams may have access to superpowers, it seems, but they're not always using them. For the innovation budget to be truly effective, the marriage between effective technology and strategy must become tighter still.

Serving the business: does IT deliver?

The IT department within FS organisations seems poised for change. Gearing up for a future in which team members could be spread across the company, each tasked with delivering specific projects or services to that line of business, the function could begin to look very different from the way it does today.

Is that a necessary change? Joint research between McKinsey and the University of Oxford in 2012 posited that half of all large ($15m+) IT projects far exceed their original budgets and that, on average, they run 7% over on time whilst delivering less than half of the value they were predicted to. While these figures don't apply directly or solely to financial services organisations, they do set the scene in terms of overall performance.
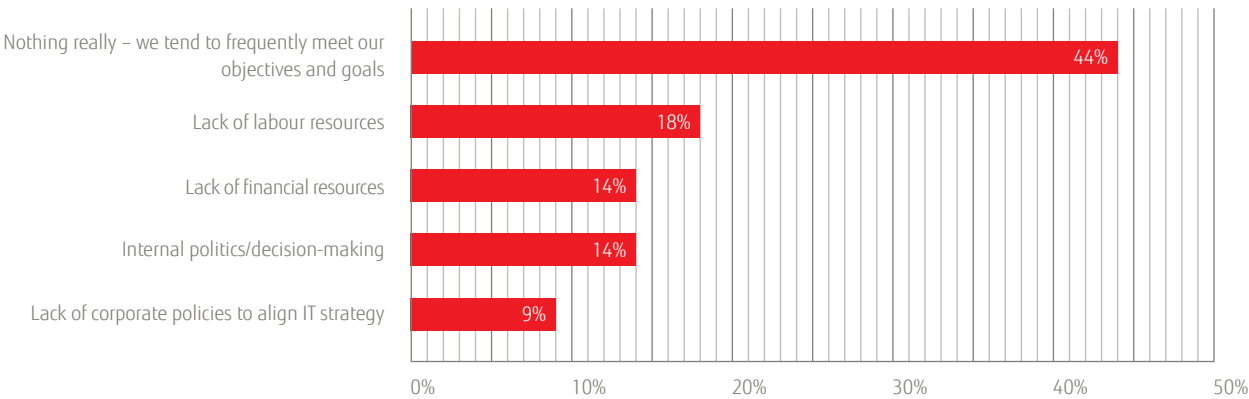
Naturally, we wanted to know what the ratio was within FS. More importantly, if not all projects meet the goals set, we wanted to understand why.

Over-tasked and under-delivering?

Our first observation was that more than 50% of the time, something is standing in the way of FS IT teams delivering to their optimum ability. While 44% noted that they "tend to frequently" meet objectives and goals, most had at least one issue to contend with. Almost a fifth – the largest segment – said that they simply don't have enough skilled professionals to go around.

That this issue outweighs any concerns over budgets or internal politics (both standing at 14%) demonstrates just how vital it is for FS businesses to have the right specialists in place. This corresponds heavily with the related finding that more than half (56%) of IT decision makers believe that the demand for IT requirements across the business is too overwhelming for the number of IT staff that they currently have.

Q. What prevents your department from meeting its goals?

Category	Percentage
Nothing really – we tend to frequently meet our objectives and goals	44%
Lack of labour resources	18%
Lack of financial resources	14%
Internal politics/decision-making	14%
Lack of corporate policies to align IT strategy	9%

Once again, these findings speak to the theme that the IT department within FS may need to undergo significant change in order to better serve the business. If IT is being worked hard by the rest of the organisation, the idea that it could be redeployed into different business units certainly makes sense. Rather than being stretched as a centralised unit, it could instead take strategic positions within the organisation to deliver where it is needed most.

Matthew Oakeley, Head of Group IT, Schroders believes that balance is the best way to better serve the business, stating "I don't think that the reason that IT doesn't "deliver" is that the resources aren't there. Even if you had an infinite supply of resources, I just don't think that it would be possible to deploy them. There's a tolerance threshold for change in any organisation, and I think that there's a balance that needs to be struck between doing more and the level of concurrent change that the organisation can actually sustain successfully."

Looking at the overall position here – that half of respondents suggesting that there is something in the way of them delivering fully to the business – it would be easy to assume that FS IT struggles to deliver generally. But this isn't necessarily a fair assumption.

Although it is a relatively small minority who suggest that IT deployments suffer due to internal politics, poor decision making or a lack of corporate policies under which to align IT strategy, these are still issues that need to be addressed if the department is to perform to the best of its abilities.
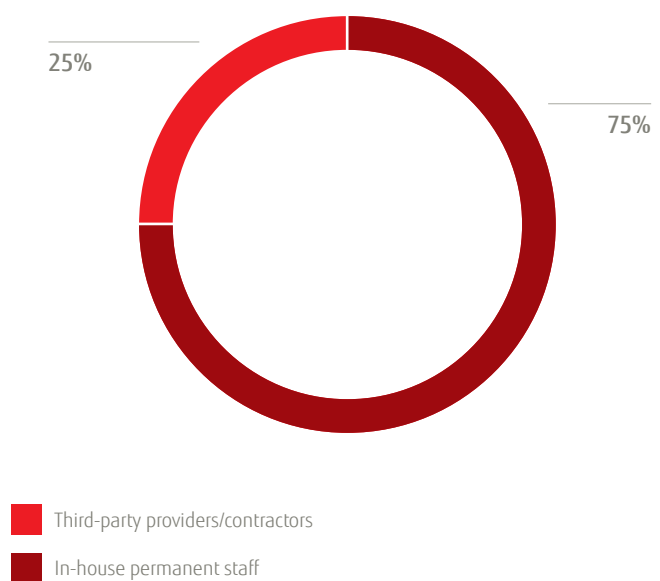
The right people for the job?
If a shortage of personnel is one of the biggest issues facing the FS IT department, how are they staffed today? And are they confident of being able to fill the roles they need in the future?

Exactly three-quarters of existing FS IT staff are in-house, permanent employees, with the picture completed by third-party contractors and suppliers.
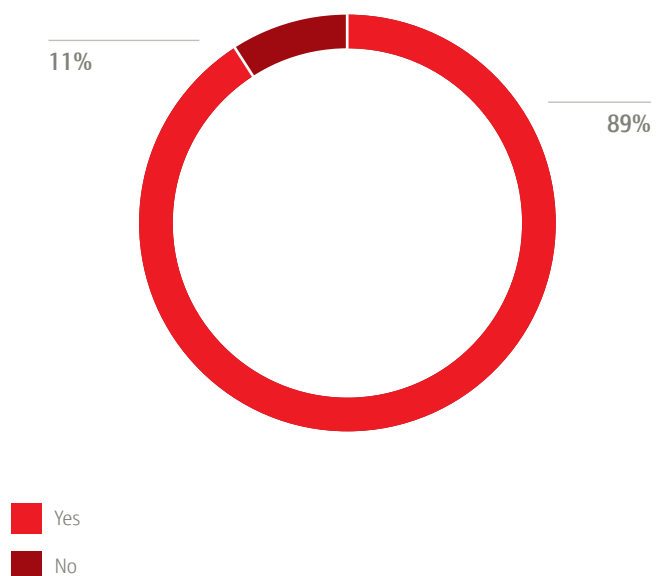
While the vast majority of organisations have confidence in their ability to recruit the staff they need from within the UK & Ireland over the next few years, we may still see the balance between contractors and permanent staff shift. More than three-quarters (77 %) of IT decision makers feel that the needs of their organisation would be best served by a "scalable, multi-disciplined resource pool".

The emphasis there being on scalability, the suggestion that contractors with unique and dedicated experience be brought in on specific projects once again rings true with the thought that IT could be about to undergo a significant transformation in the sector, the "supermen" and women of technology swooping in to save the day.

Q. What is the breakdown of your internal personnel vs. third-party contractors?

25%

75%

- Third-party providers/contractors
- In-house permanent staff

Q. Are you confident about being able to recruit the right staff from the UK & Ireland in the next 3 years?

11%

89%

- Yes
- No

13

Conclusion

In our corresponding report, *Missed Opportunities*, investigating technology within the FS sector, we found that progress has been slow. Little had changed in the two years between surveys with the industry at a relative standstill in the adoption of new technologies like mobile, Cloud and big data.

In the operations sphere, the environment is a lot more varied. We can see the beginnings of trends that could lead to significant, ultimately seismic shifts in how IT operates within financial services. Managing and mastering those trends could spell the difference between success and failure, and be the dividing line that separates the heroes from villains.

As a result, we see three imperatives for FS organisations:

For better or worse, the nature of the IT department is changing
The FS IT department of 10, or even five, years' time could look fundamentally different to how it does today. Most vitally, it might not be much of a "department" at all, but a decentralised series of taskforces operating in business units across the organisation. Opinion suggests that this is a more effective way of serving the wider business, and could counter some of the struggles faced today around resourcing and budget. Organisations should start considering now how they could integrate the IT team more effectively within lines of business.

Innovation is given a healthy budget, but it could be invested more wisely
Debate over "where" innovation really comes from in FS will burn on for many years yet, if not forever. FS organisations in the UK and Ireland seem to invest heartily in this area, providing IT teams with the budget they need to spend on "changing" the bank or insurance company. But, we see a clear disconnect between the activities pursued (delighting the customer, fuelling new revenues) and the technology invested in. A more strategic approach to innovation investment could avoid some of the historic pitfalls and reap real dividends.

Now is the time to invest in growth
There is a clear indication that the market is gearing up for sustained growth. A renewed focus on the customer, combined with the dwindling importance of cost cutting means that most IT teams are thinking hard about how they can maximise the value they deliver and spur their organisation on to expansion. The FS recovery has been well documented by sources like PwC and the CBI, and now is the time for organisations of all kinds in the sector to invest in technology as a way of achieving competitive advantage.
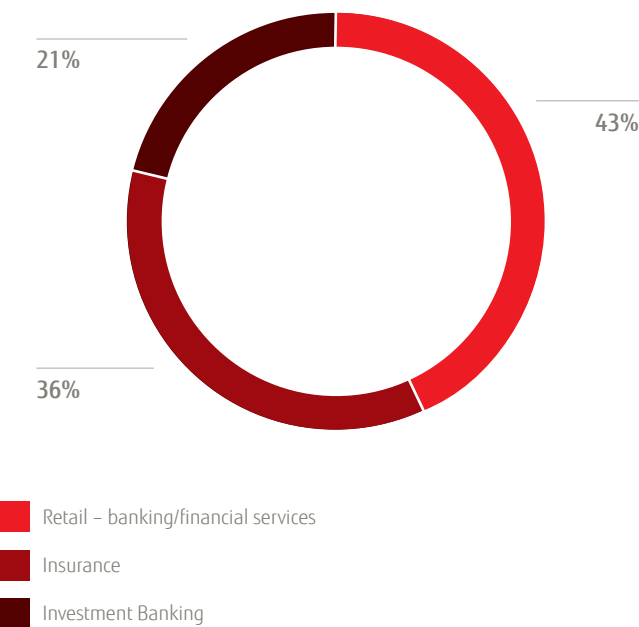
Research Methodology

Fujitsu commissioned an independent research agency to conduct this study in March/April 2014 as a repeat of the study conducted in 2012. In 2014 the study was extended to further understand the market but also enable comparisons and contrasts to 2012.
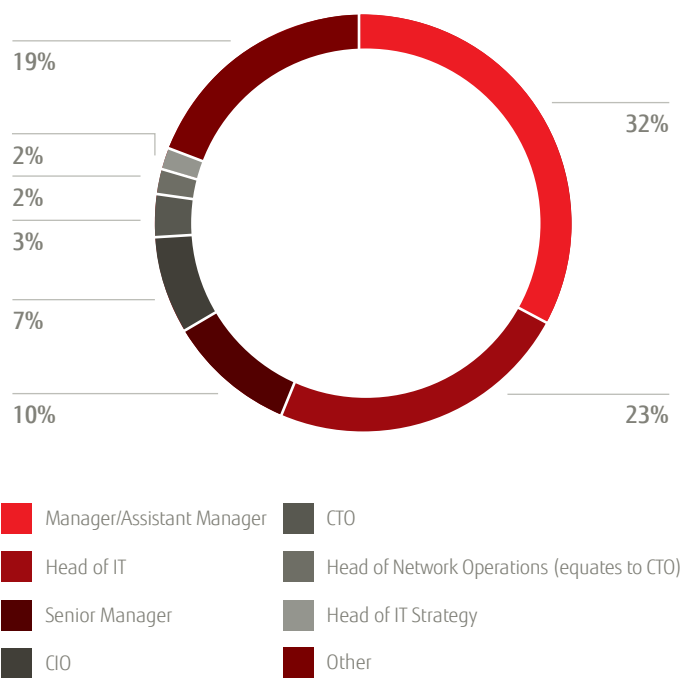
Respondent Base

176 interviews with CIOs, IT Directors and/or Heads of IT, Heads of IT Strategy, CTOs and other members of the IT function, all with involvement in IT solutions and purchases, were conducted by telephone with companies in the UK and Ireland.
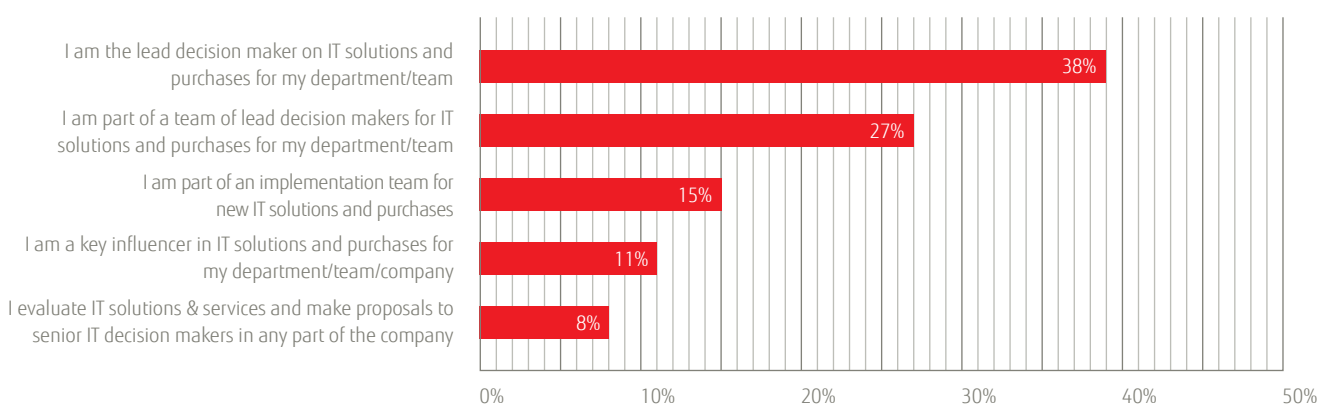
Which of the following best describes your company's type of business?

21%

43%

36%

- Retail – banking/financial services
- Insurance
- Investment Banking

Which of the following best describes your job title?

19%

2%

2%

3%

7%

10%

32%

23%

- Manager/Assistant Manager
- Head of IT
- Senior Manager
- CIO
- CTO
- Head of Network Operations (equates to CTO)
- Head of IT Strategy
- Other

Please select which of the following statements best describes your role/responsibility.

I am the lead decision maker on IT solutions and purchases for my department/team	38%
I am part of a team of lead decision makers for IT solutions and purchases for my department/team	27%
I am part of an implementation team for new IT solutions and purchases	15%
I am a key influencer in IT solutions and purchases for my department/team/company	11%
I evaluate IT solutions & services and make proposals to senior IT decision makers in any part of the company	8%

What is the size of your organisation in terms of number of employees?

Up to 500 employees	19%
500 – 999 employees	19%
1,000 – 5,000 employees	41%
5,001 – 10,000 employees	5%
10,000 – 25,000 employees	7%
25,000+ employees	9%

Sources and References

[1] **Computer Weekly,** 15th May 2014, Economy boost means IT must start delivering true business value
[2] **Computer Weekly,** 5th June 2014, CIOs should 'leave innovation to marketing'
[3] **Forrester Blog,** 27th July 2010, Why CEOs should stop limiting IT budgets

About Fujitsu

Fujitsu is the leading Japanese information and communication technology (ICT) company offering a full range of technology products, solutions and services. Approximately 162,000 Fujitsu people support customers in more than 100 countries. We use our experience and the power of ICT to shape the future of society with our customers.

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