



Top 10 Retail Financial Services Strategic IT Initiatives for 2001

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www.meridien-research.com
 Tel. +1.617.796.2800
 Fax +1.617.796.2850
 info@meridien-research.com

Overview

High rates of IT spending are expected to continue in 2001 at retail financial services institutions. Spending will continue to be driven by strategic efforts to create competitive advantage or to avoid falling further behind the leaders. Since our initial Top 10 Strategic Initiatives was published in December 1999, we have observed a noticeable turnover in the Top 10 strategies for retail financial services for 2001 (see Table 1 for a summary). Five new initiatives have joined five from the previous list. The new strategies include financial portals leveraged off account aggregation, online fraud detection, privacy management, enterprise-wide decisioning applications, and sunset management. These new efforts focus on revenue expectations (#1, #6), improving processes/risk management (#2, #5, #6), and confronting failed initiatives (#10). Of the continuing strategic initiatives, better metrics, and campaign management measure business performance against expectations.

Table 1: Top 10 Strategic IT Initiatives for Retail Financial Services in 2001

Rank	Business Issue/Application	Description
1	Account aggregation provides a foundation for financial portals	Combining a portal paradigm with account aggregation offers customers improved value, while enhancing loyalty
2	Online fraud detection	Detects and remedies identity and application fraud in transactions that are increasingly remote and "faceless"
3	Better metrics	Measurements that establish baselines and improve accountability for strategic IT investments, including activity-based cost analytics and measurable objectives that yield ROI decisions, lead to better outcomes
4	Optimized campaign management	Measures closed-loop performance across multichannels for outbound and inbound contacts; improves marketing effectiveness and ROI
5	Privacy management	Balancing operational requirements in complex organizations with marketing opportunities, individual privacy thresholds-declarations, and existing laws/regulations
6	Enterprise-wide decisioning applications	Intersection of business policy, market segmentation analysis, and customer preferences to create "knowledgeable" decisions across all channels
7	Real-time multichannel delivery	Integrating a click and mortar delivery paradigm with consistent service and content delivery across all channels
8	Data quality	Fixing the data quality problem in customer data warehouses/marts; rationalizing data from customer data stores back into operational systems
9	mCommerce	Integrating wireless automation and transaction processing for inquiries, orders, or payments with customer lifestyle profiles
10	Sunset management	Learning to disengage and to maximize organizational value and return from projects that fail financially

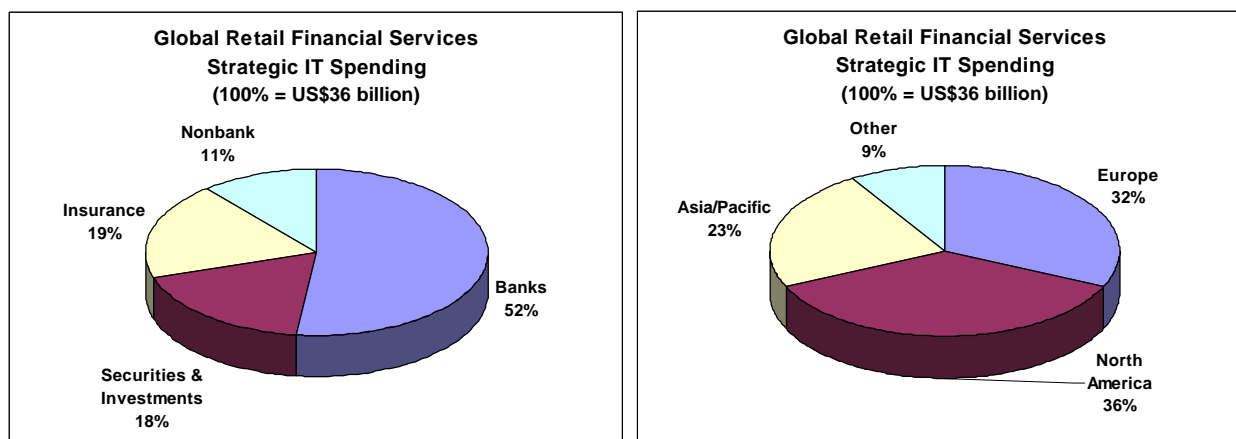
Source: Meridien Research

Strategic IT Spending for Retail Financial Services Institutions

Our IT spending forecast for the global financial industry for 2001 reflects an expected compression in the rate of spending increase to about 6.5%, which amounts to US\$223.0 billion. This dip in the rate of spending increase from almost 9% for the year 2000 is due to several factors, chief among them a slowdown in financial industry earnings growth rates and the growing realization that new spending initiatives and investments have either been more expensive than originally planned or will not lead to the customer adoption rates that were anticipated. Strategic IT spending will reach US\$63 billion, up from US\$57 billion for 2000, or about 27% of total IT spend.

We project that spending on strategic technology initiatives at retail financial institutions will continue to account for about 57% of strategic IT spending, expanding from the previous record level of US\$33.25 billion in 2000 by another US\$2.75 billion, to an estimated US\$36 billion for 2001. Figure A summarizes our spending estimates for the major industry segments and geographic regions for retail financial services institutions. While banks will continue to dominate the strategic spending as in the past, their share and the nonbanks share of the total compressed slightly while the securities and investments and insurance segments will expand slightly. Geographically, North America and Europe again dominate the strategic spending, but Europe's share will expand slightly and North America's will shrink slightly.

Figure A: Strategic IT Spending at Retail Financial Services Institutions (Year 2001)



Source: Meridien Research Estimates

Looking Ahead — A Rocky Road

More financial institution managements are asking “where’s the payoff?”, “when’s the payoff?”, or “will there be a payoff?” when it comes to reviewing the track record of previous strategic IT initiatives. **Several factors have converged to create this more conservative outlook on strategic IT spending: a slowing earnings outlook, the fact that some large-scale, strategic experiments have failed, and a growing uncertainty that some high profile “first movers” have become the latest version of “bleeding edge” experimentation.** While some of these factors act as a restraint, the success of the leaders and the realization that strategic IT is like Pandora’s Box have led a growing number of financial institutions realize that there is no turning back. Clearly, more financial institutions will launch strategic IT initiatives, just at a more moderate pace and rate of spending than we observed in 2000. This phenomenon reflects the rate of adoption and the diffusion of innovation. Over time, it will be the customers of the financial institutions that determine which of these strategic initiatives strike “oil” and not a “dry hole.” The Top 10 initiatives for 2001 reflect the tightening focus on meeting expectations, not just the hype that may surround a subject such as account aggregation or online payment schemes. **Attention to execution excellence will mark the financial institution leaders, as “best” will beat “first” across the board.** The shift in market dynamics will disappoint more than a few vendors and provide a challenging year to the consulting and systems integration firms.