

The Success Factors of the Future Determine the Demand for Qualified IT Services

# Trends in Banking IT

By Dr. Lars Wolter

*During the past ten years, the banking landscape in Germany and Europe has been completely restructured. Germany, with approximately 2,800 private banks, savings & loan institutions and cooperative banks, is home to nearly 40% of all banks in Europe. The strategic questions and issues that confront banks today are shaped by globalization, the increasing number of competitors, demanding and self-confident private customers, as well as modified legislation. This article takes a look at the potential and chances for IT by exploring these trends.*

## Trend: Globalization

The globalization of business has accelerated the internationalization of the financial services sector. The major German banks consider themselves at home in the European market and also operate widely in North America and Asia. This applies especially to investment banking offered by banks specializing in the mergers and acquisitions of large companies. The liberalization of international financial markets has made business easier for the banks – at the expense of increased competitive pressure. At the same time, the competitive pressure has also increased in the respective national markets.

While the German providers of financial services have established strong positions across Europe and the United States, banks from other European countries and North America are conversely active in the German market. The international involvement of these financial service providers represents a new quality that facilitates the consolidation of the provider structure.

Especially direct banks sense this pressure to consolidate. In the meantime, the routine sale of standard pro-

ducts over the Internet and the high market transparency, which this brings with it, has led to a persistent decrease in margins when dealing in these products. The ability to acquire the most number of customers as possible has become an essential competitive factor for direct banks. However this is not enough. The banks have to establish customer loyalty and generate sufficient profitability from every customer relationship.

Public banks are exposed to higher competition due to a reduction in the privileges they once enjoyed. The liability limit that institutions were legally granted and guarantor's liability are being gradually abolished. Public banks are now facing even more intensive competition from private banks.

It is necessary for banks to maintain a certain minimum size if they want to be and remain efficient. This especially applies for cooperative or associated banks and has triggered a multitude of mergers. The number of cooperative or associated banks declines at a rate of ca. 250 per year.

**Chance IT:** Information that is inexpensive and available worldwide is an essential prerequisite for globaliza-

tion in the finance sector. The uses of the Internet with respect to Internet Content Publication, the stock and securities business, payment processes and eCommerce all play a significant role here.

Standardization in IT and concepts for comprehensive management systems in banking are crucial elements for successful consolidations. When two facilities merge into one, aside from the basic requirement to integrate the IT systems, only consistent standardization together with risk management guarantees the ability to manage the organization and secure its competitiveness. The financial institution's success is measured by its ability to delegate secondary IT processes through outsourcing and to achieve cost advantages.

## Trend: Market potential for banking and financial services

An increase in private financial assets, the absolute 'must' of a retirement plan as well as the growth of the capital market has increased the demand for appropriate financial services. In order to meet sophisticated needs such as retirement plans, private financing or risk management, demanding private customers require



photo: Deutsche Bank

*Deutsche Bank's Trading Center*

not only comprehensive and individual customer service, but also comfortable and standardized basic products for payment transactions and brokerage. Topics such as these open up more room for competitors foreign to the market. Sales and marketing chains, credit card companies, subsidiaries of industrial companies as well as electronic trading platforms are now offering their own payment services. This has been supported by the variety of possibilities surrounding electronic cash payments that have been established in the past years for eCommerce.

The only restraining factor for this megatrend is the current slump in economic growth.

**Chance IT:** Customer loyalty maintained through analytical Customer Relations Management (CRM) opens up extensive, comprehensive and personalized consulting possibilities. Systematic and integrated representation of all its own products as well as selected external products in IT prevent island solutions.

Money saved through reducing maintenance and operating expenses can be reinvested. IT outsourcing, such as the maintenance of individual software through Application Maintenance

Services, can be efficiently and reliably carried out by IT service providers such as MaK Data System.

### **Trend: Self-confident and demanding private banking customers**

The private customer sector has been undergoing a noticeable change for several years. Sensitized by themes such as "From Savings Account to Strategic Asset Planning", profits from speculation on the stock market or retirement plans, the customer has become more critical and self-confident. A rising awareness of return on capital together with individual consulting is key with respect to asset management. The well-informed customer accepts fewer and fewer sales concepts that are product-oriented, on the contrary he/she looks for financial consultants who will provide advice according to the customer's individual needs.

Customers rely more and more on anonymous banking; via automated cash machines and the Internet to carry out daily payment transactions, brokerage and account management.

The merging of banks and insurance companies into all-service, global

financial institutes is necessary for restructuring business landscapes. Vendors such as these can offer their customers bank products and insurance from one source. However, a full integration of the markets for banking services and insurance has not taken place. The majority of the banks still prefer the concept of cooperation with insurance companies. Banks offering insurance products from external insurance companies alongside their own services has become standard.

Additional limiting factors of this megatrend are traditional product-oriented marketing on the one hand, and the lack of generally qualified customer service employees who can provide individual consulting, on the other.

**Chance IT:** Customer information can be comprehensively managed and intelligently analyzed with Customer Relations Management systems (CRM systems). Knowledge-based systems can record information such as customers' financial situation and help the consultant during strategic investment planning. Qualitative consulting, which is not only good yet also comprehensive, provides the chance for long-term customer relationships with the cor-

responding profitability.

The development of Internet applications proves to be a technically demanding task for IT with respect to the every-day business of online or rather multichannel banking. Integrating back-end systems for account management, transaction processing, information systems for stocks and securities and trading systems into front-ends that are customer-specific, requires the competent know-how of a systems integrator due to the different technologies involved. The same applies for the presentation of products foreign to one's own in the IT.

## Trend: Risk Management and Basel II

The new regulations for banks regarding international equity capital are the cause for further, drastic differentiation in commercial account management. The so-called "Basel II" consultation papers focus mainly on the evaluation of companies and identification and recording of potential non-payment risks. Credit institutions must therefore perform a credit rating, which can be used to evaluate the financial standing, creditworthiness and debt servicing capacity of potential borrowers. The higher the credit non-payment risk is, the more company capital has to be deposited by the creditor. A borrower with a poor credit rating therefore receives bad conditions or even a refusal of his or her loan application. This shall result in an increased stability for the international financing system on a long-term basis.

Financial institutions can use either external evaluations from rating agencies or set up their own rating system internally. The rating processes are often presented in the form of comprehensive management systems for banking or risk management. In the future, even the operational risks of banks (IT system

## References

### Deutsche Bank AG

Intranet-Application „Trading System / Bloomberg Ticker“

### Bayerische Landesbank BLB

Design und implementation of "Stocks and Securities Administration System" and "Allocation System for Stocks and Shares Flotation" Transaktionsbank TxB / Merger with HeLaBa

### ADIG Investment GmbH

Configuration management, design and implementation "Depot Administration"

### Deutsche Gesellschaft für Wertpapiersparen mbH DWS

Intranet applications:  
- maintenance and further development of "Funds Administration" old and new  
- sales commission system  
- Corporate Actions  
- Source Tax processing system

### Volkswagen Bank AG

Design, implementation and maintenance "KREDIS" Implementation "Investment and Commission" "Bonuscard-Infrastructure" Year 2000-conversion Euro introduction





## References

### Landesbank Hessen-Thüringen Girozentrale HeLaBa

Stocks and shares information- and processing System  
Transaktionsbank TxB / merger with BLB



### Investitionsbank Berlin

Installation of administration system for subsidies  
Introduction of SFO  
Support of the introduction of SAP



### Hamburgische Landesbank

Project DELFI-leasing finance



### Landesbank Schleswig-Holstein

Consulting networkinfrastructure  
First Level Support  
"Trading platforms"  
Concept of an information warehouse application of the 6. KWG  
Syndicated Credit  
development of Internet presentation



### Vereinsbank Victoria Bauspar AG

Year 2000 conversion "Customer Administration", "Risk Management"  
Migration from Adabas/Natural to Cobol/IMS

failure, fraud, earthquakes, etc.) will have to be identified and recorded.

**IT Chance:** Systems for risk management and comprehensive management systems for banking require a high-level integration of data and applications. Up-to-date information as well as data histories are necessary, specifically, for the implementation of Basel II processes. In addition to this, systems will be used to perform quantitative and qualitative risk parameters assessments. This is all but a trivial task.

### Summary: The Key to Success - IT

Information Technology is a decisive, competitive factor for banks today. IT is for banks more or less what the production line is for manufacturing facilities. The demands on IT strategy and technology are high: Differentiation versus standardization, customer relations management, standard and back office processes, joint ventures, mergers, comprehensive management systems for banking as well as electronic payment transactions and security. And all this with a 99% fail-safe operation, 24 hours a day 7 days a week. ■

For further information contact:

Dr. Lars Wolter  
Phone: +49 (0)431 / 3993-523  
eMail: wolter@makdata.de