



Top 10 Wholesale Financial Services Strategic IT Initiatives for 2001

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Overview

At Meridien Research we believe that the Top 10 strategic initiatives in wholesale financial services will be in two major areas. The first is that of continued reinvestment in internal processing to further leverage available data with transactions, deals, or customers (see Table 1, Business Issue/Applications ranked 1, 2, 3, 4, 6, 7, and 10). The second involves technology advances in market and/or deal making (see Business Issue/Applications ranked 5, 8, and 9).

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

Rank	Business Issue/Application	Description
1	Strategic back-office initiatives	Investing in the ability to leverage back-office applications to support better front-office information, more streamlined, cost-efficient processing, and a lower level of operational risk. Domestic and global business requirements will drive initiatives such as enterprise application integration, middleware, continuous linked settlement, electronic trade confirmation, and straight-through processing.
2	Data quality and integration	Fixing the data quality problem in data warehouses/marts; rationalizing data from data stores back into enterprise analytical tools and operational systems.
3	Default prediction and market-based loan valuation	Improving the ability to predict downgrades in credit quality as well as default and to determine the impact of these changes on the value of the assets held.
4	Personalization in a multichannel environment	Creating and delivering consistent, customized content across multichannels based on customer desires; can monitor/analyze behavior and predict customer needs.
5	e-Procurement	Facilitating the trading process through the automation and provision of both payments and trust services to online marketplaces and their customers.
6	Smart order routing	Building tools to route trades to the execution that will best serve the customer needs, whether the priority is speed, price, or the terms of settlement.
7	Business rules for CRM	Creating a centralized resource that can store and provide rules that can support processes and decision-making across a variety of customer needs and product areas.
8	Electronic exchanges, ECNs, and alternative trading systems (ATSs)	Proliferation of competing electronic markets in a wide variety of financial products.
9	e-Advisory	Automated delivery of valued-added, fee-based services which could then be distributed more cost effectively to a wider audience.
10	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.

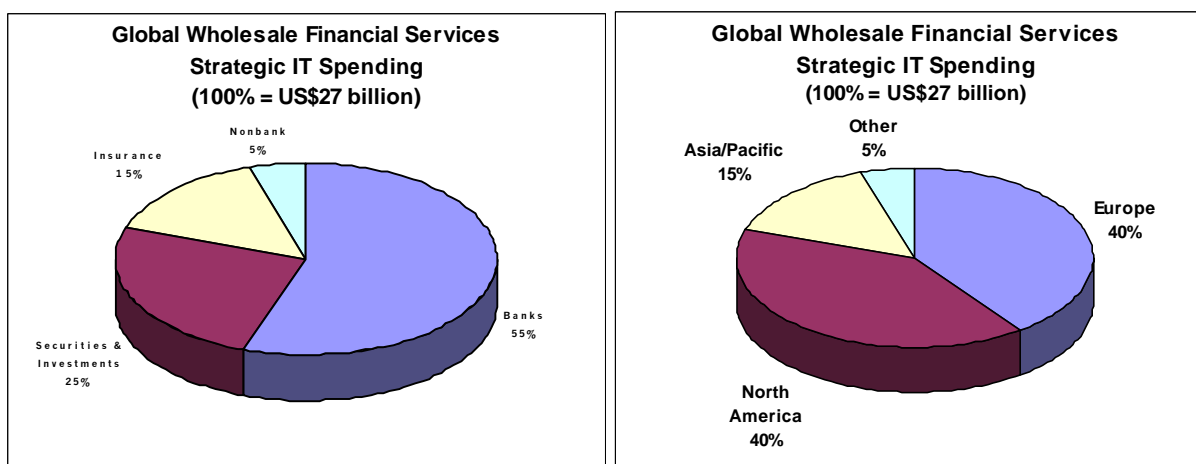
Source: Meridien Research

Strategic IT Spending for Wholesale Financial Services Institutions

Our IT spending forecast for the global financial industry reflects an expected compression in the rate of spending increase from almost 9 percent in the year 2000 to about 6.5 percent in 2001; this amounts to US\$223.0 billion. This dip in the rate 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 percent of total IT spend.

We project that spending on strategic technology initiatives at retail financial institutions will continue to account for about 43 percent of strategic IT spending, growing by US\$3.25 billion from the previous record level of US\$23.75 billion in 2000 to an estimated US\$27 billion in 2001. Figure A summarizes our spending estimates for the major industry segments and geographic regions for wholesale financial services. Banks will continue to dominate the strategic spending as in the past (55 percent), with the other industry segments remaining fairly stable as well. Geographically, North America and Europe again dominate the strategic spending, with Asia Pacific representing a disproportionate share of industry's assets but only 15 percent of the strategic spending overall.

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



Source: Meridien Research Estimates

Looking Ahead

We believe that 2001 will be a time of active (and proactive) investments in strategic technologies. Each of the large wholesale institutions (especially in the banking and securities segments) is actively trying to position itself for a future where the profitability of lending, trading, and underwriting will depend very much on technology. **These technologies are required to provide better pricing, more cost-effective execution, and value-added services over and above "doing the deal."** The exponential growth in the level of information available to corporate customers, along with their unparalleled direct access to markets, threatens to make financial institutions obsolete unless they can find a way to make core competencies based on experience (and technology) deliver over and above what might be readily available from other sources. **The days of fat margins are over. In fact, the smarter and stronger customers are dictating relationship terms to financial institutions.** Financial institutions must increasingly justify their value to their customers, and this can no longer be based solely on access to markets or information about those markets. A slowdown in the global economy, especially combined with increasing defaults and downgrades, will threaten the survival of any institution that does not plan to reinvent itself in the very near term. **Many of the technology investments required cannot be done overnight.** Changes in underlying back-office architectures can take years to achieve. Forethought and planning are an absolute necessity.