



Today's Presenters

*Julio Gomez
Jeanne Capachin
Aaron McPherson
Barry Rabkin*

Financial Insights 2008 Top 10 Predictions



Webcast, January 7th, 2008

Webcast Logistics

Top **10**
2008

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- Provide industry business leaders with informed opinions on the technologies required to create a competitive advantage
- Present strategic and insightful market positions, trends, and cross-industry segmentation data
- Open dialogue with our expert analysts to support key investment decisions
 - Singapore, Hong Kong, China, London, Milan, Toronto, Brazil and US

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Introducing our Speakers - Julio Gomez

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- Global Head of Research at Financial Insights
 - Responsible for research and consulting across geographies and segments
- Extensive financial services expertise
 - Experience as both a practitioner and market researcher
 - Former founder and CEO of Gomez, Inc., a leader in Internet quality measurement services
 - Former trader and institutional sales executive who handled large LBOs and corporate underwritings with HSBC, Security Pacific and Bank of Boston
- Institutional Investor named him one of the "50 Most Influential People" in addition to a Time Magazine report on "Fifty Most Influential People Shaping Technology"



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Introducing Our Speakers – Jeanne Capachin

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- VP Research, Global Banking & Insurance Practices
- Directs the research and analysis for the all Financial Insights' Banking and Insurance Practices, IT Spending Guides, Industry rankings; FinTech 100, SecuritesTech, Insurer's Choice
- Taught thousands of bankers, vendors, and regulators about banking and payment systems issues and trends through NEACH association
- Previously at Bank of Boston and Guaranty Bank and Trust with responsibility for product management, operations management, and systems development and integration



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Introducing our Speakers – Aaron McPherson

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- Research Director, Payments Practice
 - Research covers all types of payment technologies
 - Enterprise Payments, Payment Cards, Checks, Payment Networks, Payment Security, Payment Fraud, Emerging Payment Technologies

- Previously a principal in the Consumer Financial Services Group at American Management Systems (AMS) and a financial analyst in the Executive Office of the Commonwealth of Massachusetts

- Sought after speaker at industry events including Payments (NACHA), SIBOS

Introducing Our Speakers - Barry Rabkin

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- Senior Research Analyst, Insurance Practice, Financial Insights
 - Focuses on implications of applying technology to insurance industry structure, strategy and marketing, and business operations
- Previous work experience with John Hancock, The Hartford, Aetna Life & Casualty, and the Phoenix Companies
- Management consultant at Arthur D. Little, IBM Global Services, and BearingPoint
- Launched insurance research retainer service at The Meta Group

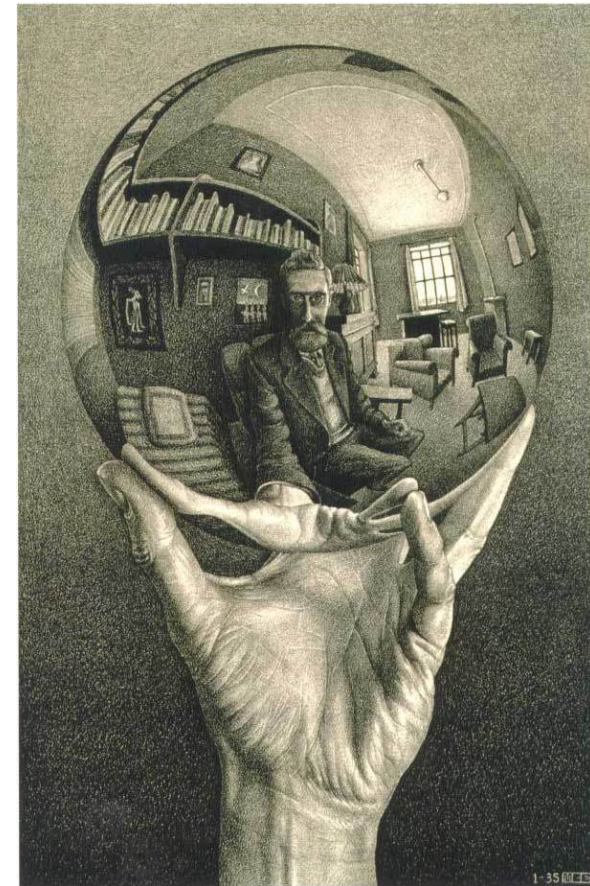


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Why Predictions?

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- **Goal:** Identify trends that impact business and Information Technology decisions.
- **Process:** Drawn from IDC and Insights studies, industry contacts, and our own industry experience.
- **Bias:** We focus on the transformation of major business processes and how IT enables that transformation.
- **Time Frame:** Predictions are focused on 2008, but will have a long range impact



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Financial Services Spending Cycle

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- 1995-2000: Growth at all costs
- 2001-2003: Cut all costs
- 2004-2010: Rationalized Investment

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Business Imperatives Drive Spending

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- Customer Acquisition
- Customer Retention
- Knowledge-worker collaboration
- Improved Operational Efficiency

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Business Drivers: Globalization

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- Globalization is a double-edged sword – those well-positioned are eager to expand, the rest are fearful of more foreign competition. Institutions must prepare for
 - a more global banking environment. This is good news for those that already have had success with a multi-national strategy.
 - a strong local or regional footprint. This will allow firms to generate consistent revenues.
 - a strong technology infrastructure and disciplined approach to acquisition. This allows them to reap the benefits of inorganic growth.
- All of these attributes have posed challenges for banks in the past.
- The relatively weak dollar makes US institutions attractive take-over targets.
- Financial Insights predicts that Western European banks will be well-positioned in a more global economy with the investments in their back-office systems, particularly in their payment processing in response to both Basel II and SEPA.



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Business Drivers: Regulatory Milestones

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- Multi-year efforts to comply with major regulations (MiFID & RegNMS) are for the most part completed or approaching completion.
 - The effect on market efficiency, pricing, and execution will be scrutinized over the coming year.
- The capabilities that firms have had to develop have far-reaching impact on IT architecture, data management, business processes, and infrastructure.
 - This impact goes well beyond compliance and has forced integration efforts that are yielding unintended, positive consequences.

Business Drivers: Customer Centricity

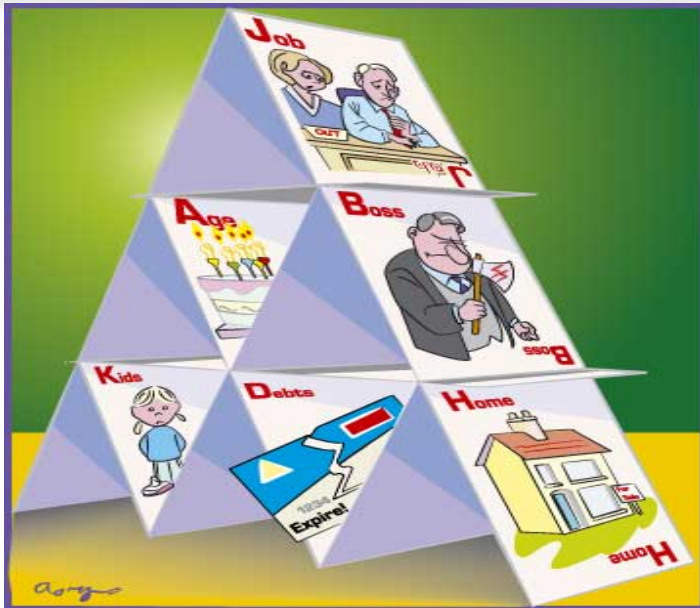
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- In the race to increase inexpensive core deposits and increase revenues, institutions are doing what they always do – focusing on their customers (again).
 - While it is less expensive to serve and retain your existing customers than to attract new ones, banks are easily distracted when times are good and they lose sight of this truism.
- This time, customer centricity initiatives are less ethereal than when CRM was the hot topic in the late 1990s.
 - Now, customer centricity has the advantage of building upon strong data warehouses that have been developed in the intervening years, with mature analytic tools.
- What banks are struggling with now is realizing a true enterprise-wide approach to their customers.
 - This remains elusive for most large institutions.



#1 – Financial institutions will move risk management/analytics to top investment priority

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Drivers

- Sub-prime hangover
- Satisfying several regulatory milestones has made significant amounts of data available for analysis
- Basel II investment has provided more tools and visibility into data that can feed new predictive models

Predictions

- *The US economy will continue to erode in 2008, leading to further declines in bank net incomes around the globe*
- *Credit markets will tighten further, banks with the most sophisticated risk management tools will weather the storm and increase market share*

#2 – Contactless Mobile Payment Meets its Demise

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Drivers

- Delays in deploying contactless handsets
- Desire for a bank-controlled system
- Need to compete with PayPal Mobile and Obopay message-based systems
- Desire to leverage mobile banking and bill pay investment
- Evolution of mobile billpay into a secure "pay anyone" capability

Predictions

- *In 2008, US Financial Institutions Will Abandon NFC for Message-Based Mobile Payments*
- *As the economy slows down, financial institutions will seek to limit investment in new technology. Near Field Communication (NFC) contactless technology will be an easy choice, since it has not progressed beyond the pilot stage.*
- *Financial institutions will agree upon a standard way to initiate ad hoc payments through the secure mobile bill payment engine. Financial institutions will provide this message-based mobile payments service free of charge to encourage adoption and undercut competitive efforts by the mobile operators.*

#3 – Insurers Recognized As Web 2.0 Leaders

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Drivers

- Streamline operations
- Save resources (time and money)
- Provide better service
- Increase firm agility



Predictions

- *In 2008, insurance companies will take the lead using SOA and web services.*
- *In 2008 and going forward, insurers will attempt to generate fee income from marketing their growing and extensive library of reusable “objects” or services (i.e., functional applications) to other insurers and possibly outsourcing technology firms.*
- *In 2008, some insurers with a large library of objects will look to “sell them” to other lines of business or areas of their company giving their charge-back system even more dimensions of complexity.*

#4 – Treasury and Cash Management Fees will Increase at Tier 1 Banks Globally

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Drivers

- Banks need to Increase non-interest based revenues
- New value-added products will incur higher fees
- Investment in payments infrastructure must be recovered

Predictions

- *Cash Management revenues will increase 10-15% globally*
- *Banks will both raise prices of current products and introduce new products with higher price points*
- *Banks will invest in new account analysis/billing systems to increase flexibility and automate relationship-based pricing*

#5 – BPO growth, already in strong double-digits, will accelerate

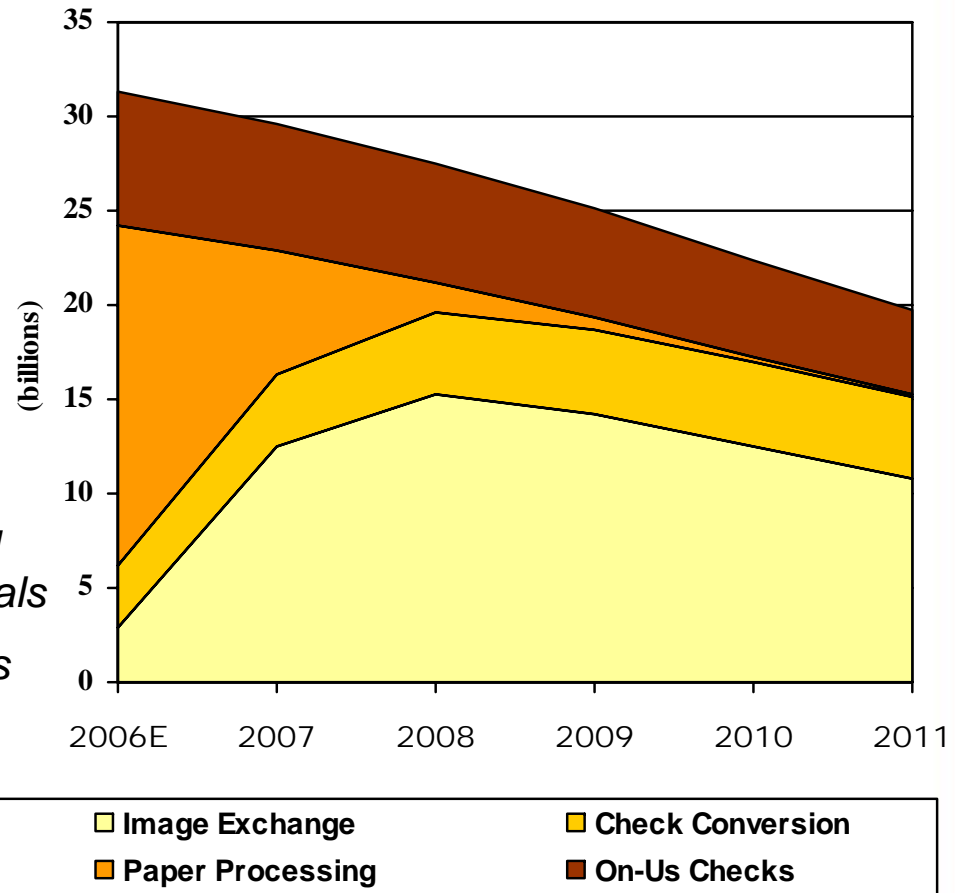
Drivers

- Budget constraints will force hard decisions about where to invest
- Continued pressure to drive out costs, particular for those institutions hit hard by subprime
- Check volumes continue to decline about 5% a year

Predictions

- *At Least Three Top-30 U.S. banks will sign check processing outsourcing deals*
- *More than half of tier 1 insurance firms will use BPO for customer care in 2008 to minimize expenses and avoid capital re-investment*

US Total Checks Written, 2006-2011



#6 – Basel II Initiatives Morph into Enterprise Data Management at Tier 1 Global Banks

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Drivers

- Basel II projects are nearing completion
- Basel teams are well-placed to lead strategic data management projects for their institutions
- Banks realize the power of data tied to analytics

Predictions

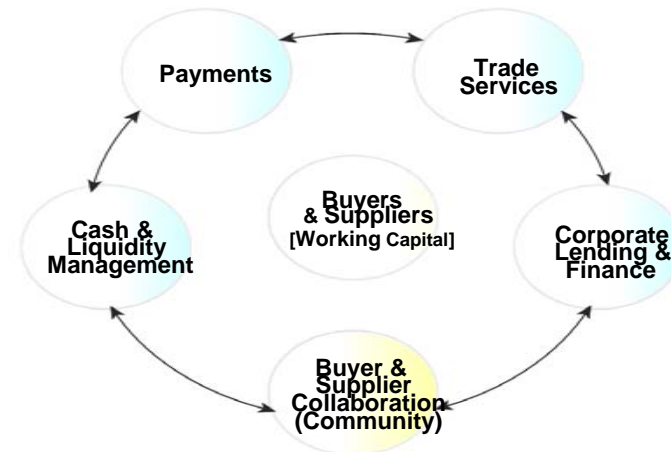
- *Basel II Executives will be promoted to newly created positions leading enterprise data management and integration efforts at tier 1 global banks*
- *Offices of Enterprise Data Management will be formed in 2008 and will be integrated into Information Technology decision-making processes*

#7 – B2B Payment Hub Race Will Get Under Way

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Drivers

- Open standards for corporate-to-bank connectivity make it easy to switch
- Regulatory and legal changes like SEPA and Check 21 allow consolidation of most account activity with a single bank
- Banks need better ways to differentiate commoditized corporate payment services
- Banks fear massive loss of customers



Source: Financial Insights, 2007

Predictions

- *At Least Seven New B2B Payment Hubs Will Launch in 2008*
- *Banks will seek ways to apply what they have learned from electronic bill payment and presentment in the consumer market to the corporate market with electronic invoice presentment and payment*
- *At least seven, and possibly ten, new B2B payment hubs will launch in 2008, based on conversations with technology vendors, banks, and system integrators.*
- *First to market advantage is huge. Hence the rush to get something, anything, into the market.*

#8 – Legacy Billing Systems Get Tossed

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Drivers

- Reduce complexity
- Reduce support costs
- Enable more flexibility

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"Please be reasonable - You have sixteen distinct personalities and I'm only billing three of them."

Predictions

- *In 2008, an increasing number of property-casualty (P/C) insurers will replace their legacy billing systems.*
- *These P/C insurers will look to billing systems that are integrated with core administrative systems rather than with financial systems.*

#9 – The Number of US Banks will Shrink to Less than 8,000 in 2008

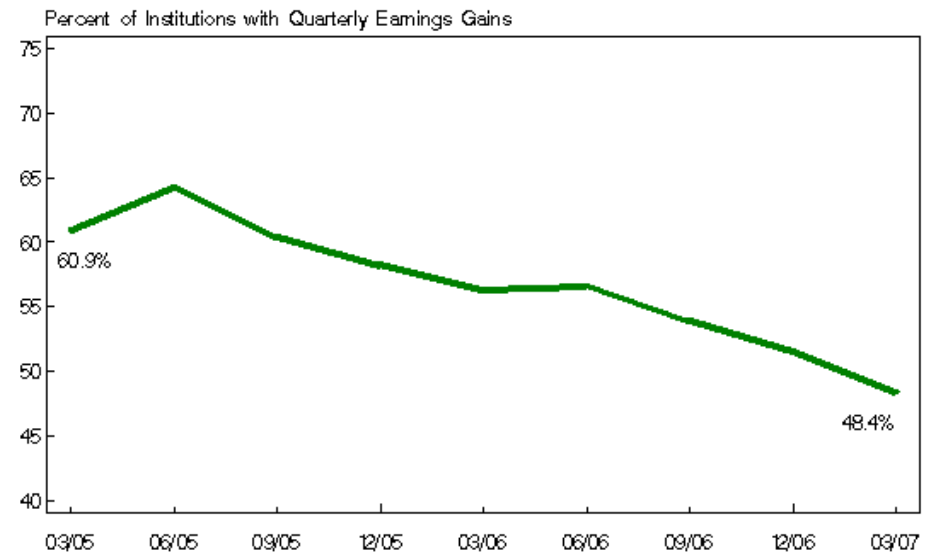
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Drivers

- US economic turmoil
- Consumer credit and real estate lending softens even more
- Weak dollar

Percentage of Insured Institutions With Earnings Gains

Compared to Year—Earlier Quarter, 2005—2007



Predictions

- ***There are 8,500 US chartered banks. The pace of consolidation has slowed since the mid-90s when it was fueled by Y2K fears. 2008 will see a return of M&A as the banking business softens and weak players get bailed out.***
- ***M&A leads to short-term growth in IT spending (2-3 years), followed by lower bases for the combined institutions***

#10 – Capital Markets firms go beyond the grid

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Drivers

- Quest to remove latency from trade-cycle
- Electronic trading proliferation in new asset classes driving data volumes
- Analytic tools demanding higher levels of computing power to deal with more complex securities and trading algorithms
- Efforts to reducing growing data center costs



Predictions

- ***Bulge bracket firms will be first movers in the discussion and potential uptake of cloud computing technology***
- ***Firms increased attention on leveraging and managing data assets***
- ***Realization of “green” technology***

Dual Approach to Profit Improvement

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Top 10 Predictions

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1. Risk mgmt/analytics is top IT investment priority
2. Contactless mobile payment meets its demise
3. Insurers recognized as Web 2.0 leaders
4. Treasury and cash management fees will increase at tier 1 banks globally
5. BPO growth, already in strong double-digits, will accelerate
6. Basel II initiatives morph into enterprise data management at tier 1 global banks
7. B2B Payment hub race will get under way
8. Legacy billing systems get tossed
9. The number of US banks will shrink to less than 8,000 in 2008
10. Capital markets firms go beyond the grid

Questions? Live Meeting

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Slides will be posted within 24 hours and URL will be sent to registered attendees.

Contact Gail Samia, at gsamia@financial-insights.com for more information

Current Top 10 Reports

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- Global Capital Markets: Top 10 Strategic IT Initiatives for 2008
- Worldwide Insurance 2008 Top 10 Strategic Initiatives: It's a Mad, Mad, Mad, Mad World of Insurance Opportunities
- Worldwide Banking 2008 Top 10 Strategic Initiatives: CIOs Flex Their Muscles
- Asia/Pacific Risk 2008 Top 10 Strategic Initiatives: Striking an Optimal Balance Between Risk and Reward

Upcoming Webcasts

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- Making Change: How Video Communication Will Impact Communications and Relationship Management in the Financial Services Industry
 - January 30 at 11:00 a.m. Eastern US
- Asia/Pacific Banking 2008 Top 10 Strategic Initiatives
 - January 31 at 1:00 p.m. Asia/Pacific Singapore
- Asia/Pacific Insurance 2008 Top 10 Strategic Initiatives
 - February 5 at 11:00 a.m. Asia/Pacific Singapore