



November 24, 2008 Webcast

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The Crisis of Confidence: Impact on IT Spending North American Banking

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Who is Financial Insights?

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- Focus on the strategic business application of financial services technologies
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 - Event optimization
- Breadth & depth with global reach of IDC and our industry knowledge
 - Six vertical Insights groups

Banking Analysts on Today's Webcast



David Potterton, Vice President of Global Research



Jeanne Capachin,
Research Vice
President, Global
Banking and Insurance
Practices



Dana Wiklund, Research
Director, Risk Management



Aaron McPherson,
Practice Director,
Financial Services



Patricia McGinnis,
Research Director,
Corporate Banking



Marc DeCastro, Research
Manager, Consumer
Banking and Credit



Robert Burbach, Senior
Research Analyst, Canadian
Financial Services

Introducing Our Moderator

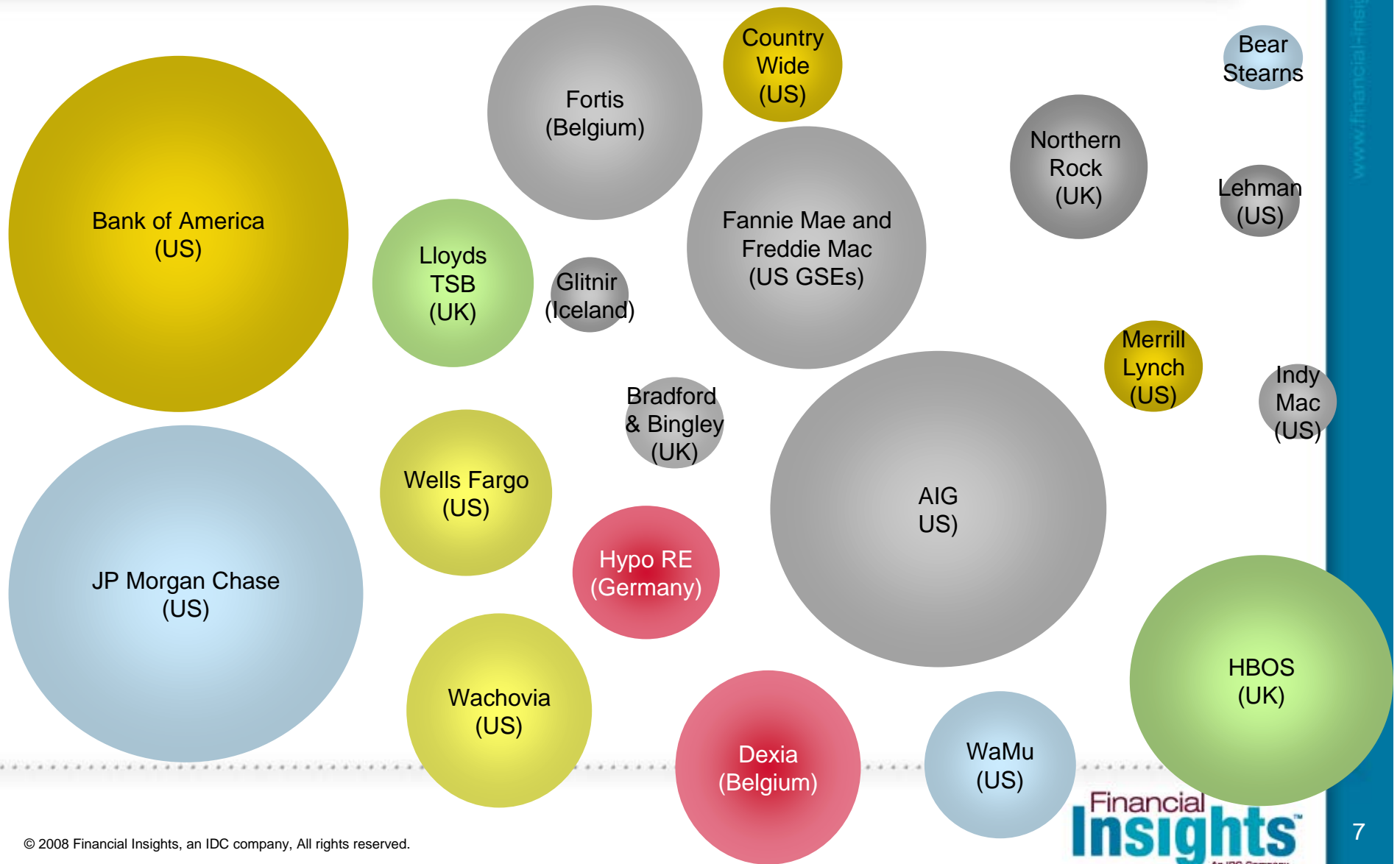


- David Potterton, Global Head of Research
 - Spearheads the research practices and drives Financial Insights' commitment to offering a balanced and reasoned analysis of the business, technology and operational issues within the financial services community
 - Experience in both domestic and wholesale banking, product development, business development, and product management
 - Extensive career at several high profile banks provides a practical and highly relevant perspective on the issues
 - JPMC, BankBoston, Wachovia, Bankers Trust, Manufacturer's Hanover Trust
 - Former Analyst at Meridien Research

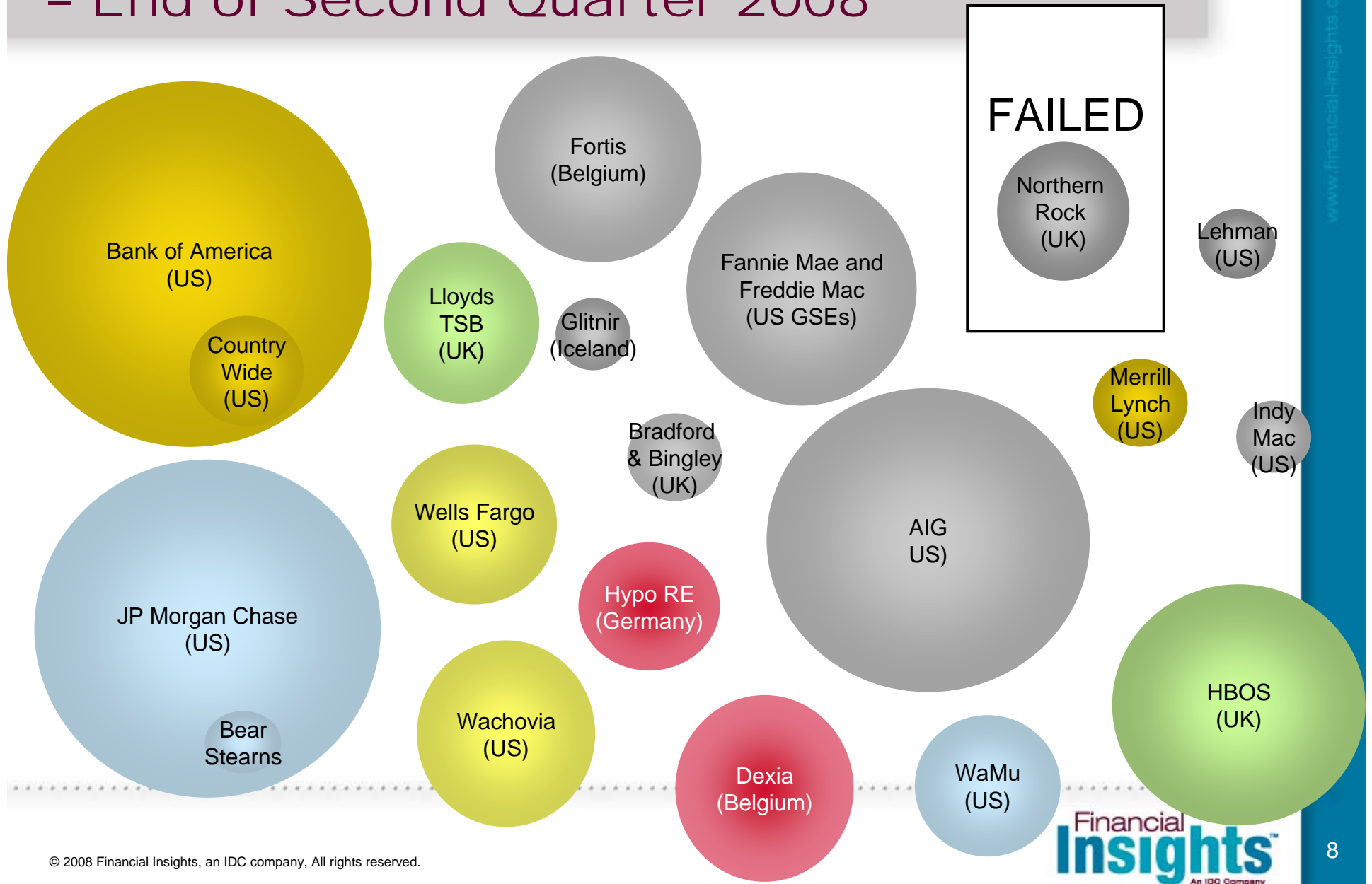
Agenda

- IDC's Research, Economic Trends, and Forecasts
- North American Banking Spending Trends
- US vs. Canada
- Financial Insights Forecasts
- Question and Answer

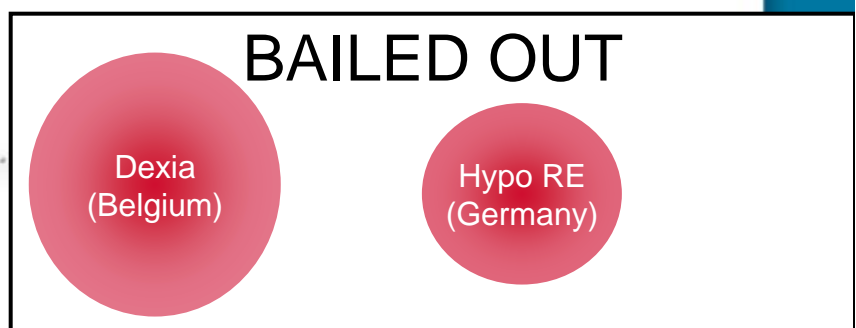
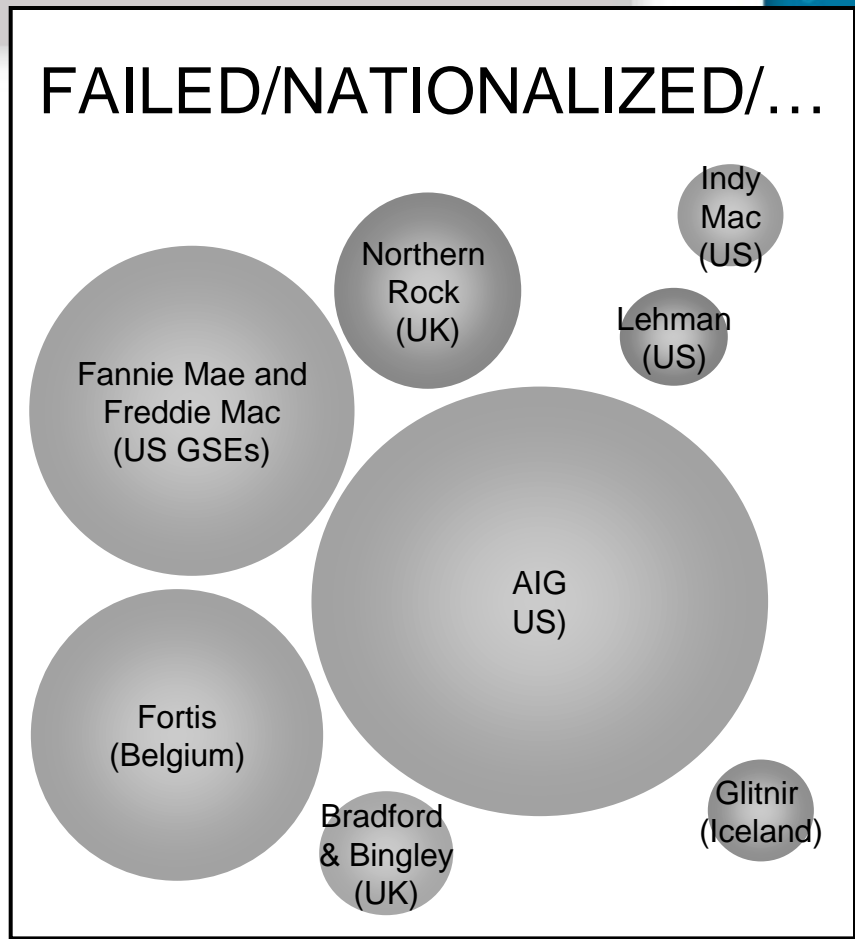
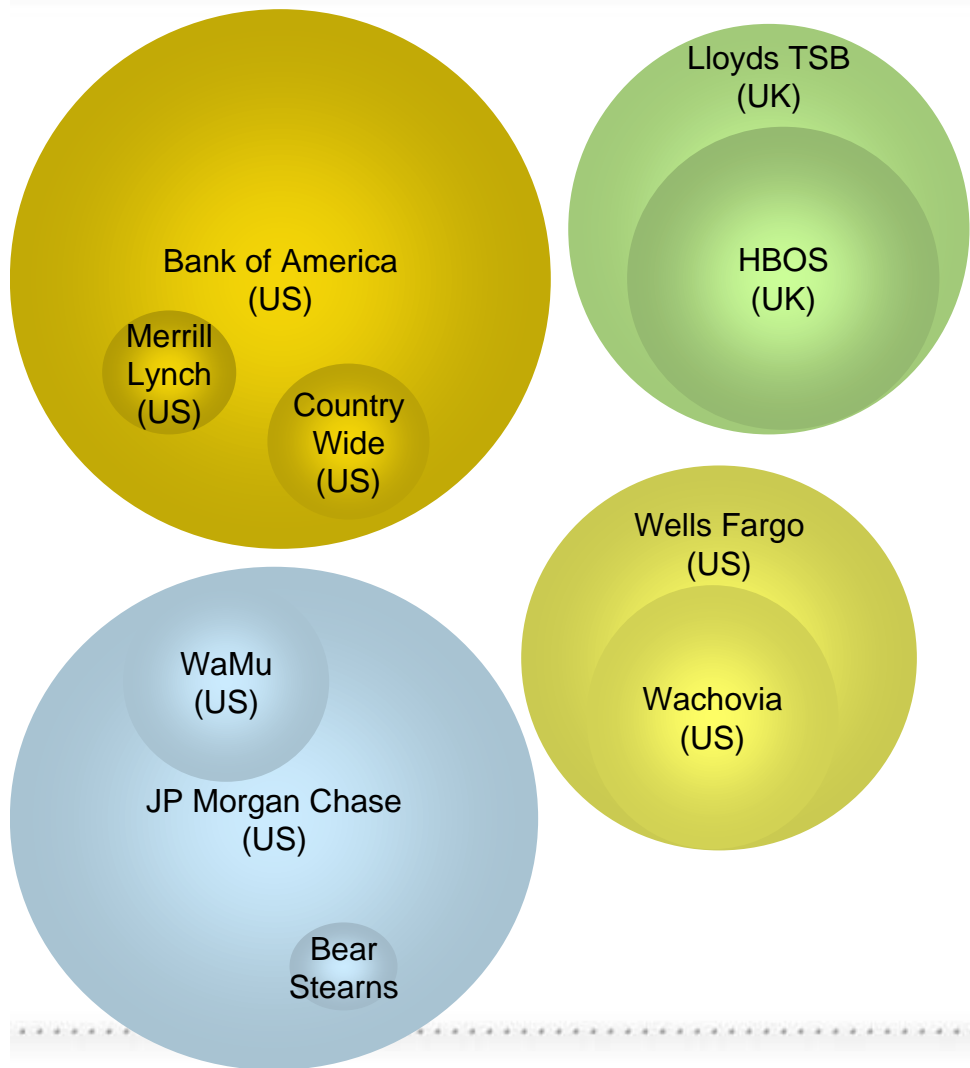
North America & Europe Banking Scene – January 1, 2008



North America & Europe Banking Scene – End of Second Quarter 2008

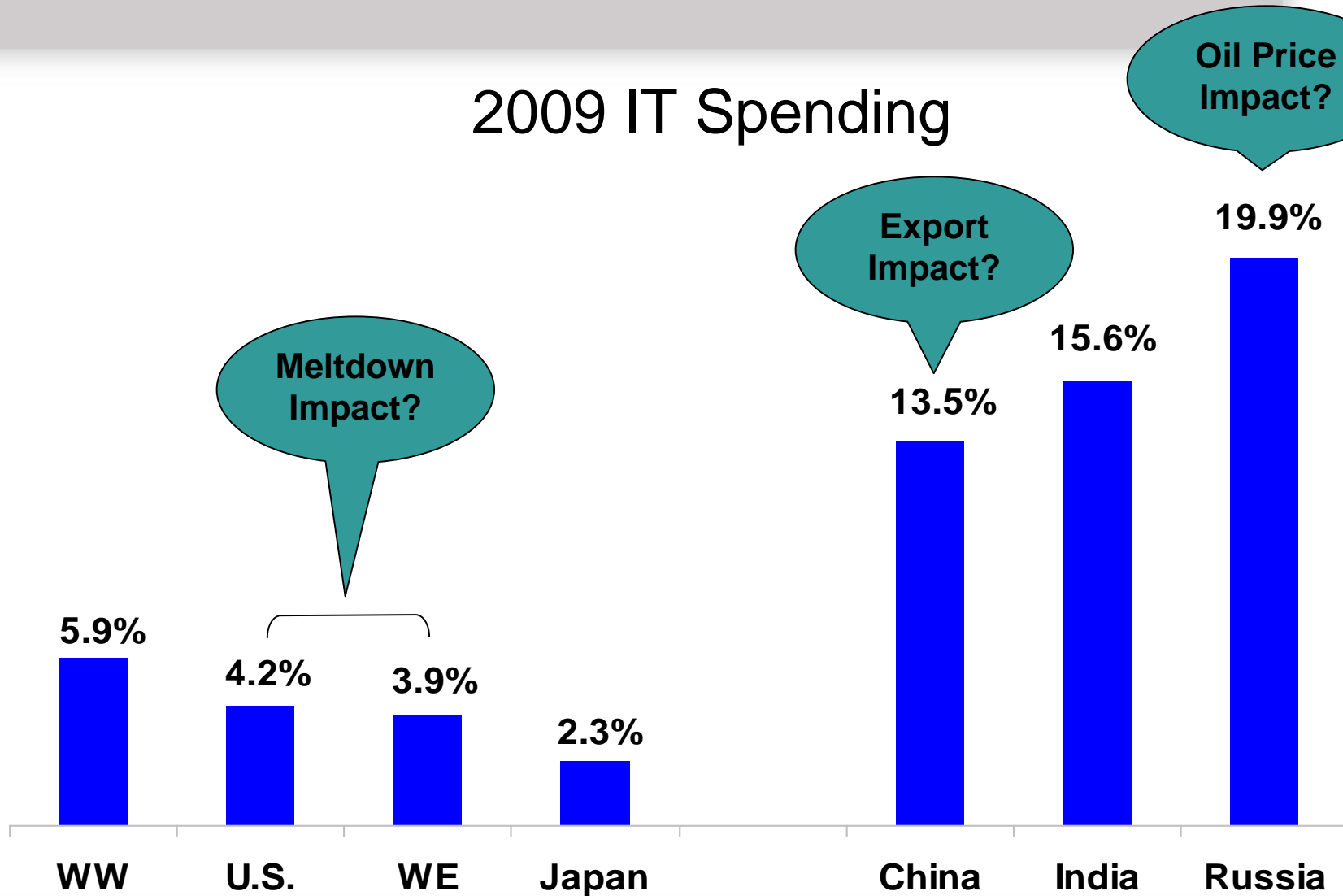


North America & Europe Banking Scene – as of October 15, 2008



IDC Pre-Crisis Forecast

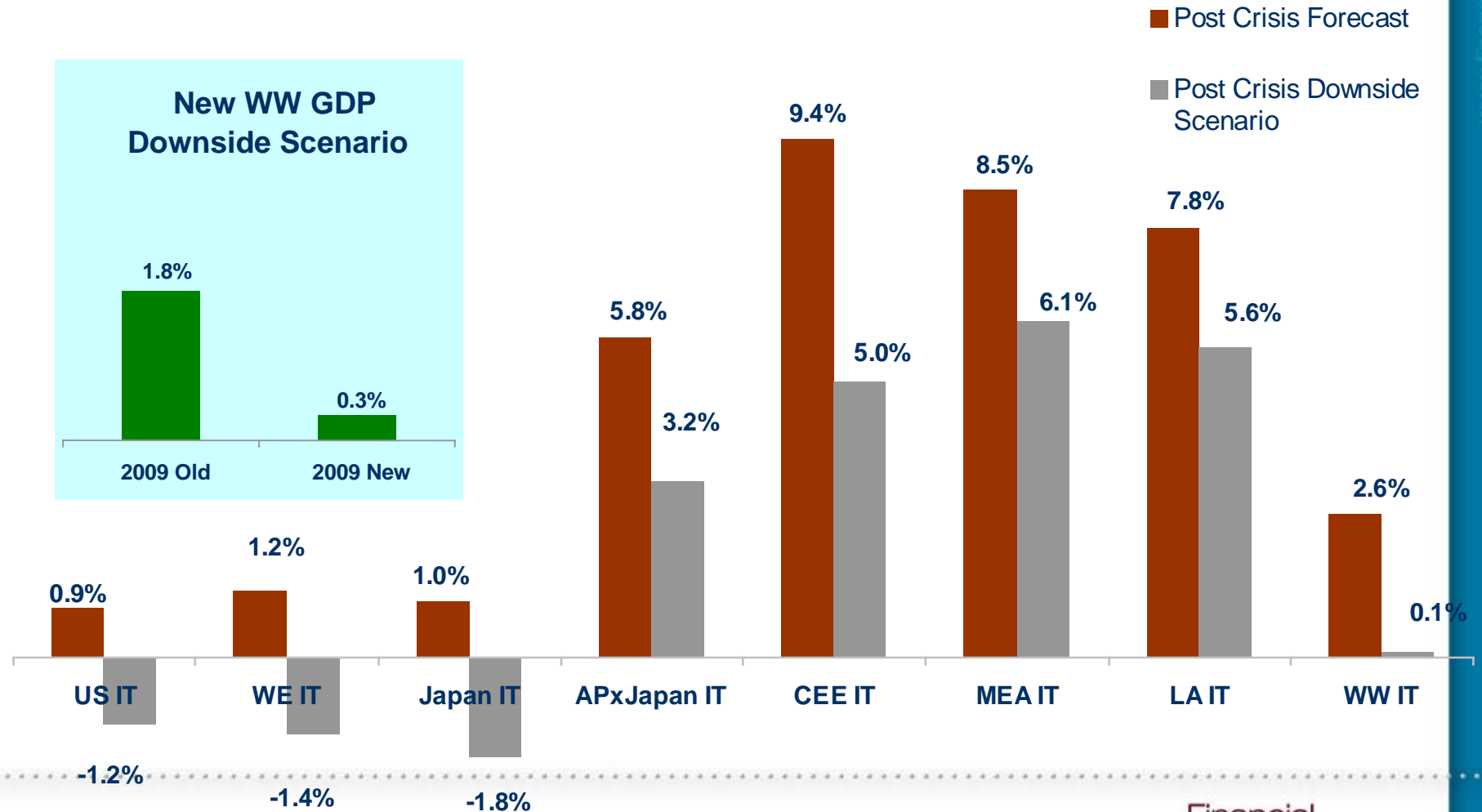
2009 IT Spending



Source: IDC Q2 2008 Worldwide Black Book

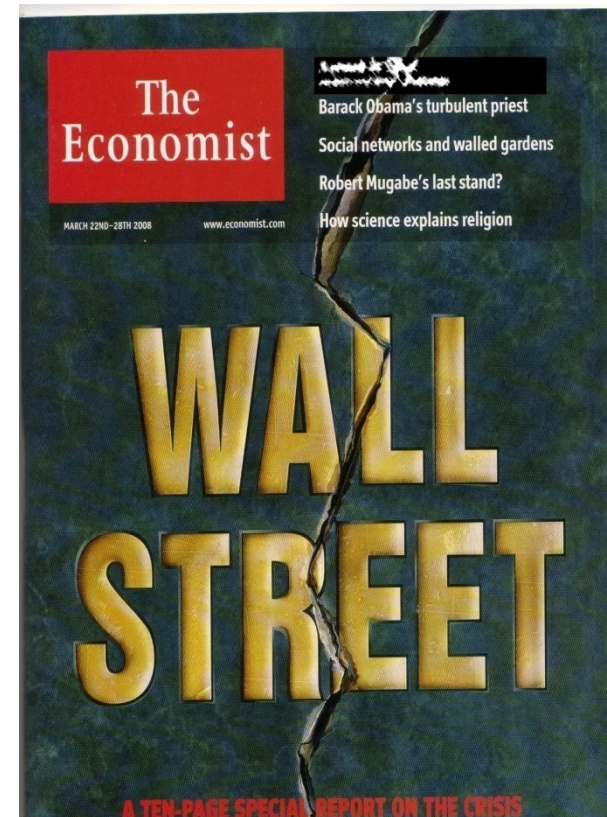
How Bad Could It Get?

2009 Worldwide IT Spending Downside Scenario



Storm Warning: Impact on IT Spending



- IT spending downturn spreading to all sectors of the economy (industries and geographies)
- Short-term panic has already impacted sales of hardware, new software licenses and contracts
- Weak economy will drive down tech spending plans throughout 2009, with gradual recovery in 2010 dependent on broader economic rebound
- Mature IT markets could turn negative in 2009
- Emerging markets will be impacted, posting growth in high single digits instead of double-digit expansion
- Tech downturn will not be as bad as 2001-2002 (barring even worse economic scenarios) and recovery will be faster
- Biggest impact in commodity hardware upgrade markets (e.g. PCs); software applications next; project-based services will be hit
- Relative resiliency in ongoing infrastructure projects, some types of outsourcing, security



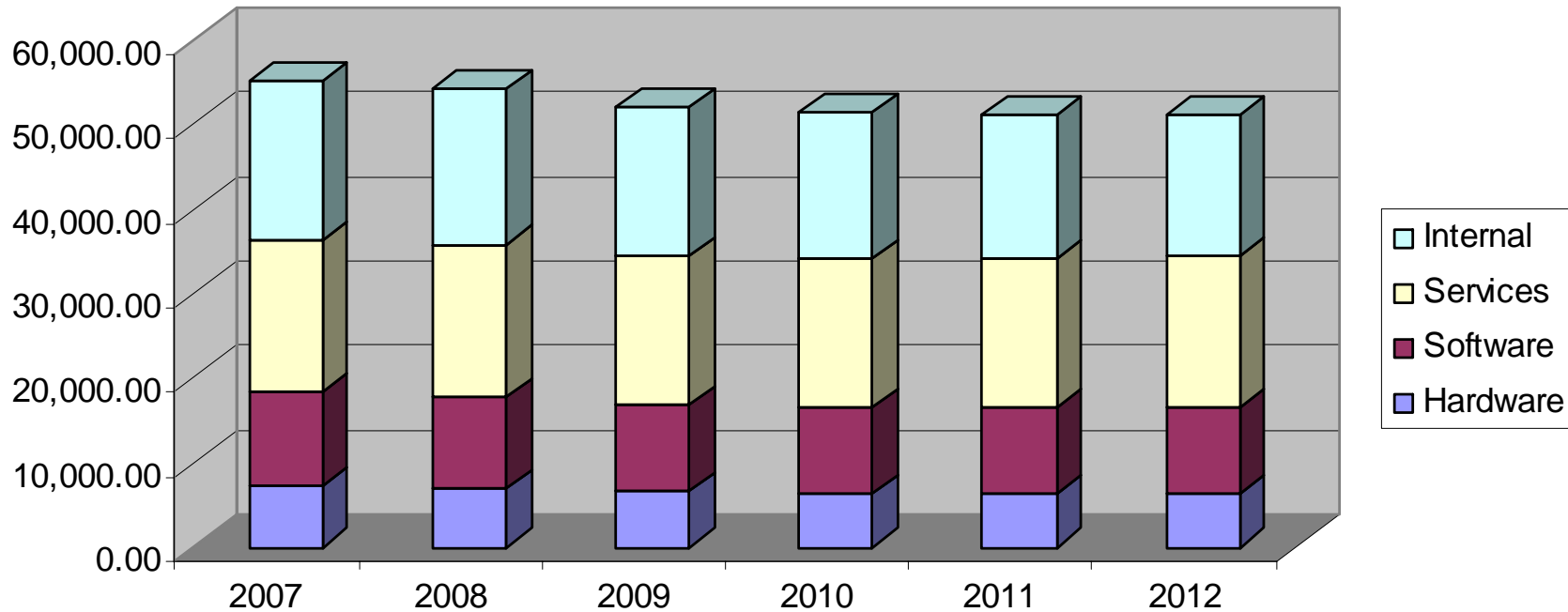
2009 – The Outlook for FinTech

- Banks and capital markets in the eye of the storm
- Insurance – business as usual
- Flight to quality as institutions seek safe partners that can strike deals
- FinTech consolidation: spending on innovation will decrease, new entrants will be few, damaged assets available
- Investors are turning on FinTech community and devaluing assets unnecessarily
- Outsourcing – will Obama really be able to promote US jobs or will the economics of labor arbitrage and outsourcing win?
- Some bright spots – Canada, credit unions, risk, collections, SaaS
- Banking must lead industries out of recession
- Large acquiring institutions will see spending increase over next 18 months
- Smaller, well capitalized institutions are in buying mode and will continue with strategic projects

Canada v. United States

		
Oct WEF Ranking Of National Banking System	1 st	40 th
Main Government Reactions	C\$75 Billion Mortgage Purchase Program	\$700 Billion Bailout Package Takeover of Fannie And Freddie
Expectations For Bank Failures	Very Low	Significant
Consumer Confidence	Stable So Far	Very Low
Tier 1 Bank IT Spending Expectations	Watching and Waiting	Downward Budget Pressure

North American Banking IT Spend



Source: Financial Insights, 2008

5 Year CAGRs

Hardware **-3.0%**

Software **-1.2%**

Services **-0.2%**

Internal **-2.4%**

Technology Forecasts

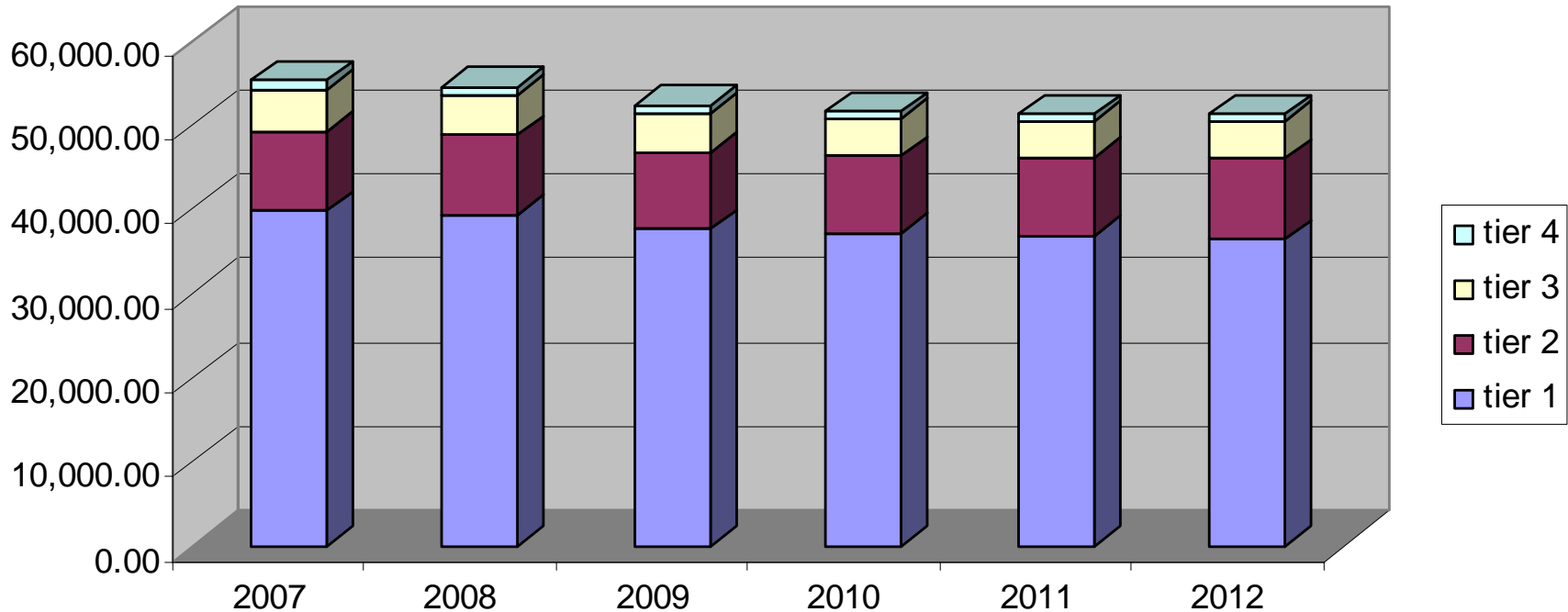
Hardware – virtualization and hardware outsourcing projects continue, hardware refreshes postponed in 2008 and into 2009, data center consolidation projects continuing, storage and networking less affected than servers, desktops

Software – new projects pushed out, SaaS licensing, renewal and maintenance contract renegotiations, aggressive vendor pricing

Services – systems integration, workforce management, channel conversion projects tied to M&A strong in 2009 and 2010, outsourcing will increase

Internal – IT staff laid off, contractors first to go, captives sold off to raise capital, data center expense reductions

Forecasts by Tier



Source: *Financial Insights, 2008*

Commentary – tier 1 banks are now the most capital-constrained, tier 2 –4 banks generally not impacted by capitalization issues, but by overall economic conditions. Negative growth in all tiers impacted by consolidation as number of banks shrink in all tiers

5 Year CAGRs

Tier 1 **-1.8%**

Tier 2 **-0.1%**

Tier 3 **-2.3%**

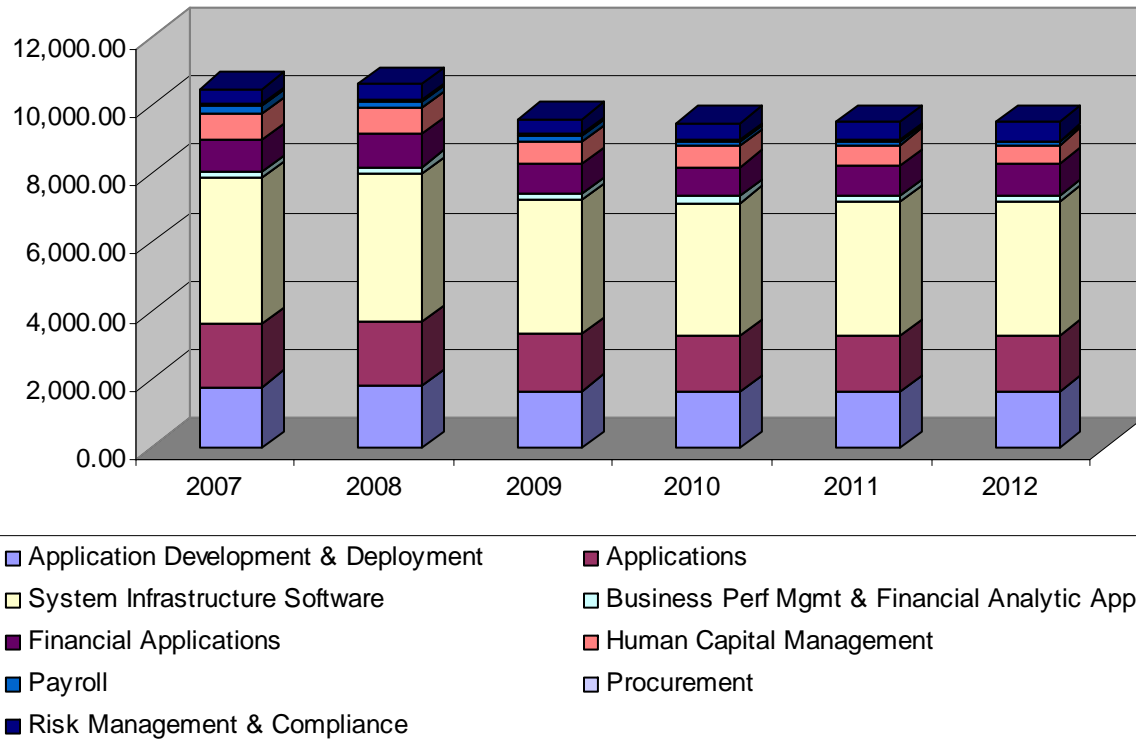
Tier 4 **-3.8%**

Corporate Administration and Enterprise Utilities

- Enterprise Utilities – data center-related expense, disproportionately concentrated with large banks with internal development and licensed, best of breed software approach
- Corporate Administration – business overhead functions – finance, HR, risk management, audit,
- These two categories most negatively impacted by bank consolidation – reductions in staff, data centers, business-related categories

- Application Development & Deployment
- Applications
- System Infrastructure Software
- Business Performance Mgmt & Financial Analytics
- Financial Applications
- Human Capital Management
- Payroll
- Procurement
- Risk Management & Compliance

Corporate Administration and Enterprise Utilities



Commentary: Corporate admin categories only negative in tier 1 banks due to staff reductions, business performance management and risk management and compliance are the only two categories in this group with positive growth across all sizes of institutions, all enterprise utilities categories negative for tier 1 banks, but positive growth for all smaller banks

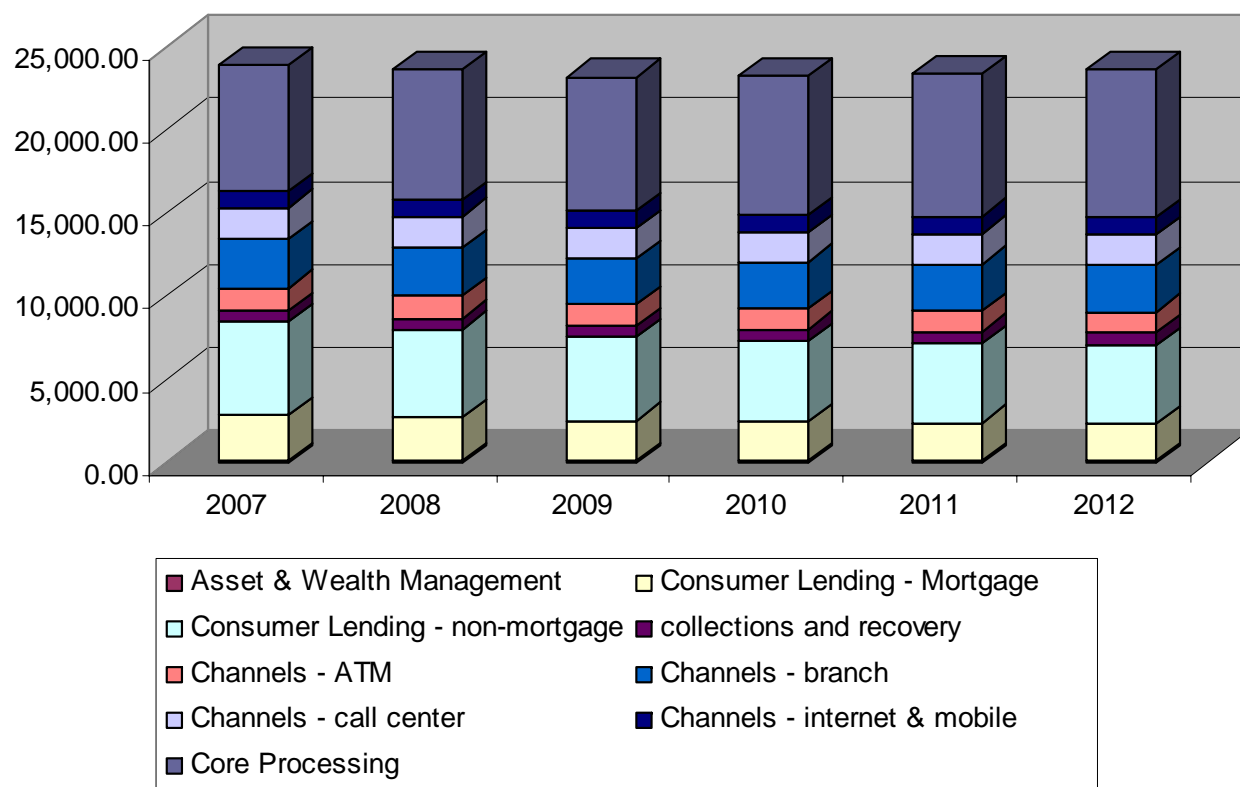
Source: Financial Insights, 2008

Consumer Banking, Credit and Core

- Discretionary spend on hold – only projects related to M&A and regulatory requirements are spared
- Channels (Internet and mobile) and collections & recovery will lead the way – with consumer lending lagging
- Software as a service (SaaS) poised to fare well to minimize up front investments
- Many banks well capitalized and being dragged down unfairly – opportunities exist
 - Community Banks, Credit Unions have potential to take customers during disruption of bank consolidation

- Consumer Lending - Mortgage
- Consumer Lending - Non-Mortgage
- Collections and Recovery
- Channels - ATM
- Channels - Branch
- Channels - Call Center
- Asset & Wealth Management
- Channels - Internet and mobile
- Core Banking

Consumer Banking, Credit and Core



Commentary: Significant drops in IT spend continue from 2008 into 2009. Hardware leads the negative trend, with internal, software, then service. Tier 1 banks own 70% of IT spend, will see a drop off – although not as much as smaller institutions primarily as Tier 1 banks wrestle with upcoming M&A expenses. Thrifts and specialty finance institutions will see the largest decrease, while credit unions will be the least impacted.

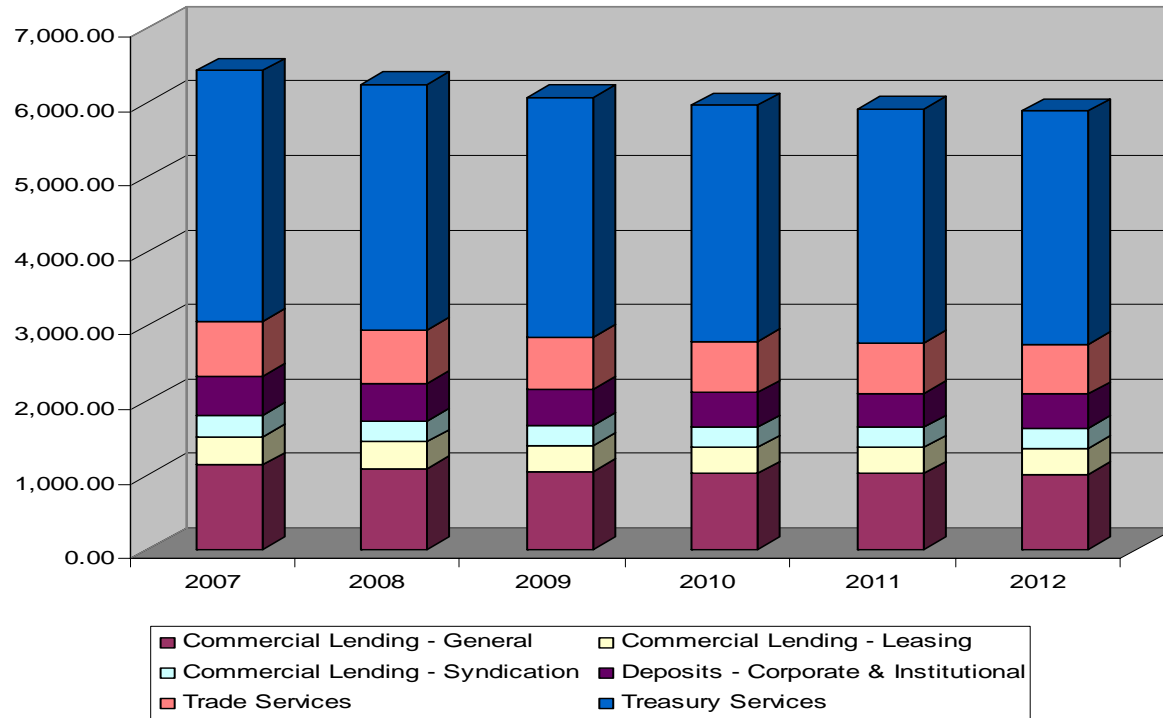
Source: *Financial Insights, 2008*

Corporate Banking

- Investments will continue in treasury and trade to improve online experience and retain clients, but this, like all other spending categories will decrease over the forecast period
- Driving new spend will be those banks (lower tier 1 and upper tier 2) that plan to gain share from inwardly-focused “top ten” banks. However, there will also be tier 2s that increase their focus on retail, bringing spend down, overall, for tier 2 as well
- Despite all the focus on weakness in commercial loan portfolios, there will be little new spend. Some banks will continue efforts to reduce operational risk, including loan document management projects already underway

- Commercial Lending - General
- Commercial Lending - Leasing
- Commercial Lending - Syndication
- Deposits - Corporate & Institutional
- Trade Services
- Treasury Services

Corporate Banking Forecast



Source: *Financial Insights, 2008*

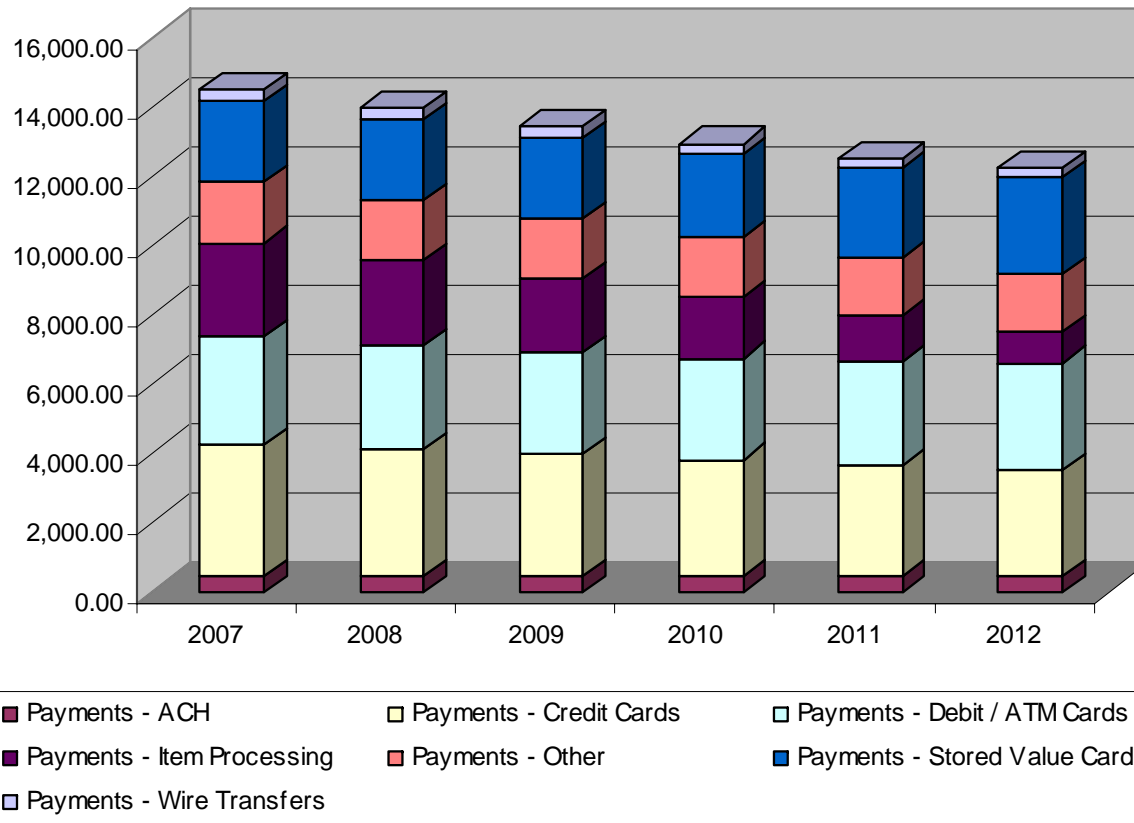
Commentary: Financial institutions will seek to retain and attract clients by investing in front-end applications. Efforts underway to consolidate redundant platforms will continue, driving down spend among tier 1 banks. SaaS will gain greater acceptance as an economical solution, especially among tier 2 banks, contributing to declines in both software and hardware spending.

Payments

- Item processing will decline at an average rate of 19.4% per year, as financial institutions drive out paper and switch to 100% image
- Stored value cards will grow an average of 3.6% per year, as cards are used for benefit delivery, payroll, and household spend management
- Spending on credit card processing will shrink 4% per year on average, as issuers consolidate, interchange reductions make it impossible for smaller institutions to stay in, and consumers are forced to cut back use of credit

- ACH Processing
- Credit Card Processing
- Debit/ATM Card Processing
- Stored Value Card Processing
- Item Processing
- Wire Processing
- Other

Payments Forecast



Commentary: Financial institutions will seek to drive out cost by outsourcing payments processing, resulting in an average annual drop of 8.9% in internal IT spending and a more moderate average annual drop of 0.5% in services spending. This will impact hardware and software spending as well, since more processing will be done on shared facilities.

Source: *Financial Insights, 2008*

Any Questions? info@financial-insights.com



David Potterton, Vice President of Global Research



Jeanne Capachin,
Research Vice
President, Global
Banking and Insurance
Practices



Dana Wiklund, Research
Director, Risk Management



Aaron McPherson,
Practice Director,
Financial Services



Patricia McGinnis,
Research Director,
Corporate Banking



Marc DeCastro, Research
Manager, Consumer
Banking and Credit



Robert Burbach, Senior
Research Analyst, Canadian
Financial Services

Meet with Our Experts

- Financial Insights and IDC Financial Services Conference
 - November 25, 2008 Madrid Spain
- Asian Financial Services Congress 2009
 - February 26, 2009 Singapore
- IDC IT GRC Management Summit: Effective Governance: Managing Risk, Ensuring Compliance and Delivering Value
 - March 25, 2009 New York City
- Top 10 Predictions for Financial Services Webcast January 5



Appendices

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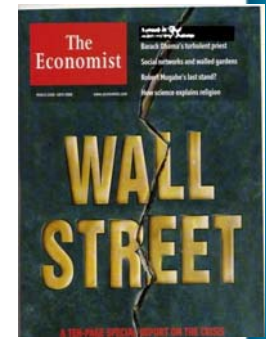
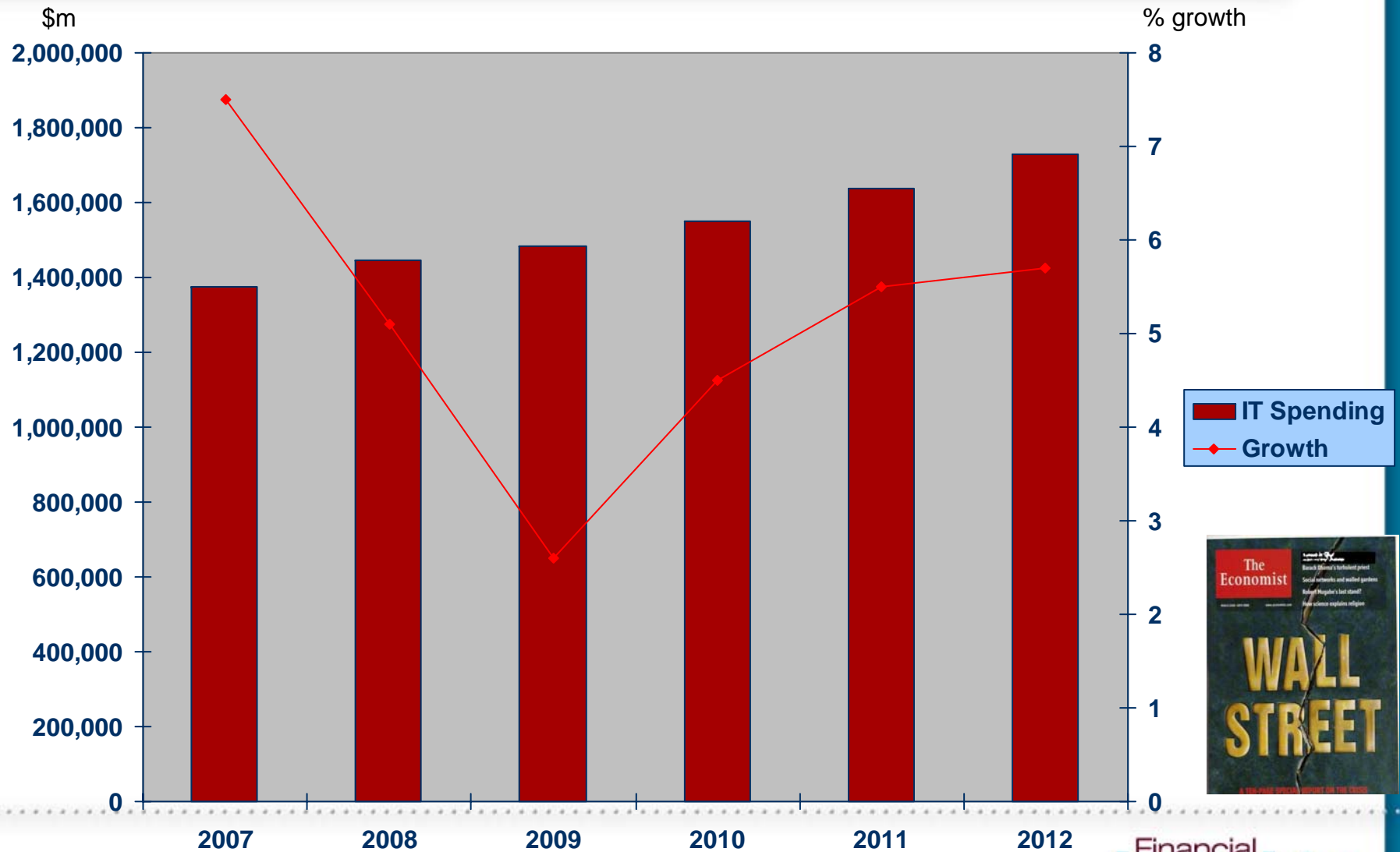
1. Additional Research and Assumptions
2. Credit Trends

Appendix 1 – Additional Research and Assumptions

Preliminary 2009 Assumptions

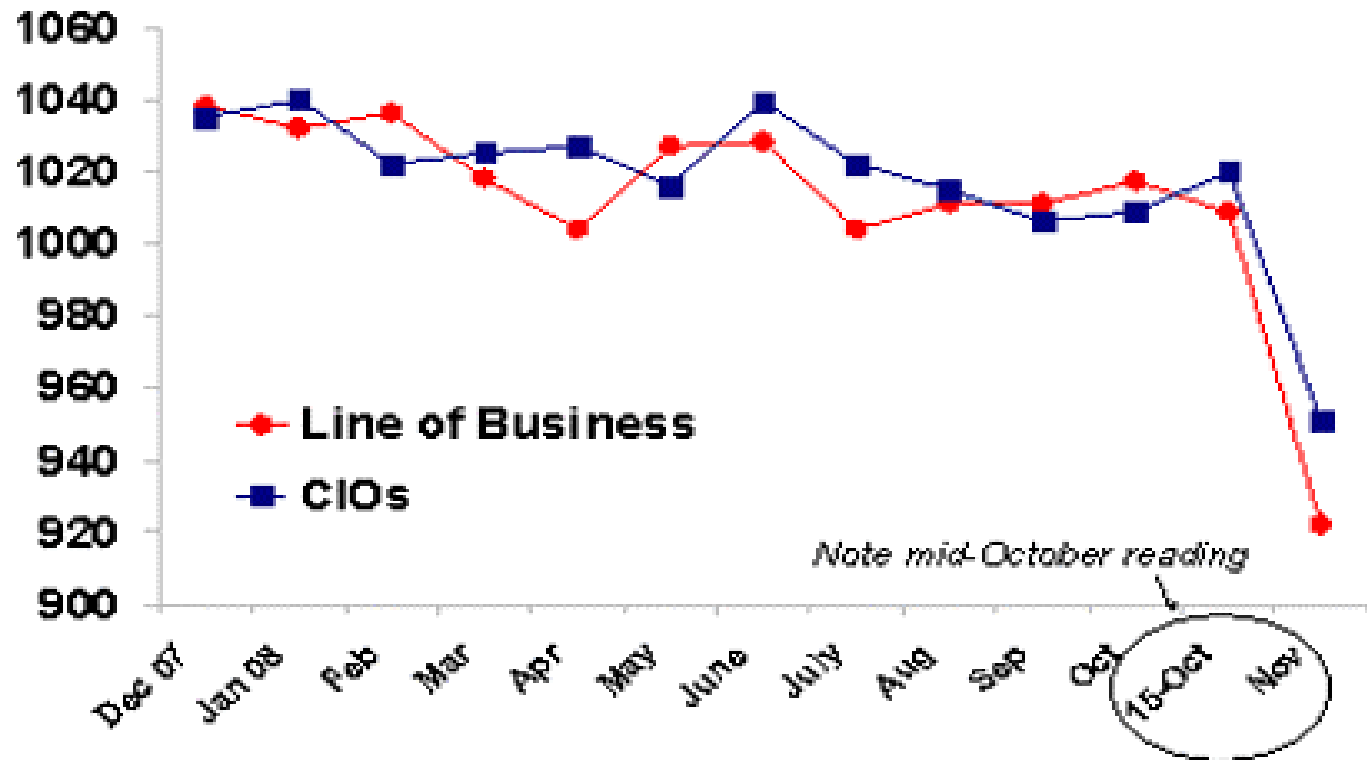
Economy	Global GDP growth <i>drops from 2.5% in 2008 to 1.8% in 2009</i> ; US, WE, Japan ~ 0.0%
Oil Prices	Falling demand keeps prices lower than in 2008 @ \$80 -\$120
Inflation	<i>Lower in 2009 than 2008</i> , central banks lower interest rates to combat economic crisis to control it
Stocks	Bottom in late 2008, no miraculous recovery. <i>Impact on consumer confidence felt through 2009</i>
Other	Dollar <i>drifts up as other currencies fall</i> , unemployment <i>flattens in late 2009</i> , consumer confidence <i>bottoms out in late 2008</i> , but has a slow recovery in 2009
US Housing	Prices and market <i>decline in 2008 and first half 2009</i>
Geopolitics	<i>No significant changes</i>

Worldwide IT Spending Forecast



IT Buyer Confidence At Record Lows...

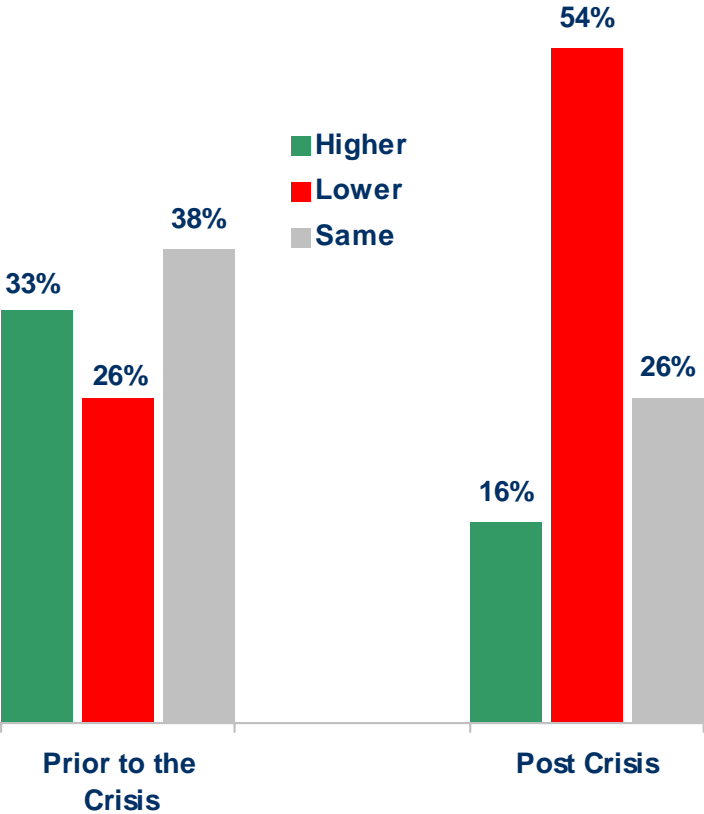
IDC FutureScan Buyer Intent History



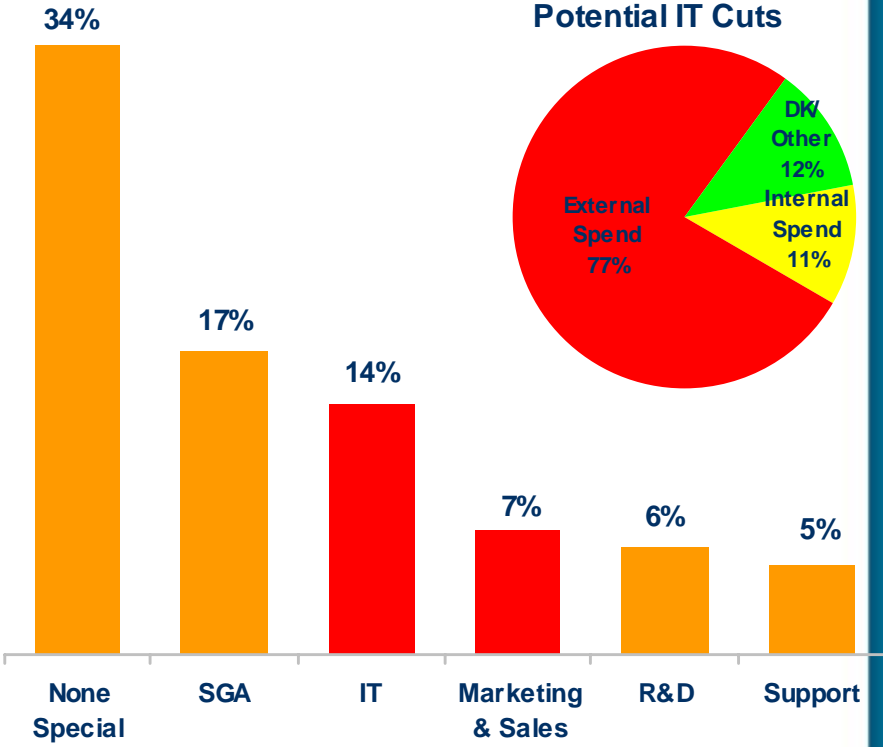
Source: IDC IT FutureScan, November 2008

Enterprise Responses

Expectation for Next 12 Month IT Spending

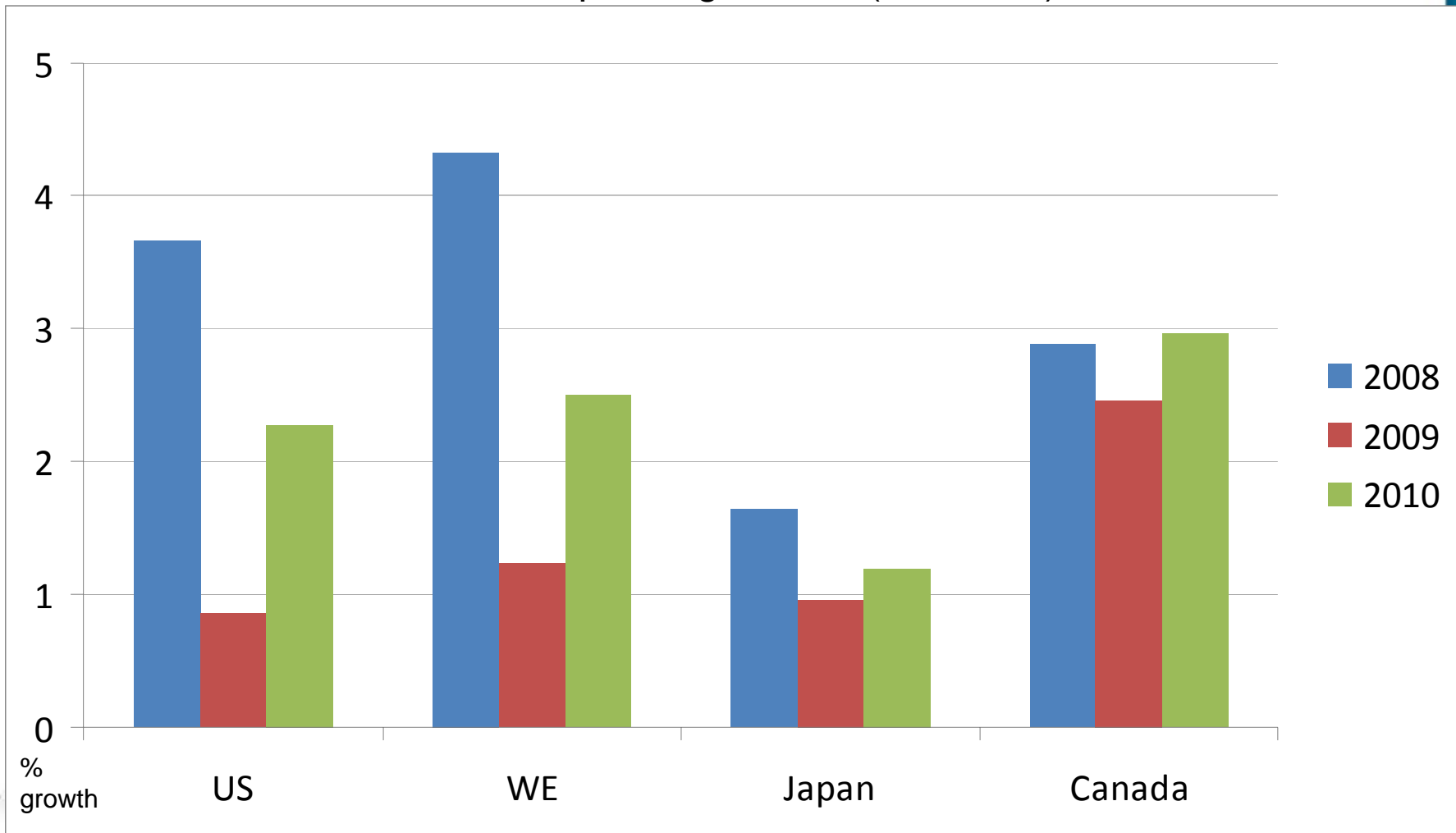


Most Likely Areas for Cutbacks



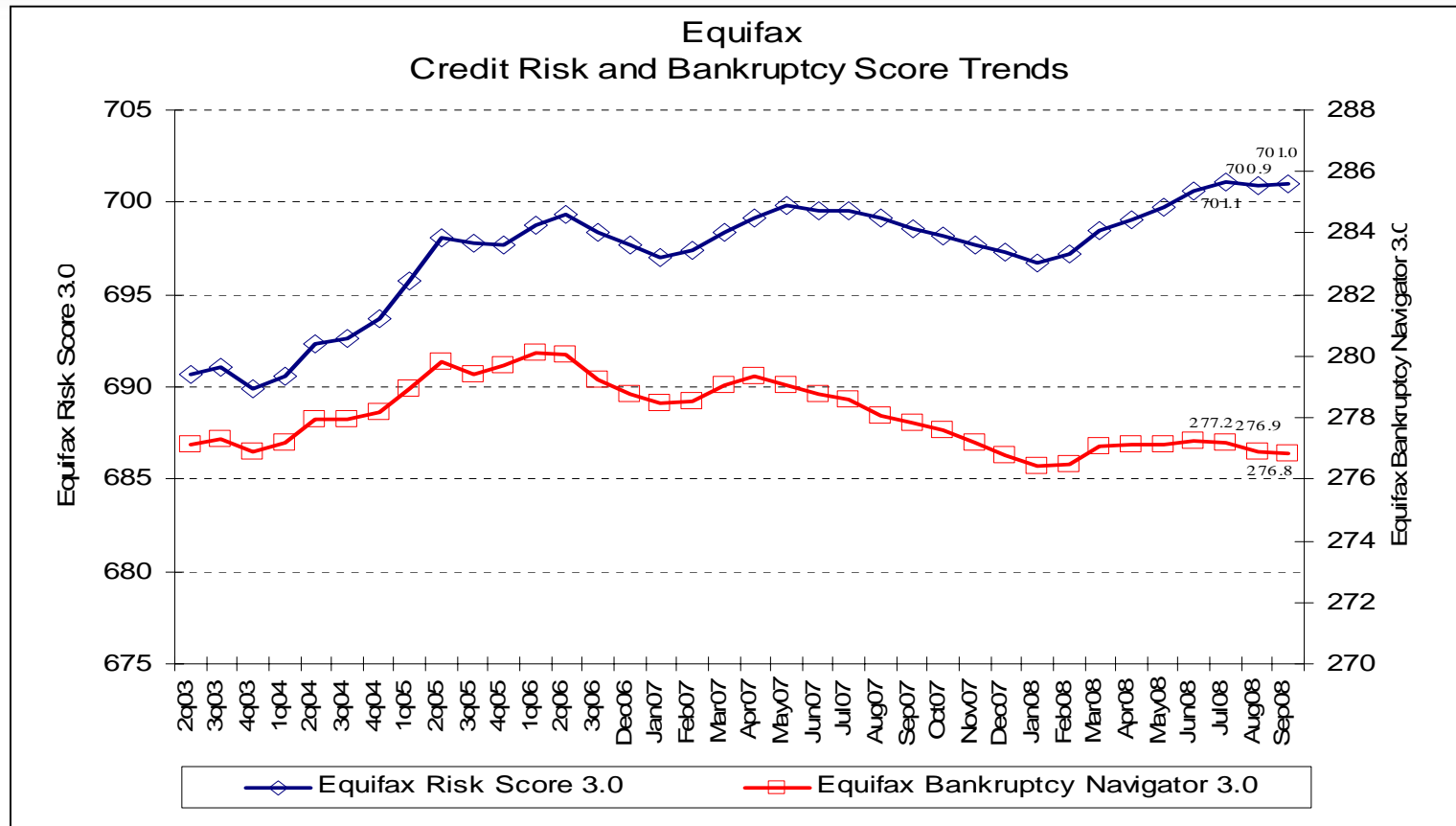
Mature IT Markets Hit the Wall

Total IT Spending Growth (% annual)



Appendix 2 – Consumer and Commercial Credit Trends

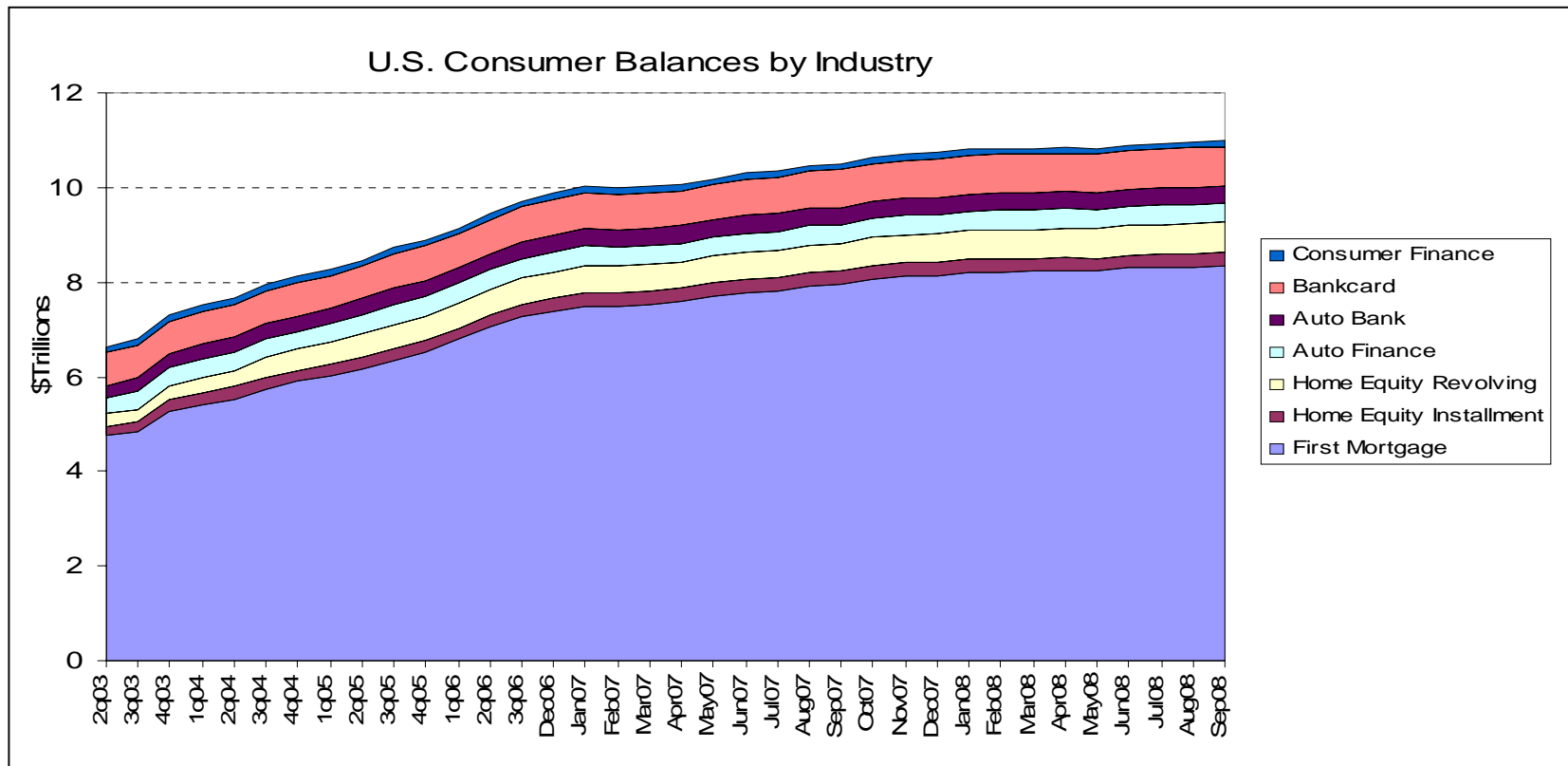
Credit Risk and Bankruptcy Score Trends



Source: Equifax Credit Trends Q3 2008

Consumer risk score averages show signs of stress

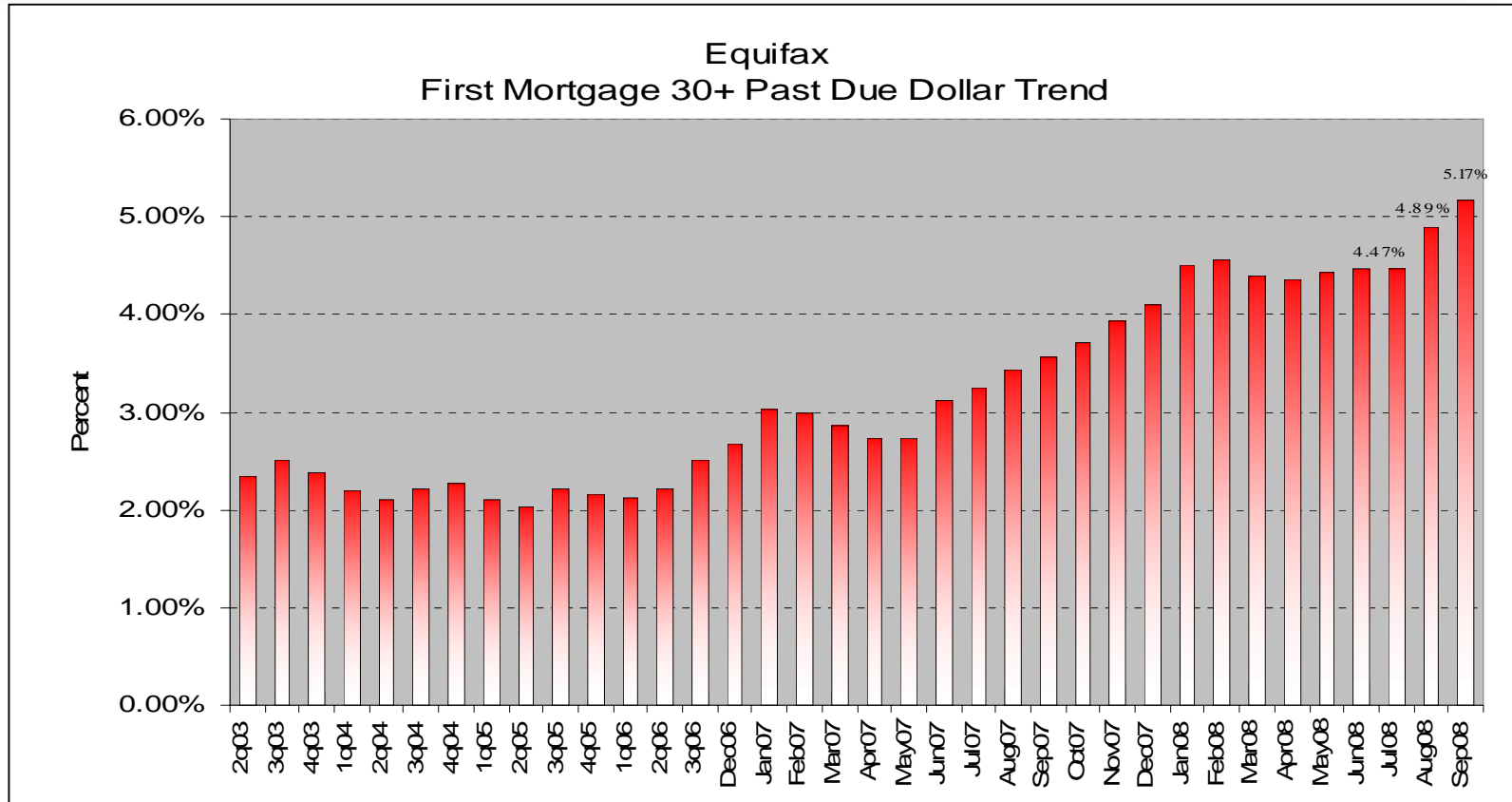
Balances by Account Type



Source: Equifax Credit Trends Q3 2008

US Consumer debt profile dominated by mortgages

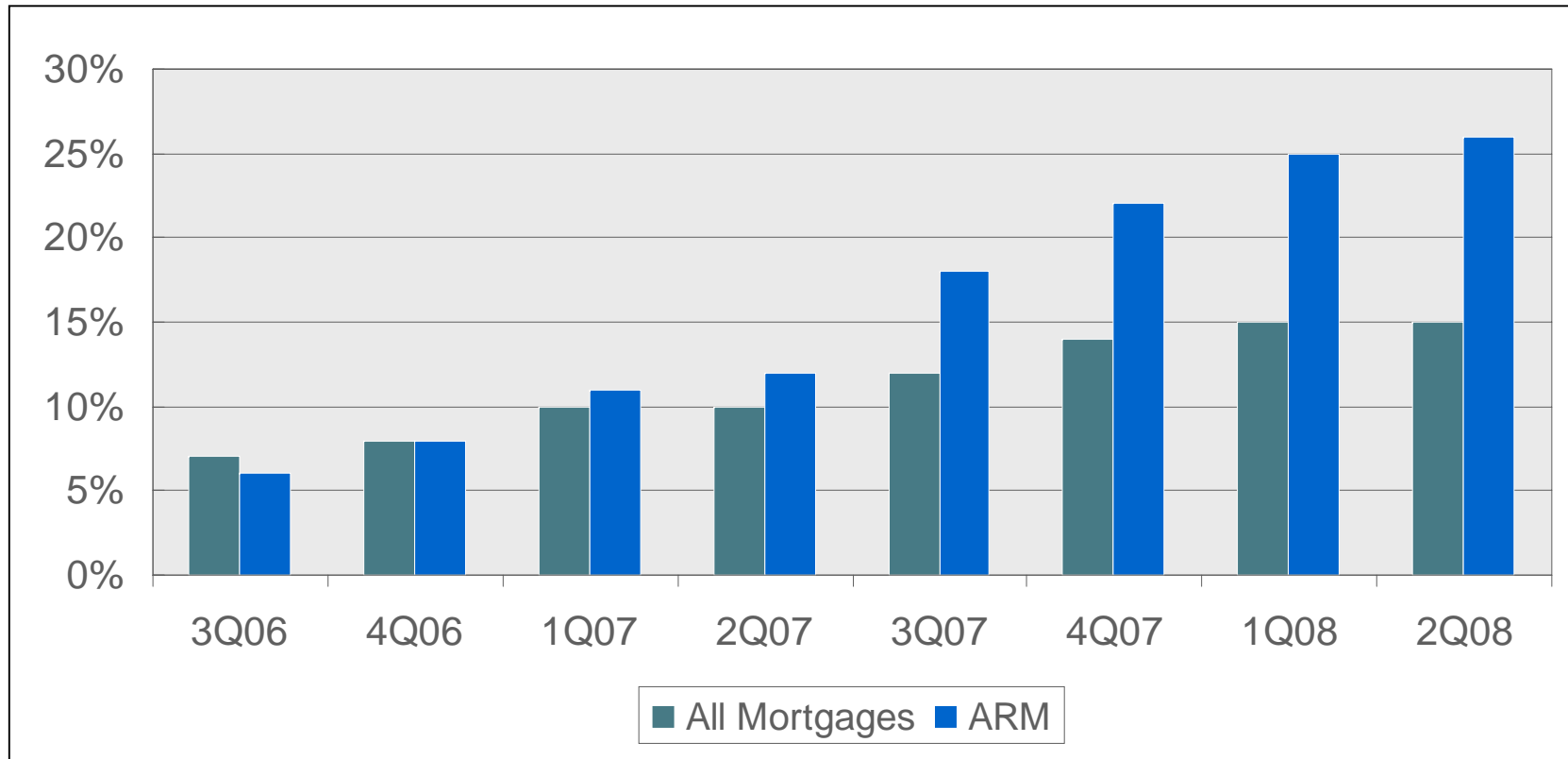
First Mortgage 30+ Dollar Rate Trend



Source: Equifax Credit Trends Q3 2008

Recent, further spike in mortgage delinquencies

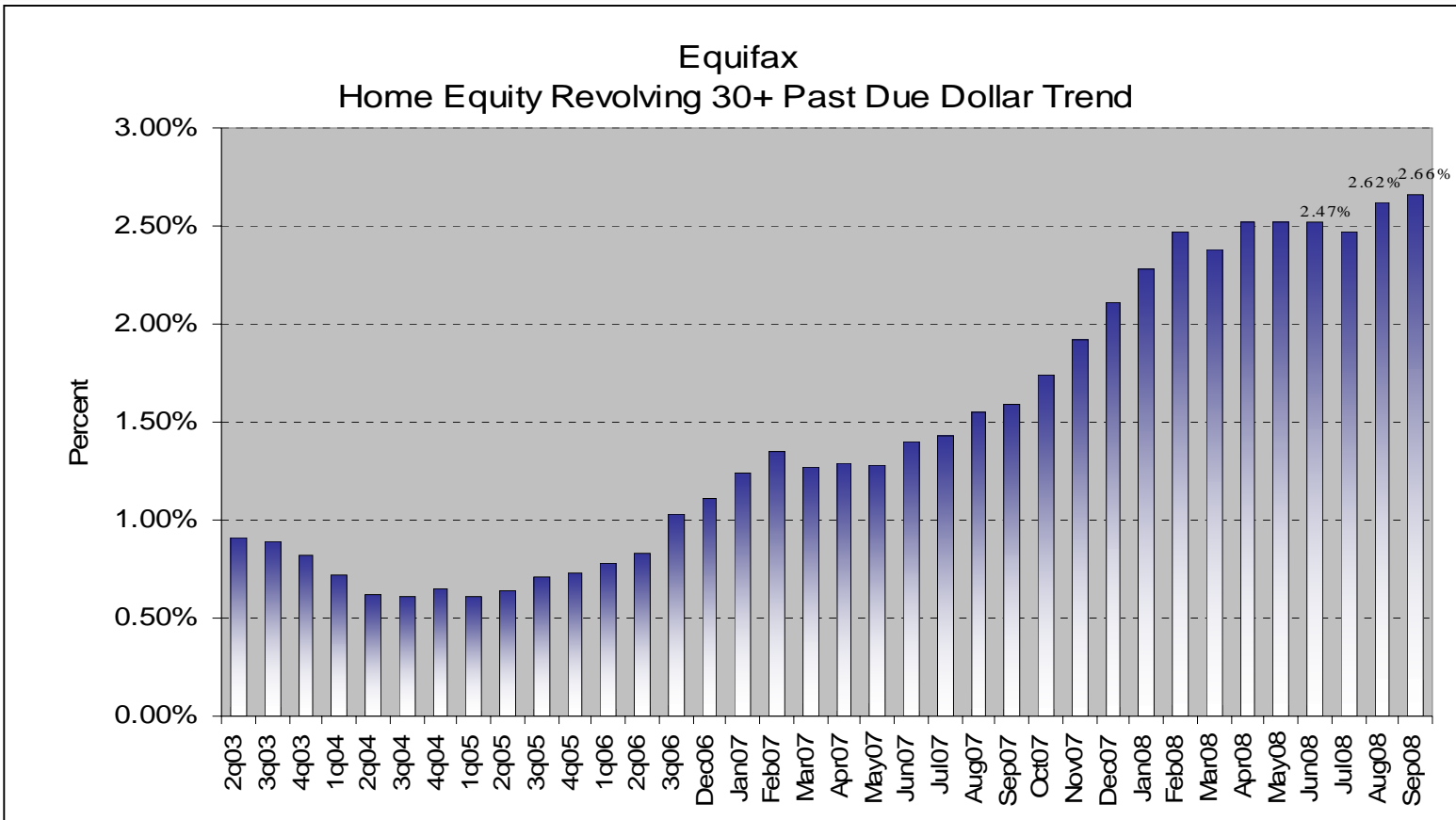
One out of four subprime adjustable rate first mortgages are 60 DPD



Source: Experian

Sub-prime components driving overall mortgage delinquency

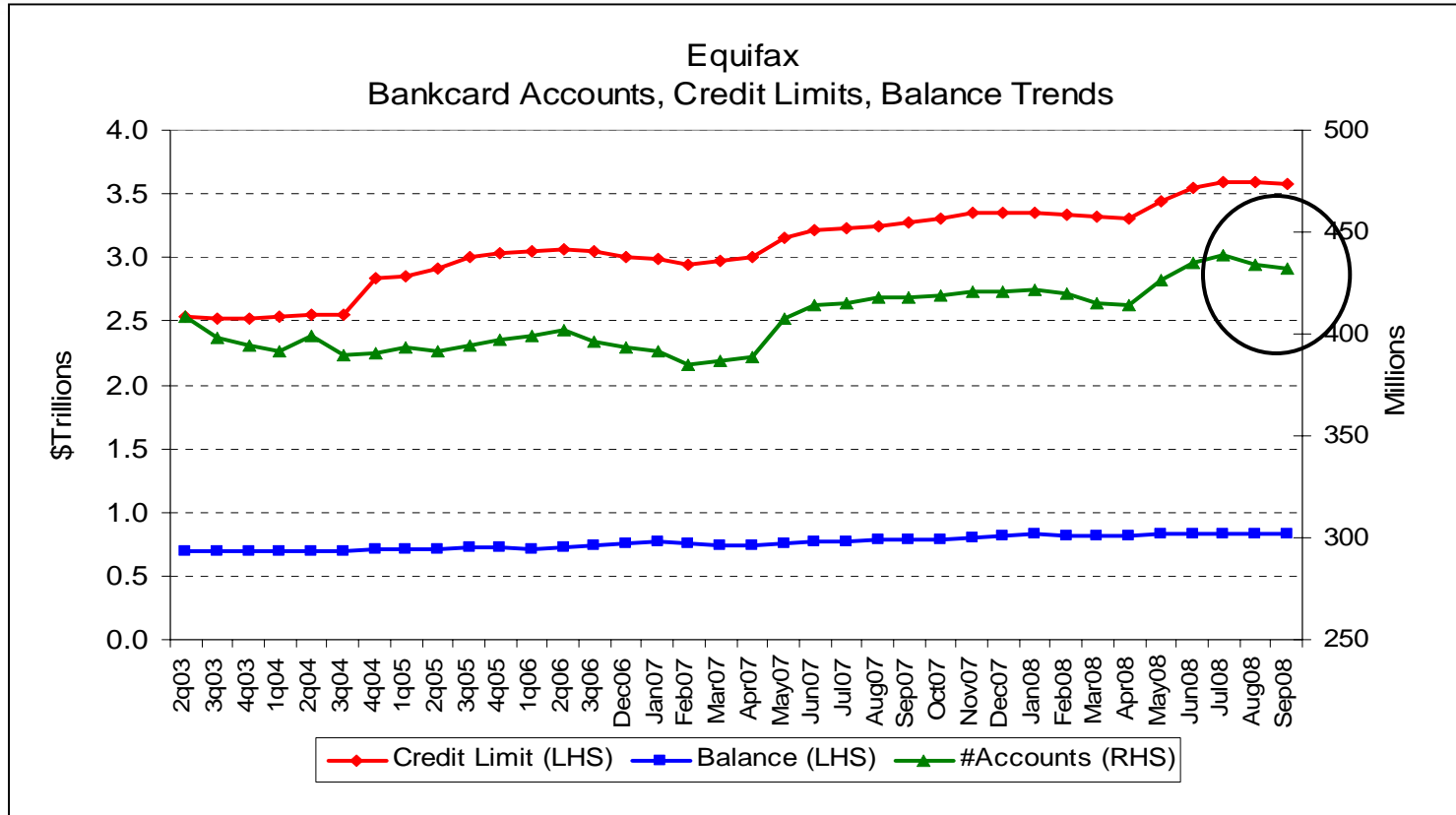
Home Equity Revolving 30+ Dollar Delinquency Trend



Source: Equifax Credit Trends Q3 2008

Payment stress building within home equity portfolios

Trends in Bankcard Limits and Balances

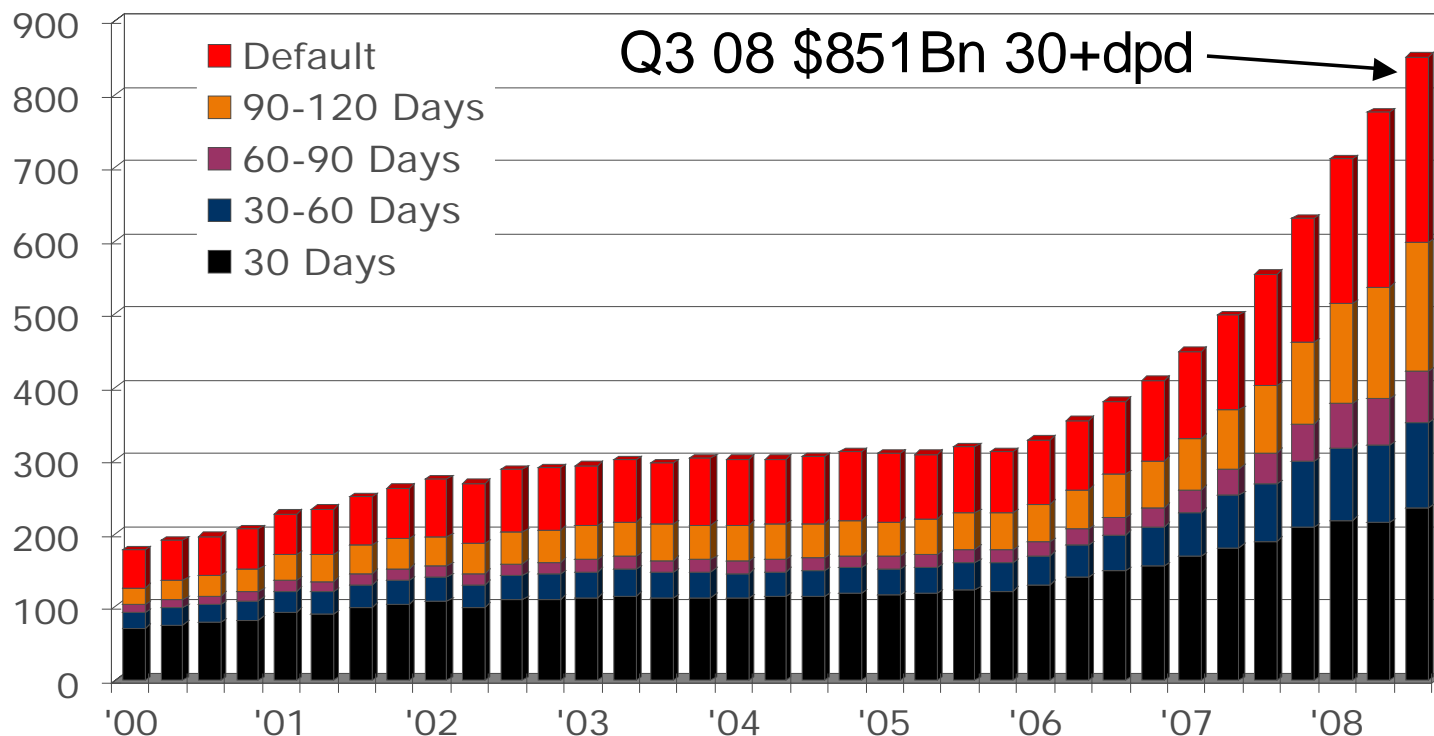


Source: Equifax Credit Trends Q3 2008

Bankcard limits being lowered, cards being closed...

Consumer Defaults are Escalating

Household debt in delinquency or default, \$ bil, annualized

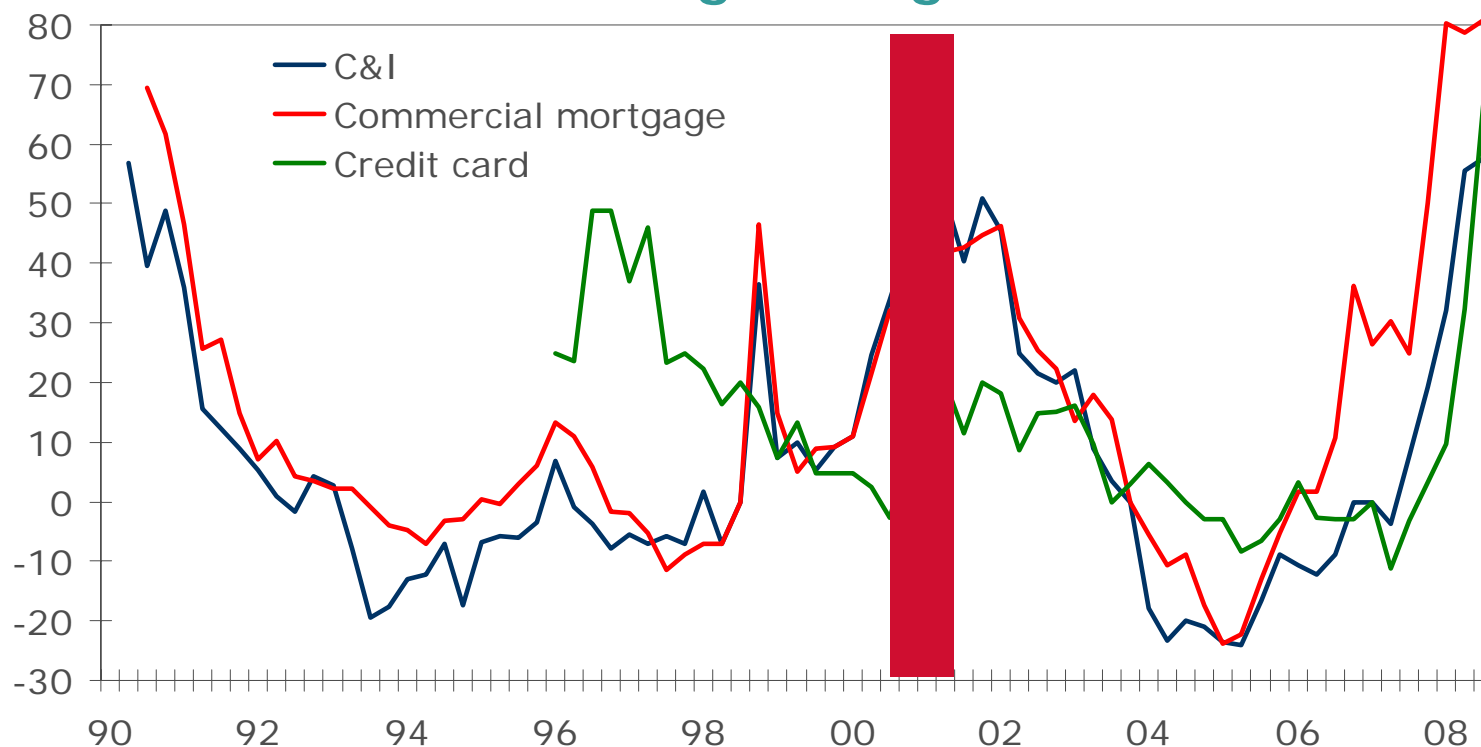


Sources: Equifax, Moody's Economy.com

Across consumer products defaults are soaring

Credit availability becoming very tight

Net % of loan officers tightening standards



Source: Federal Reserve Board

Loan officers reporting tightening of credit standards, but for consumers with good credit, loans are still available, despite press...

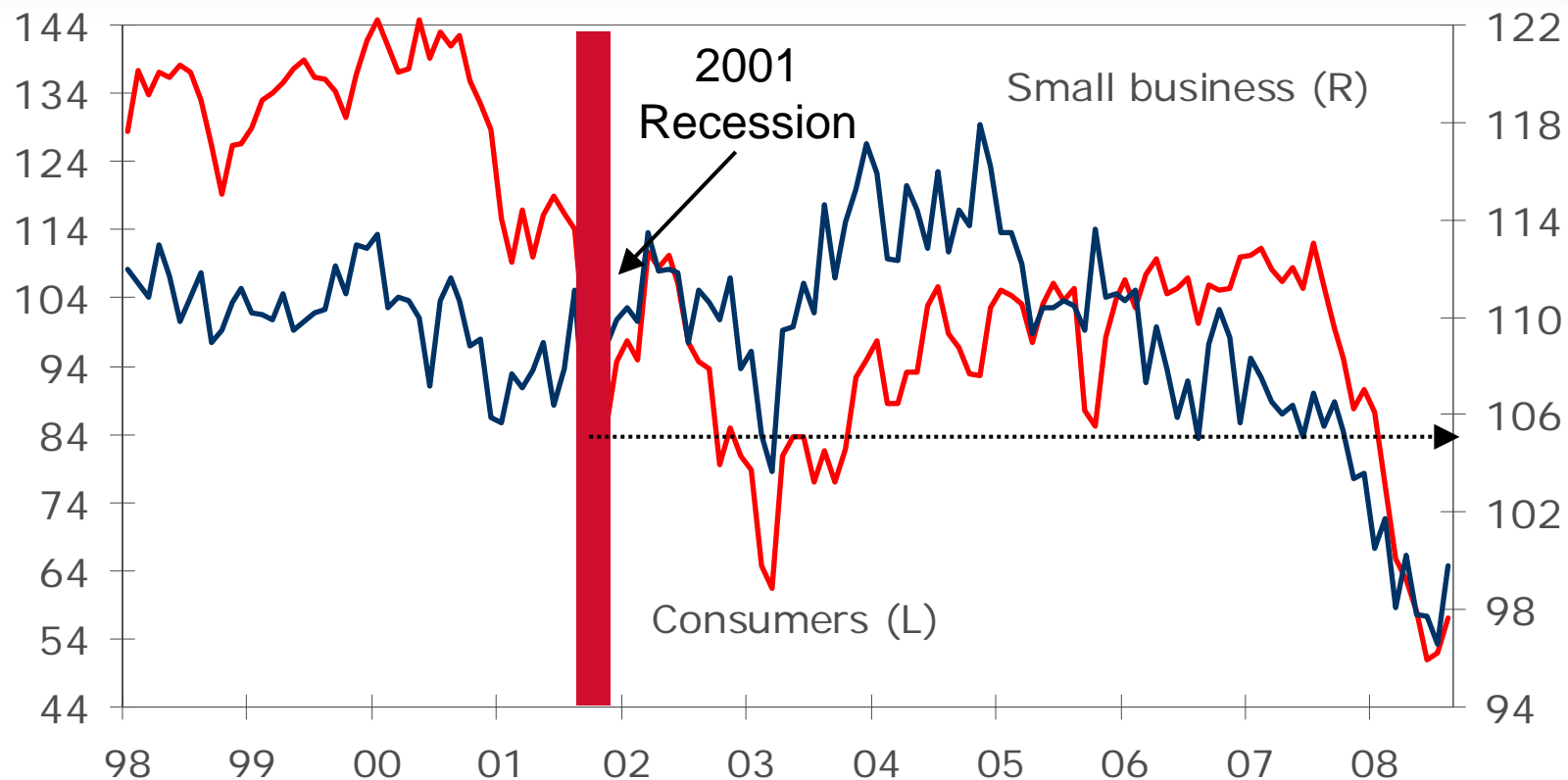
Pattern of subprime mortgage foreclosures



Source:
The New York Times, Mar-08

While foreclosures on the west coast and southeast have been driven by bursting of housing bubble, mid-west issues driven by rising unemployment

Consumer & Small Business Confidence Plummet



Sources: Conference Board, NFIB

As the economy grinds to a halt, both consumer and small business confidence levels hit a 10 year low.