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Data Management Integration Its Impact on Institutions, Markets, & the FinTech Community

Webcast June 11, 2008

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Introducing Our Analyst



- Jeanne Capachin, 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 and 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

Introducing our Guest Speaker



- Geoff Burkholder, Director of Business Intelligence Solutions
Financial Services Vertical, **Hewlett Packard**
 - Directs business intelligence solution development (Neoview)
 - Diverse career beginning with Delta Airlines, and **Bank of America**
 - Management positions in several divisions of Bank of America including Trust, Asset Based Lending, and Global Corporate and Investment Bank; concluding as VP of Electronic Commerce
 - Previously with Optio Software (now **Bottomline** Technologies, Inc.)
 - Managed a variety of content, business process, business performance, and output management software product lines.



*Jeanne Capachin
Research Vice President,
Financial Insights*

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Strategic Trends in Financial Services

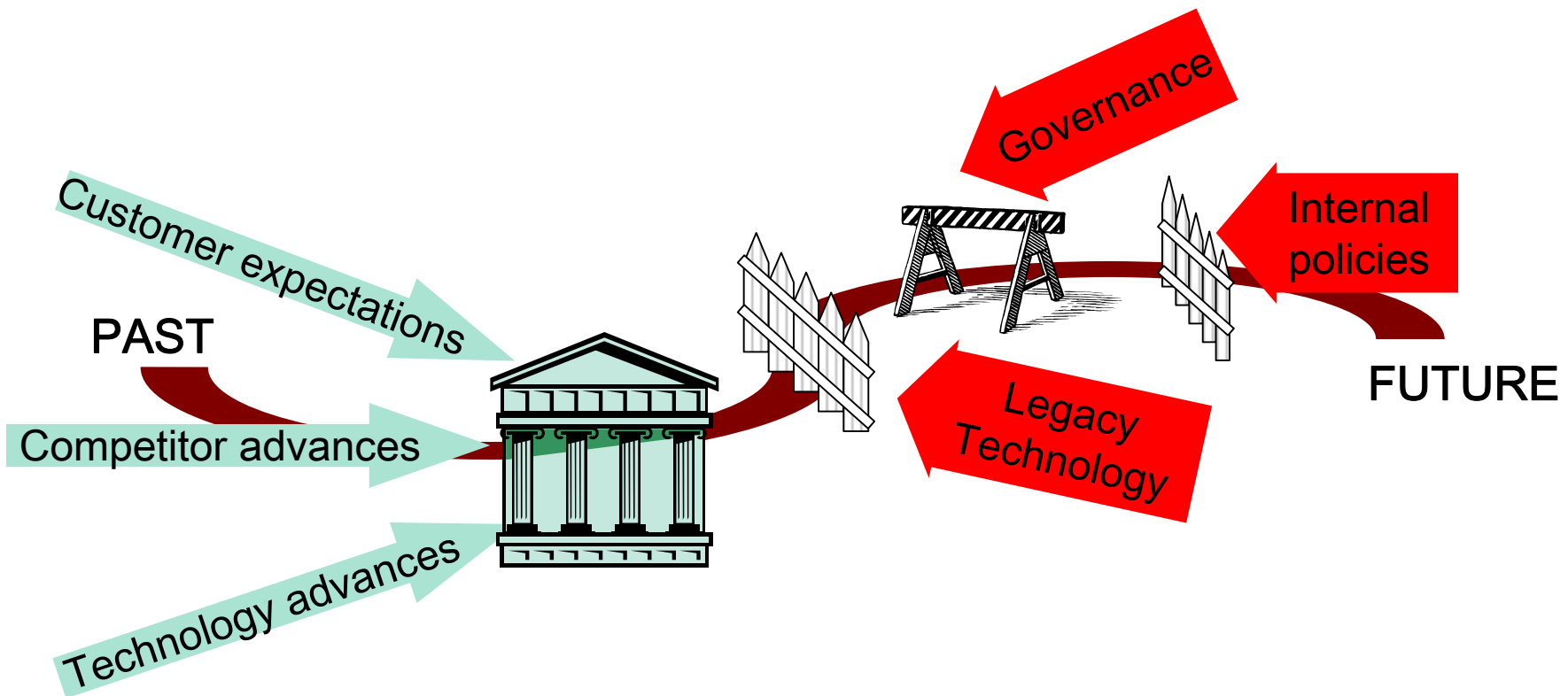
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Today's Agenda

- The financial services marketplace in 2008
- Strategic business issues
 - Banking
 - Insurance
 - Capital markets
- Key data-related strategic issues
 - Basel II drives need for enterprise data management
 - Analytic platform – driving value from data
 - Focus on the customer
 - Enterprise risk management
- Essential Guidance
- Questions ? Live Meeting Chat or Audio

The Need to Evolve

When the pace of change outside the institution's walls is faster than inside, ... (the end is nigh)



Investment Themes

- Globalization
- Regulatory milestones
- Customer centricity



Business Drivers: Globalization

- 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 institutions in the past.
- The relatively weak dollar makes US institutions attractive take-over targets.
- Western European institutions 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.



Business Drivers: Regulatory Milestones

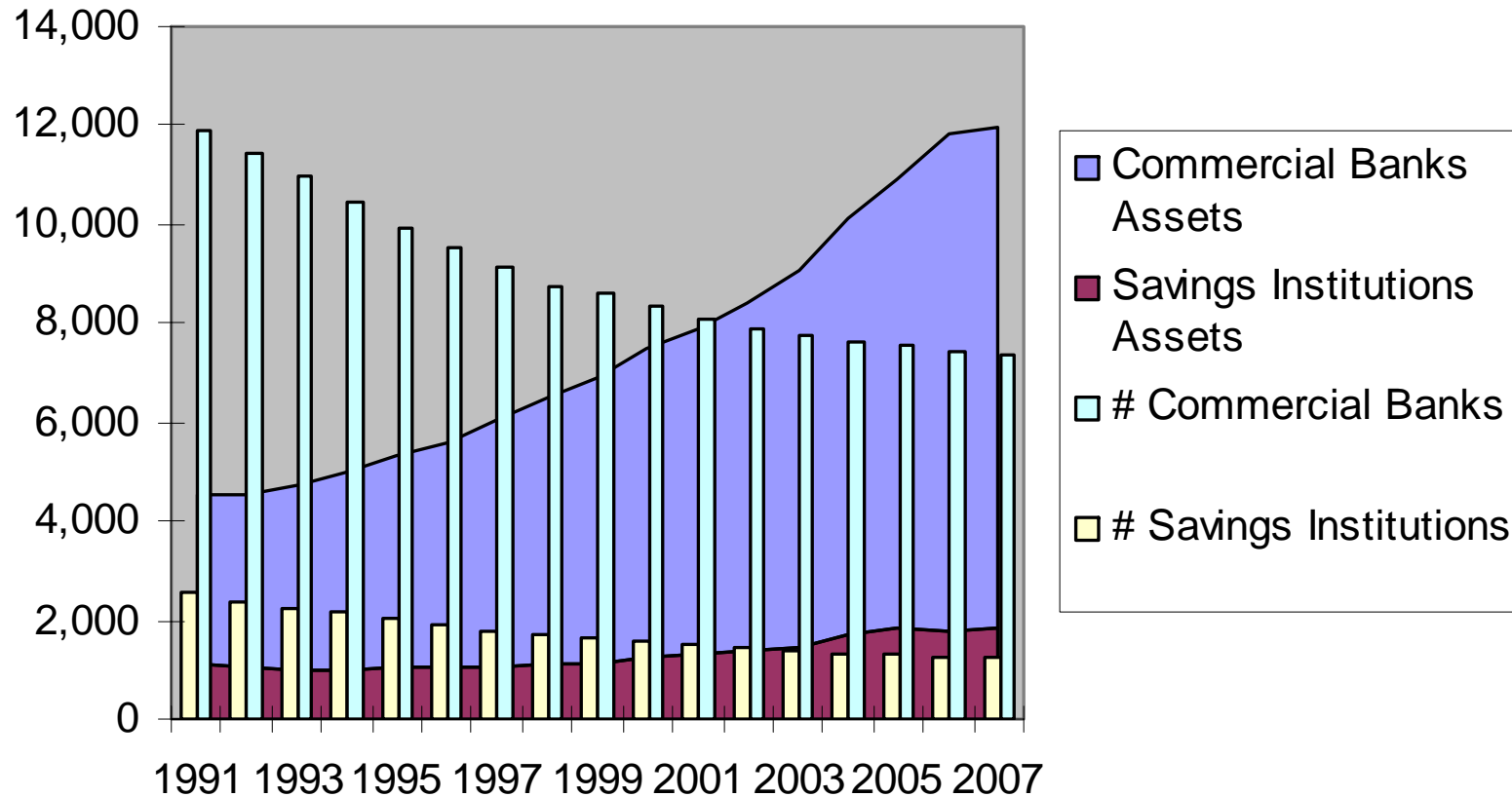
- Multi-year efforts to comply with major regulations (MiFID & RegNMS) are for the most part completed or approaching completion.
 - The effect on market efficiency, pricing, and execution will be scrutinized over the coming year.
- The capabilities that firms have had to develop have far-reaching impact 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.
- Secretary Paulson's Announcement
 - The pace of change in the regulatory world will pick up considerably
 - with Paulson's plans and expected corrections made by legislators, expect more proscriptive recommendations

Business Drivers: Customer Centricity

- 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 institutions are struggling with now is realizing a true enterprise-wide approach to their customers.
 - This remains elusive for most large institutions.



Structure of the U.S. Banking Industry



Source: FDIC, 2008

What Makes IT Strategic?

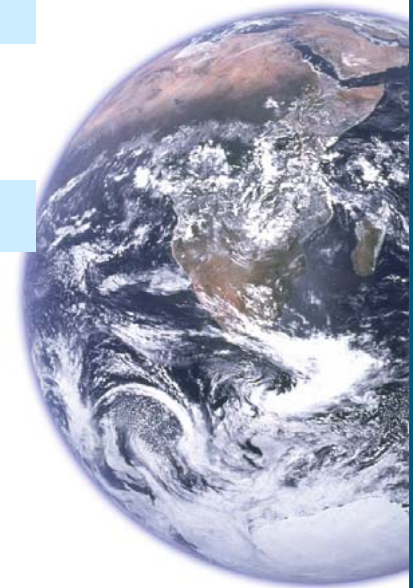
- Financial Insights' views on where financial institutions should be investing their time and money in 2008
- Technology-related, successful initiative is necessary to achieve business objective(s)
- Does not need to be the largest area of investment, but is strategically important
- Issues selected by a global panel of Financial Insights research directors and analysts – North America, Europe, and Asia

2008 Banking Top Ten

- 1 Information Management
- 2 Technology Refresh
- 3 Data Security
- 4 Business Process Management
- 5 Credit Risk Management
- 6 Predictive Analytics
- 7 Mobility
- 8 Core Banking Renewal
- 9 Green
- 10 Channels

2008 Capital Markets Top Ten

1. Information management
2. Business Intelligence
3. Services Architecture
4. Trade-cycle automation and participant connectivity
5. Business process management & outsourcing
6. Risk management
7. Retail advisor/wealth management front-office solutions
8. Multi-asset class trading systems
9. IT Governance
10. Next Generation Communications



2008 Insurance Top 10

1. Regulatory Compliance
2. Growth
3. Core administrative systems
4. Easy to business with
5. Cost Improvement
6. Risk Management
7. Channel Management
8. Competitive posture
9. Business models
10. Technology refresh



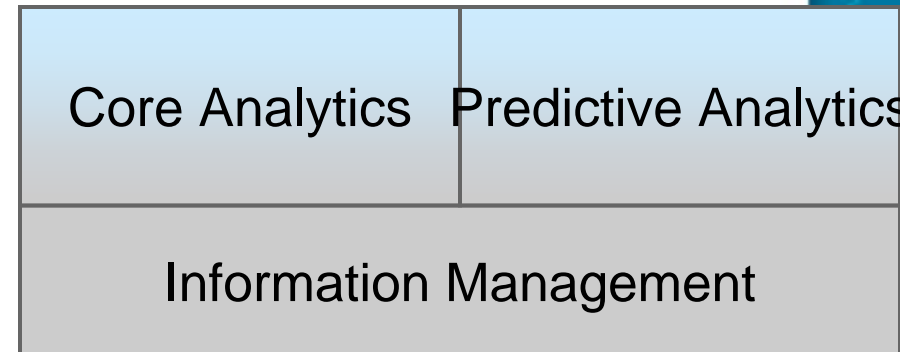
Information Management and Analytics: Deriving value from data

■ Components

- Data center consolidation, storage, and “Green” strategies
- Virtualization across servers, applications, and desktops
- Information management life-cycle, enterprise-wide data integration, and data security

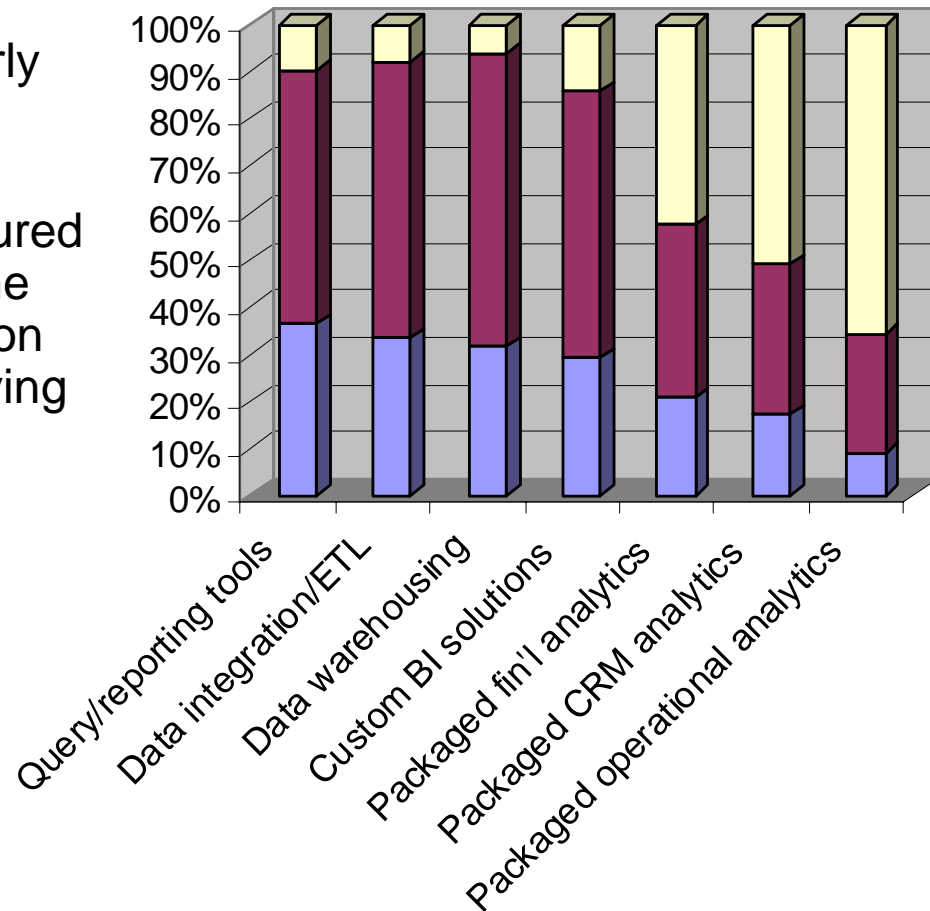
■ Importance/Impact

- Cost reduction and increased management efficiency
- “Just-in-time” and reliable data critical to algorithmic trading, risk management, and multi-asset class trading.
- Security and reliability are essential



Success of Previous Business Analytics Implementations

- Financial institutions are still in early stages with business analytic implementations
- However, the technology has matured dramatically, and banks have at the same time gotten a better handle on data management which is improving results
- Investment in BA will be a key initiative for banks in 2007



Source: IDC, Financial Insights, 2007

■ Successful ■ Needs improvement ■ Not applicable

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



Drivers

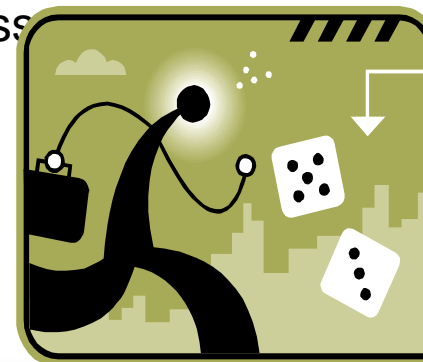
- Basel II projects are nearing completion
- Basel teams are well-placed to lead strategic data management projects for their institutions
- Banks realize the power of data tied to analytics

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*

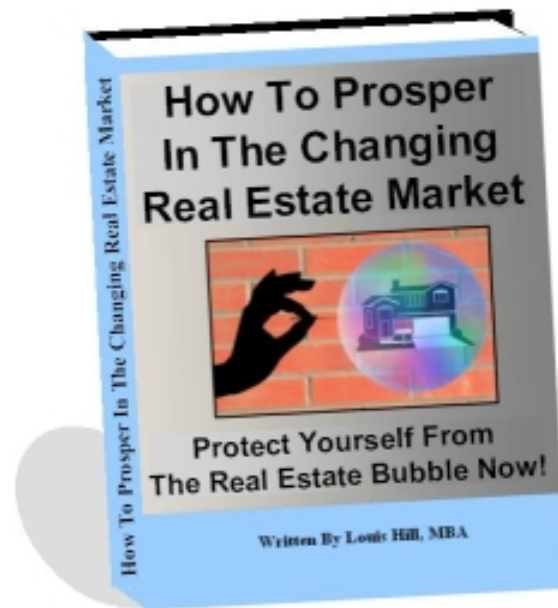
Risk Management

- Components
 - IT risk management
 - Market risk
 - Credit risk
 - Operational risk
 - Market structure compliance
- Importance/Impact
 - Moving closer to the strategic decision-making, planning and compliance tools initially conceived
 - Data protection and recovery is vital, supporting business planning
 - Ultimately yields optimized capital allocation



Credit Risk Management

- Macroeconomic trends are spurring new interest and investment
 - Real estate market deterioration in the US
 - Burgeoning credit markets in emerging markets
 - Pre-existing and expected regulatory oversight
- Technology investments are in
 - Predictive analytics
 - Default management
 - Credit modelling

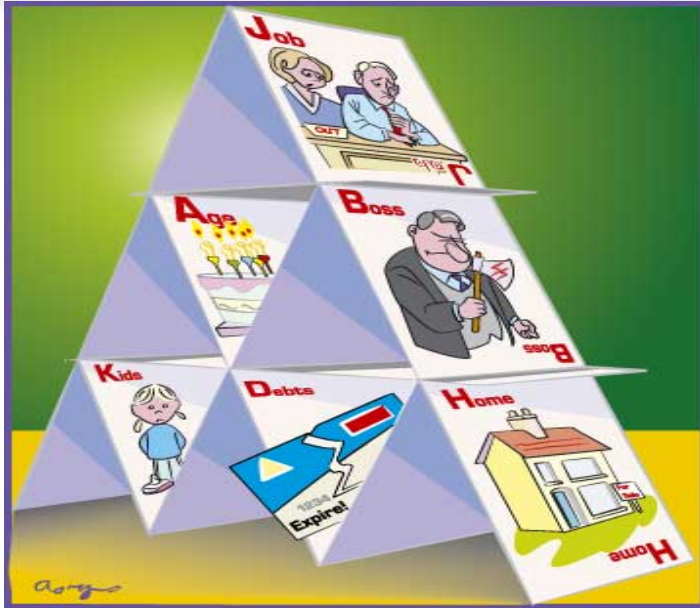


Risk Management for Insurers

- Risks that continue to demand attention
 - Flood exposure
 - Product liability
 - Cyber-liability
 - Retirement risk
 - Global warming
- Risks that are just over the horizon
 - Genetic engineering
 - Nanotechnology

Global insurers must respond to a changing landscape

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



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*

Customers: The Bottom Line

- Customers have high expectations and even as we invest in other areas, it is buying serving customers that financial institutions will grow
 - Investments in channel integration and especially internet sales and service are paying off
 - However, institutions still wrestle with managing customer data





*Geoff Burkholder, Solutions
Director, FSI
HP Business Intelligence, HP
Software*

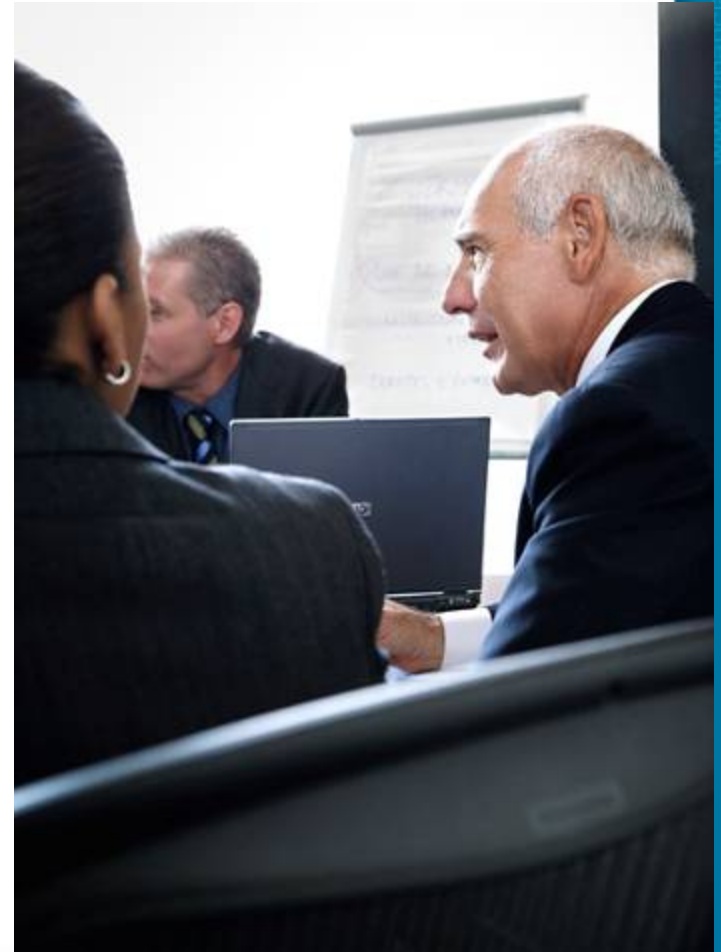


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Trends in the financial services industry

Financial services industry trends

- Enterprise Data Management
- Analytic Platform
- The customer at the forefront
- Risk management – line of business (LOB) and enterprise

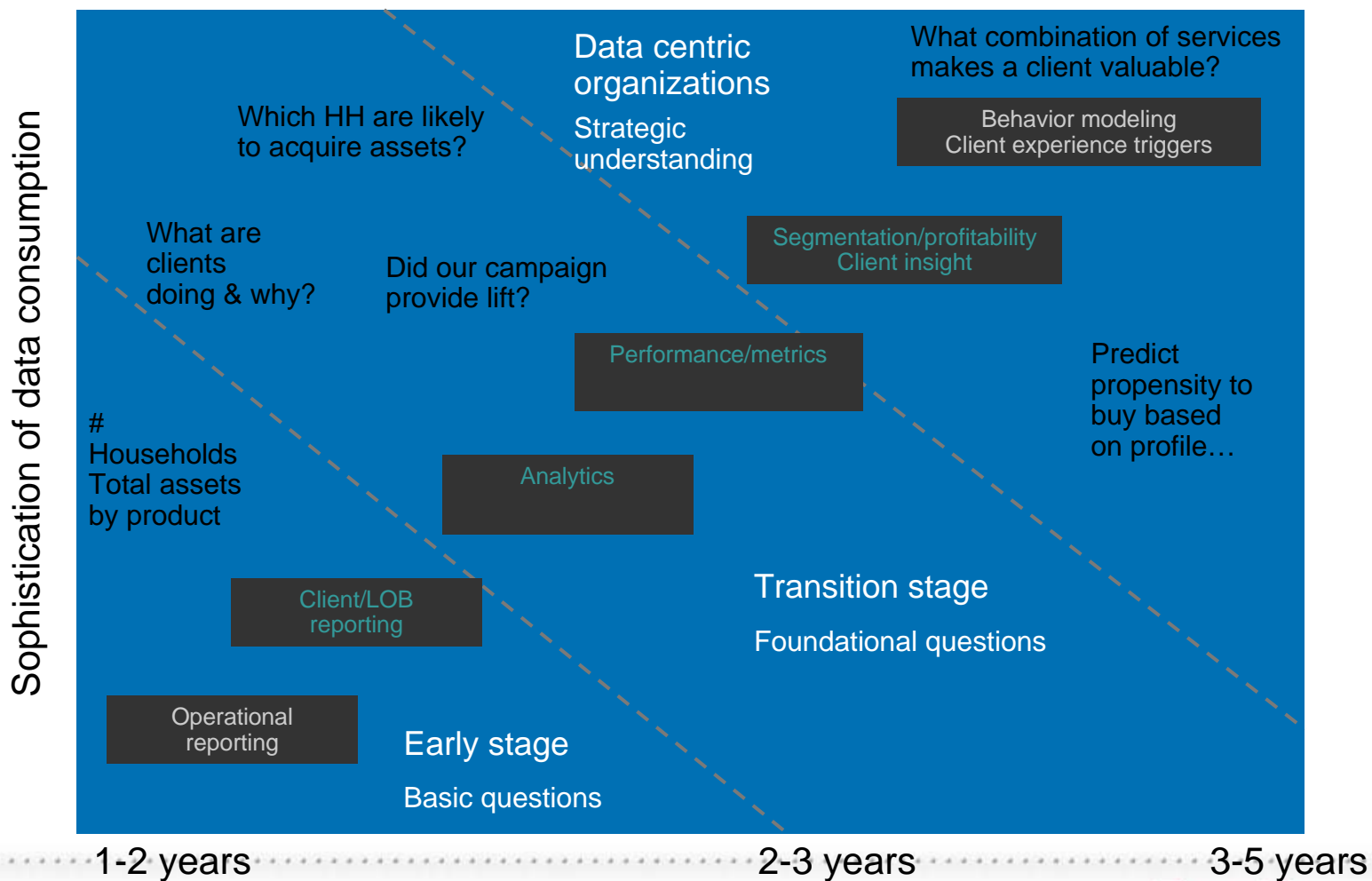


Basel II drives need for Enterprise Data Management

Enterprise data management (EDM)

- Basel II for the largest banks morphing into EDM
- Customer data integration (CDI), master data management (MDM), and reference data no longer viewed as siloed, but are converging
- Data managed as a corporate asset – for the benefit of the institution
- Drive toward predictive data – for the customer, for the markets, for the operations

Data value evolution

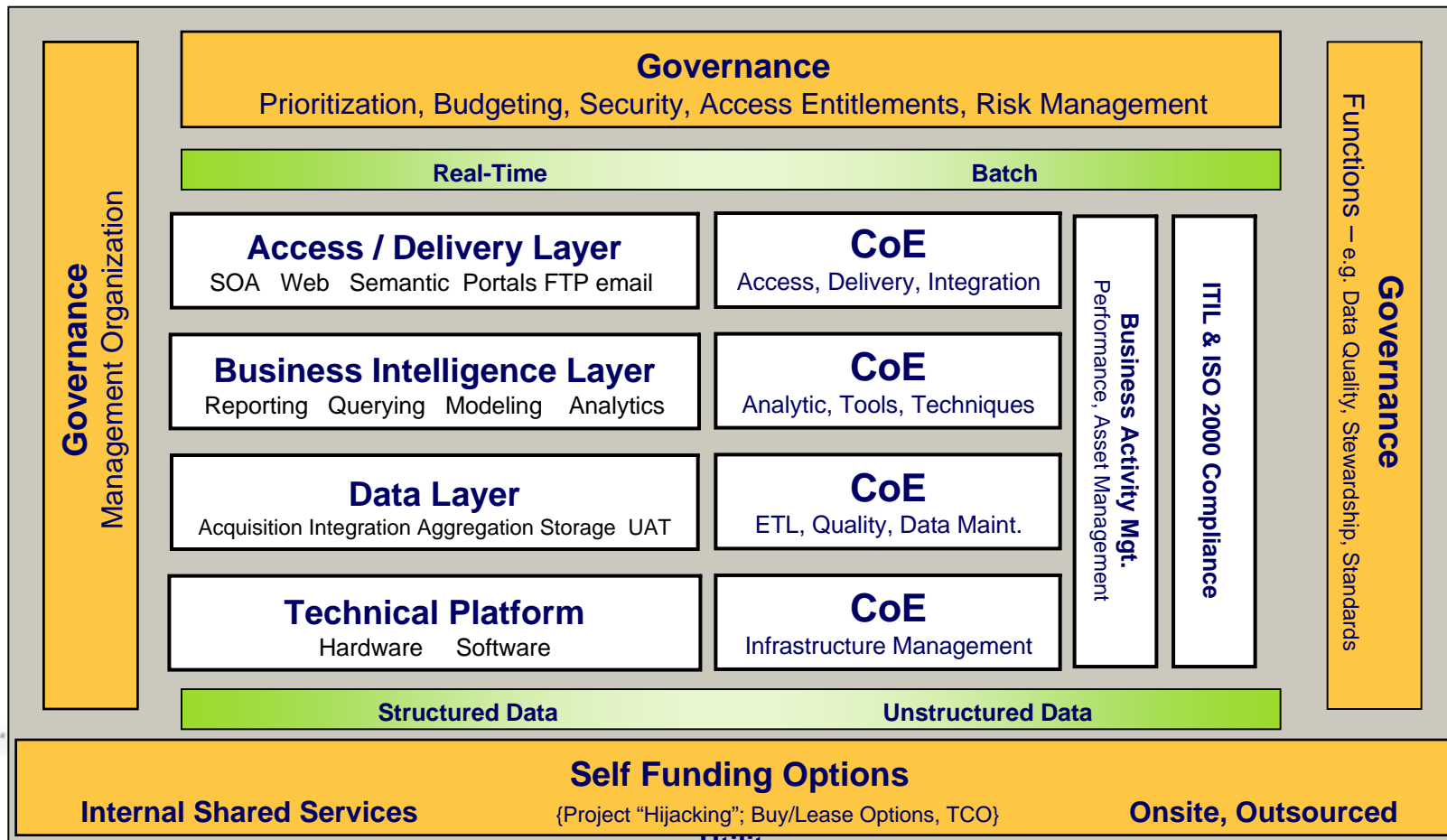


Next Generation Information Management

a reference architecture view

Corporate / Strategic Initiatives, Goals, Objectives

Revenue Growth, Risk Mgt, Cost Mgt, Time to Market, Customer Experience, New Services, Channel Mgt, Target Marketing

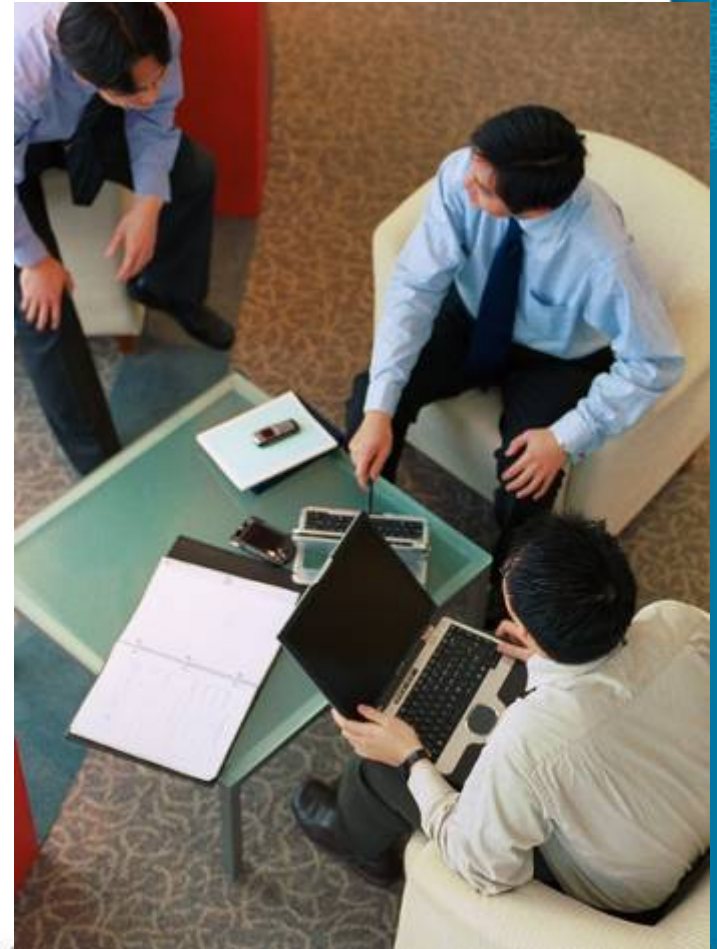


{Project "Hijacking"; Buy/Lease Options, TCO}

Analytic Platform – driving value from Data

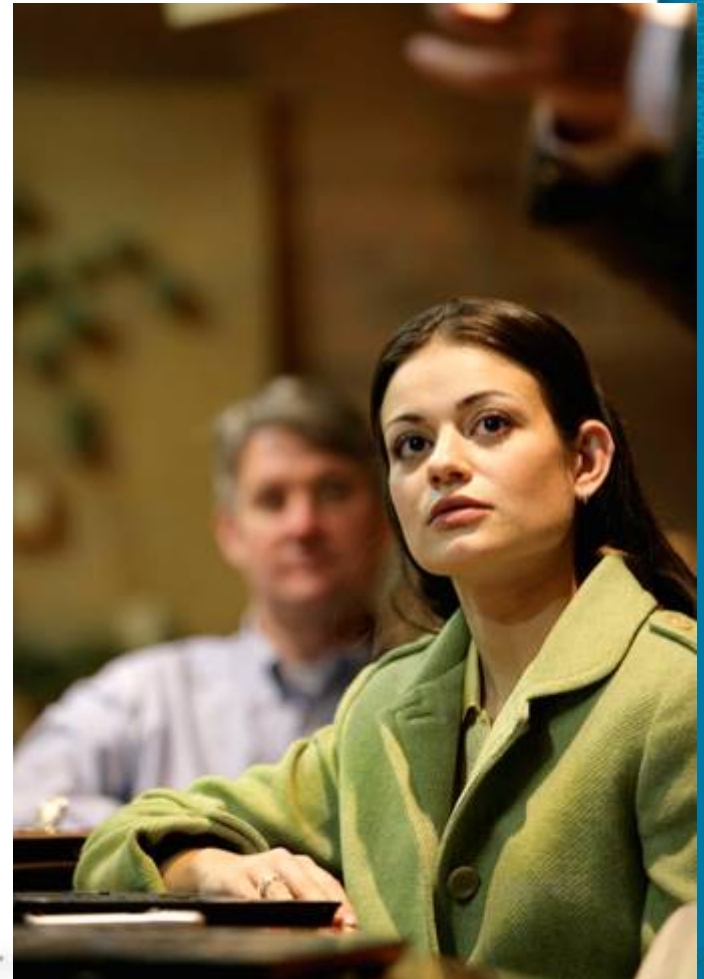
Analytic Platform Value

- Marketing, compliance and risk in a data driven platform
- Realizing a customer intimate model in a volume operation
- Aggregate analysis – customer and portfolio
- Cross LOB – cross channel customer unification



Marketing, compliance and risk in a data-driven platform

- Know your customer – “Single View”
 - To drive effective marketing
 - Appropriate channel
 - Target segmentation (customer you want)
 - Event driven propensity (diapers = 529 account)
 - To drive compliance
 - AML - Detailed knowledge of customer and uses for money
 - Basel II (and III)
 - To understand risk
 - Risk via segmentation analysis
 - Know your customer as if he were yourself



Realizing a customer intimate model in a volume operation

- Segmentation
 - Demographic analysis
 - Pattern analysis– spending and budgetary, frequency
 - Behavioral analysis – item level within the transaction
- Grow share of wallet
 - Picture of customer based on transactions, behaviors, flow of money
 - Propensity and optimization for product and offers inclusive of a lifetime/longitudinal concept
 - Customer value vs. customer investment
 - Optimize channel info/offer/data distribution by customer/in aggregate

Aggregate analysis

- Operational-ize customer value metrics
- Target advertising spend by channel, segment, product
- Retain vs. acquisition budget – optimize
 - Acquire vs. deepen the wallet share
- Customer segmentation to portfolio view
 - What to keep, what to unload

Cross LOB – cross channel customer unification

- Behavioral, event driven target cross-sell
 - With insight (basis for propensity)
- Loyalty – drives affinity for bank as a whole vs. just a product
 - What makes customer happy?
 - Educational environment vs. product environment
 - Message tailoring based on behavior and demographic segmentation
 - Appropriate product mix for each individual
 - Tailored product suite per individual
 - Targeted customer segmentation, “dynamic perfect customer model”
- Customer satisfaction cross line of business
 - (Casino style) – lose at one thing, get a free-be somewhere else
 - Proactive relationship management; relationship pricing

The Customer in the Forefront – “Customer Centricity”

Customer as “king”

Data to drive Customer:

- Acquisition
- Retention
- Risk
- Evaluation
 - E.g. Profitability
- Predictive valuation



“Balance Sheet” for each customer

Average distribution of cash flow (per month)

- \$10,000 gross per month
- \$1500 to Healthcare and Retirement
- \$2500 in taxes
- \$6,000 net
- \$1500 mortgage
- \$1500 in credit/debit charges
- \$850 in car payments
- \$120 for land line
- \$150 for cell phone
- \$120 for cable
- \$250 in utilities
- \$550 for private school
- Saves \$960 per month



Opportunity → **Know Your Customer** - Targeted, appropriate, tailored product and solution offerings to grow share of wallet in an operational manner

Versus

An industry plagued by:

- Poor marketing qualification
 - Inadequate offer response
 - Inappropriate offers
 - Consumer advocate blame-storming
- Inadequate understanding of risk
 - wrong customers leaving



Net result – data becomes the key

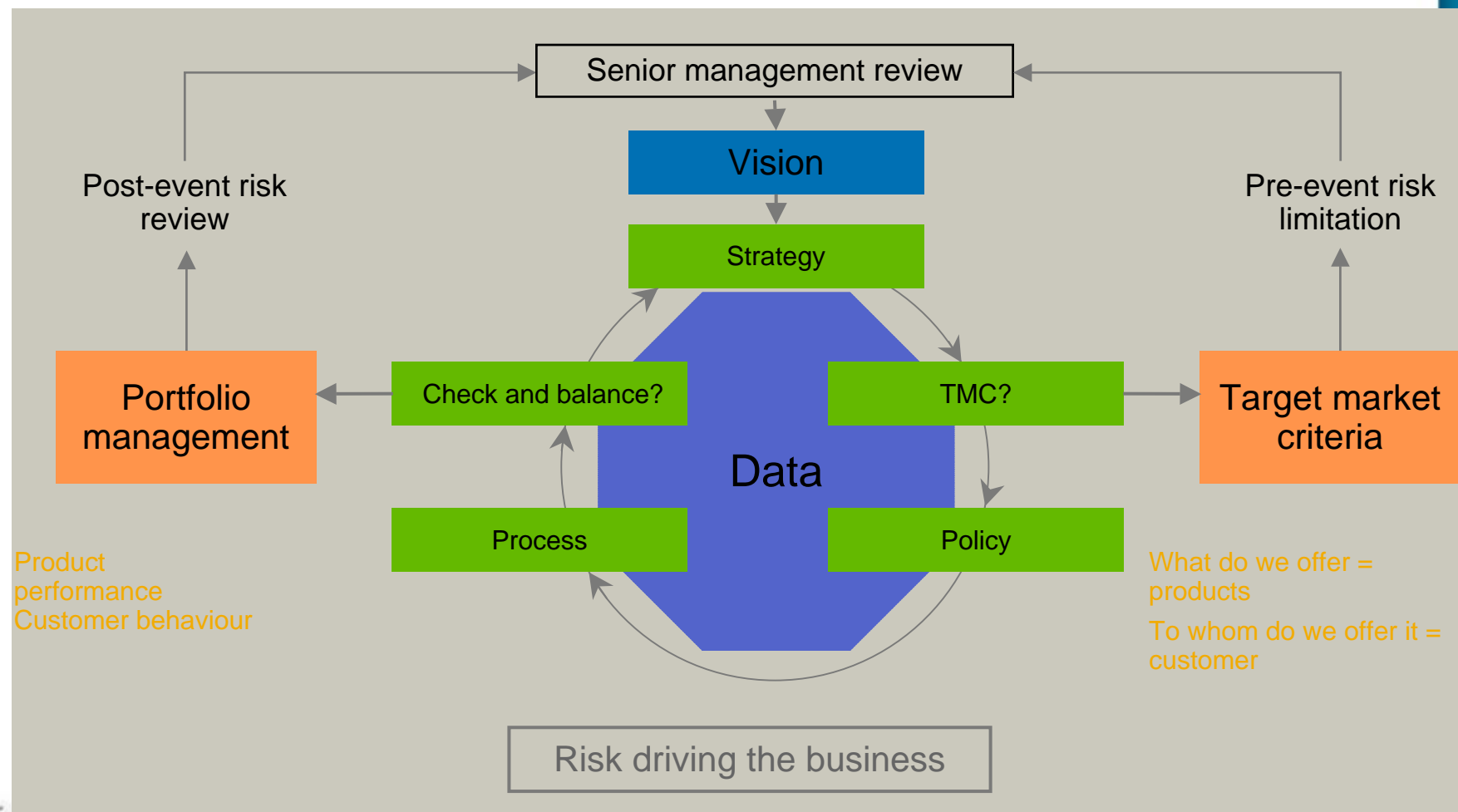
Drives operational aspect:

- To address customer information
 - Understand risk
 - Target market
 - Predict behavior
-
- All at point of touch for the customer



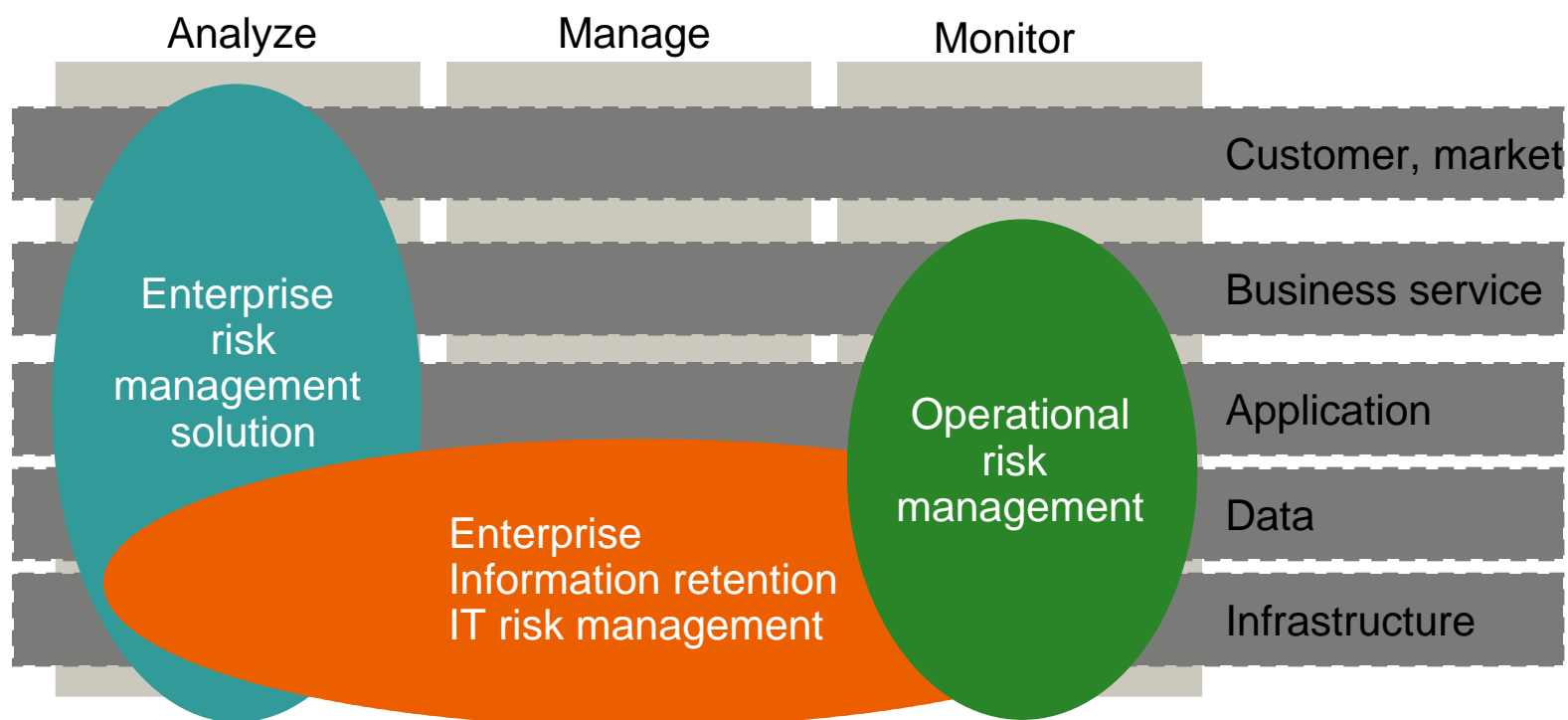
Integrated Risk Management

Best practices



An integrated approach for risk management

Risk management and compliance is addressed holistically combining measurement, management and continuous monitoring to support operational efficiency. Marry business, process, and IT.



Summary

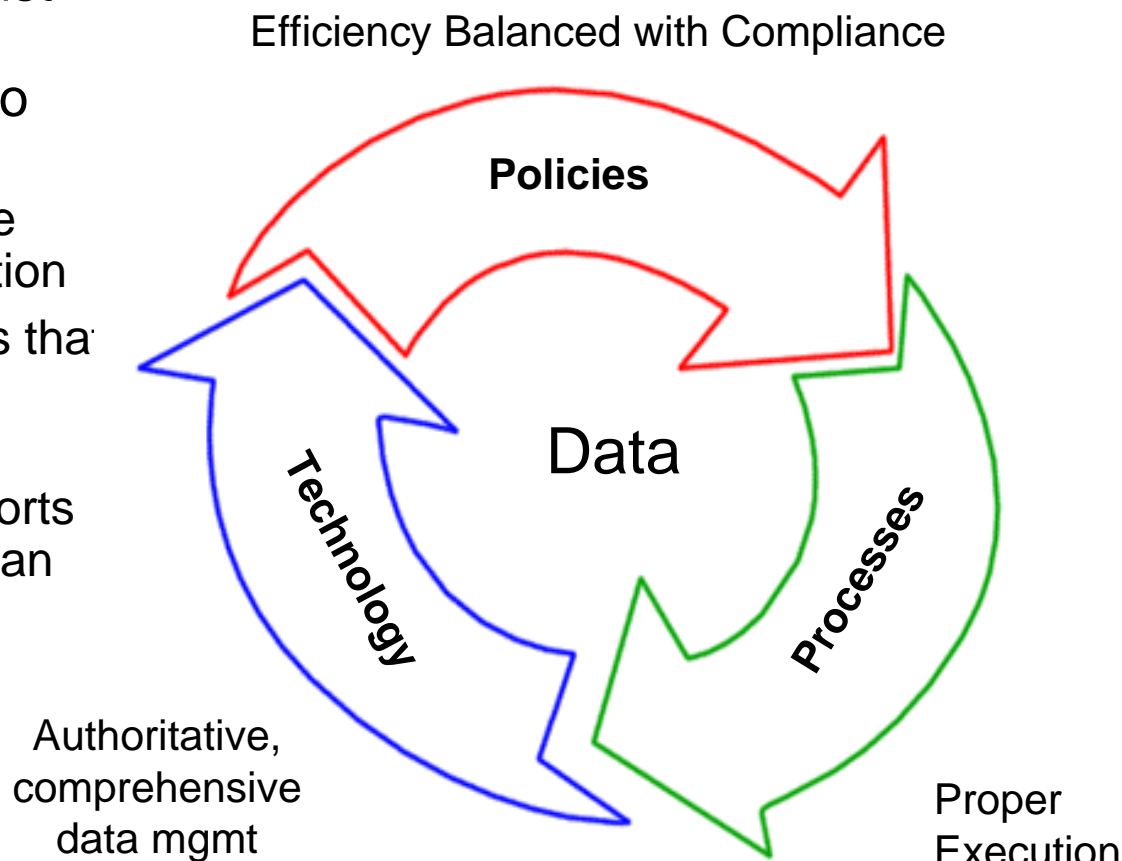
In short – key trends

- Understanding the customer
 - Market to appropriately
 - Manage risk
 - Maximize profitability
- Managing data as an asset
 - Improve delivery time to business benefit
 - Take advantage of data to compile risk information
- Thinking is enterprise in scope
 - Data – across LOB, geography
 - Analytics
 - Platform to advance operational nature of data/information



Essential Guidance

- Financial institutions must change to survive, and change must be made to
 - Business models and policies that determine overall strategic direction
 - People and processes that implement enterprise policies
 - Technology that supports business needs and can adapt to a changing environment



Questions? Live Meeting Chat or Audio



Jeanne Capachin, VP Research, Financial Insights
jcapachin@financial-insights.com

Geoffrey Burkholder, VP, Hewlett Packard
geoffrey.burkholder@hp.com

For More Information Contact: info@financial-insights.com

Slides will be posted within 24 hours

Join Us at Our Next Webcast – June 24

- The FinTech Marketplace: Is the Future Dynamic or Dull?
 - Key issues that will be discussed include:
 - Is the FinTech industry going to be dull or dynamic?
 - How will a financial institution's well-being affect CEO and CIO business - IT initiatives?
 - What needs to happen to sustain a dynamic FinTech marketplace?

Join Us Onsite at an Upcoming Event

- Financial Insights Singapore Banking Roundtable
 - June 25, 2008, Raffles Hotel, Singapore
- Financial Insights Singapore Risk Roundtable
 - July 24, 2008, Raffles Hotel, Singapore
- IDC Brazil 3rd Annual Financial Insights Conference 2008
 - August 19, 2008, Sao Paulo, Brazil
- InsureTech Summit 2008 Financial Insights Conference
 - August 22, 2008 Singapore
- Financial Technology Insights
 - October 26 - 28 2008 Jacksonville, Florida



Thank you !

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Thank you for your time and attention

Slides and Recording will post overnight

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