SUNGARD AMBIT - THE WELL MANAGED BANK

ARTICLE

SunGard Insights: The Well-Managed Bank

Anticipating the Future of Money Management

TABLE OF CONTENTS

SunGard Insights: The Well-Managed Bank Anticipating the Future of Money Management

INTRODUCTION

The recent financial crisis has put the banking industry under the microscope perhaps more than ever. Due to a number of developments over recent years, the financial sector is set for some of the greatest transformations it has ever seen. These are the findings of SunGard through its Well-Managed Bank initiative, developed as a result of the financial crisis.

As David Hamilton, president, Banking, SunGard, explained, it was shortly after the collapse of Lehman Brothers that SunGard began thinking about the fundamentals of the Well Managed Bank – a study to see how banks could optimise the effectiveness of their operations during challenging times. The study has revealed the changing face of the banking industry and forms the basis of this paper.

AN INTERNAL FOCUS

The impact of the financial crisis has been well documented and most are aware of government buy-outs, investor dismay at the industry's mismanagement of finances, and the resulting loss of creditability and mistrust from the wider consumer world. A lesser focal point however was the impact on banking strategy immediately following the crisis whereby many banks took an internally focused view of how to move beyond crisis mode. This internal view formed the foundation of SunGard's Well Managed Bank study which concluded that banks should shift their strategy from one of growth to a directed approach of ensuring strong management of a bank's core assets; its customers, staff and capital.

Three years on from the crisis, many would agrue that the industry is emerging from the crisis, albiet with a number of European markets and the US still in the throes of determining their new banking landscape. What is common however is that the world today is much changed.

Consumers no longer assume the banking industry as stable, regulation is increasing both in terms of volume and reach, the composition of banking investors has changed considerably and lobby groups have a renewed vigour. Couple this with an environment that is fast embracing new technologies such as tablet devices and an always connected, always on mobility ethos, and it would be fair to say that banking strategy can no longer simply focus on its internal competencies.

OUTSIDE INFLUENCE

As the banking landscape has changed, so too has the Well-Managed Bank study advanced. One thing has started to become patently clear – many aspects shaping the future will be in fact, out of the hands of banks themselves.

First, in terms of regulation SunGard identified a number of distinct personas that will begin influencing the landscape in new ways. These are:

- Macroprudential regulators – organisations that regulate the industry as a whole, such as central banks, the Federal Deposit Insurance Organisation and the International Monetary Fund.

- Microprudential regulators – organisations, such as the Financial Services Authority, that regulate institutions.

- Investor protection agencies, such as the Security Exchange Commission.

- Consumer protection agencies, including fair trade and watchdog groups.

Beyond regulation, SunGard identified three additional stakeholder groups that would also begin pulling against the traditional fabric of the banking landscape, namely:

- Customers
- Investors
- Special Interest Groups

As observed by the study, each of these personas and groups has its own particular, and often conflicting agendas, influencing their decision-making, attitudes and behaviour – and ultimately the future of the banking market.

As an example, the study identified friction between two groups of investor personas. First are equity holders driven by near-term returns and possessing different values and objectives from the second group; longer-term capital investors such as bondholders.

Banks themselves more often than not are involved with both these sets of investors (personas). The overall composition of a bank's investor mix has a direct impact on the bank's strategy and specifically its risk appetite setting, which will ultimately guide and determine day-to-day lending decisions.

Sovereign entities, namely governments, have been another group with increasing influence on the sector. Government bailouts, in the form of loans and common stock, formed a major part of the news during the financial crisis. The US government's TARP (toxic asset relief programme) bailout, enacted at the end of the Bush Administration, cost the taxpayer $700 million. For European banks collectively, the total was closer to €3 trillion ($4.25 trillion).

This last point has added a completely different dimension to a bank's risk appetite. As the main shareholders in a bailout scenario, sovereign entities are significantly risk averse, diluting the interests of both equity and capital investors and therefore changing and challenging the natural tensions between the traditional personas (equity holders and bond holders) and creating a new climate for the market.

DEFINING THE CONSUMER

Perhaps the most important stakeholder group of all however, remains the customer – and here lies additional complexity in the changing face of banking.

Previously, banks and other organisations could split the demographic of their customer base into a few basic categories, such as age, race, gender or income bracket.

At the start of the digital age came a new dynamic - 'generation Y', a young tech-savvy consumer that wanted to read their news online instead of in print, demanded that information be presented to them instantly at the click of a mouse, and that services such as banking or shopping should be offered to them online.

Today, the pure demographic notion of baby boomers, generation X and generation Y is largely outmoded. As Hamilton remarks, we are entering the period of the 'non-existence of the typical customer', where age has very little to do with demographics. Of Facebook's 500 million users, 28% are over the age of 55.

To illustrate this, the music channel, MTV, recently identified no less than 13 different audiences within the Generation Y demographic, based on their different values, personas and driving forces. Based on a wide range of often-interconnecting preferences, these include aspects such as the value of friends and family, importance of technology, distinction between virtual and physical communication, and attitudes towards money.

There has been two more crucial points. It is universally agreed that one of the outcomes from the crisis has been that consumers now clearly understand that their bank is just like any under organization, it can be mismanaged and it can collapse. The notion that banks are realiable and stable stewards of the community is a sentiment for yesterday. This erosion of trust has created a heightened level of sensitivity, causing customers to scrutinize every interaction they have with their bank, resulting in many now banking with more than one institution. According to a study by Ernst & Young 38% of customers in Europe, 33% in the US and 46% in India now bank with two banking institutions.

Couple this with the power of technology and the notion that banks now no longer have control over their brand – just think that according to a study by Deloitte 42% of Gen Y rank Social Networking Forums in the top 3 sources when researching banking products and services, while 27% of Baby Boomers rank Social Networking Forums in their top 3 sources for research – and it would be wise to conclude that today's consumer has increasing influence in how they want banks to run. This, says Hamilton, means that the industry has entered into a new phase of consumer empowerment.

RISE OF SPECIAL INTEREST GROUPS

Yet, suggests the Well-Managed Bank research findings, one of the most interesting areas is the way that the agendas of different special interest groups are creating a new voice for their respective cause.

Unlike other industries, in banking there has historically been no real counter side to corporate lobbying. A prime example of this was in 2010, when four Californian banks collectively spent $100 million on just three industry reform bills. Yet here also we are seeing a change. Counteracting the power of lobby groups to shape regulation, state-sponsored committees in countries such as the UK and US are now being given a broad remit by their governments to analyse the ethics of the banking industry as a whole.

Likewise, in June 2010, 23 European Union Members of Parliament gathered to create Finance Watch – an NGO consumer group, which it claims is "capable of developing a counter-expertise on activities carried out on financial markets by the major operators (banks, insurance operators, hedge funds, etc)…2010 was the year of the call. 2011 will be the birth of the Finance Watch."

The main message here is that while lobbying has been historically asymmetrical and very much funded by the industry itself, it will be less so into the future. With continuing momentum, perhaps we could see the balance of power falling increasingly into the hands of the non-corporate position.

SHAPING THE FUTURE

In summary, five predominant trends emerged from SunGard's Well-Managed Bank study:

1. First is the age of consumer empowerment. Overall, the volume of deposits is growing, while bank margins are shrinking. Equally, consumers have more information and choice on where they bank. Hence customer loyalty and retention will be a huge priority for banks to prevent customers from shifting their allegiances to a competitor offering better terms. There is little doubt as to the degree the financial crisis has damaged consumer trust.

2. We have discussed the tension between different investor groups. SunGard also foresees an increasing amount of tension between regulators and investors. While the financial crisis has suggested the need for more regulation, and therefore greater transparency; Investors will argue that money is made in opaque, not transparent, markets.

3. The rise of special interest groups will create an increasing counterbalance to the current power of corporate lobbying.

4. The forth challenge is structural changes to the historical model of financial intermediation. New alternative models of banking will emerge, driven by aspects such as financial inclusion programmes for the unbanked/marginally-banked and due to social impact investing. The marginally-banked group is by no means restricted to regions such as Africa. One example is Latvia, part of the European Union but significantly under-banked all the same.

5. Linking into all of the points above, technological innovation and adoption rates will continue to influence the landscape considerably. Technology will act as a catalyst for all stakeholder groups and drive change that will determine the future of money management. As a result of the information age, people may need to rely on banks less and less. Historically, banks have been a primary if not exclusive vehicle for intermediation of basic financial services. We are now seeing more and more alternative business models in the market.

   A prime example is the M-PESA scheme ('pesa' being the Swahili for money), run by Safaricom, Kenya's largest telecommunications firm. Essentially one can transfer money in the form of credit via a mobile telephone to any Safaricom agent within Kenya, where the recipient can collect it at any of the 23,000 M-PESA outlets around the country. This compares to the country's largest bank with just 119 outlets. M-PESA moves money worth more than 40% of Kenya's GDP.

In essence, the age of complacency for banks has passed. With financial institutions more accountable to consumers, investors, special interest groups and regulators, and with more ways to circumvent the traditional banking system, one thing is clear – this is the age for banking organizations to truly understand the environment in which they operate and what their key stakeholders value and what is driving their bahavior. It is only by examining the outside world that an effective money management strategy can be implemented. It is now the era of Well Managed Money.

www.sungard.com/ambit

ABOUT SUNGARD

SunGard is one of the world's leading software and technology services companies. SunGard has more than 20,000 employees and serves 25,000 customers in 70 countries. SunGard provides software and processing solutions for financial services, higher education and the public sector. SunGard also provides disaster recovery services, managed IT services, information availability consulting services and business continuity management software. With annual revenue exceeding $5 billion, SunGard is ranked 435 on the Fortune 500 and is the largest privately held business software and IT services company.

For more information, please visit SunGard at www.sungard.com.

ABOUT AMBIT

SunGard's Ambit banking solution suite helps retail, corporate and private banks to better manage their customers, staff and capital. We work with over 800 customers in over 70 countries, providing services and solutions to help them retain and acquire customers, achieve dynamic staff efficiency and effectively measure and allocate their capital.

For more information, please visit www.sungard.com/ambit.

07/01/2011-BKG