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Business Process Integration: The Key to Winning Deals in the Financial Services Industry

By Stephen Ross
Director, Financial Services, The AlignIT Group, LLC

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The speed and accuracy at which financial products and services are executed is increasingly becoming a key differentiator in the financial services industry. Whether processing a loan or mortgage application, purchasing an insurance product, or executing an investment trade, shortening the time to complete the process may make the difference between winning and losing deals, or worse, enjoying long-term relationships with customers. Financial firms with business-specific automated workflow capabilities that streamline the bulk of a business process—from initial sale to fulfillment/underwriting—as well as electronically integrated third parties, are positioned best to steal market share and customer wallet share from the competition.

Most large financial institutions with a vast number of disparate, proprietary back-office systems face growing pressures to keep pace with the ever-changing demands of customers. Many are running advanced front-end systems, giving the appearance of straight-through processing (STP), when in actuality, antiquated systems still exist in the back end, lending to redundancies and bottlenecks. The strategic decision to either replace these assets or overlay them with newer technologies and business processes is driven by a number of factors such as cost/benefit, turnaround time, level of impact across the organization, and so on. Given current market conditions, however, cost tends to carry more weight and, as a result, system replacement has taken a backseat to business process integration. Nevertheless, the financial services industry is fiercely competitive, which is forcing financial institutions to spend critical technology dollars to devise new client-centric business processes that integrate systems, data, processes, and people. The solution: a sound business process integration strategy supported by the right technologies.

Banks, securities firms, and insurance companies are spending millions of dollars today on integration technologies that streamline business processes and automate the free flow of data between front-office applications and back-office systems of record. The global securities brokerage industry knows this all too well as it wrestles with STP issues when executing trades and meeting regulatory requirements of settling trades known as T+1 Settlement. The retail mortgage banking industry is experiencing its own pains as well resulting from disconnected parties in the application process. With the current mortgage refinancing boom, many banks, finance companies, and especially mortgage brokers are stressing from an inability to keep up with high volumes and volatile interest rates that disrupt rates locked in by applicants. Retail consumers, having fueled the ailing U.S. economy with their unbreakable spending habits, are irritated by the loss of locked-in 40-year low mortgage rates at a time when long-term interest rates continue to inch upward. While financial institutions are inundated with an unusually high volume of applications, now is the time to

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identify those bottlenecks at various stages in the process, and devise solutions to get the players connected electronically to be deployed once business begins to slow down.

The problem with most complex financial application processes is two-fold: outdated systems that do not necessarily support all parts of the process and a business process that does not support the free flow of data and collaboration between disparate organizations and parties. Through the implementation of middleware layers, institutions are able to temporarily solve the problems associated with antiquated systems. The disconnect between third parties, however, is a more serious one, as there is no temporary solution. Bottlenecks and inefficiencies cannot be avoided until this industry evolves technologically. For example, completion of a mortgage application involves many parties including mortgage brokers, underwriters, registry of deeds, title insurance agencies, appraisers, attorneys, and credit bureaus. With closing dependent upon these disparate parties, each one has the ability to cause a bottleneck, lengthening the application process that, in turn, may result in rates expiring and unsatisfied customers.

The Internet has opened many doors for the financial services industry and holds the promise of connecting all relevant parties in a business process electronically. Using a Web browser to access shared applications and pass data in real time between two remote locations via open source and standards-based programming languages and standards, such as XML, is a capability available today to help to ease pains and shorten sales cycles. Web services, the latest emerging technology that continues to gain interest in the financial services industry, is positioned best to help automate certain aspects and functions within a business process and shorten the sales cycle. This will, in turn, further the connectivity amongst relevant parties. However, a number of factors—including its slow overall adoption, lack of an overall consensus on standards, regulatory, privacy, and security risks, lack of validation, and, ultimately, the market's trust for it—prevent Web services from taking off in the financial services industry. Figure 1 provides some insight on Web Services adoption. While the data needs to be interpreted with care (N=27 for Financial Services), The AlignIT Group believes a leaning toward early adoption of Web Services by financial institutions is clearly demonstrated. Our experience is that financial services institutions tend toward early adoption of new technologies generally. However, this data must be viewed within the context of overall market adoption, where we see it taking several years for Web Services to become a pervasive technology and to begin to fulfill its complete vision. Nevertheless, the reality of Web services will help financial institutions increase the efficiency and effectiveness of their business processes, improving their positions when competing for new business.

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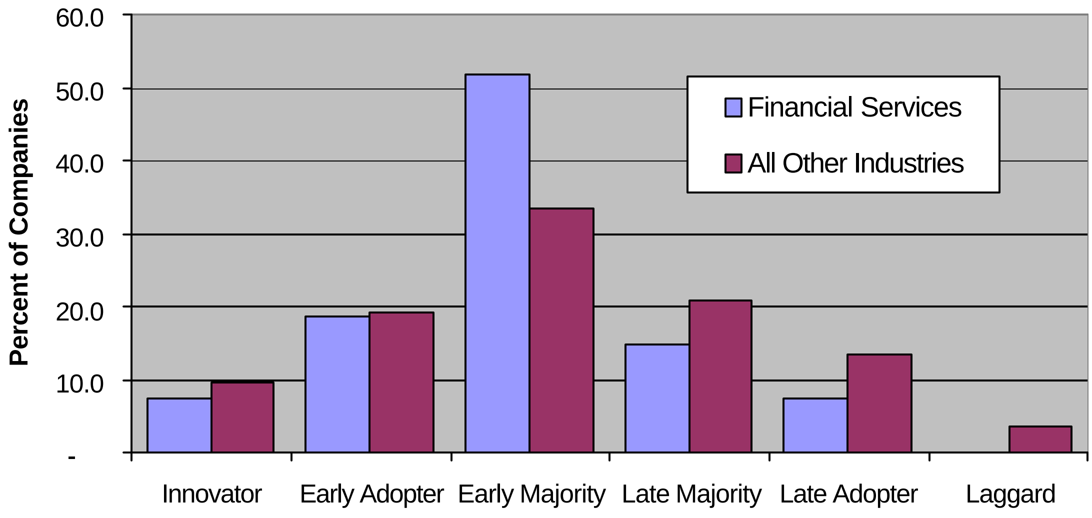
Figure 1: Position of Companies Along an Adoption Scale Specific to the Use of Web Services Technology



Q: How would you position your company with respect to the use of Web Services Technology? N=290.

Source: The AlignIT Group's Web Services Study, Published January 2003

The broader and more long-term challenge facing financial institutions is change management. As financial institutions evolve toward more automated processes, they will not succeed unless all parties agree on a new, unified way of conducting business based on mutually shared benefits. Transforming one organization's culture and way of doing business is not a simple task. When multiple organizations and parties are involved, the task almost exceeds the realm of possibilities. Change management is the primary obstacle that stands in the way of vision, technological advancement, and attaining new business opportunities. Convincing all parties of the long-term value and potential risks of non-compliance will be owned by the financial institutions that ultimately will own the customer (for example, a bank that underwrites a customer's mortgage). In turn, financial firms must devise plans that specifically illustrate the benefits and risks that one faces, should they opt out of the consortia to change. While the technological challenges are costly, they can be measured, but the opportunity costs and long-term implications of non-compliance are endless.

Business process integration, especially those that encompass multiple, disparate organizations and parties, is driving new business opportunities for technology firms that are positioned best to execute these new business processes more efficiently and effectively. Business process management, which continues to gain traction at large, established outsourcing providers, such as

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CSC, are meeting this growing demand. While most financial institutions are turning to outsourcers, a handful of unique institutions, such as Fidelity Investments, are now offering both financial and business process capabilities to their customers. For example, Fidelity is broadening its services in the employee benefits market by leveraging its existing technology assets, building off of the success of its defined contribution plan administration services. More and more financial institutions continue to evaluate outsourcing as an option with some of their less-critical business processes, relinquishing them to better-suited organizations with the right skill set and existing systems infrastructure, processes, and customer support in place to execute these functions in a more cost-effective manner.

The financial services industry is extremely competitive and dynamic. Financial services institutions must continue to realign their businesses around these evolving dynamics, innovating new products and services that are relevant and unique to customers to remain competitive. Realignment of new business practices, teams, processes, and technologies is required. A business process integration strategy that follows a service-based model is emerging and will provide those financial firms that share a vision of its long-term potential with an advantage. As misperception in the industry subsides and issues are worked out, we will see new service-based technologies, such as Web services, gain momentum as financial institutions try to stay abreast of ever-changing customer demands and remain one step ahead of the competition.

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15 Hull Street, Newton, MA 02460
Telephone: 617 795 7300

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