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THE RISKS OF PERVASIVE CHANGE: WILL FINANCIAL FIRMS HEED WISE TECHNOLOGIES?

Financial firms globally are facing increasing costs to meet tighter capital requirements and regulations, and to keep up with technology change. Competitors from adjacent industries keep innovating in online channels, thus encroaching on payments and other financial services. A recent IBM survey[*] found that most banks will introduce incremental or transformative change to sustain profitability and give clients a greater choice. Optimizing risk management, client focus, capital, and cost will be the top priorities.

*1. **Risk management**: Integrating granular, internal and external information will optimize the balance between risks and rewards. Banks should adapt to market shifts by evolving their business mix.*
→ **Opportunity:** We believe that Social Media interactions will furnish a rich source of behavioral information and client insights to improve the risk management process. Financial firms should strengthen this channel with sound business operations, client privacy and security, and self-regulation.

*2. **Innovation**: Despite Social Media being a most popular consumer and professional channel, it is where banks lag the most[*]. Client needs for specialized financial products and services will drive innovation.*
→ **Opportunity:** Banks must catch up with sprawling digital content and services, and ride on disruptive shifts in customer transactions such as mobile apps, electronic wallets, and person-to-person finance. Working in concert, each online or attended delivery channel should attain its full service potential.

*3. **Client focus**: As funding becomes more discerning, debt will deleverage. Healthy growth in emerging markets will spark wealth creation and give rise to more sophisticated wealth management solutions.*
→ **Opportunity**: Financial firms could combine client intelligence and risk analytics using detailed data from contracts, events and transactions. Clients will welcome flexible pricing models that track the overall relationship with a firm and mind commercial, lifestyle, professional, or financial behaviors.

*4. **Business insights**: Comprehensive, granular and sophisticated analyses of shifting client needs will yield custom pricing options. Financial firms need to turn loads of information into relevant insights.*
→ **Opportunity:** Specialized financial products and services must accommodate dynamic pricing and optimization models. Centering on core client and market parameters, firms may then establish strategic data and analysis frameworks to integrate information consistently and improve pricing transparency.

*5. **Transformation**: Financial firms must revisit their service delivery processes and technologies to reduce operational complexity, improve client satisfaction, optimize pricing, and maximize profitability.*
→ **Opportunity**: Banks could increase cost efficiencies by decreasing or avoiding operational complexity[*]. To introduce structural change decisively and swiftly, we find that financial firms must let go of convoluted business processes and modernize any duplicative or inflexible technologies.

(*) Source: 2010 survey of top 200 global banks by IBM Institute for Business Value in partnership with the Economist Intelligence Unit.

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