



Cognizant

Banking &
Financial Services

THE FUTURE OF FINANCIAL SERVICES

TEN
WAYS
TO WIN
IN THE REBOUND

Aftershock



Like an earthquake, financial services are going through the aftershocks that follow the main event.

Post-meltdown, all firms in the market are grappling with the next wave of competitive threat.

It's coming both from inside the financial world (low-cost online providers) and outside (social media platforms and regulators).

In all cases, disruption is being enabled by technology.

As usual.

In this booklet, Cognizant's Banking and Financial Services practice has identified the 10 trends we see as most formidable. And 10 pieces of advice we think might help.

Some you'll be working on. Others you might want to start working on. In aggregate they form a powerful picture of what's next, and what can be done.

Passion for building stronger businesses



1. Get real.

Comprehensive real-time systems are no longer just an option in financial services. They will soon be imperative, for four major reasons: credit risk assessment, counterparty assurance, fraud prevention, and compliance.

In particular, the accurate evaluation of credit risk has never been more important.

Banks are being pressured politically to step up the pace of lending. But faster cannot mean sloppier. Bad loans were, in large part, the cause of the mess.

Accurate customer analysis and predictive analytics are the key. A single customer view. Across all accounts and liabilities (even spending habits).

The tools are in place. Sophisticated credit systems. Business intelligence. Advanced analytics. (Plus, the rethinking of key business processes.) Specialized third parties will help if you don't have the capabilities in-house or want to avoid the pain.

Most financial services firms are part-way to real-time but the underlying systems are not able to process real-time data, thus not yielding a total picture.

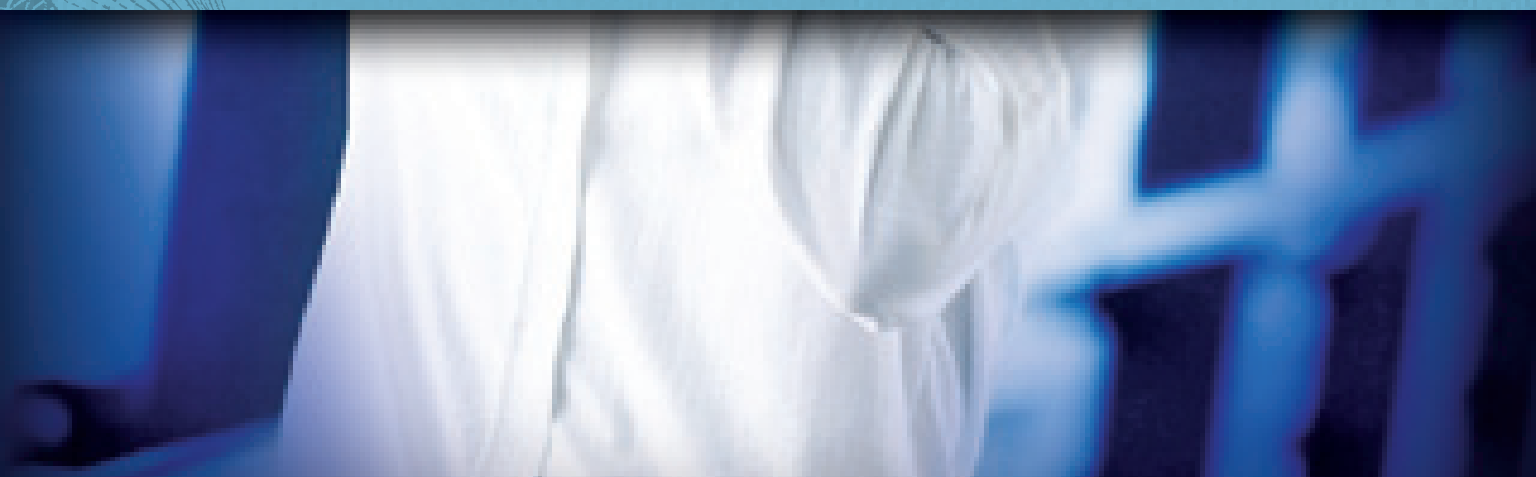
These days, that's a risk.

Accurate evaluation of credit risk has never been more important.



6

2. Commit to mobile.



Customers want easy, powerful mobile access,

Mobile is big. It will be huge. It's the new desktop.

Gartner says there are now about 1.2 billion people carrying handsets capable of mobile commerce.

And mobile owners love mobile apps. In April of 2009, before its first anniversary, Apple's App Store saw its one billionth application downloaded.

What that means for financial services is that the time for a super-user-friendly mobile application strategy is now. And without one, you are asking for trouble.

In fact, payments themselves are changing because of mobile devices. As the barriers to entry come down, new players like Paymo and MoBank in the U.K. are offering consumers free mobile payment options, and opening a major revenue stream for themselves.

Customers want easy, powerful mobile access. More and more customers – especially younger ones – will go to financial services firms that lead the way.

That should be you.

7

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8

3. Prepare for change.

The question is not whether more regulation is coming. The question is: How can you comply without spending a fortune?

In the U.S. and Europe, the elephant in the boardroom is “disaggregation.” There is likely to be U.S. legislation resembling the Glass-Steagall Act (The Banking Act of 1933) that will once again mandate the separation of banking and trading.

Disaggregation will break apart systems and reporting and organizations – everything from customer information to bricks and mortar. And while the mighty “universal banks” – Citi, JPMC, Goldman Sachs, RBS, Barclays, Deutsche Bank and others – will fight back, all banks should be prepared to split.

Because the transition will have to be both fast and flawless, one of the biggest challenges will be IT engineering prowess. Yet many banks have lost that ability in house, at least at the necessary skill levels.

The answer? Rethink business and technical architectures. Work with cost-effective third parties that have the IT engineering excellence to analyze your customer base, offer the advice you need to disaggregate, and help you pull it off faster than any in-house team can manage.

Just in case.

9

How can you comply without spending a fortune?



4. Rebuild trust.

The global economic meltdown – a financial services-led disaster in the public view – has caused massive unemployment. Add credit contraction and the onerous terms being exacted by commercial lenders. Top it off with fee fatigue in consumer banking. And it's all happening in a difficult economy.

The picture isn't pretty. Many customers are feeling milked. Or bilked.

Rebuilding trust should be a priority.

The trick is to do it without sacrificing fee revenues. (In a recent Bank Systems & Technology webcast, it was noted that without overdraft fees, 45 percent of banks and other lenders would not have made money in 2008.)

Offering greater customer value is the path. And the engine is consistent customer data coupled with real-time analytics.

Some strategies already underway: Back-to-basics banking. Fewer discounted mortgages. More personalized services. More self-serve online in banking and trading.

This is the long-talked-about move from data to predictive information. It has arrived. And the lenders leading the charge are rebuilding customer trust ahead of the curve.

Rebuilding trust should be a priority.



5. Go direct.

Direct trading is the new game.

Banks and brokers are also feeling gouged. In their case, by exchanges that have continued to increase fees and commissions under pressure from their shareholders since demutualization.

This has resulted in the formerly unthinkable: banks and brokerages starting to reach out directly to customers through look-alike exchanges of their own making.

Direct Market Access (DMA) trading systems are gaining in popularity. These are desktop “black boxes” programmed to buy and sell shares directly from exchanges at high speed on the basis of small price movements.

Goldman Sachs has built its own trading technology (Redi) that facilitates trade execution and allows access to algorithmic strategies.

Project Turquoise (recently acquired by the London Stock Exchange) was conceived by some of Europe’s largest investment banks to be a low-cost trading platform rivaling the region’s stock exchanges and providing access to hidden pools of liquidity.

There will be others because established exchanges are increasingly being viewed politically as barriers to entry. And because money and market share are at stake.

Direct trading is the new game. Risk is the dark knight. Speed, transparency, better information, and lower fees are the weapons.

Technology is the trump card.



6. Strategize payments.

Peer-to-peer is the new buzz in payments. And it's coming as a shock to banks.

Cards are one of the reasons. Existing credit-card arrangements are not sustainable. There's a serious credit-card bubble in the United States. Liquidity risk is high. Offers – such as payment holidays and free cards – are bound to go away.

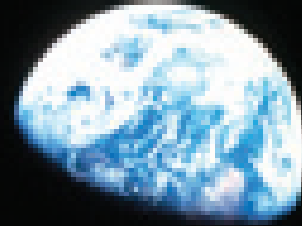
Into the breach have flown the new P2P players. S1 and FIS announced that they have teamed with organizations like PayPal to offer banks mobile or online P2P solutions. Meanwhile Fiserv has started to offer a new P2P personal payments service.

In credit cards, the other big agent of change is likely to be the one-card “wrapper” that will consolidate all the cards a customer carries under a single third-party “payment engine” that routes payments according to pre-programmed rules.

To compete with these emerging conveniences (and avoid massive revenue losses), established providers must come up with new consolidated payment solutions that users love.

The tools: Straight Through Processing. Better analytics and reporting. Engineering excellence. Airtight security. And a clear view through the eyes of the customer.

Providers must come up with new payment solutions that users love.



16
7.

Think
small.

Emerging markets cannot be ignored. The future is theirs.

At the end of 2009, China had approximately 450,000 millionaires with a net worth estimated to be about \$1.73 trillion.

The world's five most valuable banks by market capitalization are: Industrial and Commercial Bank of China, China Construction Bank, HSBC, JP Morgan, and Bank of China.

Shanghai is expected to eclipse London as the world's second-largest financial centre before the end of the coming decade.

The problem, of course, is that China and other emerging markets are as hard to penetrate as they are potentially lucrative. Yet, as they really start to boom, not having a presence is almost unthinkable.

Western banks hoping to gain a foothold can differentiate themselves on an existing strength: quality customer experience.

Another strategy is micro-finance. It can be done via a technology-rich solution that avoids the prohibitive costs of traditional branch banking. Micro-finance is a foot in the door – for millions of customers of modest means, and for the enterprising bank that figures out how to offer value for money at low risk

17
Emerging markets cannot be ignored. The future is theirs.



8. Get social.

18



Few predicted how enormous the impact of online platforms such as Google and Facebook would be. And that impact has the potential to reverberate through all sectors, including financial services.

A growing portion of the population, youth in particular, is highly IT literate. More to point, they are deeply involved in social media.

Mobile is an important conduit. But it's the platforms that are the gathering places. These are social communities full of possibility. Customer acquisition costs are extremely low. Customer engagement is high. Loyalty is high. The companies that own them can introduce almost anything, if they play their cards right.

Like financial transactions.

Service-platform technology has also made "civic banking" possible. People can now congregate around causes and other "identifiers." With the right platform, those causes can take on banking-like functions for a built-in loyalty base.

How do traditional financial services firms compete? By not being traditional. Develop a platform of service that gives customers everything they want and more – more than non-traditional lenders can. Bundle services. Keep fees low. Consider user-generated content.

And stay in touch with your base. Out of touch means out of luck.

19

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9. Outsource demand.



Demands are coming at financial institutions from every angle at increasing speed. Call them threats if you like.

You have to keep up and free up capital. But you can't be sure of the end point, so you have to experiment, which can be costly.

Most larger financial services firms are offloading that new demand through outsourcing. Today's global IT services market is worth about \$760 billion. By 2015, it is projected to reach \$1 trillion.

Increasingly, business process outsourcing (BPO) is being coupled with IT outsourcing (ITO) to achieve even more impressive efficiencies.

Those efficiencies will be needed because budgets aren't rising. Disruptive technology has marked each of the past three global downturns. First the PC. Then ERP software. Then the Internet. Cloud computing is on the immediate horizon. Whole new customer-centric platforms are not far behind.

You can bank on it.

Disruptive technology has marked each of the past three global downturns.



10. Embrace the next generation.



An awesomely IT-literate generation is entering the workforce.

As banks differentiate through customer service excellence, the right people strategy will be essential. It must involve the young.

They are arriving. An awesomely IT-literate generation is entering the workforce and will become the dominant part of the user base.

Hyper-connected and working in parallel, Generation Y'ers are accustomed to "crowd thinking." Put 10 of them in a room and give them a problem. The outcome is likely to be better than if you handed the same problem to an older employee with a decade of experience.

Forrester has identified three key social computing trends: the growth of people-centric collaboration platforms; the integration of customer community platforms with business apps; and the common use of tele-presence services.

You might as well think of those three trends as the future of financial services. And the young are leading the way.

Top **10** Reasons to Choose Cognizant

1. More for less.

2. High quality outcomes.

3. Financial services experts.

4. Delivery excellence.

5. A better business model.

6. Faster to market.

7. The latest innovations.

8. Proven performance.

9. Software partners you know.

10. High customer satisfaction.



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