Technology Investments and Employee Training

Knowledge@Wharton: Marcel, perhaps you could address this idea of technology. What kinds of investments are going to have to be made by banks and how is it different than what has happened in the past?

Marcel van Loo: I think technology is key not only to fulfill the requirements of the regulators but also banks will be challenged in making a decent return for their shareholders. They will have to use technology and technology improvements to improve productivity. For me that is absolutely a key part of going back to a decent return to their shareholders. We have seen also with our clients that already, today, a lot of investments are being made, and not only with the view of satisfying the regulatory needs for information or to come up with better business information and management information on clients or risk. But also I think (technology investments are being made) to make the target operating model more efficient and to reduce cost.

Knowledge@Wharton: Mauro, what would be your view on that?

Mauro Guillen: Well, undeniably, yes. Technology is going to be very important in all the different segments of the market, starting with retail and all the way up. The good banks far down the road are likely to be perhaps the ones that make the best investments in technology – the ones that avoid the usual rule of thumb, which is that you invest – like in advertising – you invest $100 billion and then you know that $50 million are going to work and the other $50 million are not going to work. Right? But the problem is, of course, that at ex ante you don’t know which of the $50 million are really going to be useful to you. So I think it is going to become a major discriminating factor between a good bank and a bad bank in the near future. How effectively can they deploy more technology and gather information obviously for market purposes and not only for the regulators? I think it is going to be a huge source of competitive advantage for the banks who manage to get it right.

Ian Baggs: I think that is absolutely right and I think that this distinction, if you like, of not just focusing on the straight-through nature of processing, so that it is controlled and well understood all the way through to the financial settlement of transactions, but the front end connection to clients (also) is massively important. And, arguably, a lot of the major banks have invested a lot of money over the last several years in improving the front-end system. They now need to, in some cases, invest more in the back. And I think you could say that at the moment there are some banks who, because they have invested more regularly over the last five or 10 years, it is giving them an advantage now because they just compete to keep investing more in the front-end platform. But for other firms they have to work out within the profitability of the business they have got have they got actually to try and catch up on the under investment that some of them perhaps have got to deal with.

Marcel van Loo: To add to that, you can see that a lot of the banks had to remediate back office systems and to fulfill the requirements by the regulators. They are very challenged because actually what they want to do and need to do – going back to the first topic on customer – is to connect with the customer. And there are some great opportunities if you think about social media and the Internet to do that. That is the challenge a lot of the banks are facing -- that they have to spend so much effort and money in their back office that they are afraid they are not able to spend enough on sort of the connection with the customer.

Knowledge@Wharton: So it is interesting. It sounds as if the technological capability is out there and pretty much understood. It is coming up with the funds and allocating them properly.

Mauro Guillen: And training the employees. Information technology – I’m sure my colleagues here on the panel know very well – because of their advising to banks, is not only about the hardware and the software. It is also about the interaction between that and the employees throughout the organization. And [it is] also how information technology can help the bank develop horizontal linkages and information sharing, especially when you are trying to develop a 360-degree view of the customer. So that is I think the real challenge. Coming up with the funding – sure – that’s also important. And you always know that you are not going to get it exactly right. But training the employees as to how to use the technology effectively – at least in my experience with banks – is of utmost importance.
Ian Baggs: It is very important. There are banks that have over time invested in more globally consistent systems. And that becomes quite interesting when you are trying to move some of your key people around the world. This whole talent pool that you have in your organization, which depending on the business and the way it develops you might want to move some of those people around the world. If you are dealing with the same set of systems as you go around the world this makes life much simpler. People understand it. It is a consistent language that you are talking within the organization. And you understand the functionality of what you have to deal with whereas at other firms where maybe it has been built up over many years through different mergers and acquisitions this can be very complicated to deal with.