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What's on the Horizon for Financial Services?

What's on the horizon for CIOs in the financial services sector? Change and more change, it seems. To paraphrase Yogi Berra, the future definitely isn't what it used to be.

According to Eric Gulbrandsen, Managing Director and leader of Maven Wave's Financial Services Practice, firms need to quickly focus on multiple, but inter-related issues, which will help them prepare for the impact of the Dodd-Frank Act and also help them grow in the future. Gulbrandsen believes that one of the first steps is to assess the current state of a firm's readiness by undertaking a granular impact analysis in order to develop a roadmap for change. Read more in the Q&A that follows:

What should every CIO in financial services be thinking about right now?

Gulbrandsen: CIOs in financial services organizations need to simultaneously be focused on three things: first, continued operational efficiency; secondly, pursuing growth opportunities and, finally; assessing the implications of Dodd-Frank. Let me elaborate a bit on each.

Since the crisis, firms have been become proficient at operating more efficiently and doing more with less. From a day-to-day operational perspective, this will continue to allow firms to operate on tight budgets. At the same time, CIOs need to develop well-thought out plans to leverage newer, faster and cheaper technologies, application frameworks and enterprise data management strategies that lay the groundwork for growth. Otherwise, many CIOs will find that they are, or will soon be, the bottleneck that inhibits company growth via delays and missed opportunities. Or they may be putting the firm at risk for inability to comply with new regulations. The stakes are different now, and the objective is no longer to simply keep the lights on.

And while we may still be months away from total clarity about the rules around Dodd-Frank - and the consequences of non-compliance - now is the time to start assessing what lies ahead for your firm. For instance, let's use an example from the derivatives trading world. Federal agencies like the SEC will have oversight of many of the derivatives players and rules have been imposed across all aspects of the trading lifecycle. Changes to the valuation models, methods and inputs are being analyzed for impacts. More minute but sweeping changes to discounting rates used in the OTC market are changing for centralized clearing and all players must utilize these methods to value accurately. Even more profound are the changes to collateral management which will require daily settlement of margin, and can include intra-day valuations for margin calls. Other changes to the process are still being agreed upon by the industry players so this is, by no means, a complete list.

The bottom line is you need to start preparing by positioning your firm for the potential impact of these multiple changes now.

So, how do you conduct that assessment?

Gulbrandsen: From a high level, the answer is simple – conduct an impact analysis on every aspect of your business from a process and technology standpoint. With that said, the scope is broad, the complexity level is high and the effort is large. It essentially means conducting deep dives across the entire organization to develop an accurate picture of the current state and areas of improvement so you can understand what and where to prioritize your efforts. The result is a roadmap aligned with your strategic action plan.

The main focus of the assessment should include transaction and event processing across all products from front to back office, pricing and valuation models/methodologies/assumptions, accounting methods and treatment, reference and market data and, most importantly, your data warehouse and business intelligence architecture. While the reviews are quite granular, they are intended to leave no stone unturned or undocumented.

The challenges, of course, are threefold: taking time out of the day-to-day demands of running a business in a 24/7 world; ensuring that the output is accurate, holistic and actionable; and managing to find the appropriate resources with niche capabilities to provide an accurate portrait of the current state and also suggest appropriate areas of improvement.

What short-term defensive measures should every business take right now, given predicted industry changes and regulations?

Gulbrandsen: As the saying goes, the best offense is a good defense. We are advising our clients in the financial services sector to take a really close look, in particular, at both technology architecture and data quality.

In particular, business intelligence (BI) and data warehousing - given the increasing volume of transactions, the speed that is required and the need for transparency - top the list of concerns. Closely joined at the hip with BI is business and technology architecture. In many cases, firms are continuing to operate with a fragmented architecture and an often disparate footprint of technology solutions across product groups. Excel and Access are part of this problem too as they often form the cornerstone of these technology solutions. While very useful for productivity, Excel and Access are definitely not products you want to rely on for critical path processes or systems, and they need to be managed accordingly.

What about longer-term strategies? What are you telling your clients about where to invest in resources and people?

Gulbrandsen: There is no doubt that compliance with the new regulations will require a great deal more investment in the months to come. However, the firms that go about compliance in a smart manner will ultimately do a better job in positioning for future growth.

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Let me explain. By “smart”, we mean tackling every issue to meet not only compliance standards but to transform how the firm operates. It means prioritizing the changes logically and methodically, based on expected value and risk/issue avoidance. It means questioning each change being made in the name of regulatory compliance to assess whether it will also provide an opportunity to increase efficiency and become more cost-effective. To make these decisions, firms will need to be informed and educated in what they currently have and what needs to change.

On the subject of data, the demand for more data and faster availability will continue to increase with no end in sight. This translates to better data quality, consistency and overall governance by the business, while implementing technology solutions with more computing power than before and optimized solutions, so firms can still compete in this fast changing and opportunity-rich environment while adhering to regulations that are evolving. Decreasing the amount of integration required for the new solutions will dramatically help simplify implementation times and cost. And a streamlined business and technology footprint will allow executive management, along with other internal and external key stakeholders, to gain access to reliable, consistent and timely data for all their needs.

This may, for instance, mean adapting grid or cloud-based technologies and/or other progressive technologies to provide faster computation. Or using more data and moving closer to a real-time environment in all phases of the trading lifecycle without breaking the bank.

No doubt about it – the next few months and years will be challenging for IT on multiple fronts.