

Worldwide Banking - INPUT's First Global Industry Study

The Worldwide Banking Report

For more than 20 years, INPUT has provided a unique view of U.S. vertical markets, with 15 annual reports segmenting the U.S. information services market into as many SIC-defined industry groupings. For the last five years, INPUT has also produced a *Worldwide Market Forecast*, identifying IT and information services spending in more than 30 countries and country groupings (e.g. Central Europe). In 1995, INPUT combined the two methodologies to produce its first worldwide industry report—*Worldwide Banking Information Services*—released in June of this year.

Providing a timely assessment of one of the largest global vertical industries—banking—the study analyzes the information services markets in 18 countries and 5 regions, and offers market projections for the period 1994 through 1999 for seven product/categories—professional services, systems integration, outsourcing, application software products, network services and turnkey systems.

Research for this report includes data gathered from more than 160 banks and 65

vendors regarding the current and projected use of information technology.

Interviews were conducted with banks from the following regions: North America, Europe, Asia/Pacific, Latin America and Middle East/Africa. In addition, interviews with industry experts provided an in-depth assessment of the global banking industry, and helped to identify the issues it faces and significant trends driving worldwide banking activities.

Major Trends and Issues

Other than the expected bank-specific concerns, the trends and issues identified by the banks interviewed fall into two broad categories—those that reflect worldwide concerns and trends, and those that are regional in nature. Exhibit 1, on the next page, summarizes the most significant global trends. Exhibit 2, notes regional trends and concerns.

Expanding bank activities both regionally and globally is the most important trend. Such expansion includes both offices and capabilities and is exemplified by the Bank of

Boston's establishment of trading centers in global locations.

Exhibit 1

Global Trends and Issues

Trend/Issue
Expansion of banks (global and regional)
BPR, cost-reduction
Increasing risk
Electronic banking

Source INPUT

In addition, banks are examining product and service profitability using BPR, and continue to have cost and profitability concerns. Dealing with increased risk is also a concern, and electronic banking is viewed as an important way of improving both customer services and bank profitability.

Exhibit 2

Regional Trends and Issues

Trend/Issue
Shortage of personnel
Unique standards
Lag in use of new technology
Regional or local regulations

Source INPUT

Exhibit 2 demonstrates that regional trends and issues tend (obviously) to be less global in nature. In many areas, such as Latin America and Middle East/Africa, skilled personnel are in short supply. For this reason, in addition to both cost and availability, countries in these areas also tend to lag behind the more advanced nations in the use of technology for banking applications. Banks also indicate that unique standards

appropriate to their banking area, and the effects of regional or local regulations, add another layer of complexity to banking activities.

Banking Applications Interest

Interest in specific banking application areas vary by region. Bank respondents were asked to rate their interest in 16 specific application areas on a scale of 1 to 5, where 5 indicates high and 1 low interest. Exhibit 3 notes the application areas rated 4.0 or higher by banks in three or more regions. They are listed in descending order of interest as demonstrated by the (averaged) ratings.

Exhibit 3

Key Bank Application Areas

Application Area	Rating
Risk management	4.4
Loan systems	4.3
Electronic banking	4.2
Trading/Treasury	4.1

Source INPUT

Risk management had the highest interest level with a rating of 4.4. This is not unexpected, since the determination and evaluation of risk at all levels of banking activity is a fundamental concept of financial management. Areas of risk most commonly noted included credit authorization and monitoring, inter-country currency transactions and the evaluation of derivatives. The public became especially aware of this last risk management category after the much-publicized Orange County scandal, where pension funds and other sensitive holdings were invested in highly-leveraged derivatives and suffered severe setbacks when the derivative values declined.

As the business sophistication of a country grows, so do the demands placed upon its banking systems by both companies and individuals. Nowhere is this more evident than in the growth of electronic banking. Travelers want access to their funds or assets wherever they happen to be—in their home town, their country or anywhere in the world. Businesses are becoming conditioned to the electronic transfer of funds and data, and almost all regard such capability as a requirement in their financial dealings.

Banking Technology

Banks were asked to rate their interest in a series of technologies or technology considerations. Exhibit 4 notes the four issues receiving the highest ratings.

Exhibit 4

Bank Technology Issues

Technology Area	Rating
Timing of introduction of client/server	4.2
Implementation of electronic banking	3.8
Need for BPR prior to projects	3.7

Source INPUT

There is a high level of interest in how quickly the introduction of client/server technology should occur, and, once introduced, how rapidly it should be expanded across banking activities. One limiting factor, as noted earlier, is the shortage of skilled staff to implement the client/server architecture.

Other technology issues include implementation of electronic banking, a global trend, which is dependent upon a number of technologies, and the desire, by many banks, to apply business process reengineering (BPR) techniques to projects before they are started.

Banks note that the use of the Internet for electronic commerce, the growing use of ATMs, and automated telephone centers to provide services for depositors are also areas of interest.

Worldwide Banking Market

The worldwide banking market for information services for 1994 and 1999 is noted in Exhibit 5.

Exhibit 5

Worldwide Banking Market Forecast 1994 and 1999

Year	Market Size in US\$
1994	\$ 27 billion
1999	\$ 48 billion

Source INPUT

The market growth from 1994 to 1999 is at a compound annual rate of 12%, or 1% higher than the 11% growth rate forecast by INPUT for the total worldwide information services market for the same period.

Fastest Growth - The fastest growing product/service categories of worldwide banking information services are outsourcing, systems integration (SI) and network services. Outsourcing offers the benefits of focusing on core banking activities and fixing costs. SI will facilitate both the introduction of new technology and the management of complex technical projects. Network services growth is being driven by needs for on-line financial information and support for electronic commerce and E-mail.

Largest Markets - For the worldwide banking industry, the largest information services product/service markets in 1999 will be outsourcing (\$9 billion U.S.), professional

services (\$11 billion) and processing services (\$11 billion).

Conclusions

Based upon INPUT's survey of both banks and banking information services vendors, the growth in the worldwide market for banking information services is driven by the growth of the global banking industry. As people and businesses become more mobile, and telecommunications and other information technologies shrink distance and reduce time, the banking industry must upgrade to maintain its role as a key facilitator of trade. It also must provide the financial "lubricants" for personal, business and national economic activities.

Vendors can benefit from this growing worldwide banking market by recognizing the opportunities the growth provides, and taking proactive roles in establishing relationships with banks and recommending and participating in the conduct of IT studies and projects. The most successful vendors will be those that possess in-depth technical and banking industry knowledge. They must, however, present their capabilities to the appropriate IS and non-IS decision-makers in well-designed brochures, presentations and key banking forums in order to gain global business.

Banks in all countries must recognize that their customers are conducting more business either regionally or globally, and failure to offer capabilities to support such needs can

limit institution growth. As technology supports an ever-increasing spectrum of banking capabilities, banks must ask themselves if they wish to perform all the information systems functions internally, or whether using information services for some or all needs is a better solution.

If information services are used, validate vendor credentials and experience, consider the advantages of BPR as a prerequisite to major IT changes, and in the words of recent MasterCard ads, "consider the possibilities" offered to banking activities by information technology and information services and products.

Related Reports

In addition to the *Worldwide Banking Information Services* report summarized above, INPUT also has published the following related reports:

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This Research Bulletin is issued as part of INPUT's U.S. Information Services Market Analysis Program. If you have questions or comments on this bulletin, please call your local INPUT organization or Robert L. Goodwin at INPUT, 1881 Landings Drive, Mountain View, CA 94043-0848, (415) 961-3300.

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