

# Managing information effectively: a necessity for retail banking

Business white paper



This HP white paper is designed to share insight and stimulate dialog about the management of information flow and security within the retail banking industry. It is based on the findings of research that HP conducted in cooperation with the Economist Intelligence Unit in June 2010, which included a survey of 332 executives in retail banking (24 percent of respondents), discrete manufacturing (27 percent), healthcare (23 percent), and government/public sector (26 percent). The respondents are heads of their departments or higher; 29 percent are C-level or board-level executives. Geographically, 34 percent hail from North America, 31 percent from Western Europe, and 28 percent from Asia Pacific. All respondents from the retail banking sector work at firms with a minimum of \$25 billion USD in assets; all other respondents work for organizations with annual revenues or budgets of \$500 million USD or more.

HP foreword..... 2  
Managing information effectively: a cross-industry perspective ..... 2  
Retail banks confident in information flow and security management ..... 5  
HP conclusion..... 8

## HP foreword

Since its inception, the Hewlett-Packard Company has been a leading provider of technology solutions to the retail banking market globally. In fact, every year since 2008, HP has ranked as the second-largest enterprise provider of technology to the financial services sector in the *Fintech Enterprise 25*, a ranking that is conducted annually by *American Banker*, *Bank Technology News*, and *IDC Financial Insights*. HP is committed to understanding banks' growth strategies, business initiatives, and regulatory compliance issues. And as an industry leader in hardware, software, services, and consulting, HP continues to differentiate itself as a global source in banking IT.

Toward this end, HP collaborated with the Economist Intelligence Unit to explore how information flow and security affect business drivers and priorities within retail banking, especially in comparison with other industry sectors. In light of new legislation and the pressure for customer and transactional recordkeeping, this research could not have come at a more interesting time. It revealed several vital issues facing the banking industry as it responds to changes in the regulatory environment and in the management of customer interactions. The study's findings were especially revealing in the areas of information flow, security, and compliance within the banking sector. Although the relative importance of these three concerns varied from one geographical region to another, the research showed that all three ranked high worldwide. HP and our innovative technology solutions will continue to be at the forefront in meeting the banking industry's growing information and security needs.

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## Managing information effectively: a cross-industry perspective

Information, an essential asset for organizations, is always difficult to manage effectively—and it is even more so in periods of economic turmoil and transition, when complexity increases and the stakes are higher. For the past decade or more, organizations have been striving to build more open and collaborative relationships with their customers, partners, suppliers, and other stakeholders. When the recession took hold, many such initiatives took a back seat as cost-cutting became first priority.

Now, with the effects of the recession receding, many organizations in developed markets are moving from a focus on costs towards new growth strategies, while some firms in emerging markets are experiencing rapid expansion at home and abroad. Companies in heavily regulated industries such as financial services and healthcare are adapting to constantly changing regulations that affect how their businesses operate. In contrast, the public sector is still feeling the impact of the recession, with governments facing shrunken receipts and greater demands for social services. And nearly every organization, regardless of sector or geography, is adapting to new technologies—such as advanced collaboration tools, mobile communications, and social media—that are changing how people interact and how business is done.

Whether they are renewing growth plans or still dealing with the aftermath of the crisis, organizations can benefit from more efficient and secure use of information, which can help them identify and deal with both opportunities and risks. Our survey results show that executives in retail banking, healthcare, discrete manufacturing, and the public sector are addressing a host of challenges—from organizational to technological, and from regulatory to budgetary—as they assess the long-term impact of the recession

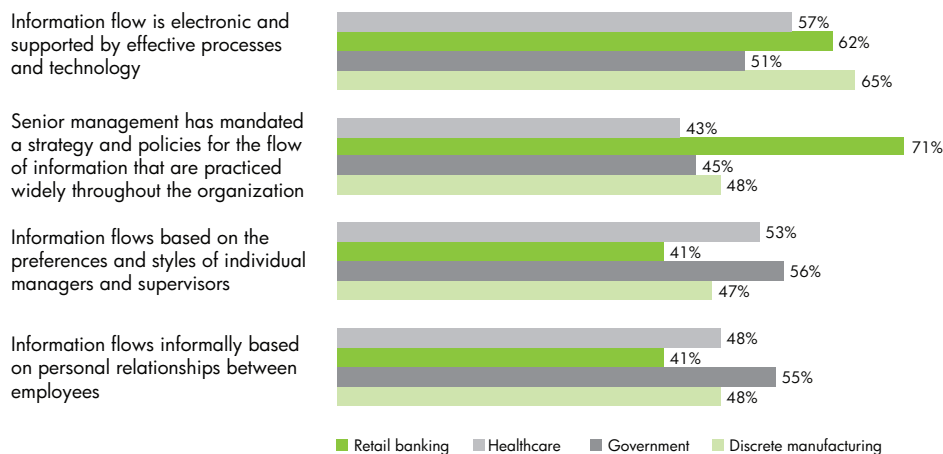
on their markets and businesses. At the same time, they are striving to bridge an apparent gap between the goals of their information strategies and their ability to act on those goals. The survey also shows that while most decision-makers are uncertain about the effectiveness of their information strategies today, they expect to improve how they manage and secure information in the next three years. This report presents the overall key findings, followed by the results for the retail banking sector.

## Complex information flows require review

Survey results show that the flow of information across global organizations with geographically dispersed business units, departments, and functions is growing increasingly complex, incorporating both formal and informal channels. Often, even when senior management mandates formal strategies and policies, and effective processes and technologies support formal flows, it is the personal relationships between employees or the preferences and styles of individual managers and supervisors that still determine what is shared with whom.

### INFORMATION FLOWS WITHIN ORGANIZATIONS ARE COMPLEX

(% of respondents who agree with the following statements about the flow of information across their organization)



Source: Economist Intelligence Unit, June 2010

This finding is not in itself surprising. However, it raises questions about the effectiveness of existing formal strategies and policies, and suggests that organizations should continuously review how they manage information to extract maximum benefit. The growing flood of unstructured information, which is by its nature more difficult to manage formally, also makes periodic reviews and strategic adjustments essential. (In this analysis, unstructured information is defined as information that does not exist inside a data model that can be read and understood by a computer, and that therefore requires human intervention. Examples include email, instant messages, audio files, and paper documents and forms.)

## Lack of an information strategy increases risk

A large majority—80 percent—of respondents say their organization has a strategy for improving the flow of information. Although most are satisfied with their strategies, about 25 percent of organizations that have strategies are changing how they deal with information. These organizations seem especially aware of the need to adapt in response to the improving economic climate and emerging trends in their sectors.

A small but significant minority (13 percent) of respondents have no strategy for improving information flows. There are several possible explanations. These organizations may still be in the grip of the recession, worried more about survival than growth. They may be slow to respond to the opportunities that an improving economy creates. Or they may be latecomers to the now widely accepted notion that more open dissemination and use of information throughout an organization leads to better business outcomes. Regardless of why they lack such a strategy, however, these organizations are at an extreme disadvantage in today's dynamic environment compared with their more information-savvy competitors.

## Information strategies shift focus from efficiency to effectiveness

Organizations that have strategies for improving the flow of information throughout the enterprise today are pursuing greater operational efficiencies, seeking to increase the speed and lower the cost of critical business processes, and improve employee productivity and effectiveness. They can do so through better collaboration and/or the ability to provide employees with the right information at the right time to do their jobs. These organizations are also responding to the need to comply with legal, regulatory, or internal governance standards. In three years, however, collaboration is expected to be the most important driver of information strategies, suggesting a stronger focus on employee effectiveness.

### DRIVERS OF INFORMATION FLOW STRATEGIES CHANGE IN THREE YEARS

<i>(Based on % of respondents who chose up to 3 among 12 drivers)</i>	RANK	
	Today	In 3 years
Need to facilitate collaboration across departments, functions, and geographies	4	1
Employees need the right information at the right time to do their jobs	1	2
Need to increase efficiency and speed of business processes	3	3
Compliance with legal, regulatory, or internal information governance standards	2	4

Source: Economist Intelligence Unit, June 2010

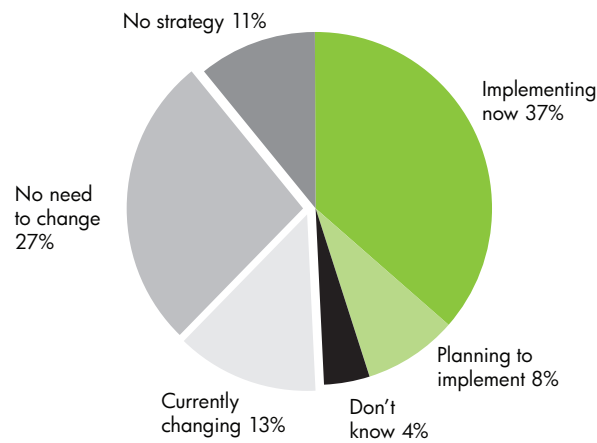
Collaboration becomes even more important as organizations grow and become more geographically dispersed. The adoption of flexible work arrangements—such as telecommuting—creates other challenges, making it more difficult for people to connect informally in the workplace. Yet sharing information across business units, departments, functional areas and geographies is never straightforward. Survey respondents cite organizational silos as one of the three main barriers to effective information strategies—the others being the perennial challenges of cost and aligning technology systems (each chosen by 37 percent of respondents).

## Organizations have more confidence in information security

Respondents generally have more confidence in their information security strategies than in their strategies for improving information flows. Just 13 percent of organizations are changing how they deal with security; 27 percent report that they have no need to do so. The 11 percent that have no information security strategy are exposed to greater risk.

### ORGANIZATIONS CONFIDENT IN THEIR INFORMATION SECURITY STRATEGIES

(% of respondents)



Source: Economist Intelligence Unit, June 2010

While most respondents report having formal strategies, just half say their organization has a single person or department with primary responsibility for information security. This suggests that in most organizations, keeping information secure is the job of individual business units or departments—not a top-down mandate.

A fragmented approach to information security is to be expected in organizations that are subject to regulatory requirements from several different authorities. In other organizations, though, this approach likely inhibits efforts to protect information from security breaches.

An analysis of survey results by sector provides a more nuanced view of how organizations manage information flow and security.

## Retail banks confident in information flow and security management

In the wake of the recent financial crisis, banks have been in the spotlight. Stress tests in both the U.S. and Europe have measured banks' preparedness to deal with adverse conditions. New regulations are being implemented to protect consumers and the global financial system from further disruption. In this environment, we would expect retail banks to re-evaluate their strategies for improving the flow of information across their organizations and ensuring its security. As survey results show, however, that is not the case.

A focus on information management and security is nothing new for retail banks. Historically, regulatory, security, and privacy concerns have caused banks to operate under greater scrutiny than other types of organizations. And because they are transaction-oriented as well as paper-intensive, retail banks have been early adopters of technology to automate their business processes.

In recent years, the challenges of sluggish growth and new sources of competition have spurred banks to develop new strategies for attracting and retaining customers. This strategic shift included a move beyond differentiation based on products and services alone to differentiation on the basis of customer insights and customer service. One result of this shift was multiple new channels and customer interaction points, including online and mobile banking. These required a redesign of processes and workflows—for both core banking and customer interactions—that leverages advanced technologies as well as information strategies to make information more freely available to customer-facing employees.

This focus on new strategies was especially pronounced in developed markets before the recent economic crisis. Although competitive pressures have weakened somewhat during the recession and many retail banks are still focused more on survival than on growth, the challenges remain. These concerns will no doubt return to the top of banks' agendas as the sector stabilizes and as economies pick up.

Retail banks' information strategies should reflect this new environment. Survey results suggest, though, that the sector may not be fully prepared for the challenge.

### Retail banks are confident in their information flow strategies

Survey results show that information flows in the retail banking sector tend to be formal, based on senior management mandates (71%) rather than personal relationships or individuals' preferences and styles (41% each). Moreover, a majority of respondents (62%) are confident in the effectiveness of their information flow strategies.

Retail banks operate in an increasingly dynamic regulatory and competitive environment that demands adjustments. It is worth asking whether respondents' confidence in their respective organizations' information strategies reflects actual preparedness on the part of those organizations—or if it is a sign of complacency that ignores the new environment.

## Efficiency and employee empowerment drive retail banks' information strategies

The top drivers of retail banks' information strategies today are the need to make business processes more efficient (35%) and the need to provide employees with appropriate and timely information (33%). These drivers are expected to remain at the top in three years' time.

More interesting, however, is the next tier of factors that influence information strategies in the retail banking sector. Compliance with legal, regulatory, or internal information governance standards—which ranks a close third today (32%)—retains its rank in three years but loses relative importance (22%). Respondents recognize that compliance is part of doing business in retail banking, but seem confident that they will master the new requirements.

### DRIVERS OF INFORMATION FLOWS IN THE RETAIL BANKING SECTOR

<i>(Based on % of respondents who chose up to 3 among 12 drivers)</i>	RANK	
	Today	In 3 years
Need to increase efficiency and speed of business processes	1	2
Employees need the right information at the right time to do their jobs	2	1
Compliance with legal, regulatory, or internal information governance standards	3	3
Information is a key component of business continuity and disaster recovery	4	9
Need to find information more quickly	7	4

Source: Economist Intelligence Unit, June 2010

The decline in importance of the fourth most important driver—business continuity and disaster recovery—is sharper. The retail banking sector is unique in the survey in considering continuity and recovery an important driver of information strategies today (30%). This emphasis is likely the result of stringent regulatory requirements for retail banks to demonstrate—not just report on—their competency in this area during frequent and comprehensive reviews by regulators. In three years, however, this driver falls to ninth position (15%) in a field of 12 drivers, which suggests that respondents consider continuity and recovery a relatively easy problem to solve through the implementation of appropriate practices and policies.

## Information strategies underpin better service to clients

The focus on efficiency and employee effectiveness will help retail banks achieve better service to customers, which was chosen by 45% of respondents as the single most important benefit of improving the flow of information. (More timely response to changes in the market—chosen by just 29% of respondents—placed a distant second.)

Retail banks seem to be moving from an emphasis on cost-cutting to their pre-recession strategy of business transformation as a path to growth. Empowering employees by giving them the right information at the right time is part of that effort.

## Confidence in information security strategies

Retail banking respondents are even more confident in their strategies for securing information than in those for improving information flow. Of the four sectors surveyed, retail banking is the most confident that these strategies do not need to change (45%).

### RETAIL BANKERS CONFIDENT IN INFORMATION SECURITY STRATEGIES

*Does your organization have a strategy for improving the flow of information across geographies, departments, and lines of business?*

<i>(% respondents)</i>	<b>Retail banking</b>	<b>Manufacturing</b>	<b>Public sector</b>	<b>Healthcare</b>
We are implementing a strategy now	24%	39%	44%	38%
We are planning to implement a strategy within the next year	6%	11%	5%	12%
We are currently changing (or planning to change) our strategy	10%	16%	15%	12%
We do not need to change our strategy	45%	21%	20%	22%
We do not have a strategy	9%	10%	13%	12%
Don't know/Not applicable	6%	2%	4%	5%

Source: Economist Intelligence Unit, June 2010

This optimism reflects sector trends. In recent years, retail banks have tightened security even as they have opened multiple new channels and customer interaction points, including online and mobile banking. Stronger security is helping to counter an increasing number of fraud attempts by financial criminals. Although finding the balance between security and customers' ease of use will always be a challenge, the survey shows that retail banks are confident in their ability to protect information.

## Summary

The retail banking sector recognizes the importance of effective information management to ensure operational efficiency, protect sensitive data, and empower bank employees to serve their customers better. Yet the sector still faces fallout from the financial crisis—and from subsequent changes in regulations. In order to keep pace with these changes and make a successful transition from recession-driven cost-cutting to capitalizing on new growth opportunities, retail bankers must continue to adapt their information management strategies to the new environment.

## HP conclusion

As the global banking industry emerges from the credit and capital crises of the past several years, repercussions continue in the form of weak demand, uncertain economic outlook, and a deluge of new regulation. We at HP see all these forces as a catalyst for innovation—and for exciting new possibilities within the banking industry. Banks will discover new ways to attract and retain profitable customers, and they will identify new sources of income from both new and existing products and services. On the operational side, banks will find ways to offset revenue losses with improved operating efficiencies and to simplify compliance with ever-changing regulations. And finally, banks will improve customer satisfaction and response time as they re-examine customer interaction models, pricing, and high-volume workflows.

HP is already working with top global banks and financial institutions to help chart this new future. As a technology leader and trusted partner, HP has developed specific solutions to help banks enhance their customer service, drive operational excellence, increase profitability, strengthen security, and improve competitive differentiation.

For example, HP Exstream software helps banks streamline the content creation process—integrating data from multiple business silos and running on disparate applications, databases, and hardware platforms—and enhance content publishing with the delivery of personalized and compliant statements, disclosures, and other professional customer communications at any time and through any channel. These capabilities offer endless possibilities for banks that are focused on improving workflows and customer engagement while reducing costs.

In the area of security, HP is a leader in delivering solutions that protect customer privacy and bank information assets as they support regulatory compliance. The HP Access Control solution, for example, protects data in motion, data at rest, and data in use.

Finally, in the area of innovation, HP leads the way with solutions that enable banks to offer greater value and access to services. From the cloud network infrastructure that links applications together to a demand-driven mobile computing environment, HP offers complete, end-to-end solutions for the banking industry.

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