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Banks need a new approach to IT spending

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Investing in technology is a fixed cost for organizations of all sizes, in all sectors. The value that modern information and communication technologies (ICTs) can add to a business, both in terms of generating revenue and reducing costs, is such that virtually all organizations are required to set aside funds to develop and maintain technology systems.

However, the benefits for the customer can sometimes fall down the list of priorities. The leading banks have invested millions in developing IT systems that will allow them to streamline their business processes and target their customers more effectively. A report from Gartner suggests that spending on infrastructure software i.e. internal IT systems will continue to be a priority for businesses, including banks, despite the downturn in the IT sector.

But the question remains – is the ordinary banking customer benefiting from the steadily increasing levels of IT spending. Anecdotal evidence suggests that many customers are still being targeted with the wrong service offering, are not availing of the best options that are available and receiving a poor level of service from their banks.

This is not to say that these unsatisfactory trends are widespread. But the fact that some customers still feel they are receiving poor service, despite the level of investment in banking information systems, should be a cause for concern among senior management in banking circles.

A good example of how banks can mismanage the relationship with their customers is when a bank representative contacts a customer suggesting a range of options totally unsuited to that customer's requirements. The representative might propose a series of investments, unaware that the individual has a low credit balance and is already committed to a mortgage and is not in a position to invest funds.

This kind of scenario, which is by no means uncommon, arises through poor management of existing information. The specific details of an existing customer's situation will be available within a bank's existing database. The problem is that, in many cases, not all of this information is available to customer service representatives i.e. the 'Single Customer View'.

Situations such as these represent a failure by banking management to capitalize on the potential of technology. The main factor contributing to this shortcoming is that the development of IT systems is still not looked at from the customer's perspective. IT managers are often still charged with interpreting the value for customers of new technology systems. This decision should be made by customer-facing representatives of the bank, who can accurately judge the potential benefits of new technology systems for the end user.

The threat that these trends pose to the traditional banks lies in the emergence of what are know as 'mono-line providers' i.e. institutions that provide a single service targeted at banking customers. High profile 'mono-line' providers include Marks & Spencer, Virgin Direct and Intelligent Finance, a subsidiary of the Halifax Group. A good example of the breed is Standard Life, which provides mortgages to customers by telephone and over the Internet.

Companies involved in providing this kind of single, focused service have certain advantages and most importantly, they can benefit from a lower cost of delivery to the customer. In addition, the more limited scale and scope of these organizations mean that they are in a position to develop more intimate and fruitful customer relationships. For this reason, these institutions form a potential threat to the established banks. It is too early to suggest that these companies can fundamentally alter the landscape of the banking sector. But their potential influence on the industry should not be taken lightly.

What is required in banking circles is a new approach, combining two elements. Firstly, there is a need for a move away from the 'telesales' contact with customers, in favour of a 'tele-consulting' relationship, involving greater interaction and consultation with the customer.

The second element, arguably the more complex, involves a greater focus on developing customer relationship management (CRM) systems that can accurately collage all the relevant information on a specific customer, as opposed to isolated data relating to specific elements of the customer's business.

The problem with re-engineering IT systems along these lines is that it costs big money and involves major surgery to existing technology infrastructures. To develop a customer information system for large banks that can instantly provide the necessary data requires the integration of IT systems across all the relevant functions e.g. mortgages, offshore accounts, investments, etc.

For some banks, of course, this would mean dismantling established legacy applications to re-engineer them in line with revised requirements. Although this would represent, at first glance, a step back to take two steps forward with little sign of an immediate return, it is certain that such a move would prove to be of immense benefit in the longer run.

Combined with a greater focus on interacting with the customer on a consultative level, revamped CRM techniques could allow banks to increase the benefits they can bring to their customers and transform themselves into considerably more customer-centric organizations, better equipped to cope with the demands of the 21^{st} century financial services industry.