

Putting numbers on New Year predictions

It's one thing to predict the amazing features technology will introduce to the financial system, but it's another thing to predict how much and to what purpose financial institutions will decide to invest in technology going forward.

To that end, several industry analysts have done some number-crunching since the beginning of the year. It's important to see what the dollars-and-sense (pun intended) people have to say about predictions regarding technology investment. So here's a summary of what three such seers-Celent, Javelin, and Gartner-have said recently:

Celent: North American IT spending growth is rising at a solid clip and is expected to be 4% higher in 2013. Growth will continue to climb in 2014 as IT spending by North American banks reaches \$59.4 billion, a further increase of 4.4%. While 2012 saw a substantial reduction in IT spending growth in the U.S., 2013 will take us to more positive and encouraging territory, according to Celent's new report.

"Banks are still unable to escape the maintenance conundrum, but fortunately the allocation to new investments is on the rise," says Jacob Jegher, senior analyst with Celent's Banking Group. "Most banks are chipping away at a laundry list of enhancements and strategic initiatives that they would like to take on. There is always something to build or improve on in banking technology, and deep pockets are required."

In particular, Celent sees:

- Encouraging comeback in retail banking spending. Banks cannot continue to march forward in retail banking on bare bones budgets. Significant funds are required in order to move forward with self-service initiatives, digital banking projects/overhauls, branch, and multichannel-related endeavors. Retail IT spending growth is progressing nicely at U.S. banks and will continue to do so through 2015. Specifically, spending will grow 4.2% in 2013 to \$30.4 billion.
- Lower growth rates in wholesale spending. Wholesale banking spending will continue to climb, though growth rates will be lower than those of the last few years. The reason is that there are only so many cash and treasury management projects left to move forward in a given year.
- Strong spending in digital channels and payments. Online, mobile, and tablet banking are at the top of the list for many banks as they work on enhancing self-service capabilities. Tablet banking in particular will see strong growth in 2013 as banks work to introduce and beef up offerings. Mobile payments has made it onto the list as well as banks attempt to navigate new and uncharted territory.
- Compliance, regulatory, and security spending continue to rise. Banks are also dedicating significant resources to IT security; fighting off distributed denial of service attacks, new forms of authentication, and mobile security are examples.
- New investment spending creeping up. In an ideal world, spending on new investments and innovation would take up the lion's share of the pie. New investment spending will grow by 5.8%; 2014 is poised to be more exciting as spending grows by 9.4% to \$12.5 billion.
- Maintenance spending still tying up IT budgets. In 2013 North American banks will spend \$42.8 billion on maintaining their systems and operations.

Javelin Strategy & Research: Trends depict a constantly evolving financial services arena, in which tools like mobile and social media are rejuvenating financial services delivery through multiple channels, which are proving to be both an asset and a challenge for financial institutions.

In particular:

- Trust in financial institutions is under assault by a seemingly endless list of players, including Apple, Google, mobile carriers, and scores of others. While financial institutions still have consumer trust on their side, the winners will be defined by who does the best job of developing an intimate financial snapshot of the customers, without crossing the line of being too "creepy."

"It is difficult to rebuild trust once it erodes," says Mark Schwanhauser, director of Multichannel Financial Services at Javelin. "Financial institutions that put themselves in position as proactive, straight-shooting advisers will reap trust and loyalty."

- Consumers already trust their financial information with multiple channels, but the use of these channels and their relevant data is often not interconnected and unified into one integrated, branded experience. An omnichannel experience means that consumers can select any device and any channel and always have a secure, convenient, and

familiar way to transact financially. This does not mean solutions will be identical across all channels, but that consumers' experiences will be harmonious, connected, and consistent.

"To correct current shortcomings, financial institutions will need to change their perception of omnichannel banking as necessary rather than novel", says Mary Monahan, executive vice president and research director, Mobile at Javelin. "Moreover, for financial institutions to increase or even maintain their competitive positions, they need to invest in developing an integrated architecture wherein data and platforms can seamlessly converge while enhancing the quality of the brand experience."

- The mobile world has drawn the interest of hackers, as evidenced by the burgeoning number of malware being detected by security firms. With two out of every three mobile devices left unprotected, these devices will prove to be an attractive new attack vector for the deployment of attacks by hackers to cripple IT infrastructure.

"Financial institutions and other organizations with a vested interest in the security of the mobile channel will be best served through a partnership with security vendors with the goal of increased adoption of mobile security software," says Al Pascual, industry analyst of Security, Risk, and Fraud at Javelin. "Deputizing consumers through education on mobile security threats and encouraging use of anti-malware, firewall protection and other security solutions will have far-reaching benefits."

And back to the bigger picture, this from Gartner Inc.: Worldwide IT spending is projected to total \$3.7 trillion in 2013, a 4.2% increase from 2012 spending of \$3.6 trillion, according to the latest forecast. The 2013 outlook for IT spending growth in U.S. dollars has been revised upward from 3.8% in the third-quarter 2012 forecast.

Gartner analysts say much of this spending increase is the result from projected gains in the value of foreign currencies versus the dollar. When measured in constant dollars, 2013 spending growth is forecast to be 3.9%.

"Uncertainties surrounding prospects for an upturn in global economic growth are the major retardants to IT growth," says Richard Gordon, managing vice president at Gartner. "This uncertainty has caused the pessimistic business and consumer sentiment throughout the world. However, much of this uncertainty is nearing resolution, and as it does, we look for accelerated spending growth in 2013 compared to 2012."

So....

Look for a 4% or so increase in IT spending; a focus on issues relating to channels, trust, innovation, and retail; and most surprising of all-the nearing resolution of past uncertainty. Probably this last prediction would be the most welcome.

Sources used in this article include:

Gartner Says Worldwide IT Spending Forecast to Reach \$3.7 Trillion in 2013

IT Spending in Banking: A North American Perspective

Financial Services Analyst Firm Announces Top Ten Trends in Banking, Payments, Mobile and Security for 2013

About the Author John Ginovsky is contributing editor of ABA Banking Journal and e TechTopics e-newsletter. For more than two decades he has written about the commercial banking industry. In particular, he's specialized in the technological side of banking and how it relates to the actual business of banking. He previously was senior editor for Community Banker magazine (which merged with ABA Banking Journal) and was a staff writer for ABA's Bankers News. You can email him at jginovsky@sbpub.com