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Big banks need to know what to monitor to head off the challengers

The UK banking sector continues to undergo considerable upheaval, seven years on from the financial crisis.

Having survived that trauma, the Big Five banks – Barclays, HSBC, Lloyds, Royal Bank of Scotland (RBS) and Santander – now find themselves facing substantial competition from a new breed of bank set up in the wake of the financial crisis when established institutions were cutting back on lending.

Their growing presence is reflected in a report this year from consultants KPMG which suggests the challenger banking sector is outperforming bigger players in terms of growth and average return on equity. Despite their smaller size, they also have similar cost-to-income ratios.

Dave Lewis, Director, Alpha Insight

Besides these new competitors, the big banks now also have to meet the demands of increased regulation and the legacy of operating with complex IT systems which were added to over time and inherited through acquisition. Where once they spent huge sums on IT, the established institutions now reside in a world where cost constraints are much tighter, but technology is nonetheless fast developing.

And although the KPMG report says they still have the technological edge on their smaller rivals, particularly in mobile banking, they would be wrong to rest on their laurels. The digital space is undoubtedly going to be one of the battlegrounds for all banks, as more customers move online and expect sophisticated mobile services. To meet these expectations, organisations will become more technology-driven, serving customers through an electronic interface that carries with it the promise of delivery.

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At the same time, the larger banks must fulfil the increasingly exacting requirements of regulators in different international jurisdictions as well as complying with the looming deadlines of increased Basel regulation, coming into force in January 2016.

Increased vulnerability

The challenge for a bank with both investment and retail arms is substantial, given the large cost of running inherited IT systems and of adapting them to the new regulatory world order. Institutions that have achieved great economies of scale globally are now faced with ever more complex national regulations.

Over a period of years, the declining ability of these organisations to get a grip on their processes has left them vulnerable to sudden failures. While their younger rivals have much simpler systems dealing with fewer products, larger institutions often have bewilderingly complex and very expensive IT systems, with little end-to-end transparency that is in any way useful to the business. This is made all the worse by constant out-sourcing for different functions.

If we consider the recent failures of major UK banks to complete payments, we can see the scale of the problem. Institutions do mostly run sophisticated IT monitoring systems but their silo-ed nature often means it is simply not possible to see the wood for the trees.

They may have elaborate dashboards but, without the benefit of integrated business intelligence, they are not maximising the return on investment. Alerts may be triggered, but the relevance to critical business operations may be missed.

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Back to basics

If large, complex banks are going to head off their younger rivals while meeting increased compliance requirements, they must return to first principles and ask what their systems are supposed to do for clients and how that is to be measured.

It is a question of deciding what is really important from among the millions of potential metrics – of applying the correct business logic. All banks have monitoring tools, but many fail to have a real-time view of what is really critical, which would enable them to intervene before processes collapse and result in financial, regulatory and reputational disaster.

In simple terms, the bank monitors what matters, taking conventional end-to-end flow monitoring and boosting its value many times by applying its own business logic to put key metrics in context.

Such a solution tells the user at a glance which of their critical processes is working well and what they should be worrying about. It can be implemented as an add-on on top of existing monitoring solutions, without the need to overhaul an entire IT estate.

If a bank has this end-to-end view of its processes and fully understands how they interlink and function, it can make better choices, intervening in the right place at the right time and showing greater transparency to a regulator. It can also keep customers and partner institutions happy by proactively alerting them to any problems with their processes.

In an age when all banks are seeking to become truly digital organisations, none of them can afford to turn a blind eye to the advanced flow monitoring solutions that exist to reduce the risks of catastrophic failure while saving valuable man-hours.