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FIN TECH 100



The annual ranking
of vendors to the
financial services industry
November 2006



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Oracle, which holds steady this year at No. 15 on the Enterprise list, wants to boost its banking technology business. But can the software giant find a home in an already crowded market? By Bill Stoneman. *Page 16*

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Overview

■ BY DAVID LONGOBARDI AND MICHON SCHENCK

In banking and financial services today, conventional wisdom holds that strategy trumps growth. Or maybe it's better to say (because growth is always in style) that smart growth trumps raw growth.

How a once-omnivorous cadre of institutions became so choosy about the businesses they're in is not complicated. The operational risk and regulatory shadows of the past five years still loom, and a host of nonbank and nonfinancial competitors seem always to be taunting traditional players with the question: "Do you *really* want to compete in this space?"

Meanwhile, though it shows confidence in parts, the economy refuses to let its cloak of uncertainty drop. The upshot is that when a banking company finds itself at the threshold of something new these days, it thinks hard before taking the next step.

What does all of this have to do with FinTech? In our opinion, plenty.

More than ever before, technology defines the barriers to entry — and the barriers to growth — in financial services. A simple list tells the story. Risk management. Cost management. Retail cross-marketing. Corporate client retention. Direct banking. Reaching wealthy clients. Reaching underserved markets. Privacy and security. Optimizing the payments supply chain. All priorities. All unthinkable without superior systems.

As a result — whether they target large companies (like **JPMorgan Chase & Co.**, whose application of grid computing we explore on page 12) or small ones (turn to page 30 for an update on community banks' buying power) — providers of financial technology increasingly need both expertise and scale.

With that in mind... welcome to the third annual *American Banker*/Financial Insights FinTech 100 special report.

WHAT'S NEW

The biggest change this year is the 26 new companies in the FinTech 100. This substantial increase had two causes: One was the overseas outreach effort we initiated to ensure the rosters are truly global. But more significant was growth in share of "countable" revenue by individual companies. (For a detailed discussion of the survey's methodology, turn to page 11.)

As a result of such growth, two firms migrated from the Top 25 Enterprise Companies in FinTech into the FinTech 100. **CA Inc.** (formerly Computer Associates International) and **Tata Consultancy Services Ltd.** made the jump when their revenue percentages passed the FinTech 100's 33% threshold. (In addition, this year for the first time a former FinTech 100 company, **Getronics NV**, moved into the Enterprise 25,

because its percentage slipped below that mark, at 30%.)

Tata's arrival on the list is noteworthy — offshore outsourcing by financial firms is expected to increase significantly in the next few years. At the same time, the major providers in this space, including Tata, are expanding the range of services they provide. In an article on page 26, Jeremy Quittner offers a progress report on outsourcing in financial services.

Experian Information Solutions Inc. and **Equifax Inc.** made their FinTech 100 debuts, too. The firms are best known for services excluded by our methodology, but our research team, led by Financial Insights' Jeanne Capachin, revised their estimates of how much software and systems the two parties sell. They take the No. 21 and No. 26 slots, respectively.

Among the top five players, though the order has changed, the names remain the same. Once again, **Fidelity National Information Services Inc.** is the big story. It leapfrogged over **Sungard Data Systems Inc.** this year to take the No. 2 slot, behind **Fiserv Inc.**

Fiserv remains the king of the hill even though some observers had pegged this as the year it would tumble. Not so. It still holds an impressive margin over Fidelity, \$309 million, in revenue attributable to financial services, though the percentage of Fiserv's revenue from that sector fell to 75%, from 85% last year. This kind of change is extremely significant and roughly equivalent in dollar terms to the attributed revenue of the No. 39 company, **ACI Worldwide**, a unit of Transaction Systems Architects Inc.

It's worth noting that three of the top five's attributable percentages slipped, though none fell as dramatically as Fiserv's. This may indicate that once a firm reaches these levels, diversity matters more, because it becomes harder to register meaningful growth in financial services.

Among the top 10 companies, two changes stand out. First, **Total System Services Inc.** (a firm majority owned by Synovus Financial Corp.) cracked the top 10 for the first time, moving up two spots, to No. 9. Second, **Unisys Corp.** jumped one spot, to No. 6.

Elsewhere on the list, online banking system providers as a group made a bleak showing. Financial Fusion Inc., a subsidiary of Sybase Inc., fell off the FinTech 100. And the mighty **S1 Corp.** — first in the market for a long time and by a wide margin — fell 13 spots, to No. 48, dropping behind **Digital Insight Corp.** (No. 46), whose standing was helped by its acquisition of Magnet Communications Inc. In the end, Digital Insight dropped seven rungs, **Online Resources Corp.** (No. 82), fell eight, and **Corillian Corp.** (No. 88), dropped 19.

At a time when online banking is booming among institutions, the falloff among these specialty players suggests suc-

cess on the part of the larger FinTech companies that have added online-banking product lines.

Finally, **RiskMetrics Group Inc.** takes the honor for most improved this year, climbing 14 spots, to No. 70.

ENTERPRISE DOCKED?

We did not see as many dramatic shifts in the Enterprise 25 (companies with less than a third of revenue derived from financial services). **International Business Machines Corp.** still owns the No. 1 spot, with a very sizable lead over its biggest rival, **Hewlett-Packard Co.**, which remains at No. 2. However, where last year's gap between the two behemoths was more than \$23 billion, this year it is \$15.6 billion. Viewed another way, HP's attributable percentage increased from 8% to 9%, and IBM's decreased from 30% to 26%.

Though this trend may favor HP, to beat IBM it would have to add revenue comparable to acquiring both the No. 3 and No. 4 companies, **Dell Inc.** and **Hitachi Ltd.** Given HP's recent difficulties as of press time, we do not see that as a particularly likely scenario.

Oracle Corp. stayed put at No. 15; *American Banker* contributor Bill Stoneman takes a close look at that company's financial services strategy on page 16.

There are some newcomers as well this year, including **LogicaCMG** (No. 20) and **Wipro Technologies** (No. 22). Though we had been tracking these firms in prior years, they did not have sufficient revenue to make it into the Enterprise rankings in the last two years.

Intel Corp. not only made the list for the first time, but made it into the top 10. Our researchers struggled to evaluate what is countable for Intel. In the end, with an assist from their colleagues at IDC (a specialist in high-tech market-share analysis), the Financial Insights research team had sufficient confidence to rank the semiconductor maker.

Overall, services seem to be one of the major contributors, if not the primary business line, for most of this year's new entrants and fast risers. The days when a firm could build a big reputation as a pure-play software or hardware provider are gone.

We also note again that those with the foresight, the capital, and will to consolidate will succeed. Though the Street has become wary of rewarding growth through acquisitions, in FinTech it appears to be one of the most critical success factors over the long term. Fidelity, Fiserv, Sungard, and **Reuters Group PLC** are all consolidators. Fidelity has ridden the consolidation horse from No. 11 in 2004 all the way to No. 2, and it may go farther than that next year.

Ms. Schenck is the chief operating officer of Financial Insights, an IDC company. Mr. Longobardi is the editor in chief of American Banker.



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Top 100 Companies in FinTech

Rank '06	Rank '05	Company	Location	Ownership	Total (millions)	Revenue (CY '05)	
						Financial Services (millions)	% of total
1	1	Fiserv	Brookfield, Wis.	public	\$4,100	\$3,075	75%
2	3	Fidelity National Information Services	Jacksonville, Fla.	public	2,766	2,766	100
3	2	Sungard	Wayne, Pa.	private	4,002	2,721	68
4	4	NCR	Dayton, Ohio	public	6,028	2,291	38
5	5	First Data	Greenwood Village, Colo.	public	4,419	1,901	43
6	7	Unisys	Blue Bell, Pa.	public	5,759	1,900	33
7	8	Diebold	North Canton, Ohio	public	2,587	1,811	70
8	6	Reuters	London	public	4,144	1,575	38
9	11	Total System Services	Columbus, Ga.	public	1,603	1,443	90
10	9	DST Systems	Kansas City, Mo.	public	2,515	1,333	53
11	17*	CA (Computer Associates)	Islandia, N.Y.	public	3,739	1,309	35
12	15	Metavante	Milwaukee, Wis.	public	1,285	1,285	100
13	21*	Tata Consultancy Services (TCS)	Mumbai	public	2,709	1,101	41
14	12	Misys	Evesham, U.K.	public	1,652	1,074	65
15	13	Bisys	New York	public	1,063	1,063	100
16	14	CGI Group	Montreal	public	3,045	1,035	34
17	18	Computershare	Abbotsford, Australia	public	1,056	950	90
18	28	Infosys Technologies	Bangalore, India	public	2,015	725	36
19	20	CheckFree	Norcross, Ga.	public	826	702	85
20	22	SAS	Cary, N.C.	private	1,680	655	39
21	-	Experian	Costa Mesa, Calif.	private	1,182	650	55
22	21	Certegy	St. Petersburg, Fla.	public	1,117	637	57
23	30	TransFirst Holdings	Dallas	private	602	602	100
24	24	Fair Isaac	Minneapolis	public	808	599	74
25	25	Jack Henry	Monett, Mo.	public	560	560	100

Note: All rankings are based on Financial Insights' revenue estimates. Companies that derive at least one-third of eligible revenue from the financial services industry comprise the FinTech 100 ranking. * Rank in 2005 Top 25 Enterprise Companies in FinTech. American Banker/Financial Insights FinTech 100 (2006)

Top 100 Companies in FinTech

Rank '06	Rank '05	Company	Location	Ownership	Total (millions)	Revenue (CY '05)	
						Financial Services (millions)	% of total
26	-	Equifax	Atlanta	public	\$1,443	\$505	35%
27	29	Acxiom	Little Rock	public	1,311	498	38
28	23	eFunds	Scottsdale, Ariz.	public	502	452	90
29	26	ChoicePoint	Alpharetta, Ga.	public	1,100	451	41
30	-	Cognizant	Teaneck, N.J.	public	886	441	50
31	-	Ingenico	Puteaux, France	public	546	437	80
32	-	EDB Business Partner Norge	Oslo	public	776	427	55
33	42	OMX Group	Stockholm	public	420	420	100
34	16	J.H. Harland	Decatur, Ga.	public	367	367	100
35	31	Oberthur Card Systems	Nanterre, France	public	626	357	57
36	32	IPC Information Systems	New York	private	343	326	95
37	-	Keane	Boston	public	956	316	33
38	40	i-flex	Mumbai	public	312	312	100
39	37	ACI Worldwide (TSA)	Omaha	public	285	285	100
40	17	SEI Investments	Oaks, Pa.	public	281	278	99
41	-	Itautec	Sao Paulo	public	694	278	40
42	38	Harland Financial Solutions (J.H. Harland)	Lake Mary, Fla.	public	257	257	100
43	34	Hyperion Solutions	Sunnyvale, Calif.	public	702	246	35
44	36	GL Trade	Paris	public	224	224	100
45	-	COMSYS	Houston	private	662	221	33
46	39	Digital Insight	Calabasas, Calif.	public	214	214	100
47	41	Kanbay International	Rosemont, Ill	public	231	207	90
48	35	S1	Atlanta	public	204	204	100
49	33	Hypercom	Phoenix	public	245	202	82
50	43	Patni Computer Systems	Mumbai	public	450	197	44

Note: All rankings are based on Financial Insights' revenue estimates. Companies that derive at least one-third of eligible revenue from the financial services industry comprise the FinTech 100 ranking.

American Banker/Financial Insights FinTech 100 (2006)

Top 100 Companies in FinTech

Rank '06	Rank '05	Company	Location	Ownership	Total (millions)	Revenue (CY '05)	
						Financial Services (millions)	% of total
51	52	Open Solutions	Glastonbury, Conn.	public	\$194	\$194	100%
52	27	Wolters Kluwer Financial Services	St. Cloud, Minn.	public	170	170	100
53	44	Temenos Group	Geneva	public	169	169	100
54	46	Advent Software	San Francisco	public	162	162	100
55	57	SS&C Technologies	Windsor, Conn.	public	162	162	100
56	45	Murex	Paris	private	150	150	100
57	48	Linedata Services	Rueil-Malmaison, France	public	149	149	100
58	-	CPM	Sao Paulo	private	232	137	59
59	51	RoyalBlue Group	Surrey, U.K.	public	135	135	100
60	-	Mphasis	New York	public	197	134	68
61	47	Moody's KMV (Moody's)	San Francisco	public	133	133	100
62	-	Politec Philco	Sao Paulo	private	189	132	70
63	54	SimCorp	Copenhagen	public	128	121	95
64	50	Carreker	Dallas	public	117	117	100
65	-	Viewpointe Archive Services	New York	private	100	100	100
66	-	Bottomline Technologies	Portsmouth, N.H.	public	102	97	45
67	53	Stratus Technologies	Maynard, Mass.	private	238	95	40
68	-	Wausau	Mosinee, Wis.	private	107	93	87
69	76	Investment Technology Group	Boston	private	90	90	100
70	84	RiskMetrics Group	New York	private	100	90	90
71	-	DealerTrack Holdings	Lake Success, N.Y.	public	120	84	70
72	64	Charles River Development	Burlington, Mass.	private	79	79	100
73	63	FundTech	Ramat-Gan, Israel	public	75	75	100
74	60	Algorithmics (Fitch Group)	Toronto	public	80	72	90
75	59	Chordiant Software	Cupertino, Calif.	public	84	71	85

Note: All rankings are based on Financial Insights' revenue estimates. Companies that derive at least one-third of eligible revenue from the financial services industry comprise the FinTech 100 ranking.

American Banker/Financial Insights FinTech 100 (2006)

Top 100 Companies in FinTech

Rank '06	Rank '05			Ownership	Total (millions)	Revenue (CY '05)	
						Financial Services (millions)	% of total
76	67	CoreLogic	Sacramento	private	\$71	\$71	100%
77	-	Interactive Data	Bedford, Mass.	public	543	69	100
78	-	Odyssey Asset Management	Prilly, Switzerland	private	66	66	100
79	62	Pegasystems	Cambridge, Mass.	public	102	64	63
80	61	Eagle Investment Systems (Mellon)	West Hartford, Conn.	public	62	62	100
81	66	Actuate	San Francisco	public	106	62	58
82	74	Online Resources	Chantilly, Va.	public	61	61	100
83	71	Wall Street Systems	New York	private	60	60	100
84	73	Automated Financial Systems	Exton, Pa.	private	57	57	100
85	70	GoldenSource	New York	private	55	55	100
86	-	SunTec Business Solutions	Trivandrum, India	private	73	53	73
87	72	Princeton Financial Systems	N.J.	private	51	51	100
88	69	Corillian	Hillsboro, Ore.	public	49	49	100
89	-	IntraLinks	New York	private	55	48	88
90	96	Calypto Technology	San Francisco	private	48	48	100
91	78	COCC	Avon, Conn.	private	47	47	100
92	92	Vasco Data Security	Oakbrook Terrace, Ill.	public	55	47	86
93	-	Sophis	Paris	private	45	45	100
94	-	BondDesk Group	Mill Valley, Calif.	private	42	42	100
95	-	Source Technologies	Charlotte	private	60	42	70
96	77	Fincentric	Richmond, British Columbia	private	40	40	100
97	80	Argo Data Resource	Dallas	private	39	39	100
98	79	Capital Markets	New York	private	39	39	100
99	-	Goldleaf Financial Solutions	Brentwood, Tenn.	public	38	38	100
100	-	ORC Software	Sydney	public	37	37	100

Note: All rankings are based on Financial Insights' revenue estimates. Companies that derive at least one-third of eligible revenue from the financial services industry comprise the FinTech 100 ranking.

American Banker/Financial Insights FinTech 100 (2006)

Top 25 Enterprise Companies in FinTech

Rank '06	Rank '05	Company	Location	Ownership	Total (millions)	Revenue (CY '05)	
						Financial Services (millions)	% of total
1	1	International Business Machines	Armonk, N.Y.	public	\$91,134	\$23,695	26%
2	2	Hewlett-Packard	Palo Alto, Calif.	public	87,600	8,060	9
3	3	Dell	Round Rock, Tex.	public	54,758	7,667	14
4	5	Hitachi	Tokyo	public	78,854	7,097	9
5	6	Electronic Data Systems	Plano, Tex.	public	19,800	4,554	23
6	4	Fujitsu	Tokyo	public	40,900	3,681	9
7	7	Cisco Systems	San Jose	public	25,758	3,555	14
8	-	Intel	Santa Clara, Calif.	public	38,826	3,494	9
9	8	Microsoft	Redmond, Wash.	public	36,835	2,947	8
10	9	Accenture	New York	public	16,900	2,873	17
11	10	Sun Microsystems	Santa Clara, Calif.	public	11,613	2,439	21
12	11	Computer Sciences	El Segundo, Calif.	public	14,600	2,336	16
13	12	EMC	Hopkinton, Mass.	public	9,660	2,125	22
14	16	Siemens Business Services (Siemens Comm. Group)	Munich	public	9,818	1,571	16
15	15	Oracle	Redwood Shores, Calif.	public	13,061	1,567	12
16	14	ATOS Origin	Paris	public	6,824	1,297	19
17	13	Capgemini	Paris	public	8,843	1,238	14
18	10*	Getronics	Amsterdam	public	3,169	935	30
19	19	SAP	Walldorf, Germany	public	10,083	706	7
20	-	LogicaCMG	London	public	3,335	537	16
21	22	BearingPoint	McLean, Va.	public	3,545	525	15
22	-	Wipro Technologies	Bangalore, India	public	2,041	500	25
23	24	Gemalto	Luxembourg	public	2,200	462	21
24	18	Affiliated Computer Services	Dallas	public	4,930	444	9
25	25	Convergys	Cincinnati	public	2,582	362	14

Note: All rankings are based on Financial Insights' revenue estimates. Firms in the FinTech 25 ranking derive less than one-third of eligible revenue from sales to the financial services industry. * Rank in 2005 Top 100 Companies in FinTech
American Banker/Financial Insights Top Enterprise Companies in FinTech (2006)

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Banking Top 10

Banking Rank		FinTech 100 rank
1	Fidelity National Information Services	2
2	Fiserv	1
3	NCR	4
4	First Data	5
5	Diebold	7
6	Unisys	6
7	Total System Services	9
8	Metavante	12
9	Misys	14
10	CA (Computer Associates)	11

Capital Markets Top 10

Capital Markets Rank		FinTech 100 rank
1	Sungard	3
2	Reuters	8
3	DST Systems	10
4	Computershare	17
5	OMX Group	33
6	IPC Information Systems	36
7	Tata Consultancy Services	13
8	SEI Investments	40
9	Misys	14
10	CA (Computer Associates)	11

Insurance Top 10

Insurance Rank		FinTech 100 rank
1	CGI Group	16
2	CA (Computer Associates)	11
3	ChoicePoint	29
4	Fiserv	1
5	Tata Consultancy Services	13
6	Unisys	6
7	Acxiom	27
8	Infosys Technologies	18
9	SAS	20
10	Patni Computer Systems	50

Note: Companies that derive at least one-third of eligible revenue from the financial services industry are ranked by sales into each industry segment. All rankings are based on Financial Insights' revenue estimates. *American Banker*/Financial Insights FinTech 100 (2006)

Sector Rankings and 'Local' Growth Drivers

■ JEANNE CAPACHIN AND DAVID COX

This year's report includes a new ranking of the top 10 technology providers to the banking industry. These are the FinTech 100 companies that derived the highest revenue from banks.

In addition, Financial Insights and *American Banker* developed rankings for the top 10 technology providers to the insurance and capital markets industries. (See tables at left.)

The financial results of the top 10 bank technology providers reflect many of the overall trends in banking and technology: strong retail banking performance, especially in the mortgage and cards businesses; higher spending on security, because of increased fraud and regulatory concerns; more enterprise infrastructure investment; and a growing emphasis on risk management.

Some firms in the banking top 10, mainly transaction and information processors, are posting strong revenue growth, largely through a combination of organic growth and acquisitions. Those that have fared less well, mostly traditional hardware and software providers, are in the midst of a course change as they try to adapt to an industry that has developed more of an appetite for services and solutions.

Though revenue for the top 10 increased 20% from 2001 to 2005, the share price for some of these firms has led Wall Street to view them with a jaundiced eye.

Though they benefit from the

generally more gentle business cycles of their clients and the predictable revenue stream from serving the banking industry, they are also feeling the disdain that equity analysts have for companies that have grown through acquisitions. Analysts also are concerned about the executive and structural changes under way at some of the firms.

strong stories to tell. Processing companies in particular have performed well, especially those as diversified as Fidelity National, which has a strong market share and offers a broad range of services. Acquisitions have boosted its results as well — most notably the February acquisition of **Certegy Inc.**, which is strong in the payments business.

Revenue for the top 10 banking providers increased 20% from 2001 to 2005.

For example, in the past few years there have been new chief executive officers at **NCR Corp.** (No. 3 among bank technology providers), **Diebold Inc.** (No. 5), and **Fiserv Inc.** (No. 2).

Meanwhile, **Fidelity National Information Services Inc.** (No. 1), **Metavante Corp.** (No. 8), **First Data Corp.** (No. 4), and Fiserv have made some significant acquisitions. There have been major restructurings at the automated teller machine manufacturers Diebold and NCR. First Data spun off Western Union Financial Services Inc. And the software manufacturers **CA (Computer Associates)** (No. 10) and **Misys PLC** (No. 9) are looking for their next acts. As their growth has slowed, both firms have been examining their strategies in the financial services market.

Fiserv, Fidelity National, Metavante, First Data, and **Total System Services Inc.** (No. 7), have

Also increasing Fidelity National's revenue this year was the July acquisition of Proservvi a Brazilian business process outsourcing company.

Fiserv's story is based on sustained growth; revenue has doubled since 2001 through both organic growth and acquisitions. The acquisition of CareGain Inc., which provides plan administration services to health care companies and financial institutions, positions Fiserv, like Metavante, to profit from the growing trend toward consumer managed healthcare.

Jeffery Yabuki, Fiserv's new CEO, promises to continue his predecessor's work of investing in strong growth areas across its core businesses, and he is challenged with developing the second act for this market-leading firm.

Metavante, a unit of **Marshall & Ilsley Corp.**, also has doubled

Methodology

Financial Insights and *American Banker* relied on a number of sources to gather the data used in this survey.

First, we sent questionnaires to over 40,000 of our contacts at technology companies; more than 400 responded.

Next, several publicly available resources, as well as company filings and Web sites, were searched to validate data submitted, as well as to provide alternative sources when necessary. Financial Insights also used its own research and databases, as well as those of its parent, IDC.

Many companies in the rankings are privately held or could not provide the financial data required. For them, Financial Insights relied on its analysts to estimate the revenue derived from financial services. In those instances where publicly reported revenue included extraordinary items, the revenue used for the FinTech rankings may differ from publicly reported data.

Two categories of companies were ranked:

- The FinTech 100 includes vendors that derive more

than a third of their revenue from the financial services industry. (See page 4.)

- The top 25 enterprise companies in FinTech are horizontal technology firms that sell products and provide support services across multiple industries. (See page 8.)

This year we developed new rankings: the top 10 companies in banking, insurance, and capital markets. These are FinTech 100 companies that derive the most qualifying revenue from each of these sectors. (See page 10.)

In all rankings, revenue from network, telecommunications, electronic exchange, and data service providers was not counted, because these business lines are not application technologies essential to running financial companies.

Some companies that might have been excluded as market data providers or credit bureaus (such as Reuters and First Data) had a significant component of revenue tied to software, hardware, or services that normally would be counted in these rankings. They were therefore included, but only that portion of their revenue was counted.

Units of companies were included as stand-alone entities only if they are legally independent subsidiaries.

When these are listed, only the revenue that could be attributed to the subsidiary was reported. (The parent company may also be ranked, with the total value of its financial services revenue — including the subsidiary's — used to calculate its ranking.)

Financial Insights and *American Banker* made a concerted effort to include all possible candidates for the rankings.

Some companies may have been excluded because of insufficient revenue from financial services or insufficient revenue in the appropriate category, or because we could not validate their revenue data.

For this survey, we changed the methodology to base all revenue on the same time period: the 2005 calendar year. For companies reporting revenue in foreign currencies, we calculated U.S. dollar figures using IDC's standard blended exchange rate based on the 2005 calendar year.

its revenue in the past five years. Last year it made six acquisitions that significantly broadened its banking and payment product offerings. With the 2004 purchase of Kirchman Corp., Metavante gained 1,000 banking clients in the United States, the Czech

As it divests Western Union, the processor is restructuring to focus on its core competencies.

TSYS, meanwhile, is projecting its 23rd year of growth as a credit card processor. The biggest risk for this firm, mostly owned by **Synovus Financial**

loss was offset by increased business with **JPMorgan Chase & Co.** and a new relationship with **Capital One Financial Corp.**

The firms facing the biggest challenges are those with a legacy as hardware and software

efficiencies while making progress in emerging markets, especially China. It is betting on continued trends toward self-service banking globally and outsourced services in the ATM market.

NCR, which has cut costs dramatically, posted sharp profit growth last year, particularly in its Teradata data warehousing subsidiary.

Unisys, hit by falling demand for its hardware and a huge hit to its pension fund, is banking on improved performance through its outsourcing and enterprise-wide security services.

Misys reported a positive year in the banking business last year, and CA, still trading at 52% of its 2000 revenue levels, is hoping to eliminate “accidental archi-

ture” in banking through its focus on enterprise information technology management.

This year we expect some softening in transaction processing volume, a shift in demand toward horizontal service-oriented architecture vendors, and a significant opportunity for vertical players in fraud management and compliance as banks move forward with Basel II. As this happens, banks will continue to upgrade their risk management programs and transition more toward “fair-value” accounting and finance transformation (the integration of accounting, risk, and operations management at an enterprise-wide level).

Ms. Capachin is vice president of global banking research and Mr. Cox is chief research officer at Financial Insights.

Forseeing significant opportunity for vertical players in fraud management and compliance as banks move forward with Basel II.

Republic, and the Philippines. Just as importantly, it now offers more sourcing choice with its hosted environment.

First Data is well positioned with its transaction processing to take advantage of the growth of international card markets.

Corp., is further consolidation in the banking industry, particularly with the heavy concentration that has developed in cards. This was highlighted by switches by **Citigroup Inc.** and **Bank of America Corp.** from TSYS to internal systems. This

providers, notably NCR, **Unisys Corp.** (No. 6), Diebold, Misys, and CA.

Under its new CEO, Thomas Swidarski, Diebold has implemented a restructuring program and is concentrating on improving its manufacturing

JPM Chase Reaping the Benefits of Grid

■ BY CHRIS COSTANZO

JPMorgan Chase & Co. became one of the first major financial services companies to take grid computing seriously three years ago, when its investment bank installed a single-purpose grid with an eye toward expanding it to support all applications.

Today the New York company is one of a handful of global banking institutions using grids to lower information technology costs and improve performance.

Grids tackle big computing problems — like the ones investment banks deal with every day in calculating risk or performing simulations — by splitting up the work and farming out the pieces to a number of available computers.

JPMorgan Chase executives say they realized the effectiveness of this approach in light of rising costs in its risk management operations, which were requiring a lot of computing power. Envisioning a far-reaching resource, the investment bank initiated its Compute Backbone project in 2003.

Michael J. Ashworth, a managing director in the investment bank, said the grid, now used by all its 15 business units, saves the company millions of dollars a year in hardware and labor costs. "It's a true utility."

Executives also say the grid is extremely stable and reliable and has practically unlimited potential for growth.

"The grid can be as big as it needs to be," said Adrian Kunzle, also a managing director. "Before, we were always constrained on one level or another."



JPMC's Michael Ashworth says the grid saves millions a year in hardware and labor costs.

For an investment bank constantly working to increase its trade volume and add increasingly complex products, having nearly infinite computing capacity is extremely important. And when the company's chief executive officer happens to be the notoriously cost-conscious James Dimon, achieving it at a low price point is a major benefit.

According to Ahmar Abbas, a founder of the Falls Church, Va.,

research firm Grid Technology Partners, a primary advantage of a grid is that it lets companies take on ever-bigger challenges to meet their business requirements.

"You now have the flexibility to tap into a vast array of resources that already exist," Mr. Abbas said.

Industry experts and analysts say the intense computing needs of investment banks have pushed others to experiment

with grids, but most have pursued less ambitious plans than JPMorgan Chase. Many began by testing grids that could support a single department or application, in effect perpetuating the inefficient silos that already existed, the experts said.

In a survey released in April by the New York research firm 451 Group, 46% of the financial institutions said they have siloed grids. Only 2%, including

JPMorgan Chase, said they have reached one of the final frontiers of grid computing by creating a utility that can be used by many departments.

"JPMorgan Chase is certainly innovative in that it had a much broader vision with its Compute Backbone," said Steve Wallage, director of research at 451 Group.

According to Mr. Ashworth, the company took the long view from the beginning. The limits of traditional computing architectures, in which dedicated resources are assigned to each business unit, were obvious, he said — computers that were needed to handle peak processing loads could be severely underutilized at other times.

JPMorgan Chase realized the increasing complexity of financial transactions would only exacerbate the problem, he said. "It was pretty clear that a few years out we'd be spending an inordinate amount of money to support our businesses."

In embracing the grid concept, the company did not have to buy increasingly powerful servers to handle peak loads, he said. Instead, it could buy cheaper systems and string them together to form, in effect, a massive supercomputer.

Chad Hersh, a senior analyst at the Boston market research firm Celent LLC, wrote a report released this year on grid computing in financial services. In a typical computing platform, according to Mr. Hersh, different computers are relegated to different types of tasks; a laptop might be used to fill out a form,

See page 14

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JPM Chase

Continued from page 12

a server to process it, and another server to produce a report about it.

In a grid, each computer is used purely for its processing power, he said. Scheduling software determines which computers are available to solve a problem, and in the case of a large mathematical equation, for example, the grid “divides and conquers it” by parsing it out to any combination of computers.

JPMorgan Chase executives said the computers it uses in its grid are so low-cost that they are deemed disposable — in other words, if a serious problem with a piece of hardware arises, it is more practical to throw it away and purchase another computer than to fix the problem.

Disposable computing “gives tremendous bang for the buck,” Mr. Ashworth said.

According to Mr. Kunzle, another advantage of running a large network made up of basic hardware components is that breakdowns have “zero impact”

employed that many people at each of the business units now on the grid.

“This year we doubled the size of the grid and added no head count,” Mr. Kunzle said.

As Mr. Hersh wrote in his report, a grid is made up of shared hardware, bandwidth, memory, and storage, making it extremely reliable and easy to expand at a very low cost. Grids took hold first in investment banking because they are well suited to computation-intensive applications, the report said, but right now they are impractical for the high-volume transactions typical in retail banking, because the bandwidth is not large enough to move large volumes of data around.

Whether those limits will fade in time is unclear. Mr. Hersh indicated that they would, but he did not offer a timetable.

John Humphreys, a program director with the enterprise platform group of the Boston technology publisher International Data Group Inc., said he does not see any evidence that grids would work in transac-



“The grid can be as big as it needs to be,” according to the bank’s Kunzle.

\$120 million this year to more than \$500 million by 2010.

The last business units of JPMorgan Chase’s investment bank joined its grid late last year, and executives expect the grid to continue to grow. When it went live in 2003 it had 96 central processing units, but now it has 10,000 — a number the company never imagined reaching, Mr. Kunzle said.

The savings are outsized, as well. According to Mr. Ashworth, JPMorgan Chase estimates it is saving over \$10 million a year when compared with other ways it could have

duty analytics, is interested in using it.

These groups “can leverage what is essentially a free resource,” he said.

JPMorgan Chase charges its business units 55 cents per CPU hour to use the grid, which is about half the price of other commercially available options, Mr. Kunzle said.

A lack of security makes some executives particularly wary of outsourcing grid computing, he said. “That’s our secret sauce going out on those machines,” and the security technology “still is nowhere near prime time.”

Standards are also lacking in grid computing. JPMorgan Chase uses standards it developed internally, but Mr. Ashworth said it would like the grid community to develop more far-reaching ones.

Software licensing presents another big challenge. In traditional computing, a department purchases a number of servers and pays for the software to run on them. Pricing models for grids, which may spread processing over hundreds or even thousands of computers at many departments, are much less mature.

Mr. Kunzle said JPMorgan

Chase’s information technology group purchases machines with the expectation that it can offset that cost through its charge to the business units, and the company has gotten its vendors to adopt a per-CPU rental model. “I pay them quarterly based on how much I’m using.”

For the all-important scheduling software that distributes jobs through the grid, JPMorgan Chase works with Platform Computing Inc. of Markham, Ontario, and Condor, an open-source software package developed by the University of Wisconsin.

The biggest obstacle JPMorgan Chase faced in moving its operations to a grid had nothing to do with technology, Mr. Kunzle said. “The most challenging was convincing people they could let go of their CPUs and trust us to run them.”

According to Mr. Ashworth, the IT department persuaded the business units over time, steadily building upon its successes and confident it was dealing from a winning hand. “We offered scalability that ... [the business units] never got on their own and at a very decent price point.”

Just how big the grid will get is now becoming a question. JPMorgan Chase eliminated one major bottleneck to growth when it started using InfiniBand networking, an industry-standard communications link that is 10 times faster than typical Ethernet networking.

The largest commercial grids now have about 15,000 to 17,000 CPUs, so right now JPMorgan Chase can only wonder what will happen if or when its grid becomes that large. “It’s uncharted territory,” Mr. Kunzle said.

Ms. Costanzo, American Banker’s technology editor from 1998 to 2002, is a freelance writer in Maplewood, N.J.

The biggest obstacle that JPMorgan Chase’s IT department faced was convincing employees to let go of their CPUs and trust something else.

on the overall operation. Another available computer simply takes over the processing work, he said.

Systems administration also becomes a fairly simple matter in this environment, according to JPMorgan Chase, which employs five systems administrators to oversee its grid, as well as four support staff members. Previously the company

tional environments, even though the industry is working to make it happen. “That’s the huge question mark.”

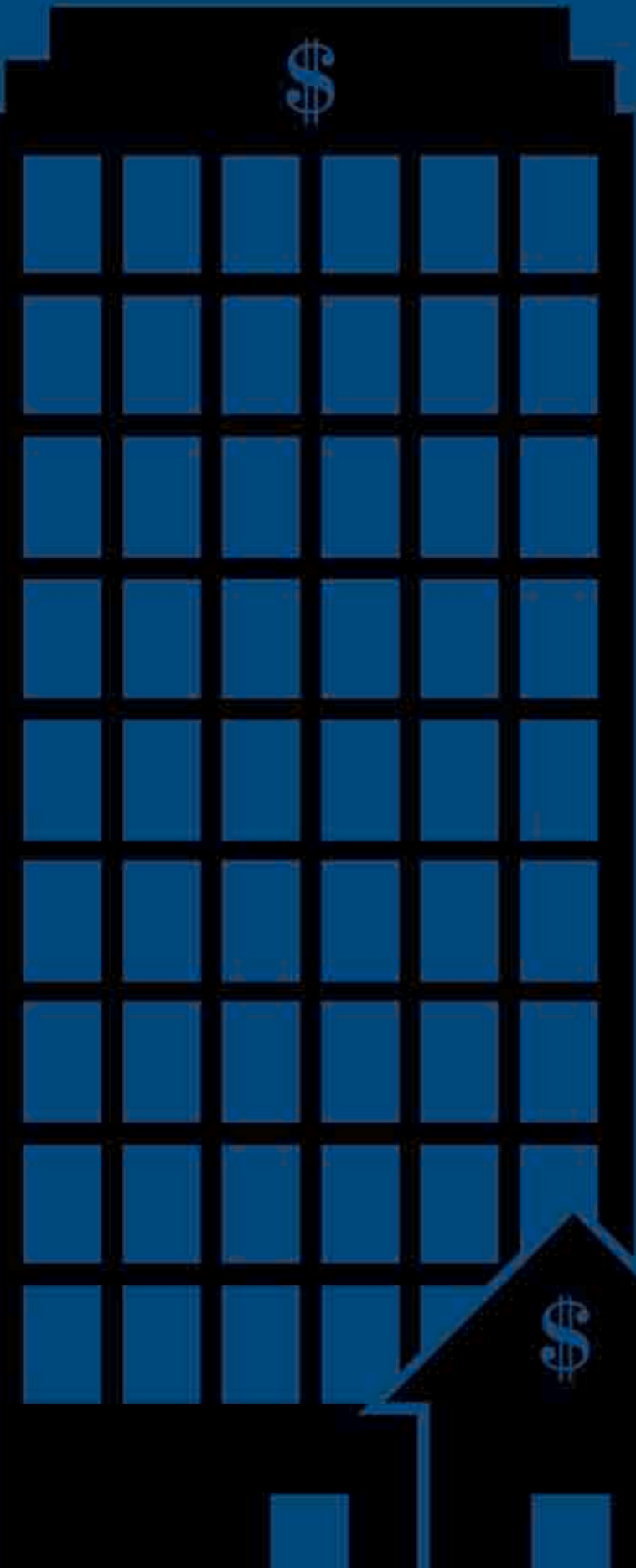
Celent estimates that less than 5% of all computations in financial services are being performed on grids, but it predicts that the percentage will be more than 30% by 2010. In addition, according to Celent, U.S. spending on grids will increase from

increased computing power. The investment in the technology started to pay off after about 18 months, he said.

Now the grid is starting to creep beyond the investment bank’s borders. About a year ago, Mr. Kunzle said, JPMorgan Chase’s mortgage group began using the grid to calculate mortgage risk, and the credit card group, which also runs heavy-

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Oracle Positions Itself for Surge In Bank Sales

■ BY BILL STONEMAN

Oracle Corp. made over \$1.6 billion of sales to the financial services industry last year and once again ranked No. 15 on this year's Top 25 Enterprise Companies in FinTech ranking.

In 2005 the software giant also signaled its intent to boost sales to banking companies by buying a 43% stake in **i-flex solutions ltd.** (No. 38 in this year's FinTech 100 survey), a top Mumbai developer of core systems. (That stake has since increased to 55%.)

Oracle amplified its message to banks in January when it bought **Siebel Systems Inc.**, the top maker of customer relationship management software, whose customers include **Key-Corp.**, **PNC Financial Services Group Inc.**, and **Royal Bank of Canada**.

But in a crowded and complex market, fulfilling that potential will depend on how well the Redwood Shores, Calif., company positions itself and how it goes about introducing i-flex in markets where it is unknown, industry insiders and analysts say.

By many accounts, Oracle is now well situated to boost sales to banks by offering them the chance to buy more - presumably better-integrated - tools from a single, well-capitalized supplier.

Though Oracle has developed a number of offerings for the banking industry over the years

and says 17 of the world's 20 largest banks use them, it is still largely seen as a horizontal software provider serving similar needs across many industries.

Vertical market software, which targets a specific industry, requires more expertise in the industry, experts say.

Someone else — the banks themselves or their vertical technology vendors — typically has integrated Oracle's databases into industry-focused software, said Jeanne Capachin, the vice president of global banking research at Financial Insights, an IDC company.

"It's been up to the banks to figure out how to make that offering relevant," and Oracle appeared intent on changing how banks view its offerings, Ms. Capachin said.

Meantime, big banking companies in the United States, the world's most lucrative market, continue to show little appetite for replacing core systems.

"Back-room systems are going to be very difficult to sell when the focus today is on our customer-facing systems," said Patrick Ruckh, the chief technology officer for **First Horizon National Corp.** in Memphis.

And i-flex, a key component of Oracle's plans, has limited visibility in the United States.

"I've never heard of it," said Ketty Lane, a vice president and the manager of information



Don Russo says his company will continue to expand its bank offerings by buying or building.

management at the \$51 billion-asset **UnionBanCal Corp.** in San Francisco, which is mostly owned by **Mitsubishi UFJ Financial Group Inc.**

Still, i-flex's product lineup — including a core deposit system for retail and wholesale banks, a consumer lending platform, and a Basel II compliance and risk management system — gives Oracle more reasons to call on banks around the world. And the smaller firm's track record suggests it could help Oracle open doors.

In October i-flex announced that it had bought the Herndon, Va., anti-laundersing software vendor Mantas Inc., whose plat-

form can track transactions for multiple business lines within a bank. Its customers include **ABN Amro Holding NV**, **Barclays Capital**, **Charles Schwab Corp.**, **Citigroup Inc.**, **Merrill Lynch & Co.**, and **Credit Suisse Group**.

Last year, i-flex sold 57 banking platform systems in non-U.S. markets, mostly in Europe, Asia, and Africa, according to Forrester Research Inc., trailing only **Temenos Group**, a Swiss company (No. 53 in this year's FinTech 100 survey), which closed 68 such deals, mostly small ones.

Before Oracle acquired its stake in i-flex, its "credibility was

fairly low among banks as it related to any product other than databases," said Don Free, an analyst with the Stamford, Conn., technology consulting firm Gartner Inc.

However, that may be changing as Oracle draws on the specialized industry knowledge it acquired with i-flex and Siebel.

"Oracle has clearly come a long way from where it was a year ago," said Peter Kastner, a vice president and research director with the Boston technology consulting firm Aberdeen Group.

And Oracle executives say they are focused on doing more

business in the banking sector.

"Oracle is committed to financial services and banking in particular," and it will continue to expand its list of bank offerings by buying or building capabilities, said Don Russo, a group vice president for financial and professional services.

With a product set that includes core banking, risk management, and a host of profitability and other analytic tools from Siebel, Oracle can serve a range of bank technology needs, according to Mr. Russo.

Industry observers say the banking effort is part of a search for faster growth than Oracle can find in the database business, where it is a dominant player. For 18 months it fought **SAP AG** (No. 19 on this year's Top Enterprise Companies in FinTech), for control of PeopleSoft Inc., a leading provider of human resources, procurement, accounting, and other enterprise software, before buying it in January 2005. Oracle also has made retail industry acquisitions.

For enterprise software companies, "the big opportunities are going to be in industries where there has not been a major move yet toward integrated, packaged suites of software," and banking fits that profile, said Frank Scavo, the president of Computer Economics Inc., an Irvine, Calif., information technology research and consulting company.

Observers say Oracle's acquisition of Siebel and a majority stake in i-flex, as well as i-flex's acquisition of Mantas reflect two other market dynamics: The banking software market is consolidating, and Oracle seems determined to counter every move by SAP.

Fidelity National Information Services Inc. of Jacksonville, Fla. (No. 2 on this year's FinTech 100), and other vendors have sought to expand their banking software menu through acquisi-

tions. Oracle's acquisition of PeopleSoft puts it in direct competition with SAP for enterprise software sales. And industry analysts say the two companies appear to be eyeing the same

opportunities to provide vertical software to companies that already buy human resources or purchasing software from them.

"Both companies are always looking at each other and trying

to stay in front of each other," Ms. Capachin said.

According to Mr. Free, Oracle has built a number of banking industry applications, but its

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Investor Force

Private Placement

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Incurrent Solutions, Inc.

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October 2005

VERILAW TECHNOLOGIES, INC.
has announced its

Equity Offering

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July 2005

VERILAW TECHNOLOGIES, INC.
has been acquired by

LexisNexis

The underwritten public offering was completed on
July 2005

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Oracle

Continued from page 17

success has been qualified.

An Oracle spokeswoman, responding by e-mail on Mr. Russo's behalf, acknowledged that it took "a period of time to fully assimilate" the profitability and asset-liability risk management application it acquired into its bank offering, though the application now has hundreds of installations around the world.

She added that Oracle is in the process of integrating the systems — known as the Oracle Financial Services Applications — with i-flex's risk and compliance platform "to create a comprehensive suite of analytical banking tools for the industry."

Mr. Free and others agree Oracle is now ready to move beyond such concerns. It is generally well regarded, because of its database business, and it ought to be able to sell its products to i-flex customers and i-flex products to those who have bought Oracle products in the past, observers say.

The vendor also gives i-flex financial strength, a key issue for technology buyers.

Oracle bought its initial stake in i-flex from a venture capital arm of Citigroup. Though Citi was not involved in operating i-flex, the ownership role was probably enough to stymie sales, Mr. Russo said.

"The B of As, the Wellses, and Wachovias would cast a wary eye at buying a product they knew was owned by Citigroup," he said.

Observers said removing Citi from the picture should give i-flex a boost.

And even if big U.S. banking companies are not jumping at the opportunity to buy core banking systems from i-flex, Oracle gets



First Horizon's Ruckh: "Back-room systems are going to be very difficult to sell when the focus today is on our customer-facing systems."

more contact with key decision makers when they buy ancillary products. For example, **Wells Fargo & Co.** and **Wachovia Corp.** have bought i-flex's Reveleus for Basel II compliance.

"That gets you into the conversation," said Robert Hunt, a senior analyst at TowerGroup, the Needham, Mass., market research unit of MasterCard International.

Vendors make more sales when they can anticipate what big customers need, rather than just respond to requests for proposals, he said.

For banks, Oracle says, the principal benefit of its vertical banking acquisitions should be the engineering that it will do to ensure its products work together without customization.

"We can take the integration burden off banks and put it on ourselves," Mr. Russo said,

though such integration is a work in progress. In addition, industry observers say, the likelihood that Oracle will continue to invest in and improve the software it sells — something smaller companies may not do — should appeal to banks.

Whether that proves true, however, remains to be seen.

For big technology companies in general, the track record for delivering on integration promises is mixed, said Zahid Afzal, the chief technology officer at the \$15.8 billion-asset **Sky Financial Group Inc.** in Bowling Green, Ohio.

"It's all doable," Mr. Afzal said. "It just depends on execution."

Ms. Lane said that even though better integration sounds good, a bank probably would not gain the full benefit unless it installed many more Oracle systems than UnionBan-

Cal is likely to do.

"We have over 30 mainframe systems," she said. "They're not going to go away any time soon."

Ms. Lane had another concern. "In my experience," she said, "if you have a single vendor, they become a lot less competitive. ... The pricing becomes very rigid."

Mr. Ruckh said he purchased software twice from small companies that Oracle later bought, he said, and when Oracle discontinued those products and integrated their features into its own product, it raised prices.

"I now have what I call my Oracle clause" in contracts he signs with small vendors, Mr. Ruckh said.

The clause says that First Horizon will get the product's source code if the vendor is bought by another company that discontinues the product.

Oracle says it has "broken the

code on how to assimilate new organizations over the past two to three years and have many happy customers and partners as a result."

In an e-mailed statement responding to Mr. Ruckh's concerns, the spokeswoman also noted that "Oracle has learned over time what to do and what not to do to assimilate and properly service an industry-based acquisition."

Individual bankers' experiences aside, Oracle's biggest test may be its effort to sell core banking systems in the United States.

Most banks do not seem eager to replace these systems, though they are typically 20-plus years old and held together with lots of customized, special-purpose software.

Mr. Russo said some banks are getting closer to serious consideration of core replacement, driven partly by the increasing need to update customer records in real time, rather than in batches.

Combined with what Oracle calls its current "top-to-bottom industry orientation" — encompassing strategy, development, marketing and sales — that may lead the company to success.

If First Horizon is any indication, however, Oracle faces a tough challenge.

Mr. Ruckh said it would cost his \$38 billion-asset company \$40 million just to rebuild its demand-deposit processing capabilities, largely owing to the cost of rewriting and testing of interfaces with 140 systems that either feed into or are fed by it.

According to Mr. Ruckh, that's reason enough to maintain the current systems for many more years.

Mr. Stoneman is a freelance writer in Albany, N.Y.

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New Brand, Broader Menu For Jack Henry

■ BY STEVE BILLS

Jack Henry & Associates Inc.'s expansion beyond its base of core-processing clients is starting to show results, executives say.

Like its larger competitors, Jack Henry, the fourth-largest provider of core-processing software and services to the financial services industry, has made several acquisitions – it has bought 16 small vendors since 2002.

But executives of the Monett, Mo., company, which repeated as No. 25 in this year's FinTech 100, believed they were missing sales opportunities, said Jack F. Prim, its chief executive officer.

In more than one case, he said, banks chose competing systems because they thought vendors with names like Stratika or Verinex Technologies were too risky. They were unaware those firms had the backing of Jack Henry, a 30-year-old business that had sales of \$592.2 million in the fiscal year that ended June 30.

So in February, Jack Henry consolidated many of its acquired companies under one name, ProfitStars.

"The strategy goes back at least two years," Mr. Prim said. As the product menu expanded, "we felt like we could tell a more coherent story with a single brand."

Robert Hunt, a senior analyst at MasterCard International's TowerGroup market research unit in Needham, Mass., said the name recognition could help Jack Henry overcome the resistance that larger institutions have about dealing with smaller vendors, he said.

"When I was working with a



CEO Jack Prim says his company merged most of its acquired firms under one name, ProfitStars.

lot of big banks, we would go through a whole separate risk analysis with smaller vendors, and often we were very reluctant to do it," Mr. Hunt said. "You do believe Jack Henry is going to be around."

Other core-processing vendors are refining their own go-to-market strategies.

For instance, **Fiserv Inc.** of

Brookfield, Wis., No. 1 in this year's FinTech 100 survey, announced in September that it would cut expenses by \$125 million by 2011, mainly by streamlining internal operations. It also announced plans to increase revenue by \$360 million by 2012, chiefly through better cross-selling. Fiserv, which historically has granted great autonomy to

acquired companies, stopped short of changing the faces that it presents to its customer banks.

Open Solutions Inc. (No. 51), on the other hand, has grown over the years by acquiring smaller providers of core-processing software and converting their customers to its own, relational-database platform. But after the Glastonbury, Conn.,

vendor bought the bank-processing unit of **Bisys Group Inc.** (No. 15), of Roseland, N.J., in March, virtually doubling its size overnight, it said it would depart from past practice by continuing to maintain and upgrade Bisys' outsourced service. (Open Solutions announced a plan in October to be purchased by a pair of private equity companies, but its existing management is to remain in place after the transaction closes in early 2007.)

Jack Henry, which generally has bought small vendors, faced

less risk in putting them all under the same brand. (Individual products and services still retain their identities in many cases.)

Six months after its launch, ProfitStars has exceeded its \$50 million revenue goal, executives said. Jack Henry does not break out financial results for the unit, which took its name from one of the acquired companies.

Alenka Grealish, the manager of the banking group at the research and consulting firm Celent LLC in Boston, agreed that Jack Henry needed to modify its approach to maintain its growth against rival core-processing vendors that also have been aggressively acquiring smaller technology companies. "If you're a core-processing provider, it's pretty much a replacement market," Ms. Grealish said. "There's only so much growth you can eke out."

Until recently, Jack Henry focused on its core-processing business for deposit and loan accounts, selling ancillary sys-

tems such as Internet banking or teller and branch platforms only to banks and credit unions that used its core banking offerings, Mr. Prim said. "That is a large chasm to have to cross before you can get them to spend that first dollar of revenue with you."

Through the collection of ProfitStars offerings, Jack Henry made 600 sales last year to non-core customers.

"Some of them were pretty small. Some of them were pretty

substantial," Mr. Prim said. "Although it's the same story, aggregating under this one brand has gotten us a very good reception."

Including the acquired com-

panies' accounts, Jack Henry finished fiscal 2006 with more than 8,700 customers, versus 2,800 at the end of fiscal 2001. Mr. Prim said ProfitStars systems run in all of the top 10 banks and 40 of

the top 50. Perhaps more important, ProfitStars gives Jack Henry a way to extend its offerings to a large market of midtier banks (which it defines as those with

Jack Henry has bought 16 small vendors since 2002.

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assets of \$1 billion to \$30 billion) that use its rivals' core-processing systems.

Umpqua Bank of Portland, Ore., for instance, hired Jack Henry to help it provide remote check capture for its business customers, though the unit of the \$7.2 billion-asset **Umpqua Holdings Corp.** does its core processing on a system from Fiserv's Information Technology Inc. unit.

John G. Baker, a senior vice president at Umpqua Bank, said it did an extensive search on remote deposit before selecting ProfitStars. The vendor was able to provide a comprehensive product line, training, and support for Umpqua and its customers. "And they were able to get it to market very quickly," Mr. Baker said.

Through August, Umpqua had signed 50 clients and was receiving image files from more than a dozen of them in a staged rollout through its Oregon and California markets. It is working with Jack Henry to enhance the service.

One plan is to provide high-speed automated character recognition of check amounts, which Mr. Baker said could be particularly useful for businesses capturing 35 to 150 checks a day. "It can be fairly time-consuming if you're keying in the dollar amounts," he said.

At the other end of the scale, Jack Henry provides software to **JPMorgan Chase & Co.** to capture digital images when checks are deposited into automated teller machines. Thomas Kelly, a spokesman for the giant New York banking company, confirmed that it was using the software at 20 image-enabled ATMs in the Midwest. Mr. Kelly

declined to elaborate because the pilot test was still at an early stage.

Jack Henry acquired JPMorgan Chase as a customer through its 2005 purchase of the image vendor TWS Inc.

David Foss, Jack Henry's general manager of acquisition and business integration, said check imaging is taking his company into markets outside the financial industry, which had long been its only market.

"That is the hottest-selling thing we have today through ProfitStars," Mr. Foss said. Jack Henry is selling to businesses both directly and through its bank partners. The newspaper chain Gannett Co. Inc. of McLean, Va., is using remote capture at some of its papers, and Olan Mills Inc. of Chattanooga, Tenn., is using it at some of its photography studios, Mr. Foss said.

Mr. Prim said the market diversification could continue.

"We've opened the doors to companies we never would have been able to open the door for before," he said, mentioning brokerage and health-care companies as examples.

Jack Henry has to train salespeople to help them seize the



Baker says Umpqua likes ProfitStars' strong product line and support.

opportunities afforded by a wider product portfolio. Sometimes this is relatively simple, and Jack Henry has worked to integrate the product lineups into cohesive groups, Mr. Prim said. "You can add some additional products to a salesman's existing bag," he said.

Mr. Foss said other products do not combine as smoothly. "Insurance sales is a very different kind of sale than asset-liability management," he said. "We do recognize there is some specialization in the sales force."

These efforts are beginning to pay off as well. **Cardtronics Inc.**, the nation's largest merchant ATM owner and operator, uses ProfitStars' ATM Manager Pro software to automate back-office

processing and customer service functions.

Jerry Garcia, Cardtronics' chief information officer, said the Houston company had been using the software, from e-ClassicSystems Inc., since 2003; Jack Henry acquired e-ClassicSystems in 2004.

Now Cardtronics is using BI Navigator from another ProfitStars unit for business intelligence and analytical reporting. Cardtronics was introduced to that unit "based on our relationship with ATM Manager Pro," Mr. Garcia said.

In the spring Jack Henry began developing an incentive program to encourage salespeople to pass along leads. For instance, Mr. Prim said, a salesperson in document imaging might not have the product knowledge to sell an ATM management system, but should be able to refer the prospect to someone who can.

"If you're in the ProfitStars sales groups, you need to understand the lines so you can recognize an opportunity when you see one," he said.

Like other technology companies, Jack Henry uses a service-oriented architecture to enable greater integration among its

own applications and with those of other vendors, Mr. Prim said. Most financial institutions prefer to deal with a single vendor to simplify systems management and because of regulatory pressures, he said, "but they want the flexibility that, if there is this niche application, they want to be able to implement that fully."

Maggie Scarborough, a senior analyst at Financial Insights in Framingham, Mass., an IDC company, said Jack Henry's technology integration could give it an edge in cross-sales to complement ProfitStars.

"It's definitely a way to bring a single face to a number of different solutions in the market," Ms. Scarborough said of the brand. "But on the inward look, they've built an interface to link it all together.

"There's the brand and then there's the integration. It takes both," she said.

Mr. Prim said Jack Henry continues to explore buyout opportunities, but the market is tightening. "We would like to do some acquisitions that would be a little larger in size," he said.

The ideal target would offer a product that Jack Henry's core customers would want and that the company also could sell into new markets or to users of competitors' core systems, Mr. Prim said.

But the torrid pace of vendor consolidation in the past few years has driven up sellers' prices, and the growing clout of private equity firms is making some deals harder to cost-justify.

"Some of the pricing is getting pretty tough for a public company to step up to," Mr. Prim said. "It would take a good little while for some of those acquisitions to become profitable." ■



Cardtronics uses software from two Jack Henry units, Garcia says.

“Thank you.”



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Beyond IT: Outsourcers Expand Services

■ BY JEREMY QUITTNER

Offshore outsourcing has become indispensable to many U.S. banking companies in the last decade as they strive to cut information technology costs and stay competitive.

Some of the biggest beneficiaries of the trend have been Indian companies that handle functions like information technology development, transaction processing, and call-center staffing.

But experts say the focus of outsourcing is changing. Top outsourcers in India report that in addition to providing IT functions and back-office processing to banks, they now are adding management consulting services.

And some Indian firms are developing branches in foreign countries themselves in an effort to offer their clients “nearshore” capacity.

“We can do the front-end management consulting and the heavy lifting for implementing IT, and not just make recommendations,” said Ashok Vemuri, the senior vice president for the banking and capital markets group for **Infosys Technologies Ltd.** in Bangalore, India, which ranked No. 18 on this year’s FinTech 100 list. “We have the service to implement the recommendations.”

Many Indian vendors acknowledge that it is important for them to have operations outside the subcontinent to minimize political risks to their clientele, as well

as to offer more complete service packages that enable bank customers to conduct business in other languages and time zones.

With that in mind, in the last few years Infosys has opened centers in Australia, Canada, and Czechoslovakia, and it is looking at China, according to Mr. Vemuri.

Tata Consultancy Services Ltd. of Mumbai said it has opened centers in Brazil, Hungary, Uruguay, and Canada in the last few years.

“A good number of American customers are looking for services available in Spanish,” said N.G. Subramaniam, the global practice head for banking and financial services.

Tata (No. 13 on this year’s FinTech 100), may start a project in India and then shift it to one of its bases in Latin America or North America, Mr. Subramaniam said. “Higher-cost location services can give confidence to customers for very mission-critical projects. India may be too far away, but Phoenix, Arizona, is OK.”

That all makes sense to **Wachovia Corp.** The Charlotte company recently announced plans to outsource up to 4,000 jobs by next year to Indian firms, including Infosys and **Genpact** of Delhi, which has operations centers in China, Hungary, the Philippines, Poland, Romania, the United States, and Mexico.

Wachovia said its key concerns



Mike Fuentes

John Taylor says Wells Fargo will build a captive IT center in India with about 300 employees.

with any vendor are security and minimizing regional risks to business. “We don’t want to get locked into one location,” said Peter Sidebottom, the head of enterprise planning and strategic initiatives. “Vendors need to be able to react to global markets for geopolitical reasons” and “for business continuity.”

Experts said that even though **Citigroup Inc.** and **JPMorgan Chase & Co.** have long been involved in offshore outsourcing, the next tier of companies, such as **Bank of America Corp.**, **Wachovia**, **Washington Mutual Inc.**, and **Wells Fargo & Co.** are just beginning to develop

important relationships with offshore vendors.

(*American Banker* contacted nearly a dozen U.S. banking companies about their outsourcing activities, but most would not comment for this story.)

Mr. Sidebottom said Wachovia also needed to utilize offshore outsourcing to stay competitive. “The larger national players [like Wachovia] will have to compete with the international players, and we think there is a strategic imperative to access this [offshore] capability and cost pool.”

By contrast, Wells has announced it will build a captive IT center in Hyderabad,

India, with about 300 employees by yearend, rather than depend on vendors.

“We have had mixed success” and “some disappointments” with Indian vendors, said John Taylor, a senior vice president and area technology manager for the San Francisco company.

Wells decided to start a captive center in India for a variety of reasons, including competitive pricing and a technologically proficient labor force, he said.

Many industry experts and vendors predict the captive center will become an intermediate step for banking companies.

“Within the next three to five

years most of this will be handed over to a third party,” said Susan Cournoyer, a vice president of research at Gartner Inc., a Stamford, Conn., market research company.

It may be difficult for Wells to continue to manage an operation from halfway around the globe, she said. “We anticipate that a lot of the captive centers will turn into traditional outsourcing relationships.”

Mr. Subramaniam said many banking companies that “set up captive sites in India” eventually reach a point where they decide to “hire local contractors or outsource” to foreign vendors.

Though cost reduction remains a key concern for most bankers that are outsourcing, some analysts say the increasing price of labor inevitably will drive costs up.

“If you look at the staff costs, it is still incredibly cheaper in India, but it is all a matter of how the deals are structured,” said Jeanne Capachin, vice president of global banking research at Financial Insights, in Framingham, Mass., an IDC company. Areas like the Philippines and eastern Europe, where some financial services outsourcing is now moving, may be cheaper than India, she said.

Infosys’ Mr. Vemuri agreed that “costs of labor are going up, since India is a hot market, and the demand for talent is very high.” However, “costs to the bank are going down, because of labor arbitrage and more process orientation and reduction in overlapping processes.”

Roughly 6% of the banking industry’s \$44 billion of IT spending has moved offshore, according to a report this year by the Boston research and consult-

ing firm Celent LLC, which estimates the figure will increase to 30% by 2010.

“Banks are looking at gaining access to IT resources that are either scarce or expensive onshore

and also looking at re-engineering or in some cases looking to outsource to improve an application or business process and need providers that have powerful verticals,” said Madhavi Mantha, a

senior analyst at Celent.

In addition to traditional application development, banking companies are becoming more interested in using offshore consulting services, according to a

2006 report from Gartner. More than half of the top 50 U.S. financial services companies use offshore IT consulting services, and nearly 20% more plan to start using them in the next 24 months.

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“The Indian firms are moving into consulting, hiring former big five [consulting firms] officers to organically build business advisory services, and I would expect over time that they will ... have a

significant minority presence in the [larger] business consulting practice,” Ms. Cournoyer said.

Many of the Indian vendors said their revenue from IT consulting has grown significantly.

Meetul Patel, executive director of management consulting for financial services for **Kanbay International Inc.**, said 6% of its second-quarter revenue came from management consulting,

compared with 4% in the same period last year.

Kanbay, which ranked No. 47 in this year’s FinTech 100, is based in Rosemont, Ill., but operates development centers in

India. “The market is evolving to more than the labor and cost question. It also wants management consulting and answers to IT questions,” Mr. Patel said.

According to Mr. Subramanian, consulting work generates 28% of Tata’s revenue from financial services companies, compared with about 14% three years ago.

“We see a tremendous amount of growth in consulting and system integration,” he said.

At the same time, companies like **i-flex solutions ltd.** in Mumbai, No. 38 on this year’s FinTech 100, say that even though their stock in trade has remained strong, revenue is growing in other areas. (**Oracle Corp.** of Redwood Shores, Calif., owns a 55% stake in i-flex. See related story on page 16)

V. Shankar, executive vice president of PrimeSourcing, i-flex’s IT services division, said 50% of the parent company’s revenue is still derived from offering ready-made products like the Flexcube transaction-processing platform. The rest is derived from high-end IT consulting that involves developing long-term plans for use of technology resources, as well as management services that include overseeing network policies, compliance, and system processes, he said.

“Tier 1 ... [banks] are not going to take just products and services, and they don’t want to replace their back-office systems all the time,” Mr. Shankar said. Instead, U.S. banking companies are looking for “a solution to business problems” as well as the ability “to integrate new products and services.”

Mr. Quitner, an American Banker reporter from 1995 to 1997, is a freelance writer in New York.

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HP in the Financial Services Industry

FinTech 100 Award: HP ranked No. 2 for the third year in a row

For the third consecutive year, HP has placed No. 2 in the Fintech 100 top 25 Enterprise companies in Financial Services. *American Banker* and global independent advisory firm Financial Insights, an IDC Company, released the third annual FinTech ranking of the Top 25 Enterprise Companies in the financial services industry worldwide.

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About HP

HP is a technology solutions provider to consumers, businesses and institutions globally. The company’s offerings span IT infrastructure, global services, business and home computing, and imaging and printing. For the four fiscal quarters ended July 31, 2006, HP revenue totaled \$90.0 billion. More information about HP (NYSE, Nasdaq: HPO) is available at www.hp.com.



How Small Vendors Found a Spot on List

■ BY JEANNE CAPACHIN

Below the usual suspects at the top of this year's FinTech 100 is a crop of smaller firms that also deserve the spotlight.

These up-and-comers illustrate that it takes more than scale to be a winner in the financial technology marketplace — it also takes a deep and constant understanding of business issues that bankers face every day.

Here are a few of the smaller vendors that made the grade this year.

Let's start with **Viewpointe Archive Services LLC**, which made the FinTech 100 for the first time this year, at No. 65.

Payments have become a bigger issue with the emergence of the Check Clearing for the 21st Century Act, image exchange, and single euro payments, and Viewpointe is benefiting directly from Check 21.

Founded in 2000, the New York company is one of the youngest in the ranking. Viewpointe provides image archiving and exchange to banks and has achieved remarkable scale in six years. What's also remarkable is

that it began as a cooperative initiative between some of the nation's largest financial institutions, which are not usually known for working well together.

Bottomline Technologies Inc., at No. 66, also made the list for the first time and also offers payments solutions. The Portsmouth, N.H., firm has been around for decades, starting out as a seller of check printing technology before re-creating itself during the 1990s as an electronic payments firm. For a while it was a high-flying technology stock, but that ended quickly.

Since the tech market crash and a shift in corporate strategy, Bottomline's performance has been more stable, and it has concentrated more on its financial services products. The firm is now viewed as capable of addressing some of the complex issues in global payments and business payment automation, and it is using its expertise in payment technology as a springboard to develop strategic solutions for its customers.

Three firms from Brazil joined the FinTech 100 this year. The Brazilian financial services market is well developed and vibrant

— the nation's financial institutions account for 40% of the information technology spending in the booming Latin American financial services market. No. 41 **Itautec Philco SA**, based in Sao Paulo, provides automated teller machines and other hardware. The other firms — **Politec Philco** at No. 62 and **CPM SA** at No. 58, both of Sao Paulo — provide IT

Three Brazilian firms joined the ranking this year: Itautec, Politec, and CPM.

services to the industry. The Brazilian financial services market, like the U.S. market, is big enough and is unique in a way that allows it to support a healthy group of vendors.

Two others worthy of mention this year are **Open Solutions Inc.** (No. 51) and **COCC** (No. 91), which are building their market share in the crowded core banking market. By offering relatively new, open technologies, these Connecticut firms are holding their own as they vie with the

behemoths at the top of the FinTech 100. Revenue at Open Solutions, of Glastonbury, rose 81% between 2004 and 2005, and revenue at COCC, of Avon, has nearly doubled since 2000.

The attraction of Open Solutions' products is powerful. But good technology cannot be the only secret of its success. Bank executives tell us that though

technology is a big factor, what really makes or breaks a core banking deal is the relationship with the provider.

And though its mutual ownership structure gives COCC a leg up on many of its rivals, it would not be putting up the growth numbers that we see if it did not have solid technology and business relationships.

Some tech investments by financial firms are perennial, and some are occasional. Many firms, for instance, are investing more

in security in the wake of technological changes and heightened regulatory pressure.

Plenty of technology firms offer products for a variety of industries. **Vasco Data Security International Inc.** (No. 92) stands out with its tight focus on financial services. The Oakbrook Terrace, Ill., company has been a market leader in Europe for a number of years with its hardware- and software-based authentication products. Vasco is now doing well for itself by targeting the corporate banking market; its sales doubled between 2003 and 2005, with most of the growth posted in 2005.

Though these firms are not yet well known, they are frequently among the leaders in innovation and customer service. Market share and revenue are some ways to measure success, but there are lessons to be learned from every FinTech 100 vendor. Just as important are the many opportunities for smaller firms that understand bankers' problems and can help them solve those problems.

Ms. Capachin is vice president of global banking research at Financial Insights.



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Where Small Banks Focus Tech Dollars

■ BY CHARLES KEENAN

Home Federal Bancorp Inc., a \$770 million-asset thrift in Nampa, Idaho, recently scrapped its core processing system and installed a new one. The cost: more than \$1 million.

But Home Federal expects to recoup the investment within three years now that it has an in-house system executives say is flexible enough to accommodate its expansion in the fast-growing Boise City-Nampa region.

"As we grow, we can compete with larger banks with better technology," said Dan Stevens, Home Federal's chairman, president, and chief executive officer. "We can grow without adding a lot more people. We can handle more volume, while saving people for more interesting work and letting the computers do the mundane tasks."

Banks with assets under \$10 billion (*American Banker's* definition of a community bank) will spend about \$6.39 billion on consumer and core banking systems this year, versus \$6.29 billion in 2005, according to Financial Insights in Framingham, Mass.

Community banks will increase this spending, albeit slowly, to \$6.85 billion by the end of 2010, at a compounded annual growth rate of 1.7%, Financial Insights estimates. That compares with an annual growth rate of 4.1% for all banks during the same period.

Some, like Home Federal, will make big one-time expenditures. But where will the rest focus their technology spending?

Doug Underwood, managing



Darin Oswald

Dan Stevens expects to recoup the cost of Home Federal's core-processing overhaul in three years.

director of technology risk management services at RSM McGladrey, a Minneapolis consulting firm, said many are investing in systems for imaging checks and loan files, and managing customer profitability.

Small banks have also been targeting their IT spending toward compliance products, security software, and automation, say industry analysts and insiders.

Online authentication has been a large part of small-bank security-related technology spending as they race to meet guidelines issued in October of last year by the Federal Financial

Institutions Examination Council, which urged financial companies to tighten their authentication procedures by the end of 2006, and which is requiring more than the standard username-and-password combination. "Everyone is scrambling," said Jacob Jegher, a senior analyst at Celent LLC, a Boston consulting firm.

Corillian Corp. (No. 88 on this year's FinTech 100 survey), **Digital Insight Corp.** (No. 46), and **S1 Corp.** (No. 48) have all begun offering new authentication software products. "There's a lot of different solutions for multifactor identification," Mr.

Underwood said. "Some are more effective and expensive. Many community banks are at the mercy of their core vendors," because most cannot afford to buy products a la carte or devote the time and resources to integrate an off-the-shelf system.

Community banks have also increased their spending on regulatory-related products, such as software needed for complying with the Bank Secrecy Act, say industry insiders and experts.

This year GB&T Bancshares, a \$1.8 billion-asset bank holding company in Gainesville, Ga., started using Yellow Hammer Fraud Detective, a system sold

by **Jack Henry & Associates Inc.** (No. 25) of Monett, Mo.

"Mostly we use it for BSA compliance," said Peggy Higginbotham, a senior vice president of information services at GB&T.

In addition, community banks are spending on technology to comply with the Sarbanes-Oxley Act and the Gramm-Leach-Bliley Act.

"We are constantly making sure we have adequate protection in place to make sure the customer is comfortable," said Steven Birmingham, director of technology at Pennsylvania Commerce Bancorp Inc., a \$1.8 billion-asset bank holding company in Harrisburg. "We are not afraid to spend money. We look at technology as a very important piece of what we do."

AUTOMATION

Experts say that community banks, having learned from some of the mistakes big banks have made, are not spending on enterprisewide CRM projects. A product will serve one purpose, instead of incorporating sales, marketing, and customer service. "What we are seeing more today are pinpointed, specific projects in the area of CRM," Celent's Mr. Jegher said.

GB&T bought Touche CRM Solution from **Harland Financial Solutions Inc.** (No. 42) about two years ago, but its sales representatives did not start using the software in earnest until recently. The product offers contact history management, sales and referral activity, problem resolution, and service management for each customer.

"That is just beginning to

catch on,” said W. Michael Banks, senior vice president of marketing at GB&T. “It’s a great product, but it’s just a matter of getting people to change — it takes a little time.”

GB&T is also installing Wealthview Leadbuilder, a teller system application from **Fincentric Corp.** (No. 95) in Richmond, British Columbia. The software, which will also work with the Harland CRM system, should help GB&T generate more leads while tellers interact with customers. “This will significantly improve our referrals and sales,” Mr. Banks said.

Like other community banking companies, GB&T plans to increase its spending on technology related to the Check Clearing for the 21st Century Act. It estimates that Check 21-related expenditures will make up 35% to 42% of its technology budget next year.

“That, for us, will be a very large percentage” of that budget, Ms. Higginbotham said. Areas where it plans to spend include check imaging for electronic image exchange and offering remote deposit capture to corporate and small-business customers.

GB&T closely monitors its

information technology spending, Ms. Higginbotham said. It has an IT steering committee and created an IT strategic plan.

“We are very careful to do a cost-benefit analysis,” she said. For example, “with remote deposit capture, you can spend a little or you can spend a lot.” Now the company is weighing what course to take with remote deposit capture; that process includes estimating how many customers would be interested and how many items they would use.

Smaller banks have an advantage in technology spending, because they have more control and flexibility in choosing products, Ms. Higginbotham said. Big banks often take on technology initiatives with extensive internal development, but companies such as GB&T do not have that luxury, for better or worse.

Ms. Higginbotham said she likes being able to choose from vendors with Check 21 experience. “We have the option to look at outsourcers that have been doing it for a long time, and we can be up and running quicker.”

Check 21 dovetails with community banks’ efforts to improve all types of paper-based processes.



Pennsylvania Commerce isn't afraid to spend on IT, Birmingham says.



Johnny Crawford

GB&T bought a CRM product in 2004 that’s “just beginning to catch on,” Banks says.

“The theme seems to be automation and workflow,” said Scott Hodgins, a senior director at Cornerstone Advisors a Scottsdale, Ariz, bank consulting firm. Imaging of loan and deposit documents is high on the priority list.

Stephen Masterson, a partner and western region advisory services practice leader at Grant Thornton, a Chicago consulting firm, said community banks could use fine-tuning in automating financial reporting and accounting.

“Any CFO you talk to would like a more efficient financial reporting and consolidation tool,” Mr. Masterson said. “At small banks, you still see a bunch of accountants taking stuff out of the general ledger and putting it manually into

Excel spreadsheets. Too many dollars are being spent on maintaining what they have. They could do a much better job at outsourcing a lot of this stuff.”

CORE PROCESSING

Many community banks with assets of less than \$1 billion are wrestling with the decision of whether to scrap their core processing systems. Many of these banks have outgrown their systems, but the expense and risk of switching to a new system gives them pause, experts say.

But the upside is easier integration of software applications with the core systems. Modern core processors are much more flexible and can accept more third-party software products.

“Having a core provider upgrade its system or switching core processors requires chang-

ing the transaction engine. It is a tall order,” said Guillermo Kopp, vice president of cross industry at MasterCard International’s TowerGroup, a consulting firm based in Needham, Mass.

Home Federal, whose assets have increased more than 200% in the past seven years, spent two years picking a vendor and getting up to speed. The previous system could not be customized for the thrift’s expansion into small business. “It was an old system that didn’t fit our business model anymore,” Mr. Stevens said.

The new system, from **Open Solutions Inc.** (No. 51) of Glastonbury, Conn., is server-based and allows Home Federal to scale up as its market expands.

“This system has the ability to grow with us,” Mr. Stevens said. “We didn’t want a system we would have to constantly update in order to keep pace with our growth.”

Mr. Keenan, a former American Banker reporter, is a freelance writer in Brooklyn, N.Y.



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The Implications of an Accidental Architecture

■ BY DAVID COX

The financial services industry today finds itself supported by what could be referred to as “accidental architecture.”

What this means is that, if financial institutions were to design something to address their needs now, they probably would come up with something vastly different than is currently in place.

How this came to be is an interesting question. Was the industry moving faster than technology? Or has technology failed adequately to forecast the industry’s needs? The truth may lie somewhere in between, depending on the market sector.

But one thing is clear: This disconnect between tomorrow’s needs and today’s technology, combined with a rapidly changing and increasingly regulated market, has significantly shaped the financial industry’s I.T. agenda.

Protecting the firm. In an environment of increased and sometimes unpredictable risks and regulatory concerns, financial institutions are increasingly driven to protect their brand. They are focused on mitigating risk (market, reputational, security, and fraud-related) while addressing regulatory concerns through an aggressive compliance program. The goal is to bring the firm to an enterprise management level through a holistic framework encompassing individual and historically independent business units to

manage a combination of customer, operations, financial, and risk management metrics.

Simplifying internally. The softening business climate is driving most financial companies to achieve gains in productivity through process improvement and more integrated automation. Maintaining complex internal operations and technology only adds significantly to the cost base.

Differentiating externally. By differentiating the front office, financial institutions are offering more value to their client base and more uniqueness in their services. Institutions accomplish this through more tightly defined customer segments and targeted markets. A service infrastructure that differs little from institution to institution leads only to increased commoditization in the financial services industry, which is already challenged by a higher level of global risk.

Selling to a market of one. Financial firms are increasingly customizing their services around individual client requirements, albeit off more standardized platforms and delivery mechanisms, while cross-selling their services to a more demanding and discriminating customer base.

The IT community’s response to the issue of accidental architecture has been to embrace service-oriented architecture and to develop communications layers that seamlessly link stalwart

legacy systems with emerging technologies.

Though retail banking companies struggle with the concept of “rip and replace” when it comes to core systems that have stood the test of time, the investment community increasingly gravitates to integrated trading platforms and global exchanges, to simplify internally, and to increasingly sophisticated investment strategies searching for “portable alpha” — higher returns from multiple markets — to meet a wider range of client requirements.

But our new world thirsts for more knowledge about both cus-

Technology has gone from shrink-wrapped software to open-source architecture.

tomers and performance. As a result, we see an increasing need for analytic tools that provide more sophisticated modeling capabilities, as well as enhanced customer segmentation. We have seen examples of these in insurance and credit cards (selling to a market of one). In the asset management industry, many firms are trying to achieve an improved, common framework for pricing and risk management models over an increasingly broader level of diversified asset classes (protecting the firm, simplifying internally, and differentiating externally).

Globalization remains a fac-

tor across all markets as technology developments empower a “sourcing revolution.” Work can be separated into more manageable pieces, almost like parcels of data in a packet switching network, and increasingly developed, assembled, and distributed around different parts of the world.

This year **HSBC Holdings PLC** became the largest banking company in the world with significant operations in almost every major region. This reminds us that the development of global financial services continues unabated, and that emerging markets (such as

China, India, Mexico, and Brazil) increasingly will become the main source of organic growth opportunities for entrenched players.

So while players in mature financial markets leverage their existing base and manage an increasing spectrum of risks, emerging markets will increasingly focus on build-and-buy scenarios led by the revolution in offshoring and outsourcing. This will create a more geographically level and diverse playing field for both IT vendors and end users.

Regulatory issues continue to challenge and inspire the finan-


cial services industry, coalescing around the themes of increased transparency, operational risk, market integration, and customer accountability. Europe continues to focus on being a more integrated capital market (international financial reporting standards) and an increasingly global financial services market (Basel II and Solvency II). The United States is in a consolidation phase, while absorbing the many important initiatives from its own regulators and keeping a watchful eye on changing global requirements.

One glaring gap in financial services applications concerns technology specifically geared to reducing the costs of compliance. Some vendors have been moving in that direction, but not nearly quick enough. Meanwhile, compliance costs for many financial services firms continue to soar, at a tremendous cost to the bottom line.

In this environment regulators are unlikely to reduce their efforts as more and more individuals become dependent on the continued health of the markets and their participants, as a result of the growth in private pension (defined-contribution) plans.

How financial services firms and their technology partners work to address these challenges will be an increasingly important factor in their success in the months and years to come.

Mr. Cox is chief research officer at Financial Insights.



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A photograph of two hands clasped together, holding a blue STAR debit card. The background is a vibrant sunset over a body of water, with the sun low on the horizon, creating a warm, orange and red glow. The text "Keep your customers committed to you." is overlaid in white on the upper portion of the image.

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