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Smarter Banking for a Better Planet

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MR. FRITZ NELSON: You may have noticed the booming voice of IBM's focus on helping build a smarter plant which ranges from its efforts in things like traffic congestion management in places like London and Stockholm to developing a more intelligent energy grid. But we wanted to understand how financial institutions could play a role in building a smarter planet. How it extends to the underpinnings of our global economy. The very financial systems that are wobbling so precariously. We asked IBM's Wendy Feller how to build a smarter bank. What is a smarter bank, what does that mean?

MS. WENDY FELLER: Well, without a doubt, we are experiencing one of the most pervasive errors of disruption in financial history, and it's not just about the size but the velocity of change. We've seen decade's worth of change compressed down into months, even mere weeks. So now, more than ever, is the need for banks to be smart. The reality is that it is not just about addressing risk. It is about delivering sustainable success and sustainable return. For banks, this means putting their client interests as paramount. Really innovating around the way customers live, work and play. Secondly, it means delivering on financial market stability and being prudent around things like risk, leverage and delivering transparency to the market place. Third, it has to do with really embedding that level of agility into the organization and the technology infrastructure that allows organizations

to quickly change and adapt to market conditions. Take the client, for example. Imagine a bank that can communicate to their customers through any mode of communications that the client chooses. You know, proactive alerts around things like a CD coming due or a deposit that has just hit your bank account or new refinance opportunities. Imagine a bank that could, with your permission, look at your expenses, maybe your utility bill and compare it to your neighbors', and can proactively advise you on not only how to reduce your expenses but also how to become more green. That is a smarter bank.

MR. NELSON: That sounds like what a client might want. But there is often a disconnect between what a bank thinks a client wants and what it will actually value and pay for. So what will a client value and pay for today?

MS. FELLER: Now interestingly, we asked that exact question and what we found is that there are significant disconnects between what clients say they value and what providers think they will value. It really revolved around three major disconnects and what I will say are the three top items that clients valued: trust, service and products. By trust, I really mean a greater level of transparency, also reputation and integrity. When I talk about service, it really has to do with things like delivering service excellence, as well as being the real, true, unbiased advisor to the client. And when we talk about products, it really has to do around innovating world-class products in a fast time-to-market and creating the level of customization and tailoring around the clients. Increasingly clients want to package their own products. It is these capabilities that will be required to close the gaps and get much closer to your clients.

MR. NELSON: Now you mentioned risk before. Obviously, executives are concerned about risk. How does this smarter bank deal with risk?

MS. FELLER: We have spoken to many executives about this but we have also been able to speak to the regulators, and the theme has really coalesced around one major aspect or concern related to risk, and that is really balancing the yin yang - what we will call yin yang - of financial market stability and healthy financial innovation. What do I mean by financial stability? Really it has to do with not only one firm's ability but the entire financial market ecosystem's ability to be resilient to huge volatility and contagion risk in the marketplace without squashing financial innovation. Obviously, healthy financial innovation has to be able to deliver sustainable returns to the real economy, right to GDP.

MR. NELSON: Another challenge is competition for talent. How are smarter banks dealing with that and the need to collaborate and have more of a shared innovation?

MS. FELLER: Even after the financial crisis, 73% of executives have come back and said we expect to compete intensely for specialized talent, and over 50% say over the next three to five years we will need to invest in growing and developing our talent. Now the reality is that we are seeing a much smarter, a much faster and more integrated market. Globalization and high-speed communications are changing the entire way banks transact and interact in the marketplace. This becomes critically important not just for banks but for their talent and how they interact with their customers. They need to transcend beyond kind of the one-to-one provider-to-client interactions, to more kind of the read-write, two-way discourse with their clients. Now large organizations are very focused on this. We've heard some organizations coming back, actually 60%, saying now that their focus is actually inviting the customer to do things like help explain, enhance, and promote their products. Secondly, a growing number of larger organizations are looking at how do they actually treat the customer as a co-developer of products. So it's becoming increasingly important to really pull the client into that entire process.

MR. NELSON: Well we can't talk about a smarter bank and a smarter planet without talking about green. So talk about what green and beyond means for a smarter bank.

MS. FELLER: Well increasingly, green is not just about the color of currency within banks. In a recent survey, 59% of CEOs said that the customer demand for corporate social responsibility is truly having positive impacts on their organizations. And they expect to invest more in corporate social responsibility, increasing 32% over the next three to five years. But the reality is there are certainly big organizations already out there who are saying they are making a fundamental part of their value proposition to the market place to address things like climate change in corporate social responsibility. And organizations are moving beyond just looking at reducing their environmental foot print and carbon emissions to really building this into their product portfolio, looking at ways, for example, to create green investments, to create eco-friendly credit cards, even green mortgages. As one executive of a large organization put it he sees this occurring in three stages, first organizations will get involved because they feel compelled to do so. Secondly, they will really start to recognize the true business

importance and business bottom line impact of doing this. And thirdly, they will really develop a passion for doing this because of the benefits to the plant.

MR. NELSON: Wendy thank you for talking to use today about the smarter bank.

MS. FELLER: Thank you.

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