fs viewpoint

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Return to spender:
How financial institutions can better understand their IT investments and get more out of them.

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Point of view

Financial institutions have spent heavily to improve their technology capabilities but are still left questioning the value they are getting from IT.

Businesses still don't know if they are getting the most out of their investments.

It is time to know.

Efforts to realize additional IT value have hit their limits.

Advancements in running "the business of IT" have been limited.

The quest for IT value requires new tools and a new mindset (a new "ecosystem").

Global IT spending by banks is forecasted to grow by 3.4% to US$179.2 billion in 2013.[1] Of the annual 6%-7% of revenue invested in IT, (see chart on next page) only a very small fraction is spent ensuring that organizations maximize their investment. Financial institutions should look at their culture, their decision-making apparatus, and their "IT ecosystem" in order to achieve full IT value. Improving an organization's ability to plan, capture, and retain IT value may require slow improvements in the IT value ecosystem, as there may be no more highly leveraged way to increase IT value.

We hear CEOs and business leaders struggle to answer:

What are we getting for our IT investment?

Are we spending the right amount to get the results we need?

We hear the CFO asking:

How do we understand whether we are getting the value we expected?

How can we get actionable information about our spend?

We hear the CIO repeatedly asking:

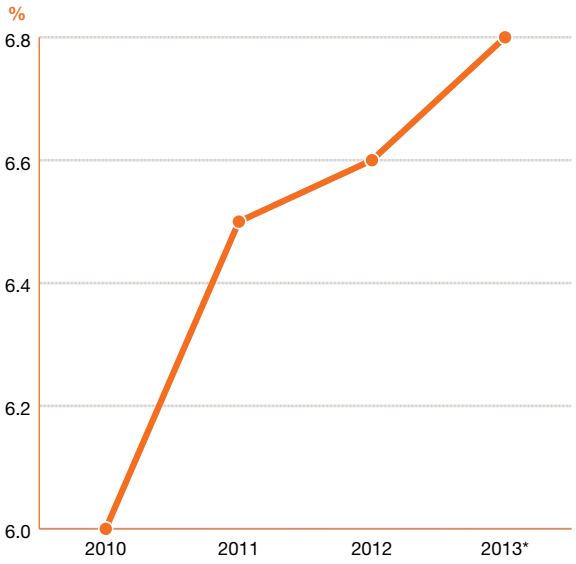
How do I better explain to the business what it takes to run IT?

How do I get the business to understand how it affects the IT budget?

1 Celent, "IT Spending in Banking: A Global Perspective," March 2012.

Companies spend a fortune on IT but have trouble measuring the value they get from their investment. Isn't it time to know?

Figure 1: Banks and financial services firms have consistently spend an average of 6%-7% of revenue on IT, which tracks closely with revenue growth.



*Projected by Gartner.

Source: Gartner, "IT Key Metrics Data 2013: Key Industry Measures: Banking and Financial Services Analysis: Multi-year," December 2012.

The question of realizing IT value continues to be critical.

Sooner or later, in our discussions with the CEOs, CFOs, and CIOs of our clients, the conversation focuses on whether they are getting the expected return on their IT investments.

For most financial institutions, their annual investments in IT seem to be buying less.

Financial institutions have typically spent an average of 6%-7% of annual revenue on IT (see Figure 1). Traditionally, these investments have been made in building and maintaining large systems. Today's increasingly dynamic and competitive marketplace, where product speed to market and corporate agility are increasingly important, requires IT to be nimble. Changes to large legacy systems, and the systems built on top of them, are too complex and take too long. In a world where companies expect to get what they want quickly and inexpensively, the IT response to requests is perceived as being of lower value.

The easy gains have been made. To continue increasing value, IT will need to partner with the business to reduce complexity and better communicate the long-term impact of business decisions.

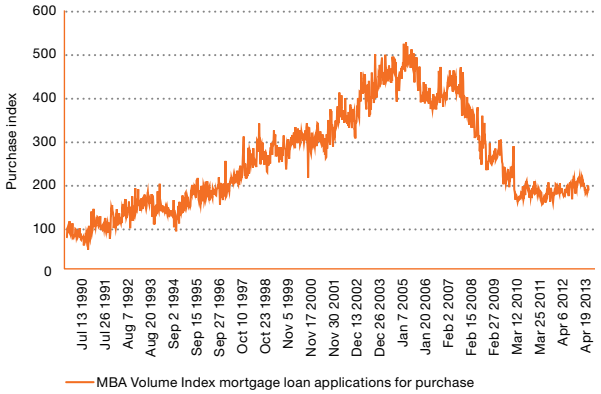
Over the years, IT organizations have made significant strides in driving down costs. They have consolidated data centers, "virtualized" servers, and off-shored labor, but these actions, which do not require deep discussions with the business, have only managed to keep budgets flat. To compete in the marketplace, IT can no longer rely on the "low-hanging fruit."

Improvements to the IT value ecosystem should improve transparency and increase the organization's confidence in the value of IT.

To truly maximize the value of IT, financial institutions must invest time and money to better understand the drivers of IT cost, create planning processes that align accountability and decision making, segment and collect IT instrumentation data at a deeper level, and build systems that can enable people to make better day-to-day decisions. Organizations can provide the necessary transparency and competency to make the question of value disappear only by investing in this IT value ecosystem and by acquiring the ability to measure and improve in tandem with the business.

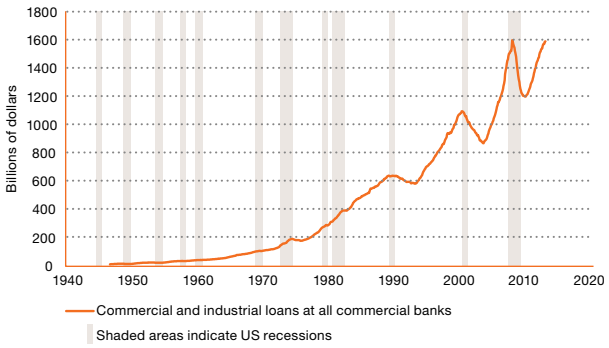
It's critically important to align spending with strategy because the markets are ruthless.

Figure 2: Mortgage purchase applications remain well below pre-recession levels.



Source: Haver, Mortgage Banker's Association, and PwC analysis.

Figure 3: Commercial and industrial loans are only now recovering from the Great Recession.



Source: Federal Reserve Bank of St. Louis.

1 Board of Governors of the Federal Reserve System, "Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, September 2013," www.federalreserve.gov, accessed December 11, 2013.

Competitive factors are fueling the pressure to drive down expenses and improve returns.

The current economic environment, both in the United States and abroad, continues to prove challenging.

On September 18, 2013 the US Federal Reserve reiterated its view that the US economy continued to expand at "a moderate pace." The 2013 GDP forecasts were revised down to a range of 2.0-2.3% (30 basis points below the Fed's June projection).[1]

The unresolved European sovereign debt crisis continues to present downside risk and muted economic growth abroad.

Activity levels of several major financial sector businesses are flat or declining.

Mortgage loan applications for purchases have declined sharply since January 2005 and a slight rebound seen in 2012 and 2013 has quickly dissipated with recent increases in Treasury and mortgage rates.

Commercial and industrial lending were still 2% lower in August 2013 than the high of October 2008.

Reliance on data continues.

Financial institutions' thirst for data is at an all-time high and increasing each day, and IT is struggling to meet the demand. Whether it is data detailing customer behavior, portfolio risk, or the proliferation of third-party data, better data is essential for enabling the business. In addition to systems and projects, the increasing demand has caused new positions to be created, such as the chief data officer (CDO).

Accountability matters. However, many IT decision makers either perceive a lack of accountability for IT investment outcomes in their organizations or they are not sure how accountability is managed. Given today's business imperatives, every IT dollar has to deliver value.

From our perspective, IT value is being compromised due to an inability to make fact-based decisions.

Market pressures magnify the pressures on IT for lower costs, realizable benefits, and improved transparency.

IT costs remain a large percentage of expenses.

As pressure on margins increases, there will always need to be ways to reduce expenses. Given that IT spend is such a large portion of the overall expense, it will remain a target for CFOs.

IT faces increasing difficulty meeting the needs of the business.

The technical complexity resulting from years of "waxy build up" on legacy systems makes it very difficult to enact change quickly. What seem to be simple changes to the business often require changing code deep in legacy systems. This delay is very difficult for the business to understand.

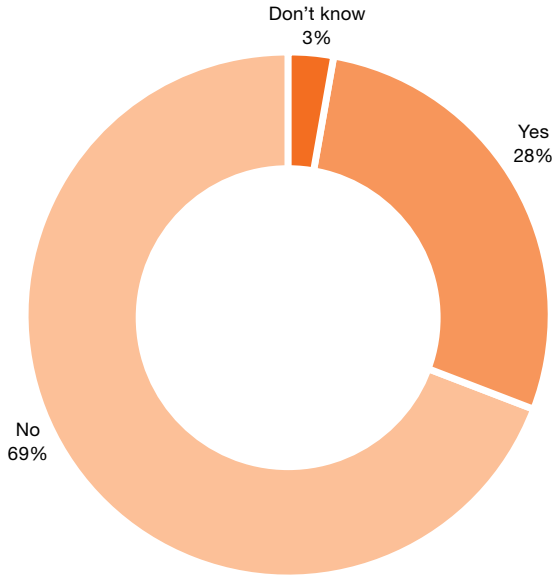
Next steps will require a business partnership.

Many of the cost reduction efforts to date have required very little business participation (for example, data center and server consolidation, and network contracts). The next round of efforts will include application rationalization and product complexity and will need to be done in partnership with the business—an often difficult task when the trust between IT and the business is diminished.

Lack of transparency

The IT-business relationship is strained. IT reports spend and other metrics in terms that are foreign to the business and that do not enable trust. IT is realizing that the "right" transparency is needed to build/restore trust.

Figure 4: In a 2012 survey performed by Forrester Research, 69% of respondents—all of them IT decision makers—indicated there was not a consistent process for conducting post-implementation reviews to measure actual value obtained from IT investments in their organizations.



Source: Forrester Research, Inc., "Measuring BT Governance Outcomes Through Balanced Scorecards," February 8, 2013.

Some of our clients are struggling to solve real-world problems.

Detailed observations of market leaders and laggards are on pages 18 and 19.

Culture and business context

Financial institutions have built cultures based on consensus decision making, which has the effect of slowing decision making because it is unclear who can make the decisions.

Escalation is seen as risky. Institutions continue to find it difficult to abort large, unsuccessful projects before it's "too late."

Institutions feel constrained by internal planning, allocation, and reporting structures, and do not drive needed change.

Decentralized organizations are looking at more centralized and hybrid models.

Segmentation and transparency

Financial institutions tend to be lax in their implementation of IT portfolio management. They tend to focus only on bigger projects and cost-benefit hurdles, resulting in underperforming portfolios.

Both the business and IT struggle with understanding the implications of demand, consumption, service levels, and risk levels on cost.

Financial institutions adopted the categorizations of "build" and "run," but these are too simple to provide insight or be actionable, and they are not deep enough to support business decisions around service and risk.

In tight times, organizations too quickly make "across the board" cuts instead of aligning reductions to business changes.

Decision rights

Business and IT stakeholders struggle to understand who has decision rights (e.g., "everyone shares the problem, but no one owns it" and "we just keep on voting").

Financial institutions have focused on the large-project spend from both a decision-making and implementation oversight perspective.

Financial institutions inadequately analyze and manage the large spend on smaller project areas and the risk, service-level, consumption, and policy-driven areas of IT spend.

Financial institutions tend to be driven by annual planning cycles, which are out of sync with multi-year time horizons for both spend and benefits realization.

Instrumentation

Excessive energy is spent compiling reports that are based on poor granular data and impenetrable allocations. Time keeping and project tracking are often made overly complex but miss key elements.

Financial institutions tend to drive for more detailed data rather than to correct and align underlying data.

Business partners have a fundamental disconnect between investments in projects and the ongoing expenses that those investments generate in production.

The maturity and adoption of standard infrastructure have enabled infrastructure platform rationalization. Less progress has been made on meaningful comparisons around competing development methodologies.

Service levels have been put in place at many organizations; however, many service levels remain unstated. This puts pressure on the shared service organizations to offer "luxury" service to all customers, since they do not have the ability to differentiate among customers.

Given the pressure to reduce costs and deliver immediate value, it is not hard to understand why companies do not invest in the tools, processes, and behaviors needed to maximize IT value.

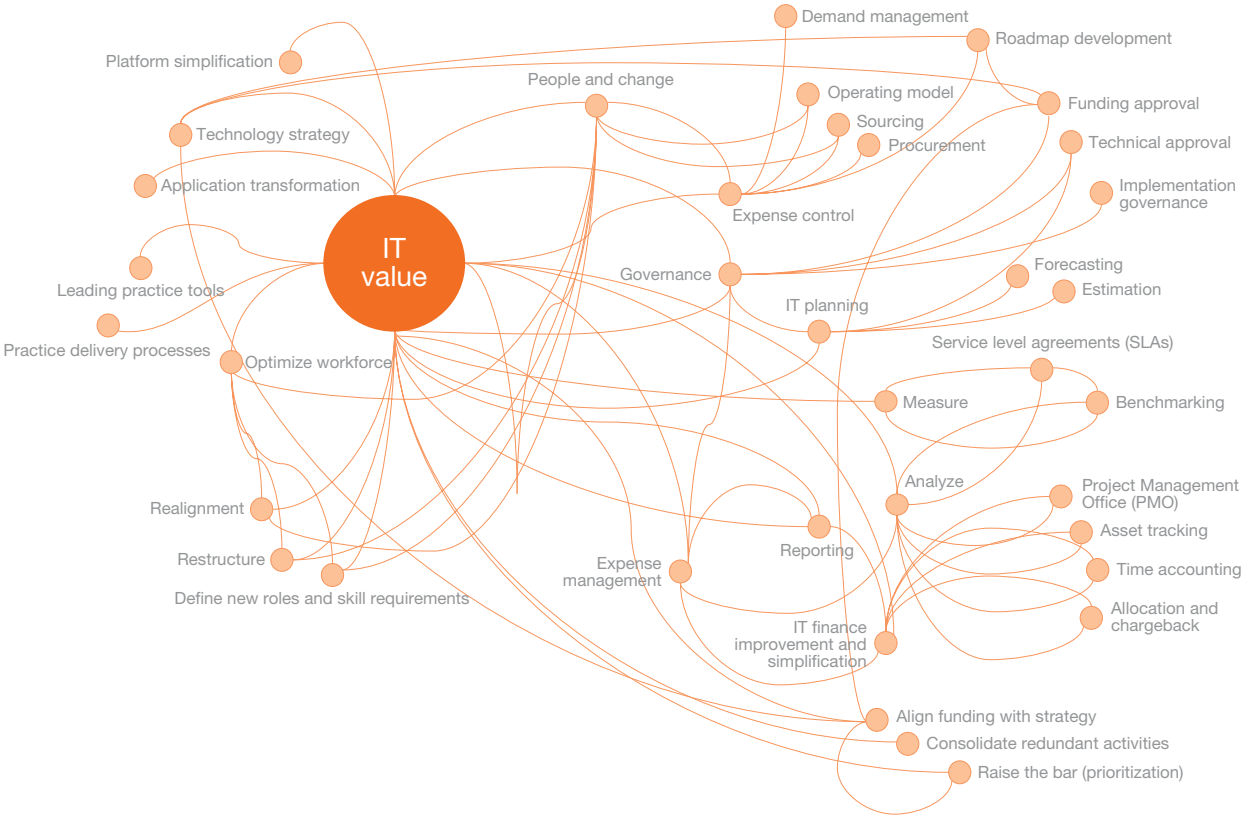
Why is managing IT value so hard?

The responsibility for managing IT value is fragmented across the organization and often lies within competing organizations.

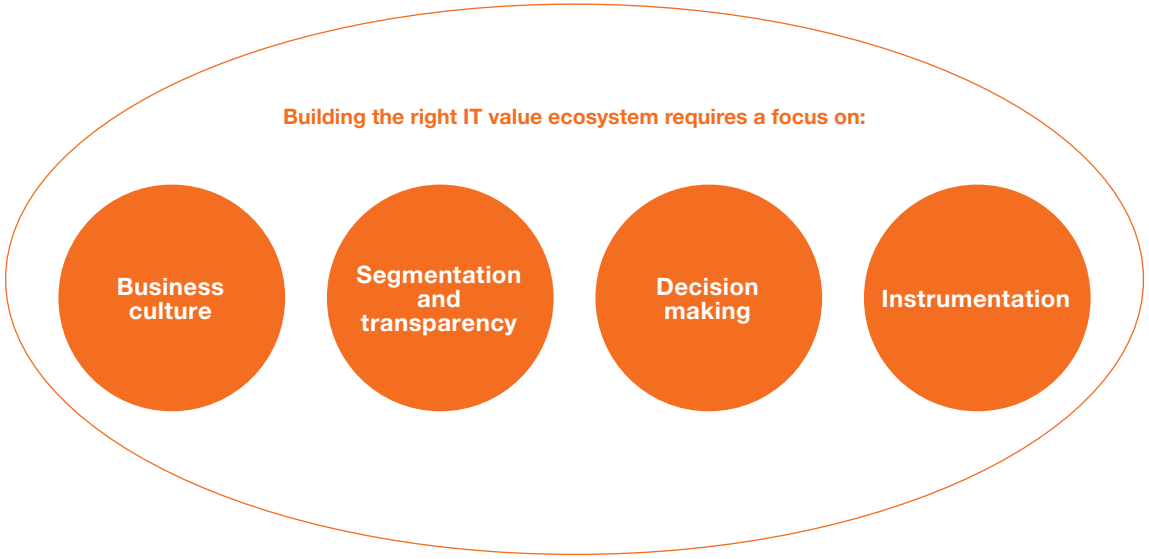
The processes and tools in place often are not designed to measure value at a deep enough level to inform decision making; instead, they report history.

Over the years, across many client interactions, we have mapped the ways that organizations try to manage IT value.

The picture is not pretty, but it can be fixed.



What's to be done?



What is an ecosystem?

Any system of interconnecting and interacting parts.

How do we define the IT value ecosystem?

People, processes, and tools that impact an institution's investment decisions and how it measures and acts to improve on the value of those investments.

Pursuing IT value is difficult because decisions "live" in a complex ecosystem.

Improving the IT value ecosystem requires an integrated framework designed to help organizations effectively manage investments in IT to achieve their expected return on investment. Working within the right framework, financial institutions can position themselves to create a solid foundation of data to support fact-based decision making.

We think financial institutions should view IT value not as a systems issue but as an ecosystem issue. Given the relatively small investments that have been made in the IT value ecosystem, the importance of getting it right is critical.

In our view, decision making and implementation go hand-in-hand and are most successful in a well-constructed ecosystem. Whether spending levels are appropriate or not, many financial institutions could improve their return on investment by focusing, at least in the short term, on the IT value ecosystem.

What elements make up the IT value ecosystem?

Improving the IT value ecosystem is critical to increasing transparency and restoring trust with the business. This improved trust can then be parlayed into improved planning and decision making.

Business culture

Do our cultural norms support alignment with the business?

- Business-IT partnership
- Escalation
- Communications

Business culture includes outlook and expectations around time horizon and impact of change.

Company culture includes accepted norms relative to accountability, escalation, problem resolution, and decision making.

Internal and external communications patterns are included, as well as organizational reporting constructs.

Segmentation and transparency

Do we collect actionable information?

- Segmentation
- Levers and dials

Understanding the total cost of ownership (TCO) of *all* decisions.

Spend needs to be segmented and aligned as closely as practical to business functions and supporting platforms.

Collecting data at a deep enough level to inform choices around service and risks.

Business and IT executives need line-of-sight access to the levers that control costs.

Decision making

How do we make decisions? Who is accountable? Who participates?

- Processes
- Mechanisms
- Decision rights

Decision rights need to be clear and they need to be lined up with those who are accountable for delivering results (usually bottom line results).

Decision-making processes and forums should align with strategy and operating models that are positioned to trade off on service-level and risk-level assumptions.

Instrumentation

How do we measure and report on the information?

- Measure
- Plan and forecast
- Charge and allocate
- Analyze

Decision makers need quality granular data and supporting processes and systems to measure, plan, forecast, and charge back effectively.

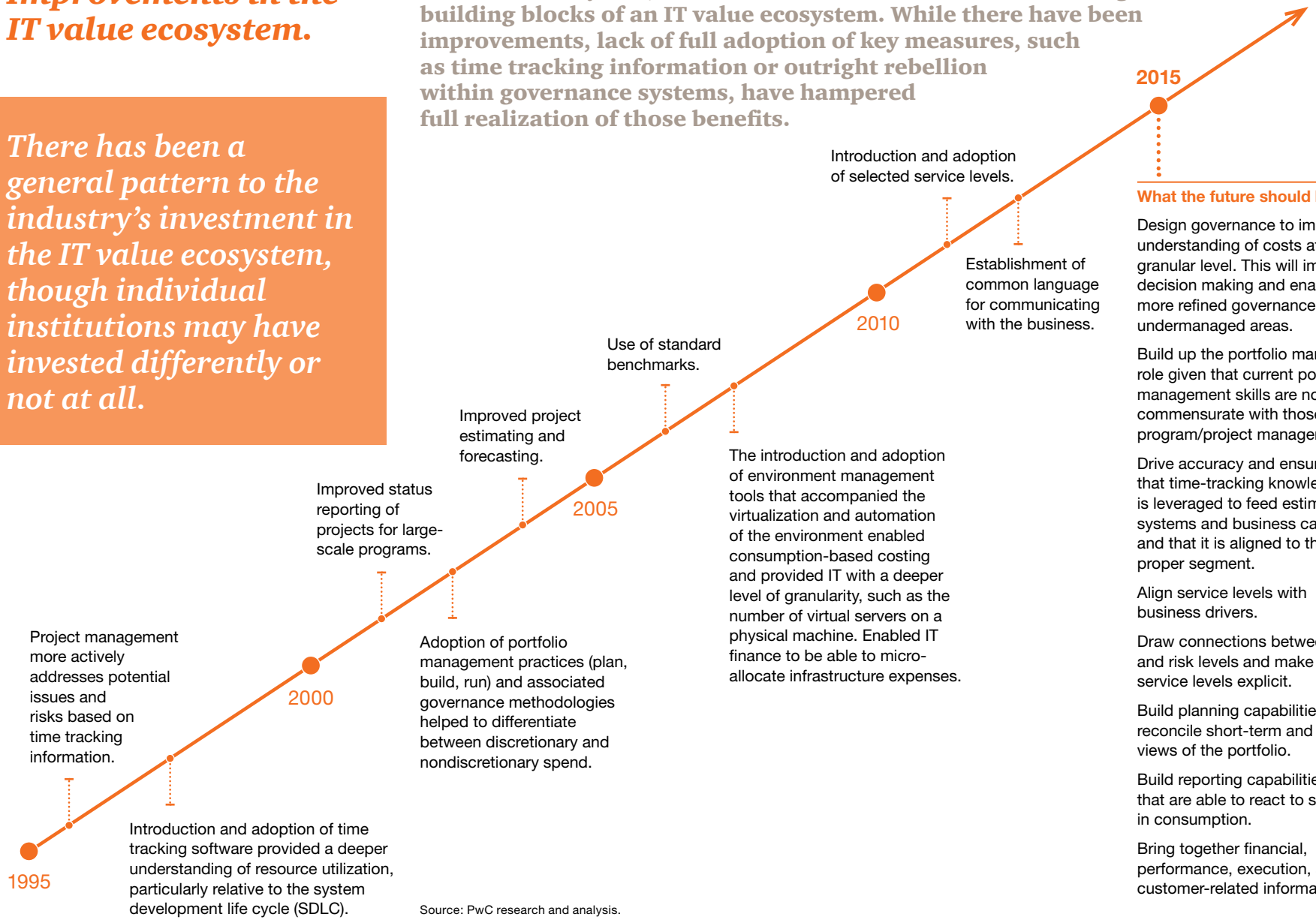
Decision makers need high quality, benchmarked data as well as timely feedback to drive sound decision making.

They also need the ability to aggregate data with business metrics, including customer satisfaction and financial, operational, and project-related information.

Improvements in the IT value ecosystem.

There has been a general pattern to the industry's investment in the IT value ecosystem, though individual institutions may have invested differently or not at all.

For the last 15 years, financial institutions have been investing in the building blocks of an IT value ecosystem. While there have been improvements, lack of full adoption of key measures, such as time tracking information or outright rebellion within governance systems, have hampered full realization of those benefits.



Source: PwC research and analysis.

What the future should bring

Design governance to improve understanding of costs at a more granular level. This will improve decision making and enable more refined governance of undermanaged areas.

Build up the portfolio management role given that current portfolio management skills are not commensurate with those of program/project management roles.

Drive accuracy and ensure that time-tracking knowledge is leveraged to feed estimation systems and business cases, and that it is aligned to the proper segment.

Align service levels with business drivers.

Draw connections between service and risk levels and make implicit service levels explicit.

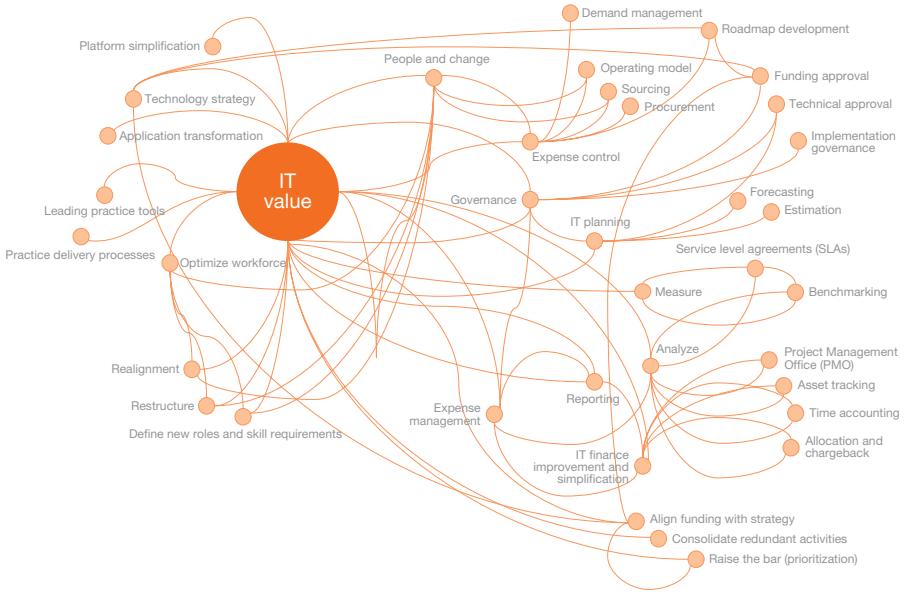
Build planning capabilities that reconcile short-term and long-term views of the portfolio.

Build reporting capabilities that are able to react to shifts in consumption.

Bring together financial, performance, execution, and customer-related information.

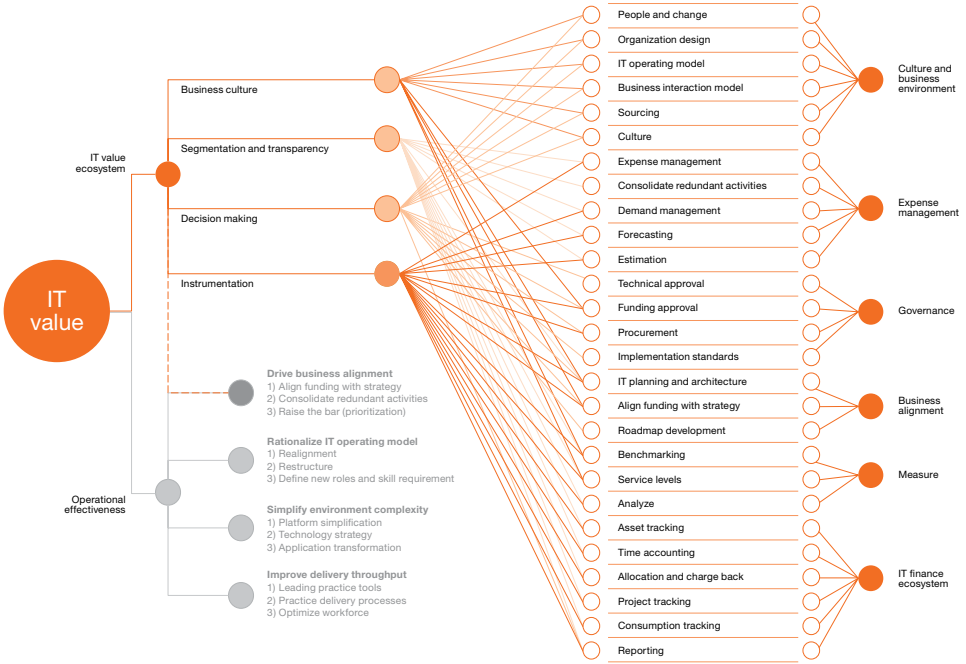
In relation to the size of the IT portfolio, an investment in the IT value ecosystem is going to be small. We believe it may be one of your highest-returning investments because it will position an improvement in the returns of the whole portfolio.

This illustration of how our clients view IT value shows a complicated web of interlocking issues. This chaos causes many clients, especially those without clear accountability, to give up because they find the complexity daunting.



Leading institutions are treating their IT value ecosystem problems holistically by simultaneously improving their governance models and the instrumentation provided by their underlying support systems, and then providing transparency into their spending habits to support planning and decision making. The results are a new working relationship with the business *where the quest for IT value is undertaken in partnership.*

While it can be a complicated web, it is one that we have helped organizations untangle. By methodically sorting out the dependencies and interrelationships in a mind map like the one here, our clients have found that this web may still be complicated, but is not insurmountable.



Leading financial institutions are realizing their inability to measure true value and are making holistic investments in the ecosystem.

Untangling the puzzle

- *Decentralized structures boost speed under conditions where markets are growing and changing quickly, but they often don't perform well under difficult market conditions.*
- *Centralized structures tend to reduce cost and redundancy, but they are purposefully less responsive to the business.*
- *Matrixed governance structures are required to give flexibility in changing conditions, but they are cumbersome and can become bureaucratic and difficult to control.*

Leading organizations are improving their IT value ecosystems purposefully and systematically, and they are getting results. We have observed that, having recognized the need to improve their IT decision making, proactive financial institutions are investing in the right systems and processes to deliver the right results. For example:

- **Modern time tracking, consumption metering, planning and reporting systems, and procedures** enable a disciplined and methodical approach to gain a better understanding of an organization's IT spend, consumption, efficiency issues, and practices.
- **Advanced reporting and benchmarking technologies** are used as a means of balancing financial and architectural decision rights so that both current, urgent business needs and long-term strategic goals can be championed.
- **Supporting a planning process** that fully engages business and IT partners in understanding the business needs and prioritization decisions made both inside and outside of the annual planning process.
- **Building an organization and sourcing model** that helps to reduce costs while enhancing flexibility and increasing institutional knowledge.

Financial institutions that invested in IT value ecosystems have created a business-IT partnership in which there is no question of value. The question is: "How can we jointly get more value out of IT?"

The biggest benefit: restored trust

While there are many benefits that result from investing in the IT value ecosystem, the greatest is the trust established between IT and the business. Only by having a renewed partnership can financial institutions face their most difficult problems.

Key benefits to investing in the IT value ecosystem include:

- An expectation that IT investment will be actively managed under a jointly agreed-to set of guiding principles.
- The ability to measure and benchmark IT spend in segments and categories that are aligned with the business goals, and not merely for IT's convenience.
- Joint construction of the annual budget with an understanding of the service and risk trade-offs facing the business.
- A deeper understanding of the total cost of ownership (TCO) of discretionary projects.

Clearly, improving the culture, transparency, decision making, and measurement for IT investments can lead to increased value. However, as we have seen, it isn't a simple pursuit, and even leading financial institutions will likely encounter cultural, technical, and operational obstacles.

The barriers to success may include the existing business-IT partnership as well as the organization's culture and governance structure.

Leading financial institutions overcome these obstacles by relying on the following tools:

Buying and reading the "self-help" book on good governance. Leading financial institutions understand that even the most competent executives can't make the right decisions without the right facts and context. Leading organizations are reevaluating, redesigning, and retooling the decision-making apparatus that encompasses portfolio management short- and long-term strategic planning, joint business-IT annual budgeting, and project funding to enable better decisions.

Improving the effectiveness of IT finance methodologies. It is important to count and measure almost everything, but we also believe in the concept of "meaningful digits." Typically, to enable effective management of products and appropriate accounting for profitability, allocations are used to properly allocate costs associated with revenues. Although information must be meaningful, it need not be precise. Leading organizations keep a close watch on the usability of information they produce and the level of precision required, especially relative to allocations, activity-based costing, and tracking.

- Where detailed information is used infrequently, such as annually, leading financial institutions support reasonable approximations and interpolation.
- Where information truly needs to be precise and in real time, leading financial institutions have determined that building the underlying mechanism is warranted.

Enabling useful IT benchmarking. When it comes to making corporate improvements, even inadequate benchmarks can be used to set and drive toward targets. That said, if financial institutions cannot gather the necessary internal data to compare it against the benchmarks, those benchmarks will not be meaningful. To make IT benchmarking more meaningful, carriers should take a sophisticated approach, going beyond just becoming knowledgeable about the use of available benchmarks to gaining an understanding of their own internal business and IT metrics and appropriate spend.

Successfully rationalizing IT applications with the business. What's needed is a trust-based three-way collaborative effort comprising IT and business leaders, plus subject matter specialists. These specialists, with their breadth and depth of business knowledge and vision, are an essential part of the mix. If IT can't rely on the business to supply these specialists, then, at the very least, management should understand the extent of the business knowledge and vision that IT managers will have to acquire before they can effectively help the business partners make the trade-offs and hard decisions needed to change the environment.

Financial institutions that ignore what's broken or invest piecemeal in the ecosystem will continue to be plagued by the question of IT value.

Financial institutions that take a wait-and-see approach face significant risks:

- Continued business leader and staff frustration with IT.
- Competitive disadvantage as the under-served business customers turn to "shadow IT" or elect to contract directly with providers.
- Impractical strategies that waste time, money, and resources.
- Pricing disadvantage that comes with higher cost of goods sold.
- Potential risk of becoming a take over target for companies looking to build scale.

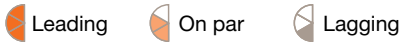
The financial services industry is setting a fast pace in the race for the future. It's time for today's organizations to take action, identifying and investing in the right systems and procedures to enable fact-based decision making, inform strategic planning, unlock IT value, and sustain that value over the long term.

Competitive intelligence

Our observations of industry practices.

The following table illustrates current market practices among financial institutions.

Area of focus	Major financial holding company #1	Major financial holding company #2	Multinational retail brokerage
Business culture	A $3.5 billion-plus IT spend has struggled to develop a centralized framework for budget prioritization and spend decisions. Historical IT investment decisions have been made with a combination of high-level guidance from the top and detailed decisions in user silos (such as trading desk). In addition, the financial institution has struggled with how to pay for cross-asset class investment (particularly within control functions).	The financial institution has developed a technology management process that has successfully delivered projects and advanced overall strategic architecture. The financial institution lacks central discipline for managing allocation of spend to end users and providing clear transparency into IT spend for senior management.	The organization has a very silo-focused business culture. IT spend is typically prioritized within business units and macro-view comparisons and prioritizations are often contentious and relationship-driven. The tough decisions related to IT spend are made infrequently (during the annual review process) and are not frequently revisited.
Segmentation and transparency	Business cases have not been developed consistently across IT investments. This inhibits leaders from making decisions that are in the best interest of the financial institution and that tie directly to business strategy.	The financial institution employs a variety of platforms to support project decisions (for example, strategic architecture committee, new business committee, and major projects governance committee). These platforms help meet several different financial institution objectives.	IT spend is classified at a granular level within discretionary and nondiscretionary categories. Total cost of ownership reporting remains a constant challenge given the size, scope, and overlap of complex IT initiatives.
Decision rights	The financial institution lacks a clear methodology to vet investments across different product lines and control functions. The financial institution relies heavily on top-down mandates that cut spend across the board.	The financial institution has strong control over budget decisions from a top-down perspective, but lacks sufficient monitoring capabilities. In addition, it has a cross-divisional projects group that manages a large portfolio of projects, enabling a clearer comparison among projects.	Decision making during formal budget review processes is clearly defined and appropriate. Ad hoc decision rights are not as defined, which sometimes leads to poor allocation of resources.
Instrumentation	The financial institution has invested heavily in project and portfolio management systems that provide an abundance of overall metrics. These systems provide the appropriate level of data to vet major spend decisions.	The financial institution's tools for measuring resources and planning detailed projects do not provide the granularity needed to effectively monitor spend. As a result, clear comparisons among different initiatives cannot be made.	The financial institution has an advanced portfolio management office toolset that provides multi-layered views of program and project data.



The following table illustrates current market practices among financial institutions (continued).

Area of focus	Global credit card brand	Major US payment network	Major US direct brokerage
Business culture	The financial institution has created a complex matrix organization aligned to geography, major business lines, and functions. While a common lexicon and set of approaches exist, the meaning and implementation of those standards varies across IT divisions and the business areas they support, thus reducing the usefulness of data for enterprise-level controls and decisions.	Faced with competition from new entrants, there is a deepening partnership between business and IT on enhancing the product portfolio and building an innovation culture. There is significant executive engagement in IT planning and investing, including first-hand involvement of the CEO.	The financial institution inconsistently prioritizes its IT opportunities, mustering great focus for special events (for example, regulation, conversion). It struggles with business-as-usual work, with no effective mechanism to prioritize work or allocate cost.
Segmentation and transparency	A segmentation model allows leadership to review like-for-like data across domains and also to challenge expenditures that were previously thought to be mandatory.	Segmentation exists to separate discretionary and base spend, thus impeding the desired mix. Granular segregation of operating costs to platforms and products and services is evolving.	No allocation model exists to tie IT expenses back to the business. As a result, IT spend, accountability, and benefits are not aligned.
Decision rights	The approach to centralized and federated decision making is inconsistent, with some divisional decision rights known and documented. Major projects are reviewed, but not at an enterprise level, nor with a consistent methodology.	Governance structures and processes exist for decision making. There are opportunities to reduce the number of smaller projects and bundle them into more strategic programs.	Decision making focuses only on the "Top 10" program initiatives. All other regulatory and discretionary projects are prioritized by IT using a formula.
Instrumentation	The organization spends significant resources explaining financial variances, yet without good platform-level understanding of costs and consumption. The organization is hampered by a lack of clear categorization and data-entry discipline, leading to bad data that undermines decision support information.	The organization is adequately focused on metrics, dashboards, and benchmarks to gain alignment and drive decisions. The IT and finance architecture and taxonomies do not fully map to cost drivers.	The financial institution is building multiple views of spend, based on hours reporting, but it is nascent. IT is iteratively building greater insight into its spend, and making that visible to the business.

Leading On par Lagging

A framework for response

Our recommended approach to the issue.

Organizations should make the same investment in the management of IT spend that they invest in the instrumentation of large, transformational programs for risk management.

PwC has experience in IT strategy and governance, IT financial management, and organizational change. As a result, we are well positioned to provide the full suite of support needed to help organizations enable the IT value ecosystem. Typical support to clients includes:

- Identifying current IT value ecosystem maturity against leading practices, including the identification of any cultural barriers.
- Conducting impact analyses of current maturity, including impact of partially implemented or poorly adopted solutions.
- Defining the future-state ecosystem and any transition stages on the path to that state. This might include the needs of the business, IT, and the ability to align to external benchmarks.
- Helping to build the case for change, including the multi-year effort required to effect and accept the proposed change.
- Facilitating workshops, within IT and across the business, to develop client-specific data segmentation scenarios and decision-making processes that are aligned to the business needs.
- Preparing and conducting data-rich annual and quarterly budget and planning sessions.
- Helping IT regain its trust and partnership with the business.

IT value ecosystem—capability maturity model.

To better understand where an organization is starting, PwC has developed a maturity model. In addition to understanding the maturity of each component, it is also important to help establish consistency of maturity across the entire model.

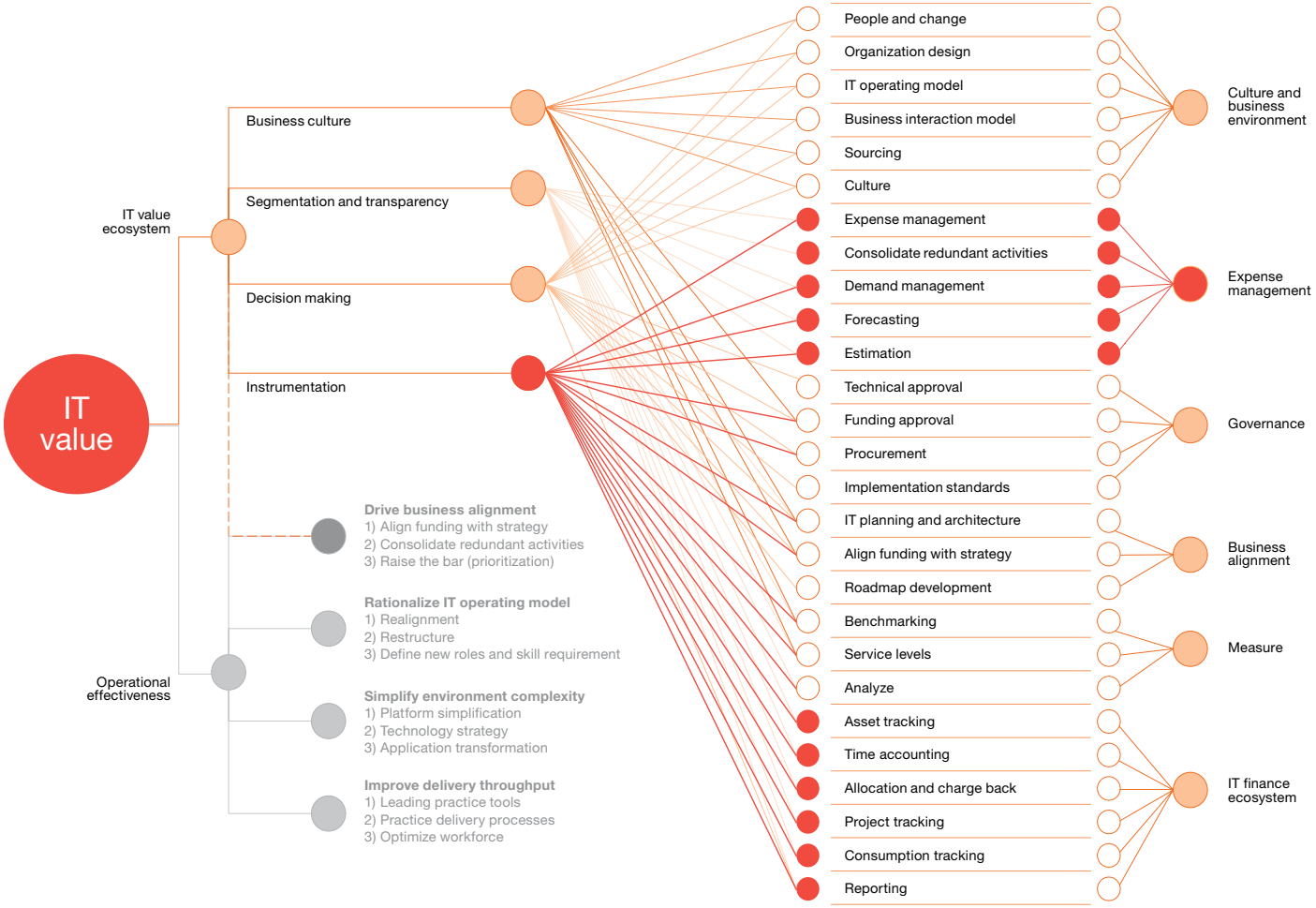
	Business culture 1. Business-IT partnership 2. Escalation processes 3. Communications	Segmentation and transparency 1. Segmentation 2. Levers and dials	Decision making 1. Processes 2. Mechanisms 3. Decision rights	Instrumentation 1. Measure 2. Plan and forecast 3. Charge and allocate 4. Analyze
Optimized	Open culture of trust and clear accountability. Escalation is not a career-limiting move but an accepted practice. Easy understanding of matrix accountability.	Clarity into what drives costs. Sophisticated view of the total portfolio, including operations and IT, over time and across functions.	Decision criteria are transparent. Clarity around who has the votes. Institutionalized, periodic re-alignment of business and IT.	Coordinated tools connect metrics, planning, forecasting, reporting, and chargeback. Information is actionable and with just the right amount of detail.
Managed	Organization proactively thinks about decisions and results and pushes for the right thing to be done.	Organization has a consistent view of the portfolio segments and the trade-offs among them.	Decisions are carefully considered, with sufficient review to catch most major errors.	Organization sets goals and targets improvement based on baseline measurement and actual results.
Controlled	Organization has procedural checks and balances.	Consistent information feeds general ledger, business capability and IT, and operations management views.	Organization has aligned decision rights and accountability with the levers of change.	Baseline tools for measurement, tracking, planning, and reporting are in place.
Defined	Lines of accountability are framed but may not be well understood.	Policies, procedures, and rules are in place but create overhead in action.	Decision rights are defined but are simplistic and miss interdependencies.	Organization has a framework to think about planning and results.
Ad hoc	Not clear who is accountable, or how to resolve open questions.	Management information is inconsistent and is either too high-level to be actionable, or too detailed to be of use.	Decision rights are not defined and decisions are made based on whatever information can be gathered.	Measurements are sporadic, one-time events; planning is extrapolated from history.

PwC's holistic IT value framework.

It's important to identify the problem, its causes, and the levers that must be pulled to generate a different outcome.

For example, the issue may be a need to cut expenses. In this case, identifying savings opportunities will require understanding and forecasting demand, which is dependent on instrumentation of time, projects, and consumption.

The solutions to most IT value problems require good instrumentation and reporting, linkage to the strategy, and an understanding of how decisions are made.



Establishing the solution suite.

Components	Assessment focus areas	Design and position future state	Syndicate and implement
IT value diagnostic	• Create a customized mind map to identify IT value gaps. • Assess and prioritize critical areas.	• Design an integrated roadmap to address critical areas in the context of the institution's IT ecosystem.	• Establish segregation of duties and control points. • Adjust current processes and tools. • Align people and change management. • Create pilot and baseline. • Prepare launch.
Segmentation and transparency	• Emphasize usage of nondiscretionary, semi-discretionary and discretionary expenditures. • Link expenditures with explicit business and IT strategies.	• Customize a segmentation model to highlight critical areas that allows for tracking data for planning, expense management, and reporting purposes.	
IT portfolio management	• Assess portfolio allocation against strategy. • Assess strategic alignment. • Assess process maturity.	• Design portfolio sectors. • Map projects, initiatives, and staffing to sectors. • Attach mapping results to governance.	
Governance	• Clearly articulate decision rights. • Align decision rights with explicit business and IT strategies. • Maintain balance among business, finance, and IT authorities and controls.	• Develop underlying principles for governance of IT expenditures. • Identify sources of decision rights and improperly governed areas. • Design simplification or capability improvement program. • Build out framework for governance processes, calendar, artifacts, and roles.	
IT expense and consumption management	• Approach budgeting, planning, and forecasting to a zero-base standard. • Establish maturity of one-time and ongoing programs. • Identify benchmarking and consumption management utilization and maturity.	• Design expense and consumption management program that includes integration points to annual planning process. • Build consumption controls. • Define management framework for understanding expenditures and consumption.	
Chargeback and IT finance	• Identify level of maturity for program, project, time, expense, and asset management. • Enhance management information capabilities. • Identify areas of over- and under-development and assess the efficacy of various chargeback, allocation, and cost-sharing approaches.	• Design enhancement or simplification program for more effective time and expense tracking, as well as more effective allocation and chargeback. • Create roadmap and change-management approach for operations, regulatory, and accounting changes.	

Example—Semi-discretionary spend

Sometimes you need a better mousetrap.

Good segmentation is so key to unlocking IT value that it is often a first step to solving other issues by providing transparency and a roadmap. We explore this idea in the next few pages.

Financial institutions have embraced the "build" and "run" concept of expenditure segmentation, but they fall short of providing enough insight into the IT spend to satisfy the need of the business to be involved in decision making and for IT to understand its cost structure.

PwC's segmentation model is a framework to capture IT spend. It locates each spend category on a continuum of choice or discretion.

At one end of the continuum are spend areas that are difficult or impossible to impact in the short term without effecting services.

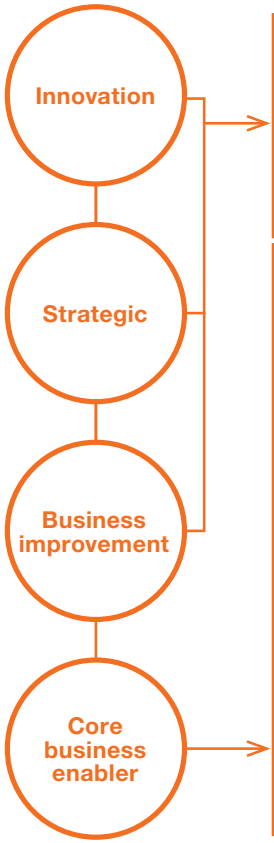
At the other end of the continuum are spend categories over which the business has complete discretion. Thus, the current business can continue to operate without the additional expenditure.

In the middle of the continuum are those spend areas over which management has some discretion as to the amount of spend and the risk taken. Investment may be needed, but not necessarily now.

Discretionary	Discretionary expenditures enhance the business and are important for growth, change, or improvement, but not critical today.
Semi-discretionary	Semi-discretionary expenditures may fall into the category of "pay me now, or pay me later." Decisions about semi-discretionary expenditures tend to be based on the level of risk that the institution is willing to take.
Nondiscretionary	Nondiscretionary expenditures support the ongoing business. They keep the lights on at an agreed-to level of service. All costs are variable in the long term, but in the short term, these costs are nondiscretionary.

Example—semi-discretionary spend

To fully understand consumption, it is important to categorize spend at a more granular level below build versus run.



Investment classes	Segmentation model		
Innovation, Strategic	**Discretionary**	New capabilities	Investment in a new capability to fulfill functional and non-functional requirements in order to meet evolving customer needs (net new capability).
		Enhancements to existing capabilities	Investment to add new feature to an existing capability, improve business process, or change business data to meet customer needs.
		Service quality improvements	Investment in an existing system or process improvements to either meet new service levels or to improve the technology platform in a fundamental way that improves throughput for all future initiatives (faster, better, cheaper).
Strategic, Business improvement	**Semi-discretionary**	Compliance	Upgrades to system/process to conform to new regulations or meet local statutes in new markets, correct broken pricing components necessitating refunds/rebates, and/or investment to maintain, adhere to internal practices.
		Life cycle management	Costs incurred in migration of service components or point upgrades, primarily to help ensure a current, stable operating environment.
		Preventive maintenance	Costs primarily in hardware and/or software upgrades to continually assess whether the currently agreed-upon service levels are met and proactively prevent outages.
		Corrective fixes	Costs to fix known faults that have been triaged, have defined correction (e.g., patch, code change, or manual workaround) and could be tied to service level agreement (SLA).
		IT delivery management	Cost of activities to help ensure effective management, governance, and support of work that makes any changes to the technology environment, including activities generally considered development, engineering, and maintenance.
Core business enabler	**Nondiscretionary**	IT base management	Costs incurred in essential IT management activities to help ensure normal operations, without investing in changing or improving anything.
		Outage restoration (red to green)	Cost of activities associated with restoring normal operations as per agreed-upon service levels.
		Operate (keep the lights on)	Costs incurred in operating the environment (running, monitoring, and support of systems on a day to day basis).

How PwC can help

Our capabilities and tailored approach.

PwC's approach to getting started.

Objectives	• To understand the impact of desired change and other drivers for change on your organization. • To define and develop your change objectives. • To develop an implementation plan with actionable recommendations.		
Approach	**Educational session**	**Targeted workshop**	**Impact assessment**
What is it?	A session of two to three hours to: • Develop a common understanding of changes affecting your organization. • Jointly identify broad impacts across departments and business units. • Determine whether further study makes sense.	Targeted workshops, including the following topics, can supplement an educational session or be included in an impact assessment: • IT value diagnostic. • Segmentation and transparency. • IT portfolio management. • Governance. • Expense and consumption management. • Chargeback and IT finance.	A series of workshops over two to four weeks with key functional areas to: • Understand in detail key developments and how they may impact your activities. • Work with you to define your objectives. • Identify changes to policies, practices, processes, and systems. • Provide a basis for a strategic and tactical plan to manage change.
Who participates?	• Selected leaders from key functional areas, IT, and business units. • PwC team members, including specialists in finance, regulatory, accounting, and others.	• Selected leaders from key functional areas and business units. • PwC team members, including specialists in finance, regulatory, accounting, and others.	• Broad group of management from key functional areas and business units. • Selected leaders from key functional areas and business units. • PwC team members, including specialists in finance, regulatory, and accounting.
What are the deliverables?	• Summary of broad impacts. • Summary of potential areas for further investigation.	• Summary of high-level impacts. • Summary of high-level implications and recommendations.	• Articulation of your objectives. • Summary findings, implications, and recommendations against objectives. • Plan for next steps and rationale.

What makes PwC's Financial Services practice distinctive.

Integrated global network	PwC's Financial Services practice consists of more than 34,000 industry-dedicated professionals worldwide, including more than 4,500 in the United States. They serve large and multinational banks, insurance companies, investment managers, broker-dealers, hedge funds, and payments organizations. The US Financial Services practice is part of the PwC global network of firms, which has clients in more than 150 countries.
Extensive industry experience and resources	PwC serves more of the largest and most complex financial services companies than any other firm. We understand from personal experience the wide variety of business issues that affect the industry, and we apply our knowledge to our clients' individual circumstances. Moreover, our large, integrated global network of industry-dedicated resources enables us to apply this knowledge on our clients' behalf whenever and wherever they need it.
Multidisciplinary problem solving	The critical issues that financial service companies face today affect their entire business. Addressing these complexities requires both breadth and depth of experience, and PwC service teams include specialists in risk management, compliance, technology, business operations, finance, change and program management, data and business analytics, economics and analysis, internal audit, tax, forensics, and investigations.
Practical insight into critical issues	In addition to working directly with clients, our practice professionals and PwC's Financial Services Institute (FSI) regularly produce client surveys, white papers, and points of view on the critical issues that face the industry. These publications—as well as the events we stage—provide clients with new intelligence, perspective, and analysis on the trends that affect them.
Focus on relationships	PwC's size, financial stability, and 150–year history all contribute to our long-term view of client relationships. We help clients translate strategy into action by helping them address their challenges in finance, tax, human resources, operations, technology, and risk and compliance.

Appendix

Select qualifications.

Portfolio prioritization following a large integration—Global wealth management firm

Issues	Due to a recent integration, the client developed a large backlog of discretionary IT project requests. The client needed to prioritize projects so that the firm could decide which to pursue. However, the resource demand associated with these project requests far outweighed resource capacity for the year. Prioritizing these projects for potential funding required input from leadership across multiple business and technology organizations, and the effort required strict program management discipline to meet aggressive timelines.
Approach	PwC helped the client coordinate an effort to analyze and prioritize the discretionary project requests. The review included analysis of business cases for each request, as well as related information on the technology and operational requirements for each request. To facilitate the executive committee's decision making on the IT project requests, PwC assisted the client in developing and categorizing an inventory of project requests including a project resource demand analysis for each. PwC also provided guidance and status updates to the client regarding parameters on the outstanding backlog of tasks and go-forward decision making efforts for individual projects. After the executive committee made decisions on project requests, PwC also helped the firm's technology group to move several hundred approved projects into its portfolio management tool for budget and planning purposes.
Benefits	The firm successfully prioritized, assessed, and approved more than 400 discretionary projects representing more than $300 million across nine business units. The firm's project approvals were grounded in a fact-based approach that supported organizational communications and stakeholder buy in.

Technology spend management and analysis—Premier investment bank

Issues	During a strong growth phase, this investment bank faced business complexities and increases in processing volumes that spurred growing headcount and operational expenses. The bank's goal was to better manage the operations division, and one of the specific targets was to manage the division's technology investments so that IT's investments were aligned with business priorities. The bank recognized that it had limited processes and tools to use in evaluating technology investments or in communicating the value of IT consistently across operations.
Approach	PwC helped the client to develop the appropriate management tools and analyses for evaluating IT investments, aligning them to business strategies, and for communicating IT value across business units. The team accomplished these goals through four tasks: • Developing and rolling out a set of analyses that captured the impact of IT spend on the risk, efficiency, and scalability profile of each business unit. • Creating project profiles, highlighting level of investment, and identifying the impact of major strategic projects in preparation for budget review. • Building the business case and establishing a process and toolset to identify, fund, manage, and report on a portfolio of $30 million in efficiency and risk mitigation projects. • Reengineering the IT cost allocation process for operations to increase managerial accountability and control.
Benefits	PwC helped the client establish a framework for IT investments that articulated the linkages among scalability, risk management, and spend. With the adoption of a process for identifying and funding short-term efficiency projects each year, the client was able to save close to $25 million in the first two years after the framework was established, with additional potential savings expected in subsequent years. The client realized other efficiency benefits as well. The implementation of a standard set of analyses and reports provided the client with visibility into and across the IT budgets of business units, which facilitated discussions of project prioritizations. The new IT cost allocation methodology also provided enhanced transparency into spend and greater control and understanding of total costs.

Improvements to cost chargeback and recovery processes—Premier investment bank

Issues	This company wanted to improve its IT chargeback and cost recovery processes to standardize technology recovery charges and to accelerate the change process. The company also wanted to improve the quality of service to business end users by increasing the transparency of technology costs through an end-user statement that would provide summary cost information similar to that displayed in a utility bill.
Approach	PwC collaborated with the client to rapidly review the current processes and to identify opportunities for enhancing and accelerating the change process. Through these discussions, the team defined an actionable roadmap and a repeatable future-state process. The future-state process included a governance structure, defined stakeholder group roles, and supporting tools. For the end-user statements, PwC collaborated with the client team and other key stakeholders to develop a prototype and to define technology requirements that could be used to implement a robust platform to manage IT chargeback processes.
Benefits	By adopting PwC's recommendations, the client improved internal cost alignment to business priorities and used newly developed tools to accelerate the introduction of cost recovery and chargeback changes. The analyses also improved transparency into technology costs, and provided the client with more effective methods of communicating information about IT cost recovery processes across the company.

Framework for managing technology investments—Global payments provided

Issues	The company lacked an overall assessment of its efforts to manage enhancements to its technology investments, as well as an organizational structure for making and validating funding decisions, conducting value measurements, or providing in-depth reporting on its technology portfolio. The company also recognized that to promote these organizational goals, it needed better data quality and a more effective technology user interface. With these goals in mind, the company sought a framework for enhancing its management of technology investments that would allow it to continue using existing processes (for example, IT accounting, time entry) and supporting tools in new ways to drive better decision making and management.
Approach	In collaboration with the client's leadership, PwC developed a cohesive framework capable of steering the management of investment enhancement projects. The effort focused on promoting the autonomy of business unit decision making, while increasing visibility into and incentives for collaboration across business units. PwC and the client identified enhancements across several categories: • Investment enhancement—improving funding prioritization, including visibility into resource capacity. • Portfolio management—helping to establish that a portfolio view is available for technology decisions. • Strategic planning—developing long-range planning processes that integrate inputs from portfolio management, capability assessment, and value measurement. • Project execution—normalizing the check-point processes to link funding, effort, and value. • Performance evaluation—establishing an evaluation process that includes value and that feeds back into the next round of investment decision making. • Data management—aligning metric definitions, pushing for better data quality. • Governance—driving the business unit toward consistency and rigor in following required processes.
Benefits	The client improved management of investments through a project prioritization process utilizing scoring models that created a repeatable, streamlined process for investment decision making. Formal check-point processes were instituted to link project funding, effort, and value, which provided better visibility into project progress, regular adjustment of project requirements, and more timely project deliveries. New performance measurement processes also provided better reporting on the value of individual projects after implementation.

IT benchmarking and assessment— Global payments network

Issues	A global payments network was undergoing a transformation to a technology product company that invested in innovative products and services. The client wanted to benchmark its performance against traditional and nontraditional peers, to understand the effectiveness of its governance processes relative to leading practices, and to identify opportunities to operate more efficiently and effectively.
Approach	PwC assisted the client in conducting a benchmarking and operating model assessment for the technology organization. The PwC team helped the client identify areas of improvement for the management of base spending, specify an enhanced sourcing strategy, identify needed investments in enterprise architecture capabilities, and recommended IT investment management disciplines to the client.
Benefits	Through its work, PwC helped the client identify opportunities to improve the network's cost effectiveness by 10-to-15% of total spend, without impacting the organization's capacity to deliver services. PwC also helped establish processes and a governance structure to measure, track, and improve IT base spend. The team's recommendations resulted in a 20% reduction in the network's base spend over a two-year period.

Technology governance model and business roadmaps— Direct brokerage firm

Issues	A Top Five direct brokerage firm had grown significantly over the past decade, with 10 acquisitions during that time period. While the firm had successfully integrated the acquisitions for sales and front-office activities, it still relied on multiple legacy systems for middle- and back-office activities. The firm wanted to design and implement an enterprise-wide methodology for identifying synergies and deciding how to prioritize and sequence its opportunities. In particular, the client wanted a consistent way of determining if line of business needs varied so significantly that maintaining separate systems was warranted, or if common platforms with separate business rules could be more efficient. For example, the client had completely separate check processing operations and systems for retail and institutional clients.
Approach	PwC collaborated with the client's cross-organizational operating council to devise a new governance model and to create multiple, long-term business architecture roadmaps for improving efficiency and reducing risk in middle- and back-office systems. PwC helped the client develop a new operating model for how the client would break down line-of-business silos and operate common, enterprise functions. PwC also created a program and portfolio management model, to allow the client to make enterprise investment decisions, rather than focusing solely by line of business.
Benefits	The new governance model and roadmaps enabled the client to make informed, enterprise-wide decisions about better aligning its systems, processes, and priorities across multiple lines of business, operations, and technology. The newly implemented model allowed the client to improve efficiency and support incremental growth without increasing expense—managing a target 20% increase in volume without increasing overall headcount. By making many processes and systems more efficient, the client freed staff that it could redeploy to areas of growth.

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"Return to spender: How financial institutions can better understand their IT investments and get more out of them." PwC FS Viewpoint, January 2014. www.pwc.com/fsi

NY-14-0291