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ACCELERATING VALUE

FROM STRATEGIC VENDOR PARTNERSHIPS

Roger Camrass
CIONET UK

Software AG Financial Services event 18th May 2023
Accelerating value
from strategic vendor partnerships

A discussion dinner was held on the 18th of May, sponsored by Software AG and attended by senior executives from across the financial services sector. The title of the event was 'Accelerating value from strategic vendor partnerships. The session was introduced by Mark Foulsham, Chief Operating Officer of Kensington Mortgage, and moderated by [Roger Camrass]*, Research Director of CIONET International.*

Context for the discussion

The pace of change in the financial services world of banking and insurance continues to accelerate with new entrants, new technologies and business models. But established players must grapple with ever tighter regulation and compliance whilst tackling legacy systems. This poses a growing challenge for IT and the business at large.

Introducing the topic, Mark Foulsham described a somewhat gloomy economic picture as one of stagflation, spiralling wages and growing cost pressures on both businesses and consumers. He highlighted the IT trend to substitute on-premise equipment and software for cloud services to reduce CAPEX spending in favour of OPEX. Of critical importance in Mark's opinion was the need for organisations to become agile and to foster innovation, especially as he sees 2023 as a turning point for financial services: either dig in now or sow for success.
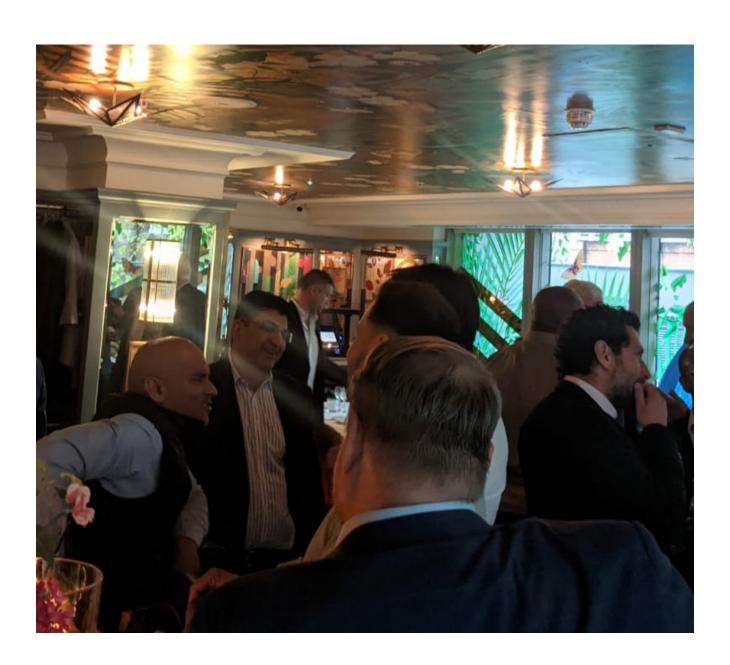
Current concerns and expectations

Delegates were asked to express their concerns and expectations in challenging markets. Some of the issues to emerge included:

- Achieving full value from vendor relationships that include efficiency and innovation. Interoperability between vendors was also a crucial need in a SaaS-dominated world.
- Escaping from legacy systems that persist across the sector, including migrating to micro-services and open APIs to encourage business agility and integration.
- Reducing the number of vendors and tools across large organisations to focus on standard practices and methods.
- Helping vendors to reach out to business partners at the 'c' suite level to ensure alignment between IT and the supply side.

One delegate observed that vendors often bypass the IT organisation and sell directly to businesses. This can cause fragmentation of effort and lead to sub-optimal IT solutions across the organisation.

Adjusting to volatile market conditions

All delegates recognised that the common factor between different financial service businesses was increases in the pace of change and the appearance of new competitors within FinTech and InsureTech. A good example was Compare-the-Market which has helped to transform car insurance. RSA chose to withdraw from this activity due to the change in market structure.

One delegate commented that this period of rapid change required IT and business executives to know the market inside and out and understand where the threats and opportunities might occur. IT's role in this context is to help the business operate faster and more efficiently to compete head-on with digital natives and non-traditional players.
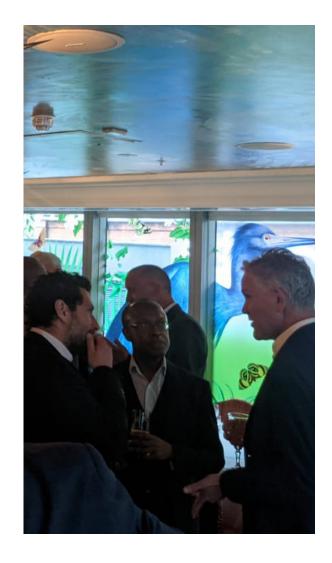
What are the key IT imperatives?

Organisational agility can often start with the way IT operates itself. IT is the business within financial services, so IT platforms and applications are central to organisational design. Mark mentioned that he had repurposed his teams several times in the last few years to increase agility and market responsiveness. Delegates agreed that many IT organisations remain stuck in the past and need a radical redesign. IT executives should be tasked with developing an IT operating model that delivers on necessary business outcomes.

Two key imperatives emerged during the discussion. The first was to combine disparate data to achieve a 360-degree view of customers and intermediaries. One delegate described his position as 'Chief Connection Officer'. The second was substituting customised, on-premise applications with Software as a Service (SaaS) offerings available through the public cloud.

What should our roles be within IT?

In the fast-moving financial services market, IT can enable the 'C' suite to adjust and respond to competitive and customer developments. The CIO should help inform and encourage peers at the business level to experiment with and deploy new techniques, methods and tools as ways of innovating their processes and products. Successful CIOs need to understand where the 'soft Power' lies within the organisation and make special efforts to engage with such stakeholders.

Mark commented that IT rewards and incentives should be aligned directly with business outcomes such as improvements in quality, speed and efficiency of operations. The traditional notion that IT is a cost centre needs to be dispelled and replaced by a value contributor. The CIO should operate from the 'C' suite rather than being held ransom by the CFO. Value implies a three-way symbiotic relationship with business partners, customers and strategic vendors.

Mark commented that in his experience you should be on the front line, making a difference to business outcomes. Your contribution should be measured by your personal ROI, e.g., can you point to a margin, volume, efficiency and say that's me and my team? How are you addressing the technology anxieties of the Board?

How can vendors help their customers?

The role of vendors was seen as critical to both IT and its business partners. Delegates were tired of long-term outsourcing contracts that acted as straight jackets. Instead, they were seeking flexible partnerships that could respond rapidly to developments in the marketplace. Software AG explained that it had been through its own transformation from being an on-premise, traditional software company to becoming a cloud-based, SaaS business that moves with the times. Such an experience can be invaluable to large IT organisations.

Delegates agreed that modern practice is based on developing an eco-system of trusted partners rather than relying on just one or two cradle-to-grave suppliers. Mark recommended that CIOs should segment the vendor landscape to find companies that are prepared to operate an 'open-book' relationship. They also need to have a deep understanding of the business that you operate in. Building trust takes time and requires experimentation on both sides. It also needs honesty and transparency throughout the relationship.

An essential ingredient here is to jointly develop a vision or future state for the business so that the role of the vendor can be agreed within the context of the transformation journey. Integrating information sources becomes a key element in reaching the end state in areas such as trading, wealth management and product innovation. The selected eco-system should provide innovative ideas to address such key areas.

What to do next

Software summarised the discussion and provided some useful next steps for the delegates. These included:

- Evaluate current vendor relationships and identifying gaps and opportunities.
- Entering into new partnerships that include experimentation and co-development.
- Developing value-based metrics that help IT and its partners align with business performance and key outcomes.

Software AG will be delighted to discuss
its experiences with interested parties

Roger Camrass
Researcher director

A pioneer of today's Internet as an ARPA research fellow at MIT in the seventies, Roger has spent over forty five years helping corporations harness the power of new technologies such as cloud, mobile communications, e-commerce, voice recognition and satellite. He was a partner at EY responsible for e-commerce during the dot.com boom. He is a graduate of Cambridge University and MIT, and a visiting professor at the University of Surrey.

See **rogercamrass.com**