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Tech Vision - Why Does The CIO Have So Many Hats? - The Role Of The Chief Information Officer Has Evolved To Take On Responsibility For Many Facets Of A Company.

Parveen Bansal Talks To Capital One's **Gregor Bailar** About This Transformation

In the past decade there has been an evolution in job of the chief information officer (CIO). As CIO in charge of the information and technology engines that are deemed directly responsible for Capital One's outstanding success and having had a similar role at Nasdaq, **Gregor Bailar** has often donned the different hats that a CIO has to wear.

Established in 1995, Capital One offers credit cards, savings, loans and insurance products through its subsidiary banks in the US and Europe. It is one of the few companies to achieve 20% earnings per share growth and 20% return on equity growth. "We have been profitable every quarter in the entire time of the company's existence," says Mr Bailar.

Capital One's achievement is attributed to the advanced information technology that it uses as part of the proprietary information-based strategy that enables it to tailor products and services to fit the customer's individual needs. It has been an innovator in using data to enable what might be called "mass customisation": offering different rates and fees structures to different customers depending on their risk status.

At the core of the information-based strategy is the technology engine. This is the "strategic fulcrum of Capital One" and supports its large marketing machine, which sends out one billion items of mail per year and handles 90 million inbound calls, 300 million outbound calls, 230 million internet impressions and 40 million transactions per day. Together with its subsidiaries, the company had 45.8 million managed accounts and \$60.7bn in managed loans outstanding as of June 2003.

Mr Bailar is in charge of data protection and setting data standards, and also looks after business continuity and information security at Capital One. He also heads a team that runs the company's computer systems and creates innovations in the analytical area.

"We have 64,000 different test products, with 50 million customers across the company, largely driven by card and direct banking and auto loans," he says. The success of the systems department would be impossible without a strong team and a clear structure of responsibilities, he says.

His responses to the following questions illustrate clearly how the world of the CIO has evolved.

What has caused the role of the CIO to change and what has it become today?

The role of the CIO has changed from what mainly used to be overseeing data processing or managing information systems. In fact, the role only developed into a C-level job in the late 1990s, and around 2001, the CIO's role in the boardroom was cemented by the impact of 9/11.

We have seen some pretty big challenges in the past 10 years. In the 1990s, there was a heightened degree of technology being created, a lot of innovation. The PC became commoditised and technologies were developed that allowed for distributed, non-mainframe

type usage. At the same time, there was recessionary pressure on the economy and the focus was on 'how do you make sure you get the value out of IT?'

In the mid-1990s, we had the start of the internet age and the realisation "not only do I need technology, but I needed it yesterday", and the focus was on how to get more access to the internet and the customers online. There was an explosion of investment in technology.

At about the same time, Y2K became an issue and more money was needed. But not everyone trusted the CIO and some doubted whether there was a problem. This was the dawn of what is now the regulatory era of a CIO, when resistance to change and lack of investment could put the entire company at risk. At this time, CIOs entered the boardroom: their presence was required for help with internet strategies, and for clarity on the impact of Y2K. Between 1996 and 1998, more CIOs entered the boardroom than they had for 20 years before.

Together with data integrity and the security issues of the internet age and in the aftermath of 9/11, it became a corporate imperative to have a good, well established business continuity plan. The heightened regulatory requirements of business resilience escalated the role of the CIO to become more involved in compliance and data integrity.

In what aspects has the role of the CIO changed?

The role continues to change as the demands of information management over the years have gone up. The continuing focus on transparency and regulatory clarity are reshaping the role to become CIO versus chief computer officer. In the days of data processing directors, their role was much more focused on running the data centre environment, the network and even the phone system. Today, the CIO has become a clear guardian of the information and is expected to stand for the integrity, validity and lineage of the data.

As a result of the Sarbanes-Oxley Act, the CIO has been brought into the circle of regulation in a very material way. It means that, as a CIO, I am required sign a document that says I believe the information and technology systems support the integrity that is being attested to by the finance officer.

What is the required skills set of the CIO today?

CIOs today need to be technology alchemists. They need to be strong in professional technical methodologies so that their conversation is a disciplined one but, at the same time, they need to understand the business, be it banking, credit cards or loans.

Their job is not to know the future of technology, nor the latest and greatest of delivery networks, but to be focused on balancing the set of business needs, and choosing or creating the best possible solutions that can be provided from a technical perspective.

On the one hand, the CIO has to be an advocate for the business into the technology world, and on the other hand, the voice of technology in the best respect of how it can respond to the business. This is a relatively new role and the challenge is to interpret and prioritise correctly the business' needs and make the technology systems really responsive.

The CIO is expected to be involved not only in strategy development, but also in business and product innovation. Now, more than ever, CIOs are being held accountable for driving the business value, not just for keeping the lights blinking on the computers.

How has the changing role of the CIO affected organisations?

The way in which we measure the value of IT investment to the organisation has changed. In the 1980s, return on investment of a project was the key measure of the value of IT investment for an organisation. But this is difficult to analyse, and often it was only a measure of what you would get back from the estimated development costs.

During the 1990s, it moved towards a notion of total cost of ownership and models were developed to value effectively the firm's cost of building and running a system, and then compare the revenue as a result of increased efficiency with the overall cost. It became more complete and gave a better picture.

Today you have to be able to prove that a particular project will change the business, and the revenue or cost savings are included in the business' budget. It is a more comprehensive view because it is a business view, not a technology view, and it requires the CIO and the business partner to step into a shared risk model, where the imperative to deliver on the expectations is on both parties.

For me, this model enables my team to look at ways in which we can offer the business game-changing opportunities - that is, innovations that will pretty dramatically change either the cost curve, or the way we offer the product or the way we work as a company.

For example, Federal Express in the US was able to transform the packaged letter delivery industry - but this was only possible because of the introduction of the medium-sized plane. The fact that this plane was available cheaply made an entirely different business model possible and literally transformed delivery.

What challenges does the CIO face in the near future?

Our chairman says: "You have to be careful not to crush the butterfly." The image is of a hand holding a butterfly carefully in a way that protects it - but it doesn't take much to squeeze it too tight and crush it, and then the very thing that was meant to protect it ends up damaging it (the business).

The CIO has to balance innovation and the technical and regulatory controls while releasing the reins to the business to let them drive their vehicle forward quickly. An analogy I use is the notion of why people have brakes in cars. The reason that manufacturers put brakes in cars is often misconstrued as to help them stop, but the reality is the reason we want brakes in our cars is so that we can go fast.

The challenge of the regulatory hat that the CIO is wearing now is understanding which of the things are the brakes that are really there to enable you to manoeuvre quickly, and which of those things are road blocks and have to be managed in a different way.