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## The 2004 financial services 40: tracking innovation in financial services.

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The idea of innovation has been on a conceptual roller coaster in recent years. In the mid- to late-'90s, with dot-com mania giving credibility to even the most off-the-wall business plans, innovation was an end in itself, and many banks scrambled to compete with the glamorous dot-coms. But, when the boom came to an end--and IT budgets got squeezed--innovation was not viewed so enthusiastically, and financial institutions in general have been taking a more conservative approach to their businesses.

Today, that roller coaster appears to be hovering in neutral. The wild praise for innovation is held in check, yet, with a renewed business focus on growth and revenue generation, it is accepted that there is a critical need for banks and other financial institutions to quickly identify and develop new products, new channels and markets, and new ways to process and support the business activities associated with them. Still, the recently acquired discipline of balancing business caution with aggressive use of technology to achieve operational efficiencies is being viewed as a competitive advantage.

That trend is reflected in an exclusive new ranking, The Financial Services 40, a listing of 40 leading institutions in banking/financial services and insurance that have a track record of innovative IT practices that result in business success. This listing, which appears in alphabetical order on page 44, is derived from the renowned InformationWeek 500, an annual survey of the nation's most innovative businesses, produced by Bank Systems & Technology's sibling publication Information Week (see "Methodology" box, page 47, for details about how this information was obtained and analyzed). In addition to ranking innovative companies, InformationWeek also tracked best practices and IT spending trends within banking/financial services and insurance.

The results of this year's research underscore that the firms that are able to deploy technology in innovative, customer-focused ways--and are able to do so in a cost-effective, ROI-concentrated manner--consistently have a competitive advantage generating profits and building market share.

The IT spending trends uncovered by the Financial Services 40 research also reinforce that banks are among the most aggressive investors in technology (see "Industry Snapshots," page 47). According to InformationWeek, about 9 percent of worldwide annual sales revenues are reportedly earmarked to the IT budget in banking/financial services, compared to about 3.1 percent in insurance. However, there is not much difference between industries in terms of how those budgets are divvied up.

Drilling down further, it appears that for both insurers and bankers, resources are pretty evenly divided between maintaining old applications and building new ones, with a significant amount of funds also going toward integrating those systems.

## Reg Regime

Regulatory compliance has become one of the most critical areas of focus for those who manage these resources. 61 of the banking/financial services study participants reported that their firms are taking steps to comply with Sarbanes-Oxley (compared to 83 percent of insurance respondents), closely followed by compliance with the USA PATRIOT Act, HIPAA and Gramm-Leach-Bliley (Financial Modernization Act).

The requirements--some might say drains--on IT resources imposed by the tighter regulatory environment are paralleled by the growing demands for beefed up security capabilities, and the Financial Services 40 organizations are acting accordingly. Among the most widely deployed technologies/products in insurance and financial services are intrusion-detection software (100 percent of banks, 94 percent of insurers) and content filtering/anti-spam software (94 percent of banks, 100 percent of insurers). At the same time, other widely used technologies--such as data warehousing (97 percent of banks, 84 percent of insurers), networked storage/SANs (88 percent of banks, 100 percent of insurers), business intelligence tools (88 percent of banks, 84 percent of insurers), Web services (88 percent and 81 percent of banks and insurers, respectively) and content management software (73 percent of banks and 81 percent of insurers)--are critical, not only to compliance and security efforts, but also to revenue-generating initiatives, such as enhanced distribution, product development and cross-selling.

Finally, there's the still-controversial practice of outsourcing and offshoring. While the jury remains out as to whether or not such a strategy marks an organization as an innovator, it appears from the InformationWeek research that global sourcing is a significant but not all-encompassing part of the competitive arsenal (see chart, page 46). Roughly half of all respondents say they hire offshore talent, including outsourcers, and about the same number augment IT staff with H-1B or L1 workers. But only about a quarter of all respondents are conducting the business process outsourcing off-shore, according to the study.

Company	Revenue In millions	Highest-ranking IT executive
Aetna Inc.	\$ 17,976	Dr. Wei-Tih Chang
Allmerica Financial	\$ 3,264	Gregory Tranter
Allstate Insurance Co.	\$ 32,149	Catherine S. Brune
American Century Investments	N/A	Robert Sauvageau
American Family Insurance Group	\$ 6,064	Byrne Chapman
Anthem Inc.	\$ 16,477	Jane Niederberger
Blue Cross and Blue Shield of N.C.	\$ 3,094	John Sternbergh
BlueCross Blue Shield of Mass.	\$ 4,496	Carl Ascenzo
Capital BlueCross	\$ 1,675	Kent L. Whiting
Capital One Financial Corp.	\$ 10,239	<b>Gregor Bailar</b>

Chicago Mercantile Exchange	\$ 536	James R. Krause
Cigna Corp.	\$ 18,808	Andrea Anania
CIT Group Inc.	\$ 4,677	Robert A. Plante
Countrywide Financial Corp.	\$ 7,979	Richard Jones
CUNA Mutual Group	\$ 2,400	Rick Roy
E * TRADE Group Inc.	\$ 2,008	Josh Levine
First Horizon National Corp.	\$ 2,694	Patrick Ruckh
The Hartford Financial Services Group	\$ 18,733	David M. Johnson
Highmark Inc.	\$ 8,105	Tom Tabor
HIP Health Plans of New York	\$ 3,370	John Steber
Horizon Blue Cross Blue Shield of N.J.	\$ 5,082	Charles C. Emery Jr.
Humana Inc.	\$ 12,226	Bruce J. Goodman
JPMorgan Chase & Co.	\$ 33,256	Austin Adams
KeyCorp.	\$ 4,485	Stephen Yates
Lehman Brothers Inc.	\$ 8,647	Jonathan Beyman
Mellon Financial Corp.	\$ 4,002	Allan P. Woods
Minnesota Life Insurance Co.	\$ 1,827	Jean Delaney Nelson
Morgan Stanley	\$ 34,933	Guy Chiarello
Northern Trust Corp.	\$ 2,090	Timothy J. Theriault
Ohio Casualty Group	\$ 1,700	John Kellington
PNC Financial Services Group	\$ 5,253	Timothy G. Shack
Principal Financial Group	\$ 9,404	Gary Scholten
Regions Financial Corp.	\$ 2,848	John R. Dick
SLM Corp. (Sallie Mae)	\$ 4,160	Robert S. Autor
State Street Corp.	\$ 4,453	Joseph C. Antonellis
Synovus Financial Corp.	\$ 1,905	Elizabeth R. James
The Guardian Life Ins. Co. of America	\$ 6,732	Dennis S. Callahan
Tufts Associated Health Plans Inc.	\$ 2,400	Tricia Trebino
UBS Financial Services Inc.	\$ 25,096	Philip Freeborn
Vanguard Group	N/A	Tim Buckley

Data: InformationWeek Research survey of InformationWeek 500 executives.

## Industry Snapshot

### Banking Financial Services

#### Inside companies:

Average portion of revenue spent on IT	9%
Companies using radio-frequency identification	3%
Companies globally sourcing products and supplies	9%

#### How companies divide their IT budget:

Hardware purchases	18%
Services or outsourcing	15%
Research and development	2%
Salaries and benefits	31%
Applications	21%
Everything else	13%

Data InformationWeek Research survey of InformationWeek 500 executives

## Insurance

#### Inside companies:

Average portion of revenue spent on IT	3%
Companies using radio-frequency identification	6%
Companies globally sourcing products and supplies	8%

#### How companies divide their IT budget:

Hardware purchases	13%
Services or outsourcing	12%
Research and development	4%

Salaries and benefits	38%
Applications	20%
Everything else	13%

## Data InformationWeek Research survey of InformationWeek 500 executives

### Methodology

For 16 years, the InformationWeek 500 (IW500) has tracked the IT practices of the nation's most innovative IT organizations. The InformationWeek 500 report examines the best IT and business practices of these organizations across core areas of operations, including IT budgets, technology deployment, business and technology strategies, and staffing practices.

The charts and analysis used in this report are based upon InformationWeek Research's 2004 InformationWeek 500 qualifying study, which was fielded online and by telephone from April to August 2004. The editorial study was authored by InformationWeek editors, as was the criteria used in the selection process. The InformationWeek 500 survey was fielded on the Web by CIC Research.

To qualify for the list, a company must demonstrate a pattern of technological, procedural and organizational innovation. The ranking methodology is based upon a proprietary weighting System created by InformationWeek editors. IT organizations that completely filled out the questionnaire scored consistently higher than others that did not.

Although InformationWeek 500 candidates reveal key elements of spending plans and budgets during the research process, the data is aggregated by industry (for benchmarking purposes). Individual responses are never disclosed. To view the complete 2004 InformationWeek 500, visit [www.informationweek.com](http://www.informationweek.com).