

Editorial

Innovation & Change: Two Sides of the Same Coin – IT as an Underlying Driver

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We are living in times of accelerated change. Technology has always had an impact on banking, but in the last 50 years it has become an important driver of the financial industry. For Deutsche Bank, the new era began with the introduction of the punched card machine in 1955. The reason for this step was that the increasing volumes could no longer be handled manually. Although bankers were still sceptical at that time, they realized that the use of modern technology was not a nice-to-have but a must-have in order to stay in business. This was the starting point of a development which has now lasted for more than 50 years. During this time we have seen tremendous progress in information technology, some of which may be called revolutions. All these developments affected banking business by allowing banks to handle larger volumes more cheaply and faster. But this has not only meant that traditional processes can be run more efficiently: the business

itself has changed because of the innovative use of technology.

What have been the consequences for banking technology? In the last few years technology has had a substantial impact on banking. Nearly all innovative financial products require technology. Since the life cycles of banking products have become shorter, time to market is even more important. At this point, banking technology can make the difference which gives a competitive advantage. For this to happen, banking technology has to be a partner to business instead of a subordinated service. IT staff must be involved in the creation of business processes and should no longer focus just on applications. For Deutsche Bank, this is at the core of the introduction of Service-oriented Architecture (SOA) in the bank. At Deutsche Bank, SOA is part of an overall strategy to align banking technology with the latest business requirements. The



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setting up of a Service-oriented Architecture is closely linked with the redesign of current workflows, operating models, applications, and infrastructure. Based on flagship projects at Deutsche Bank, SOA is gradually being implemented in all areas of the bank's IT. As the first successful cases show, this approach can lead to added value.

What are the consequences for the financial industry? Thirty years ago banks still pursued the buy-and-hold strategy: they lent money and held these risks on their books until the loan was paid back. This created bulk risks, which limited the ability of the financial market to deliver liquidity to the real economy.

The capacity of the financial system to handle an exponentially growing number of trades was the key to the securitization of loans on a large scale. As a result, it was possible to transfer risks, which no longer had to stay with one bank. The use of the latest technology was necessary to form a financial market capable of keeping pace with the needs of a globalized real economy. One figure which illustrates the speed of this change is the growth in the volume of loan derivatives from \$0.5 trillion in 2000 to more than \$42 trillion in 2007. We have known since summer 2007 that this development also entails new risks which we must monitor carefully. But even though the sub-prime crisis has highlighted the risks inherent in a globalized financial system, there is no turning back. A deeper understanding of the underlying mechanisms is essential to identify potential market bias and stabilize the system.

Further investigation of all these aspects is therefore very important. Around 500 B.C., the Greek philosopher Heraclitus noted that "there is nothing permanent except change". The E-Finance Lab makes a useful and constructive contribution to the ongoing discussion of change and innovation in the financial services industry. Their research results help to gain a deeper understanding of the drivers of the current financial markets as well as the underlying banking IT.