



## **Remarks to ITO America CIO Finance Summit Marc Gordon, Chief Technology Officer, Bank of America**

"Technology, Innovation and Profitable Growth at Bank of America"  
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When this ITO America CIO Finance Summit meeting was planned, I had intended to begin by speaking about the importance of technology-enabled innovation and the role we play in driving growth.

But the world has certainly changed dramatically since this conference was scheduled.

I realize it's stating the obvious at this point, but with the uncertainty in the economy, the volatility in the financial markets and what we have been seeing for the past several months, this year has been unprecedented.

In January, we had an emergency Fed rate cut of 75 basis points. In March, we had the collapse of Bear Stearns. Last week, we saw the fall of Lehman Brothers, the rescue of AIG and the announcement of significant measures by the government to stabilize the financial system.

We are facing a new reality in financial services. It's defining itself in front of us. It's a very, very tough environment but also exciting in its own way. We are all working very hard to maintain and improve the confidence of our customers, our associates and our shareholders.

And as our Chairman and CEO Ken Lewis has demonstrated over the years, and most recently with the acquisitions of Countrywide and now Merrill Lynch, difficult times also present tremendous opportunities. But you have to be ready strategically, financially and operationally.

At the bank, even before this most recent financial crisis, we were already seeing major market shifts and substantial changes in customer behaviors, such as in payments mix and in channel preferences. We saw new business model threats and opportunities, such as PayPal™ with its dominant market share online, and also with potential new and non-traditional entrants.

At the same time, we were working on regulatory shifts and implications to card and deposits businesses and, of course, living with the continued acceleration of technological change.

So what does this environment mean to us as IT leaders?

Imagine this boardroom conversation. Ask your CEO these questions. What do you want me to focus on...driving cost efficiencies or responding quickly to changing conditions? Or, integrating acquired businesses? Or, catalyzing innovations to drive organic growth? Well, you know the answer to those questions don't you?

The answer is "yes" to all of the above.

To quote someone who is apparently, I'm told, one of the most well-read management thinkers of modern times, I am referencing Dilbert: "Technology is no place for wimps."

As a runner myself, I like to say that as technology leaders we need to be able to run and tie our shoelaces at the same time.

When managing challenges and opportunities, our scale does help at Bank of America.

We serve almost 59 million, or one out of every two U.S. households. We have relationships with 99 percent of the U.S. Fortune 500, and we serve clients in more than 150 countries.

With our distribution strength of about six thousand branches, 18,000 ATMs and 24 million online banking customers, we have more than 3,000 customer touches every second. That's almost half a million contacts since I started speaking.

But regardless of scale, we have the same imperative. Cost efficiency and strong day-to-day execution are just table stakes. Focusing on survival is the surest way to fail.

We all need to find ways to innovate, even more now than ever, to distinguish ourselves in the eyes of our customers. And while scale helps, I believe innovation is the greatest imperative we all share, and it's only going to become more important as we exit this credit crisis.

And so, even with how the world is changing, I do believe that a focus on innovation is what moves the game forward.

At Bank of America, innovation across our combined businesses can be the breakthrough growth strategy and the opportunity to redefine financial services over the coming decade, even while we focus on great day-to-day execution and the integration of newly acquired businesses.

Now, in my role as chief technology officer, I have begun to form a fresh view of innovation at the bank and how it plays out over the next decade.

It started with a conversation with one of my peers. She runs one of our largest businesses. I asked for her view of the chief technology officer role at a bank.

She replied with a question: "Are we a bank or a technology company?" Good question.

After all, all the products and most of the services we provide for our customers are technology-based.

And like all technology companies, we depend on the creativity of our people to develop and launch a continuous pipeline of product and service innovations with an ever increasing need for speed-to-market and with ever shorter product lifecycles.

So yes, we are a bank, but we are also a technology company. We have ample evidence of both in the impact of innovation, the speed at which it occurs and of the shortening lifecycles we have witnessed in our businesses.

For example, we introduced Keep the Change®, a product that helps customers save money. It's a behavioral product. We first identified that customers want to save. They know it's the right thing to do and have the means to save but can't seem to find a way to do it easily. We gave them an easy way.

So far, we have helped our customers save more than \$1 billion incrementally since the product was introduced. So it's been a great way to gather deposits. And as you know, that's been particularly important in the current environment.

But we saw this same product introduced by one major competitor a month after we announced and by another in less than six months. So with shortening product lifecycles, you can never stop innovating.

As another example, we introduced SiteKey™ for online banking authentication, which at the time was a breakthrough security protection for our customers. One year later, it was available in many competitor sites.

And again in 2007, we introduced No Fee Mortgage PLUS, another breakthrough mortgage product that took us to the number one position in direct-to-consumer originated mortgages. We also introduced the concept of a home equity loan approval that could take place in the time it takes to enjoy a cup of coffee. Both these offerings drove us to big share gains. These innovations were later interrupted, not by a competitor, but by the ensuing dislocations in the financial markets.

And we also were first to introduced mobile banking, and at the time of the launch we offered the only mobile banking application available on Apple's® iPhone.

So we have a track record of innovation.

And I'm coming to believe that our success in the long term, beyond acquisitions and outstanding execution, will be found in the combination of what I would call our innovation platform and our innovation network.

First, I consider our innovation platform to be a combination of the culture, the processes and the technologies we deploy to enable and catalyze innovation.

It starts with our culture. You may know the expression "the soft side is the hard side." Well, the right culture is central to innovation, and it is the hardest aspect to affect.

If I look at some of the technology companies that have grown through innovation, such as Cisco and Google™, what I find is that creativity and innovation are not the sole provenance of the R&D team or a small set of "innovators." Rather, there is an expectation that everyone has the ability, the opportunity and in many cases the requirement to contribute to innovation-driven growth.

The foundation for innovation is our team. Innovation begins and ends with a culture where great people come to work every day charged up and excited, feeling that they are learning and growing, and that they have the opportunity every day to do their best work and to make a difference. At Bank of America, we give a name to this "feeling" ...the Bank of America Spirit...and it's palpable. And it places a very strong emphasis on diversity of perspectives and empowerment, without which innovation will not occur.

The other dimensions of our innovation platform are the processes and technologies we deploy that enable innovation. From a process perspective, I would include voice of the customer, which is the way we collect and assess customer feedback, the new product introduction process, and an "ethnographic" approach we've recently adopted that has our teams experiencing the world through our customers' eyes.

On the technology side, there is a suite of capabilities. You know all of the parts, such as "Web 2.0" collaboration tools, sophisticated search engines that can cull out important ideas or bodies of knowledge across the company, and systems that can capture and track and manage a pipeline of ideas. Or there is the deployment of Cisco telepresence across dozens of locations. But all of these

technologies are not here for their own sake or because they are cool, but are intentionally deployed to catalyze innovation.

The second major element for success, I believe, will be our innovation network. It's all the people and teams and organizations that we tap into as we connect the dots across a large and complex enterprise. This network connects business problems and opportunities to the best ideas and technologies globally.

Having a rich and diverse innovation network, made up of many nodes that can all be tapped into, is critical. You can start this with your own team. In Bank of America's technology network we have more than 10,000 teammates to tap into and at the bank as a whole, more than 200,000.

I'm a firm believer that the answer to many, if not most, of our questions can be found across this team if we have the right network to connect passions and knowledge with business opportunity.

Inside the company, we have more than 12 innovation labs globally and more than 20 different new product introduction teams that are being coupled and that form part of this network. And there are individuals, our best and brightest thought leaders, we call "Technology Fellows," who have a special role to play.

At the same time, we are creating an innovation network that extends well beyond the four walls of the company to link the best external minds with our internal innovation network as well.

For example, Bank of America recently announced the creation of the Center for Future Banking, a five-year collaboration with the MIT Media Lab. The new research center, located on the MIT campus, will serve as an innovation node in the network that will seek to transform banking. Researchers will address questions such as these:

"How can every customer be empowered with the knowledge and tools to take better control of her financial future?"

"How will banking interactions evolve as a customer's physical and virtual worlds become completely intertwined?"

So the media lab is another node in our innovation network. Over time we intend to add major strategic technology partners to this network as well.

Let me end with a story about Pete, because our innovation story is one of individuals and teams in the innovation network, enabled by the innovation platform.

Pete is a longtime bank associate. In the late 1990s, he managed a Customer Relationship Management or CRM technology team. On train rides to and from work, he started playing around with the power of his new personal digital assistant or PDA.

At first, he spent ten percent of his time with this new technology at work. He was encouraged by his manager to explore even more. Then he linked his ideas to a team working on a specific business problem in wireless for our commercial business. He did some very creative work around end-to-end security protocols, but that was where Pete's activity paused.

Fast-forward two years later, a different team in a different part of the country was working on mobile banking in our consumer business. That team leveraged the innovation network to tap into this earlier work and to engage Pete, and we later used this new security capability to quickly launch mobile banking in 2007.

The capability enabled us to offer a secure environment over the widest variety of carriers and mobile devices of any competitor – more than 420 different types and models.

We were the first mobile bank on the Apple® iPhone, and the only one at the launch. Steve Jobs demonstrated our application at MacWorld. Pete was there too, by the way, and you can imagine how he felt! Pete is now one of our Technology Fellows and a critical part of the evolving innovation network.

We went from zero to more than one million active customers in 10 months. Mobile banking now plays a very significant role in customer retention.

There are a lot of Petes at Bank of America. And while patents are a poor proxy for innovation, it is worth noting that our patent portfolio has grown at a compound annual rate of 40 percent since 2002. We filed well more than 100 patents the first half of 2008 alone.

Whether it's enabling customers to use mobile devices...our Future of Banking partnership with MIT...or our Technology Fellows program, we are linking technology and innovation to drive profitable growth.

I believe that, with the challenges we face now and going forward, great execution and a hyper-efficient cost structure are only table stakes.

Our opportunity over the next few years is to drive the innovation platform and network that empower our associates and benefit our customers and shareholders.

Thank you.

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