

Banking Challenges in EMEA

New Trends & The Importance of Customers & Innovation

Peter Farley

MD EMEA – Financial Insights

Banking Conference Lisbon, May 2008

AGENDA

Overview: Customer Focus as Competition Intensifies in European Banking - (But Is Innovation the Answer?)

Banking Specific IT Challenges:

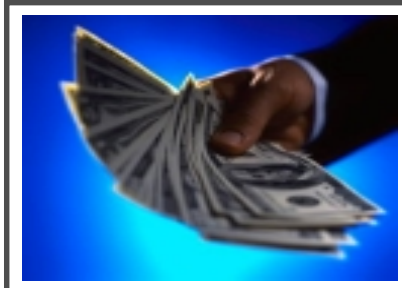
- Core Banking Replacement/Transformation
- Changing Customer Experience in an Integrated Multi-Channel Environment
- Payments services – Cash management/the financial value/supply chain
- Sales & Delivery Channel Integration/Improving Cross-selling & Customer Service
- Digital Content Management – Sharing Knowledge/Managing Communications
- Regulation – SEPA, MiFID & Basel II etc...Security, Risk & Compliance

Lateral thinking & Learning from Other Industries:

- Disruption, Innovation, Convergence, Collaboration, Unification
- Is a banker too old to learn new tricks?
- Why did the word innovation not appear in banking dictionaries until this century?
- Open Architecture – Enterprise 2.0, Capitalising on Convergence
- Is Green IT the way forward?
- Can IT make a Difference?

Challenges: A difficult balance

Grow the Bank



Green fingers: More than just corporate responsibility, Green IT helps grow the brand

Regulation, compliance, risk and fraud management & AML - again in the spotlight

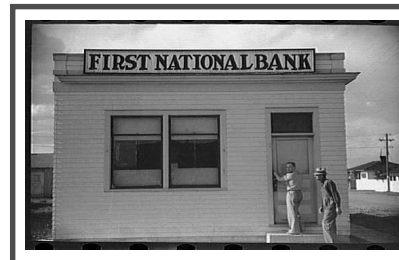
Wealth Management: Competition hots up as customers become more sophisticated

Here we are again: Branch innovation. Multi channel-strategies, changing role of branch

Mobility: from payments to automation (is there money to be made from mobile applications?)

60 – 75% of IT Budgets

- The changing core banking market - deals, deals, deals but any future out there?
- Saving Our Assets with Business Process Management (SOA And BPM discussion)
- 2008 = The year for payments (emerging payment products and impact of SEPA and PSD)
- Supply Chain Financing Europe: What model will work?
- Outsourcing – Biting the bullet and deciding what is core



Run the Bank

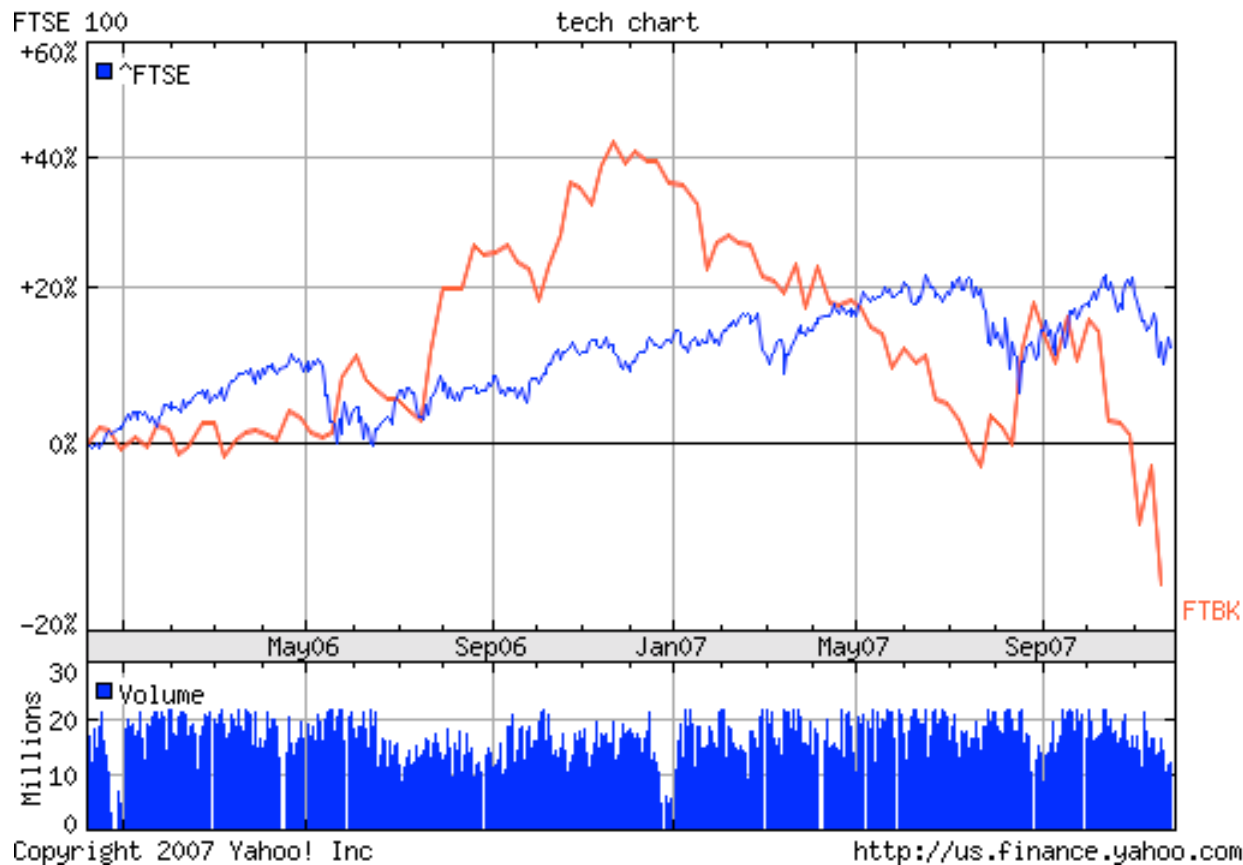
First The Bad News

- Interest rates biting hard despite official rate cuts, global liquidity tightens
- Sub-prime debt market in the US was first to be hit as default ratios rose sharply (19-year high) new housing starts slumping to lowest levels since records started in 1959, house prices there still falling sharply.
- Knock-on effect hits packaged CDO investors, huge write-downs erode balance sheets, income statements. Total so far declared over \$400 billion and set to rise further – will mean \$3 trillion in lending capacity is being removed from the system. Business models threatened.
- Fed reacts by cutting rates, accelerates dollar decline
- Spillover into Europe as more bank provisions revealed
 - Northern Rock nationalised, Bear Sterns gone, more jobs cut at UBS
- ECB/BOE caught between credit concerns, inflation risks – interest rates not going anywhere, fast – in fact spreads widening sharply
- Uncertainty undermines confidence....., but many economists now see contagion, possible Recession spreading to Asia & Europe.

FTSE Bank Shares Lose £100 bln+



But It's All Relative....



Good times and bad even out in the end...

...And it's not all bad news

- Many new retail and corporate initiatives
- Most job losses confined to investment banking
- New customer-centric products & services
- New providers of banking & payment services already eyeing the still lucrative margins
- Choice will increase, the cost of doing business will come down overall and become more transparent
- Regulations will increase – as regulators will be forced to be seen to be acting by politicians

So Why Do we Need Innovation?

- Competition is Intensifying
- Customers are Becoming more Demanding
- Technology is Providing more Choice

M&A in Western Europe Builds

Swedbank 


The Royal Bank of Scotland

HSBC 

 Santander

A Passion to Perform.

Deutsche Bank 

FORTIS 

 ABN-AMRO

citi

 UniCredit Group

Grupo **BBVA**

 IDC
Analyze the Future

Financial
Insights
AN IDC COMPANY

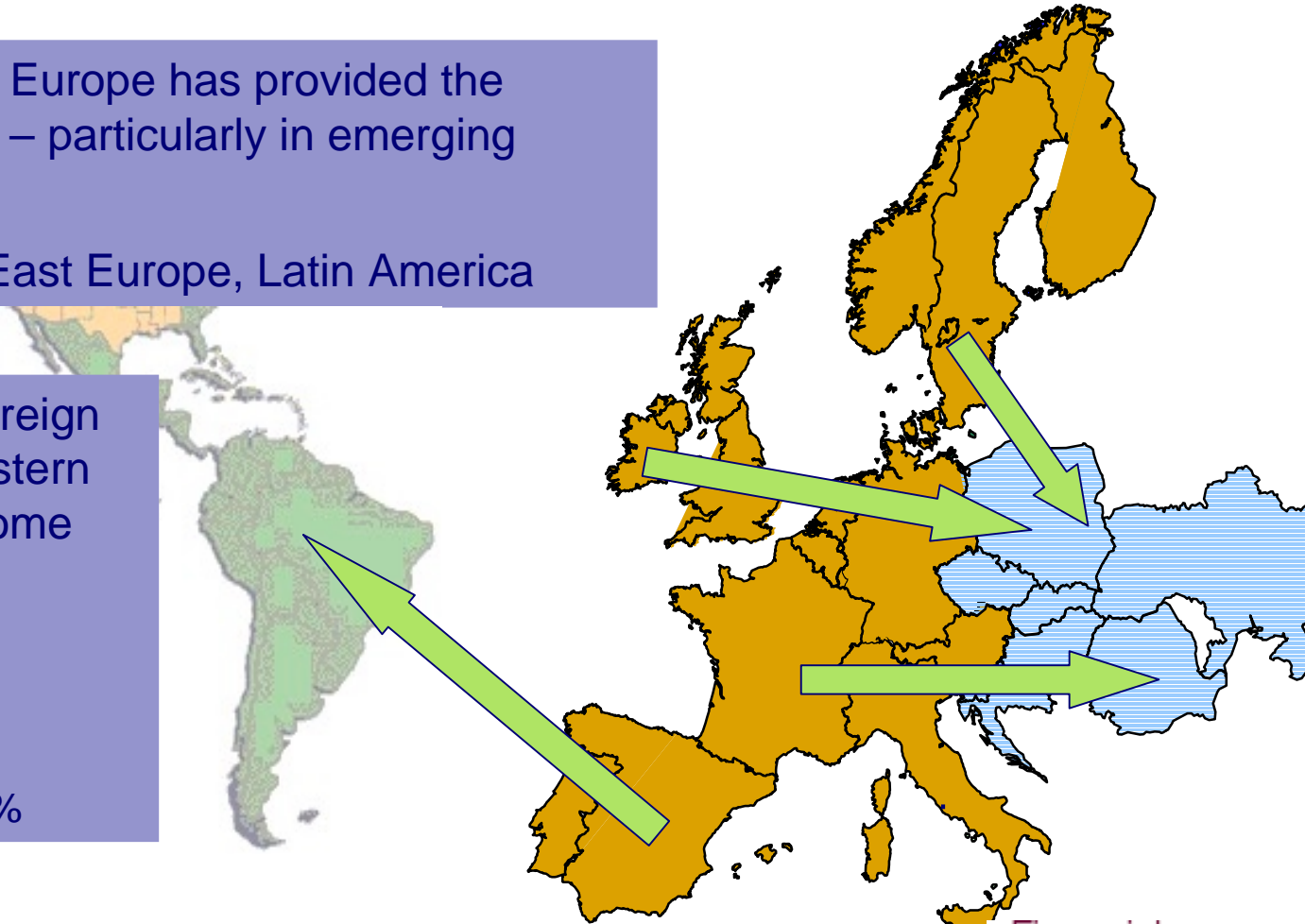
European Platform for Banking Expansion

Consolidation in W Europe has provided the platform for growth – particularly in emerging markets

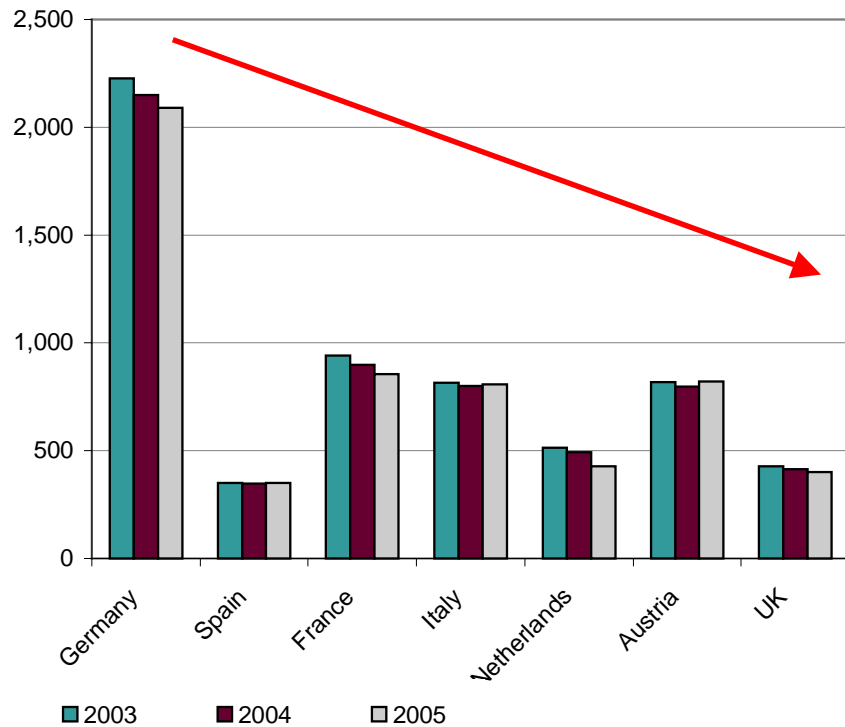
Key targets = East Europe, Latin America

Percentage of foreign ownership in Eastern Europe has become majority:

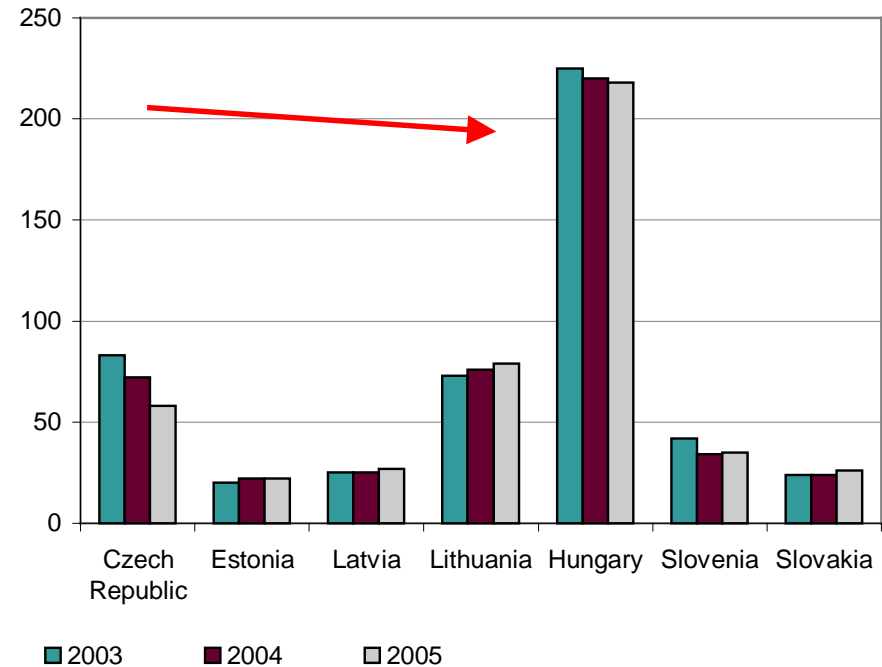
- Hungary: ~79%
- Poland: ~ 60.1%
- Slovenia: ~ 32.4%



Number Of Banking Institutions



Around 7,000 institutions –
But major consolidation expected



Around 1,100 institutions –
Foreign ownership ~ 70%
of total banking assets in the region

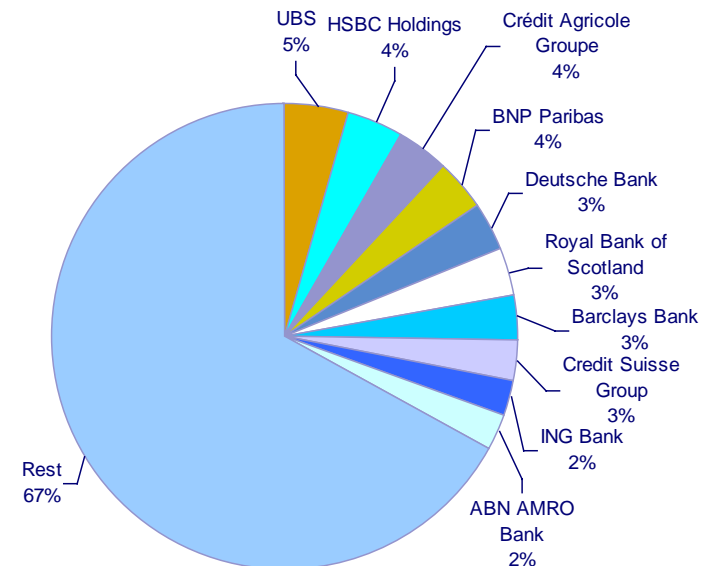
Structure of the Western European Banking Market

European* Bank Population

Tier 1	>\$100 B in total Assets	~ 60
Tier 2	\$10 B to \$100 B in total Assets	~ 142
Tier 3	\$1 to \$10 B in total Assets	~ 224
Tier 4 & 5	<\$1 B in total Assets	~ 6,000

* Excludes Russia and Eastern Europe and Baltics

Share of Assets of Top European Banks



Based on top 400 banks in Western Europe:
Total Assets \$33,897BN

**Still diversified, Top 10
Only Account for 33%**

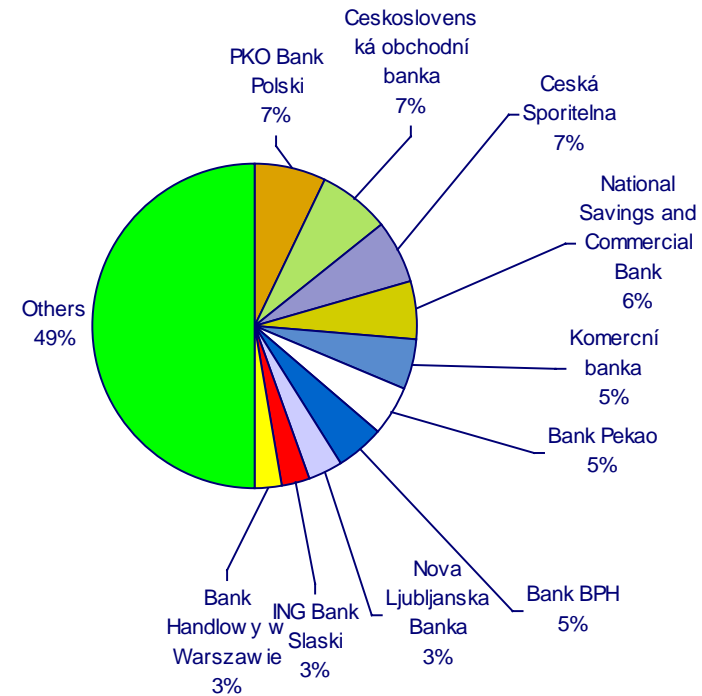
Structure of the Eastern European Banking Market

Eastern European* Bank Population

Tier 1	>\$100 B in total Assets	None
Tier 2	\$10 B to \$100 B in total Assets	~12
Tier 3	\$1 to \$10 B in total Assets	~ 50
Tier 4 & 5	<\$1 B in total Assets	~ 1,020

Notes: Based on banks in Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia and Slovakia
Source: Financial Insights, 2006

Top 10 Banks CEE 2004 - Share of Assets Total \$400,765 Million



Notes: Based on top 100 banks in Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia and Slovakia
Source: Financial Insights, 2006

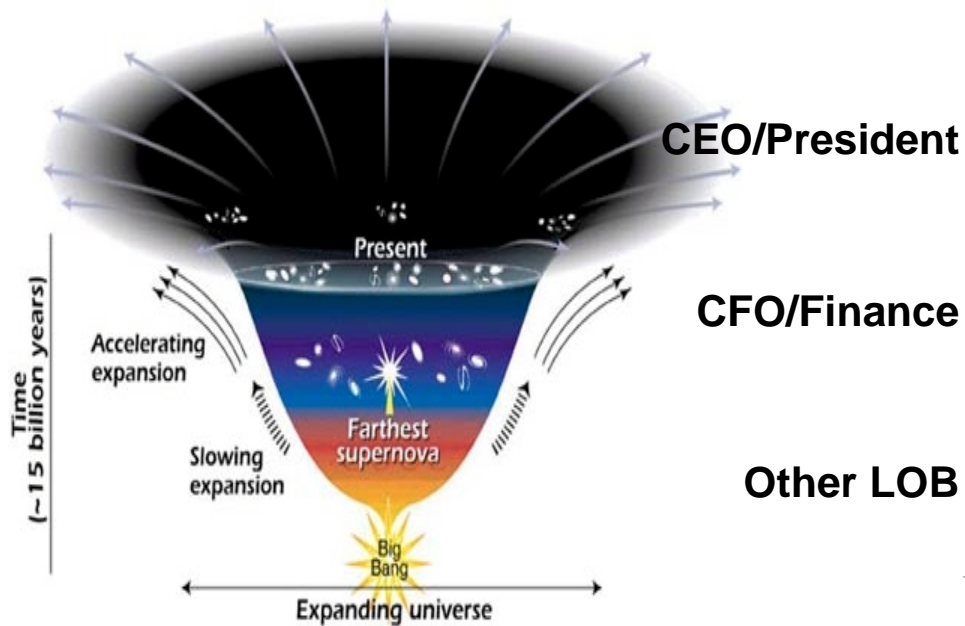
So What Does This Mean for Business Dynamics?

- No single size fits all
 - Apart from more regulatory & compliance issues
 - Some are running fast to stand still
 - Others trying to build scalability to maintain speed
- CRM Issues certainly moving higher on the agenda
 - Significant shift from products to customers
 - Customers suddenly back in vogue
- Business and IT Alignment being taken seriously
- Mobility & NFC solutions seeing widespread testing
- Risk management, predictive analytics up the agenda
- Innovation getting more traction

Alignment Exposed – Are CIO's In Tune with CEO Expectations?

The Pressure Explosion

Q: How aggressively should your organization be using IT?



90% unstructured
70% user generated
85% corporate resp.



What Business Executives want from their CIO/Senior IT Management

Q: Which of the following reflect the messages you would like to impart to your CIO/senior IT management?

- Deliver more **high business-value services**
- Make IT more dependable and secure
- Understand our **business** better
- Speed up **(business) project delivery**

Where Does Innovation Fit In?

Is innovation doing the same things in a different way, or does it mean doing different things in the same way?

Can banks innovate while still in the same cultural straitjackets?

Will customers notice the difference – Do they want different?

Will shareholders notice – what's the ROI in it for me?

Food for Thought

“Not a lot of innovation has gone into banking in the last 1,000 years” – Andy McGuire (Head Boston Consulting Group Asset Management Practise)

“Why is the record for innovation so bad amongst banks?” (The Banker magazine – 2007)

The Financial Times “Innovate 2006” Conference had representatives/case studies from 20 industries – but not one bank was present

“If I had asked my customers what they wanted they would have said faster horses.” (Henry Ford)

Deutsche Bank - Products in a box, their example of innovation



Back to Basics - Putting Customers Ahead of Products

- Banking products (loans, cards, mortgages) have become commoditised and too easily & quickly copied due to technology advances
- Branches changed from transaction points to customer advice centres (Customer-Centric or Customer Experience?)
- Banks now challenged to make better use of customer data to be pro-active in supporting individual & corporate requirements – rather than historic poor efforts at cross-selling
- Challenges to improve customer experience, engage the next generation of clients – employees!!

If You Don't Have a Legacy Can You Compete?

New Banking Channel Successes

- ING Direct, a rapid increase in market share as a result of a clear strategy, better technology, better service or just better interest rates?
- UK Retailers (Tesco, Sainsbury, M&S) successful in financial services because they are more trusted brands than banks, or better rates?

The Power of the Internet – or The Power of the Brand

- Banks' first response was to see how much money they could save (closing branches, cutting staff) not increasing customer choice
- Shorter attention spans and less regard for authority, processes or regulations by the new generation – the appeal of brands (PayPal/Google)
- Too much concern about security, when most fraud is still happening through old-fashioned channels?

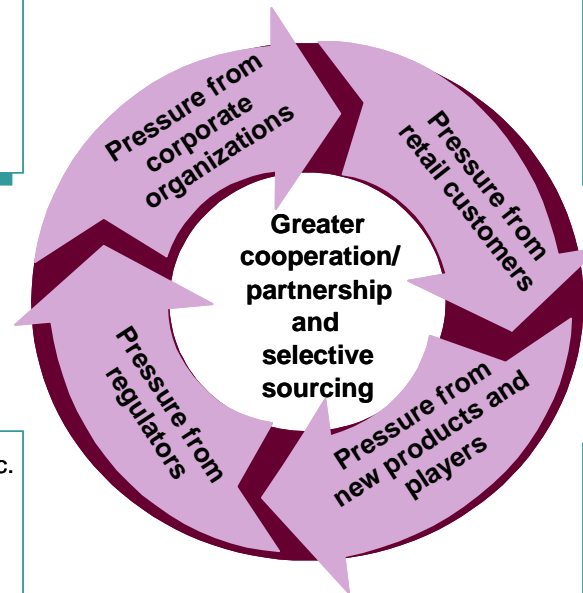
Regulation or De-Regulation?

- Are banks too inward looking and been too slow to learn from other industries: pharmaceuticals, retailers, manufacturers, consumer goods....

Regulation is Helping Spur Change European Payments Challenge

- Globalization
- Europewide integration of back-office systems and requirements for extended STP
- Corporate lobbying: TWIST, RosettaNet
- Increased “shopping around” for lowest domestic tariffs

- Increased mobility— retail cross-border payments will increase
- Decreased loyalty
- Demand for greater transparency
- Move to multiple payment types: card, epayments/mppayments



- SEPA, new payments directive, etc.
- Loss of revenue form crossborder payments in the eurozone
- Increased scrutiny on anti-money laundering
- Increased competitiveness in the market

- Competing P2P payment channels: PayPal, Visa Direct, etc.
- Increase use of stored-value cards, mobile payment opportunities, and epurses
- Entrance of mobile phone operators

SEPA = Opportunities

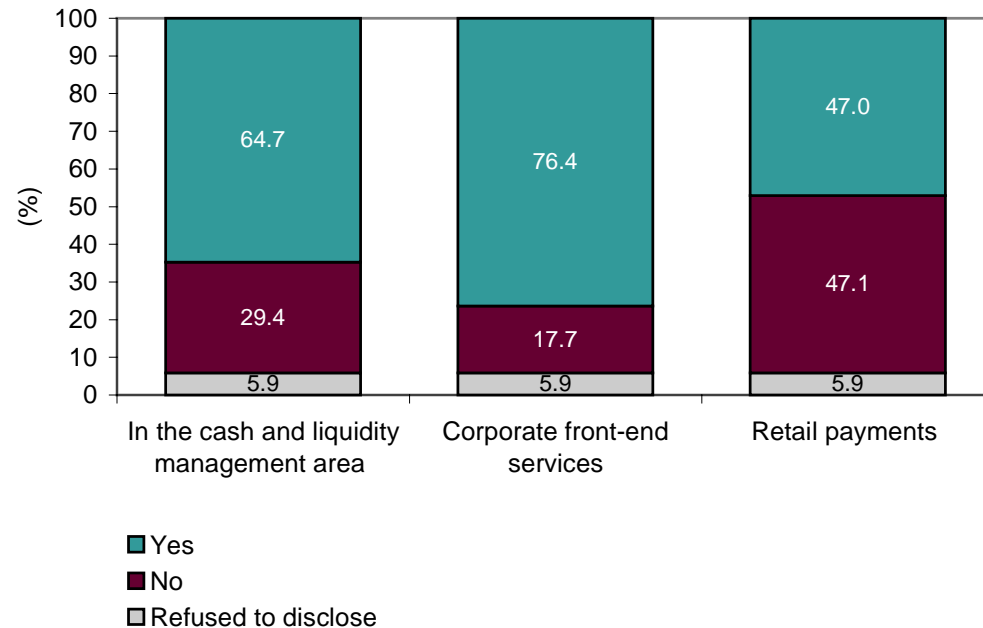
Fast movers will be best positioned to take advantage of the more open market

Beyond cash and liquidity management, institutions should also investigate supporting corporates with financing services for the corporate supply chain

Banks should act quickly in implementing new services to stay ahead of the competition. Key focus areas should be:

- Cash and liquidity management
- Implementation of credit transfers and direct debits on systems like Step2 and Target2
- SWIFTNet funds, cash reporting, etc

Q: In What Business Areas Will SEPA Create New Business Opportunities?

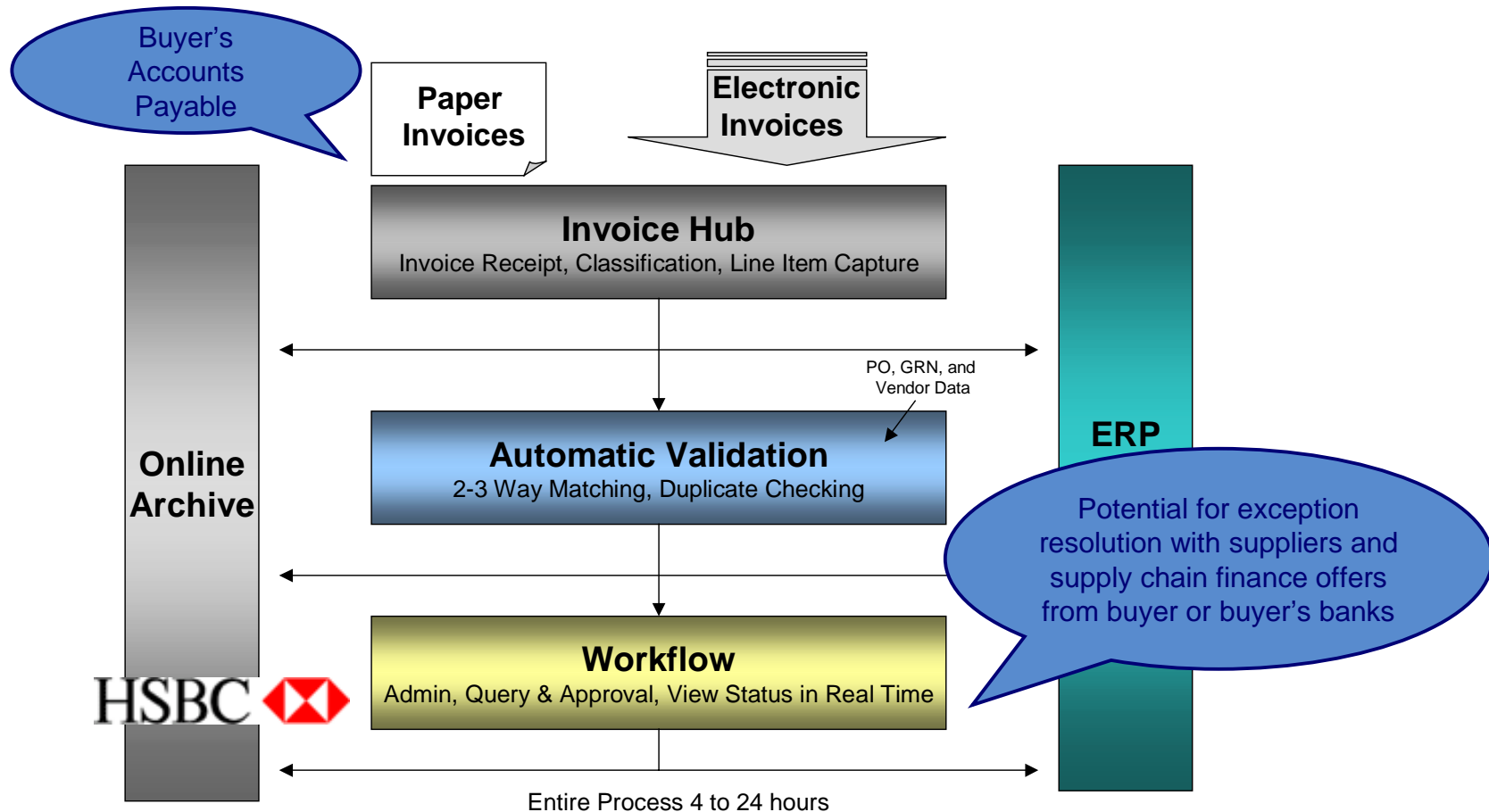


Some New Initiatives

- Transaction Process Management
- Financial Supply Chain
- Provide effective outsourcing services for Corporate Customers - and their clients

Example: Payments Path - Accounts Payable BPO

Accounts Payable Integration Services

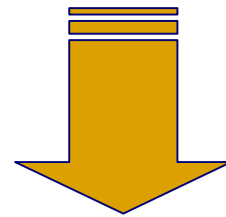


Putting Enterprise IT into Practise

Speed

IT Linkage
to Business Value

Cost-
Efficiency



Consolidated, Virtualized, Automated and Extended
Visible (and Manageable) Interdependencies (IT and Business)
Modular, (more) Easily Integrate-able Solutions (“mash-ups”)
Rich Portfolio of Sourcing Options (including “-as-a-service”)

Back in the Real World - Security, Regulatory, Compliance

- Compliance will continue to be one of the biggest growth industries in financial services for a decade
 - Self-regulation failed
- National and international regulators need to be better co-ordinated, focus on de-regulation, competition
- Security – how tight does the industry want everything to be locked up?
 - Balance between safety & consumer acceptance
 - How much of security is a marketing/PR exercise?
- Will compliance move to the heart of core banking re-generation?

Looking Further Ahead

- Banks now grasping the nettle
- Trying to be pro-active
- Trying to leverage new technology
- Collaborative Tools – Web 2.0
- Green IT/Corporate Responsibility

-Innovative, Can Banks Prove They Know what it means?

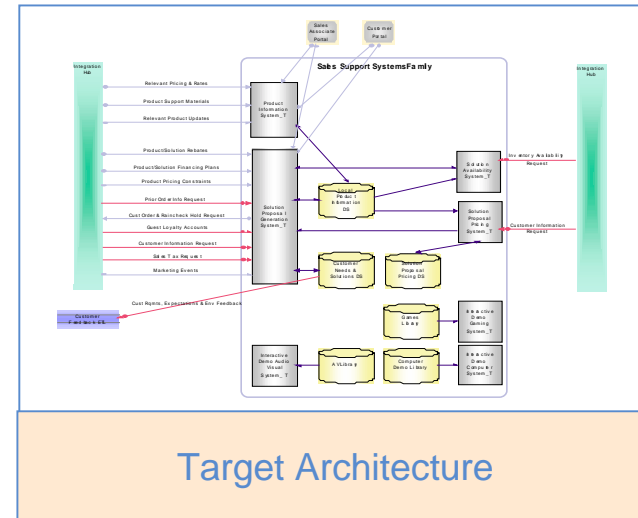
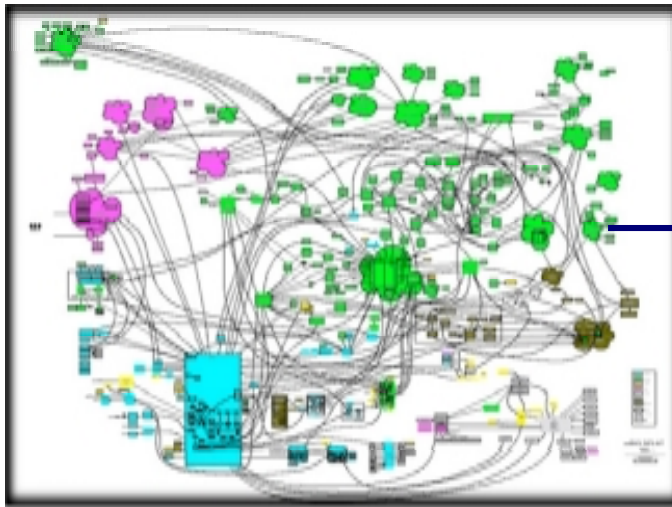
Web 2.0 – Integration + Simplification

Web 2.0

The Net Generation

The Social Revolution

The Economic Revolution



Proprietary
Monolithic
Silos
Enterprise
Dumb networks

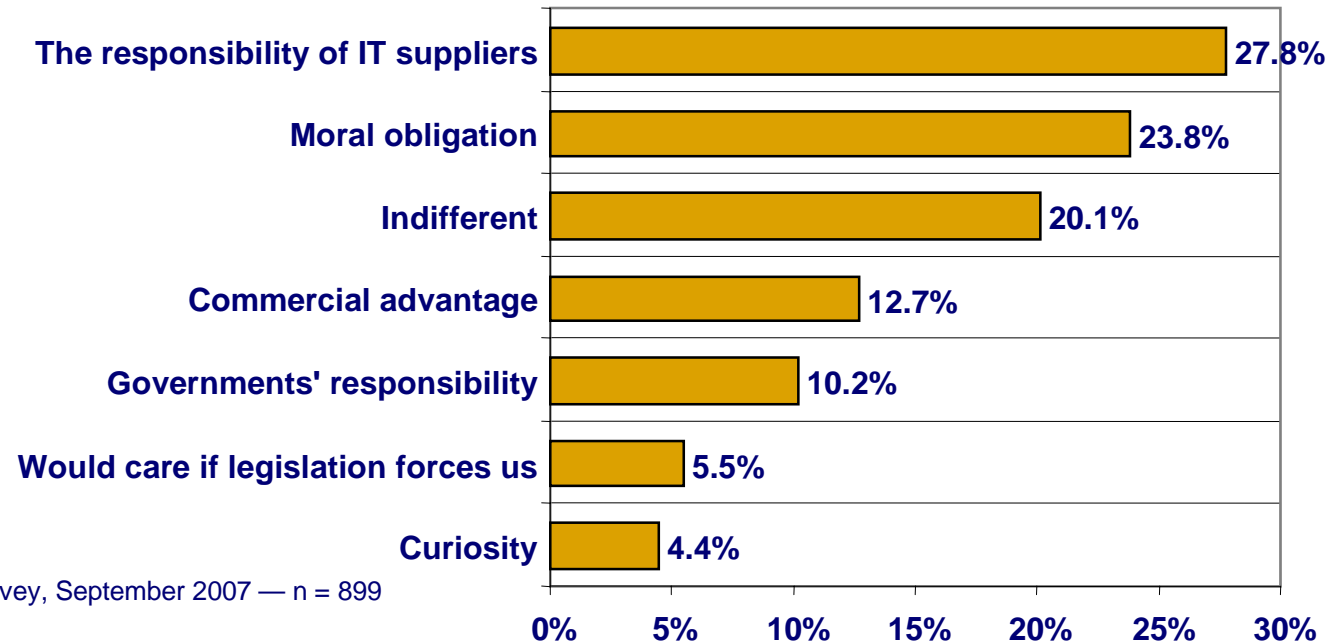
- Standards-based
- Service oriented
- Interoperable
- + Inter-enterprise
- Intelligent networks

Some New Themes are Emerging

- Collaboration and Integration
 - Creating communities – both internally & externally
 - Transparency at the heart
- Mobility and seamless Convergence of IT & Telecom
 - Multiple devices & Multiple access points
- Green IT and the CSR Revolution
 - Cost benefits as well as customer friendly
 - Datacentre power and energy efficiency
- A Culture of Innovation
 - Can banks really make a difference?

Could Green IT be a Winner?

Q. What best describes your opinion of green IT?



Source: IDC ICT Forum Survey, September 2007 — n = 899

- 68% of respondents claimed to have little or no knowledge of their suppliers' green credentials.
- This included 27% of respondents with little or no knowledge who wanted a better understanding.
- 32% claimed a lot or limited knowledge of their suppliers' green credentials.

So What Does a Bank Mean by Innovation?

General

- Banks had a very good run – until latest credit crunch
- So why spend money innovating when so much profit was being made already?
- Can Banks create an Innovative culture? Is it changing course or changing minds?
- Are banks able to create the necessary environment where business and IT both communicate and speak the same language? **CULTURAL CHALLENGES!**
- What are the risks to competitiveness and customer perceptions if a bank fails to grasp the innovation nettle? **EMPLOYEE CHALLENGES!**

What does it take to innovate?

Planning is critical – Some Key Steps

- Formalise the Process
- Measure time to market & ROI
- Measure how many ideas are killed
- Understand what customers need/want
- Finance R&D staffed with PhD's etc... (people with new ideas)
- Diversify – learn from other industries
- Create an environment where change is encouraged and failure not punished – Failure is an Option!

“People Attraction NOT Resource Allocation”

Our Contact Details

Please contact/e-mail me at

Peter Farley

Pfarley@financial-insights.com

+44 (0) 20 8987 7190

