



Asia/Pacific
Top 10 Strategic Initiatives
for Banks in 2008

The Return of the Customer

Agenda

Top 10
2008

- Introduction
 - Regional themes
 - Growth prospects
- Top 10 Strategic Initiatives
 - Honorable mentions
- IT Spending Implications
- Essential Guidance
- Questions

Top 10 – What is it?

Top **10**
2008

- Annual list
 - Line of business and technology issues
- Incorporates input from across the industry
 - Bankers, vendors, analysts, media, consultants, etc.
- Focus is on strategic, not tactical initiatives
 - Do not necessarily account for the highest dollar spend or the most media friendly
- Regional in scope
 - Country drill downs are essential
- Validate what we tell you
 - We welcome feedback

Asia – Growth Prospects

Top 10
2008



Annual GDP Growth (%)				
	2008 New	2008 Prior	2009 New	2009 Prior
China	10.0	10.3	10.0	10.0
Hong Kong	5.2	5.5	5.8	6.2
Indonesia	5.5	6.0	5.8	6.2
Malaysia	5.2	5.8	5.6	6.2
Philippines	6.0	6.7	6.2	6.9
Singapore	6.4	7.3	6.1	6.2
South Korea	5.0	5.1	5.3	5.5
Taiwan	3.8	4.2	4.6	4.8
Thailand	4.0	4.5	4.5	4.7
India (FY basis)	7.8	8.0	8.2	8.3
Asia ex-Japan	8.3	8.6	8.5	8.6
Source: Goldman Sachs				

Top Level Issues for 2008

Top 10
2008

- Asia economic outlook
 - Growth will remain solid but has Asia de-coupled?
 - Non-OECD trade corridors remain vibrant
- Direct impact of sub-prime is limited
 - Indirect impact of slowing global growth
- Are Asian banks prepared for tough times?
 - Bad debt/NPLs? Risk culture?
- New ownership dynamics
 - International banks, sovereign funds and PE shops
 - Domestic consolidation continuing
- Growing premium on professional management
- Balancing growth, cost and efficiency

Important IT Themes

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2008

- The customer is back in the limelight
 - Foundation of many investments
- Measurement and benchmarking of IT
 - Gradually replacing gut feel investments
 - Number of IT projects with “issues” is still too high
 - Formal analysis of benefits and returns
 - What to DO with the investments that have been made
- Fight for IT talent continues
 - Demand for those with LOB and IT experience
- Processes and data infrastructure
 - Maturation of SOA and a business oriented approach
- Managing international/regional operations

Strategic Top 10

Top 10
2008

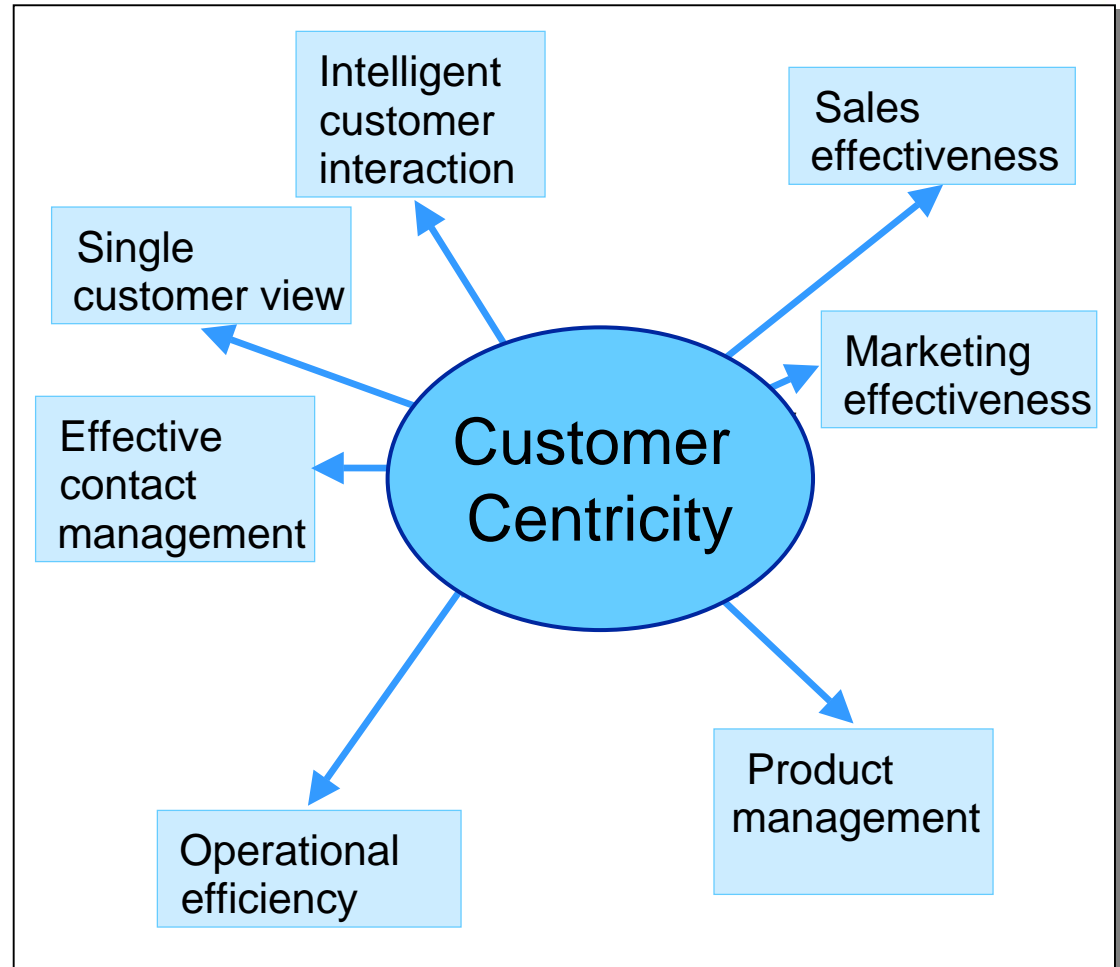
- Customer Centricity and Channel Strategies
- Performance Benchmarking
- Risk Management and Compliance
- Core Banking Transformation
- Business Process Management
- Managing the Data Infrastructure
- Transaction Banking
- Human Capital
- Payments
- Selective Sourcing

1. Customer Centricity and Channel Strategies

- Customer centricity is a culture that must be built
 - Initiatives related to CRM, channels, product management and business process improvements
- Continued growth in channels
 - Branch and self-service in big countries but also focus on the Web and contact centers
- Analytics, scoring and modeling investments
 - Desire to understand and grow the total relationship
- Customer centricity leaders are gaining market share

Different aspects of customer centricity

- As a technology initiative, customer centricity is primarily about CRM and channels, but as a strategic initiative, it has many facets



2. Performance Benchmarking

- Renewed focus on prioritizing, funding and managing IT and LOB projects
 - Expand KPIs around applications and processes
 - Improve methodology for sunseting applications
 - Leverage SOA strategy to reevaluate the IT landscape
- Focus on how processes and application functionalities impact customer related indicators
- Improve monitoring of vendors and service providers

3. Risk Management and Compliance

- Moving beyond implementation into a true risk culture is a challenge at many banks
 - Current environment will be an important test
- In addition to Basel II, AML, accounting standards and operational risk are focus areas
 - Ops risk – BCDR, risk assessment mapping, KRIs and internal loss event DBs
- Security and fraud are risk issues
 - Fraud continues to plague the region
 - Identity/access management, prevention and detection

4. Core Banking Transformation

- Many core projects have been completed
 - Focus on measuring the benefits
- Small deals continue across Asia
- Seeing more large bank projects
 - While some are “big bang”, many are evolutionary
 - BPM, enabled by SOA, with a focus on the front-end
 - Clean up the environment before replacing the core
- Core transformation has become less risky but the people element is critical
 - Vendors lack depth in terms of experienced staff

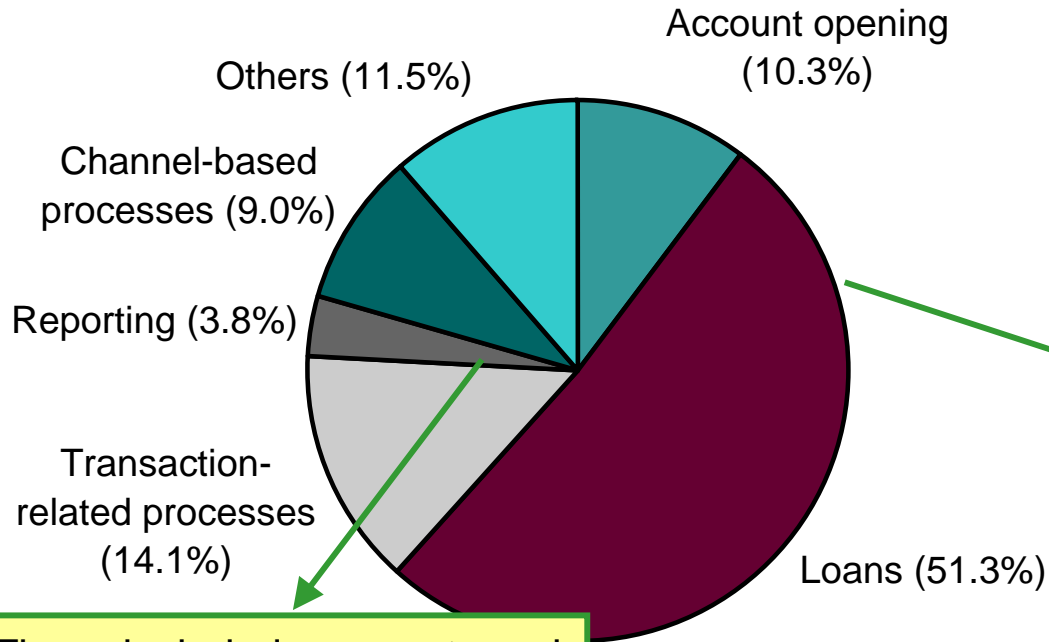
5. Business Process Management

- Shift away from pure cost reduction
 - Turnaround times, error reduction, efficiency
 - Customer is a key driver of activity
 - Lending process is a hot area for 2008
- Demand for biz analysts with LOB and IT experience
- Banks deploying BPM suites that aim to integrate applications and customer processes
 - Dashboards and GUIs to interact with underlying apps
 - Business process and modeling tools to define and manipulate workflow and business rules

Business Process Automation Priorities

Asian Banks' (Business Process Reengineering) Priorities, 2007-2008

Q. Which processes will be prioritized in your bank's BPR Program?



These included payments and settlement (receiving the most direct references in this area).

In this area, processes concerning approval received the most frequent mention. There were also a couple of references to credit collection from the responses. In terms of products, SME lending (factoring and inventory funding in specific) had the most references, followed by home loans and then unsecured lending (credit cards and personal loans).

N=65 top technology executives in A/P banks

6. Managing the Data Infrastructure

- Explosion of data forcing EDM to the fore
 - Define, integrate and retrieve data effectively/quickly
 - Focus on understanding the data life cycle
- Data is at the core of customer, financial accounting, compliance, risk and a myriad of other projects
 - Become a critical business enabler
- Still challenges around how to prioritize data internally
 - Data czar role has shown little promise

7. Transaction Banking

- Vibrant Asia growth and new corridors driving activity
 - Payment and settlement inefficiencies around the region spurring investment and activity
- International banks directly challenging the locals
- Integration between payments, cash and trade
 - Integrated payables and receivables solutions
- Supply chain finance and corporate connectivity on the agenda
- Service providers focus more attention on solutions

8. Human Capital

- Demand has driven up staff costs across a range of IT, LOB and operations roles
 - International banks poaching staff as they ramp up
- Banks responding in various ways
 - Training, flexible hours, remote access, overseas postings, role shifts and retention bonuses
 - Build a brand that people want to work for
- Captive operations staff challenges
- Demand for talent at service providers although consolidation is having an impact

9. Payments

- Developing economies building infrastructure
 - EFTPOS, clearing/settlement, RTGS, etc.
- More activity at the regional level
 - SWIFT, China UnionPay, card associations, etc
- Web is becoming a more powerful channel
 - Corporate payments, remittance, PayPal
- Stored value cards seeing wider adoption
- Mobile payment models spreading with telcos leading
- Payment process outsourcing growing slowly

10. Selective Sourcing

- Benefits of outsourcing have been proven but only if the relationship is managed well
- Reluctance by banks to undertake long-term, comprehensive outsourcing but selective growing
 - Scope of selective outsourcing moving up value chain
 - Analytics, mortgage processing, payments, HR, security
 - Captive operations growing in size and importance
- More talk around utilities to service small banks
 - China, Indonesia, Philippines, India and Thailand

Strategic Top 10 Honorable Mentions

Top 10
2008

- Managing Bandwidth
- New Business Models
- Managing International Operations

■ Managing Bandwidth

- Banks constrained by old voice and data infrastructure
 - Causes problems when new enterprise apps are rolled out, especially cross-border
 - Challenge for banks with operations in developing Asia
 - Banks keen to promote remote working
 - Cost versus performance issues
- Banks investing in IP-VPN and MPLS networks
- Network management and security are priorities

■ New Business Models

- Social networks enabling new ways to interact and connect to customers
 - P2P lending, Facebook, MySpace, etc.
- Islamic banking changing the way banking products are structured and sold
- Technology allowing banks to reach the unbanked
- Renewed focus on leasing
- Green IT
 - New opportunities to tap into customer sentiment
 - Reduce carbon footprint and lower energy/water usage

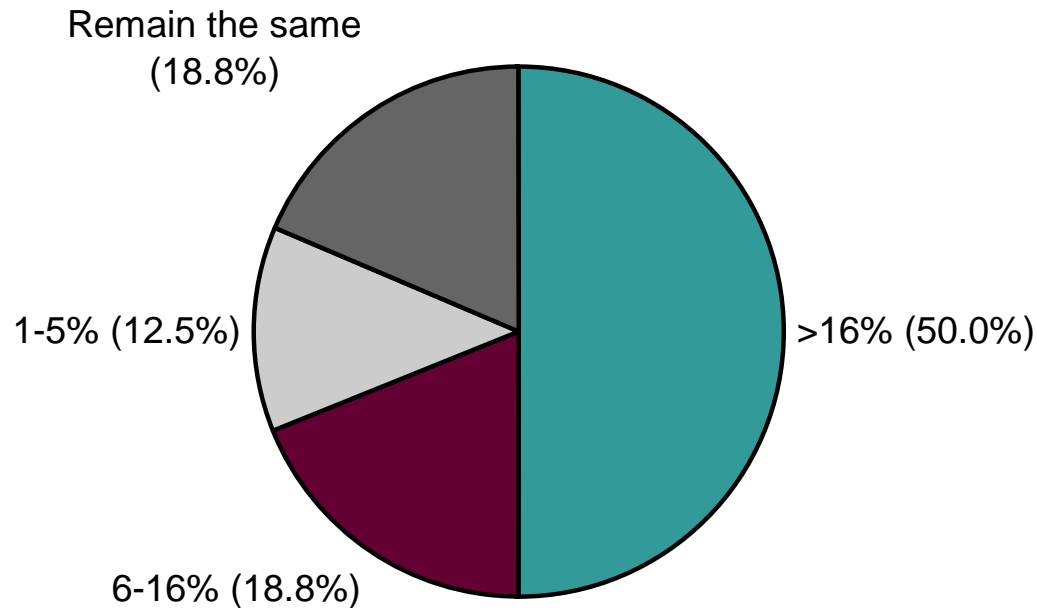
- Managing International Operations
 - Banks moving cross-border at a rapid pace
 - Acquisitions, new branches, investments, etc.
 - Challenges around running the overseas operation, especially if the home country systems are inadequate
 - International operations growing in scale and depth
 - Often have specific, country requirements
 - Opportunity to test technologies and business models
 - Requires a long-term strategy
 - Creation of an international CIO role

Strong IT Spending Growth

Top 10
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Asian Banks' Estimated IT Spending Growth, 2008

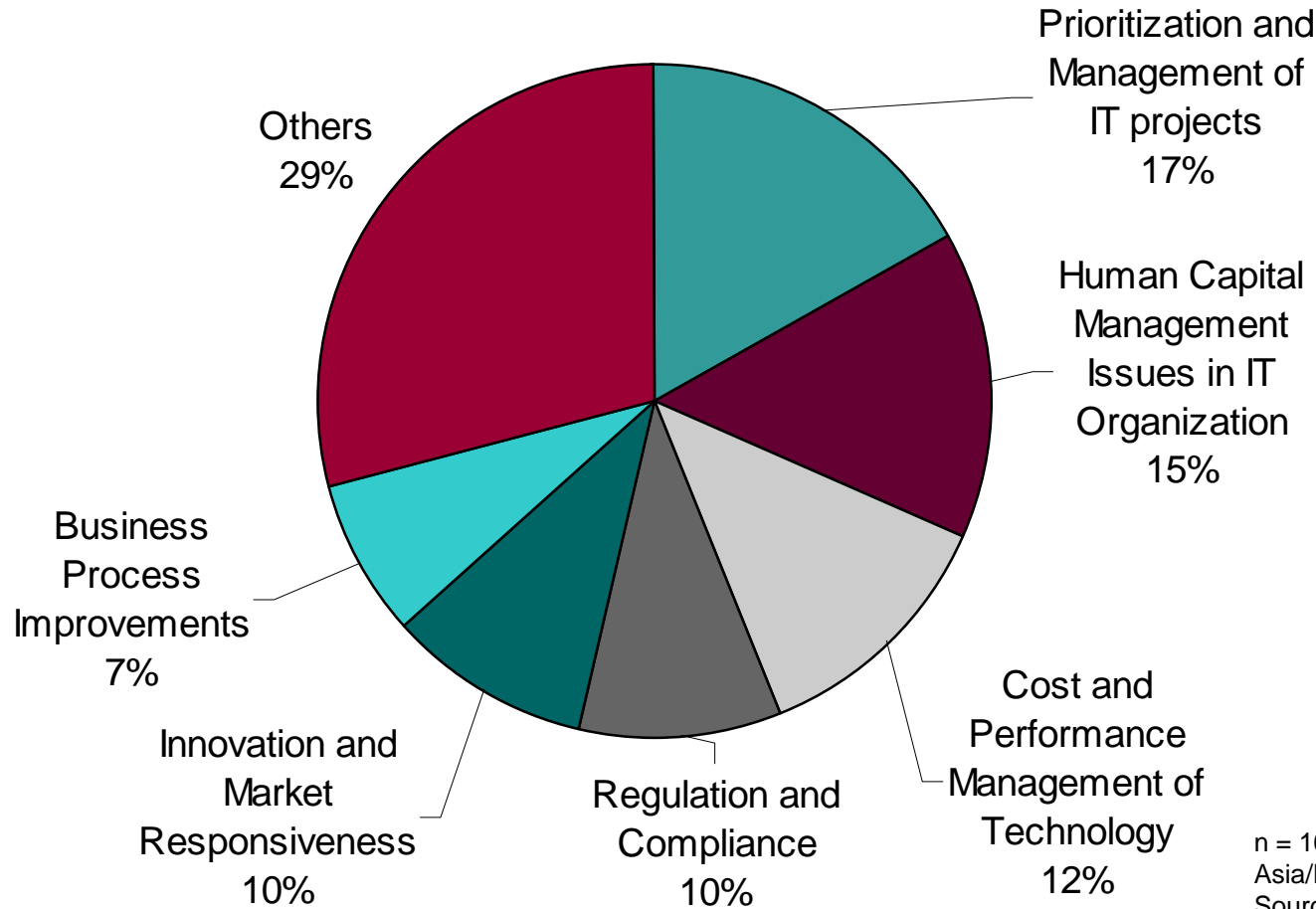
Q. By how much is your bank planning to increase IT spending in 2008?



n = 16 selected CIOs in Asia/Pacific banks
Source: Financial Insights, 2008

Key Challenges for Bank CIOs

Q. What are the three biggest IT challenges currently faced by your bank?



n = 16 selected CIOs in Asia/Pacific banks
Source: Financial Insights, 2008

Key Initiatives and IT Spending Implications

Top 10
2008

- IT teams are juggling many high-priority projects – in previous years, focus was on a few comprehensive large projects
- Banks will be benchmarking not against peers of the same size or of the same country, but against peers of the same strategy
- Proving the benefits of IT projects has hastened customer centricity
- Anticipate changes in the IT organization to achieve better alignment with business

■ Banks

- Assess the ability of your bank to weather a serious economic downturn
 - How strong is your risk culture?
 - How much transparency exists in your loan book?
- The customer is the focus
 - How many of your projects and investments can be linked to a customer-specific requirement?
- For major projects like core transformation, it is critical to source a variety of opinions and best practices
- Benchmarking and performance metrics should underpin decision-making

- Vendors and Service Providers
 - Take note of how the service provider landscape is changing
 - Creation of a handful of giants players
 - Niche players still important but will need to maintain relationships with the big players
 - As banks focus on process-related investments, vendors need to bring domain expertise to the table
 - Commitment to a country is important for winning local deals and this often means a local office
 - When hiring senior staff, take time to find the right person



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Thank You!
Questions?

