Jan - Mar 08 / Vol 01 / Issue 12

FINACLE CONNECT

CONNECTING THE BANKING WORLD

featuring research from Financial Insights An IDC Company

SHIFTING DEMOGRAPHICS IN BANKING

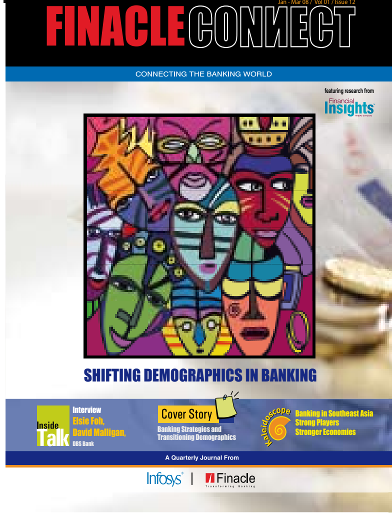
Inside Talk
Interview
Elsie Foh,
David Malligan,
DBS Bank

Cover Story
Banking Strategies and Transitioning Demographics

Kaleidoscope
Banking in Southeast Asia
Strong Players
Stronger Economies

A Quarterly Journal From

Infosys® | Finacle Transforming Banking



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Voice from the Desk

Welcome to 2008 and to the latest edition of FinacleConnect. Keeping with the spirit of the New Year, in this edition of FinacleConnect we continue our effort to offer fresh perspectives on the latest business and technology trends impacting the world of banking.

There is no doubt today that with increasing globalization, and a mobile workforce, demographic diversity within local regions is here to stay. Not only does this trend have strong implications on the savings behaviour of customers, it also impacts banks' strategies. The cover story in this edition of FinacleConnect looks at this all important topic of how changing demographics is impacting the banking industry. This article discusses the challenges presented by the demographic transition witnessed in the Asia-Pacific region and suggests opportunity-led strategies for banks. Importantly, it suggests that the lessons learnt in one region can appropriately be applied to other regions as well. Kaleidoscope this time pans across the Southeast Asian banking industry, one decade after the financial crisis of the late nineties that wrecked havoc on the economies of many countries in the region. We also talk to Elsie Foh & David Malligan, at DBS Bank, Singapore, where they present their views on the latest challenges faced by the banking industry in the region. Additionally, they provide interesting insights into the key technology strategies being adopted by DBS Bank.

The feature article, in this edition of FinacleConnect, presents leading financial research firm, Financial Insights' view about the importance of Enterprise Data Management (EDM) for banks. There is an undeniable need for EDM in banks today, says Financial Insights. "With EDM seen to help banks along in several top technology initiatives, the argument that such a project is not cost-beneficial or is too complex, holds less weight. By implementing such a system, banks are ultimately laying a solid technology foundation on which other necessary technology initiatives such as CRM, segment management and performance management can rely on. The benefits of EDM cannot be disputed, and banks have to be willing to take the first step in what may seem a daunting journey." The same logic can be applied to most technology projects that require large scale overhauls. With the right solution, however, the end result is well worth the effort.

I am sure you will enjoy reading this issue of FinacleConnect. As usual, please keep sending in your suggestions and feedback.

Till next time!

Haragopal M

Vice President and Business Head - Finacle
Infosys Technologies Ltd.

Feature

Enterprise Data Management – Integral to Banks' Technology Initiatives

Enterprise Data Management (EDM) refers to the ability of an organization to define, integrate and retrieve data to meet the institution's needs. The focus is on the creation of an accurate, current and transparent data body that can be easily accessed on demand through a centralized data system.

EDM programs are often viewed as overwhelming tasks. Even before a bank can embark on an EDM project, it would first need to identify and evaluate its current data flow processes in a complex network of disparate legacy systems. The time and cost involved in this first phase is sufficient to deter many bank executives from embarking on initiatives involving EDM projects However, banks still consider EDM as vastly important while implementing some of their technology projects. The success of these projects is ultimately reliant on the maturity of the bank's EDM program.

Some of their EDM-reliant top technology initiatives are:

- Customer Relationship Management (CRM)
- Profitability and Performance Management
- Risk and Compliance
- Security Management

Customer Relationship Management

EDM and CRM programs within banks are mutually supportive. The CRM program's drive to effectively manage customer interactions, and in the process improve customer retention and customer loyalty, is supported by the organization's EDM capabilities.

For example, a key imperative of the CRM program, channel integration – the intention being to give a consistent customer experience across all channels – is reliant on effective work around data quality and data management. Related to this are initiatives involving data warehouse or data mart projects, with the intention of bringing together useful, but disparate customer data. These data intensive projects can tie in closely with overarching EDM strategies.

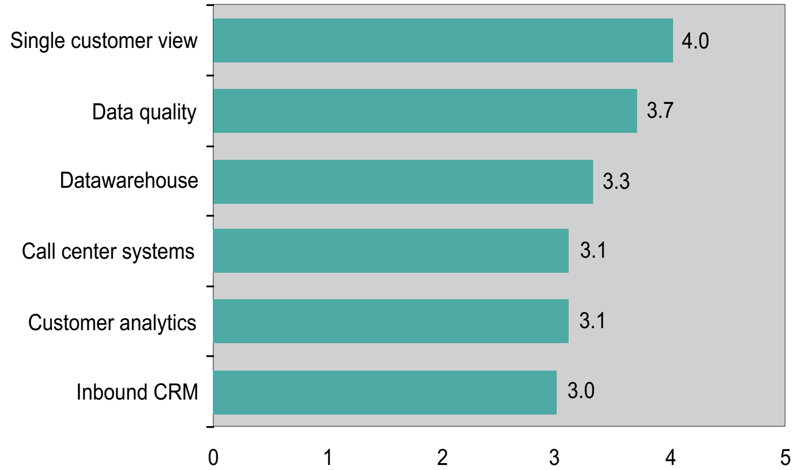
Recent Financial Insights research covering banks points to how the chase for a 'single customer view' dominates the CRM agenda. This provides the bank with an enterprise-level view of the total customer relationship resulting in bank staff being able to access and act on relevant customer information (customer bank balance, number of bank products and services used, credit risk profile, and so on) from any bank channel. The four steps in achieving single customer viewpoint all rely on the discipline of EDM:

- Analyze: Identify all relevant sources of data
- Integrate: Merge data points from multiple sources
- Index: Generate unique customer identifiers
- Standardize: Define data consistently

Figure 1 shows the importance of the single customer view as well as other data related

Figure 1

Q. On a scale where 1 = not important and 5 = very important, how important are the following areas to your bank's CRM strategy in the next 12 months?



n=27 senior IT and line of business executives of 27 banks (comprising of banks in Australia, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore and Taiwan) initiatives for CRM as stated by banks in a 2007 Financial Insights study covering 27 banks across 9 countries in the Asia Pacific.

Customer dynamics and the pace at which these dynamics are shifting have pushed the need for CRM and EDM programs to be more integrated. Banking customers have clearly shown their unique preferences and habits in their banking interactions. As a result, banks' customer bases have disaggregated into several customer segments that cover various customer demographics, product holdings, and channel preferences. Customer service and relationship strategies have also disaggregated as the bank interacts with various customer segments accordingly.

The added challenge is how customer habits and preferences have become as fluid as they have ever been, necessitating the ability of the bank to dynamically capture shifting customer dynamics, manipulate these customer data, come up with customer insight and just as quickly cascade these customer data and information throughout the enterprise. Here, the value of a logical integration of both the EDM and CRM projects is obvious. And with this, interestingly, the bank's traditional franchise of managing liquidity and risk has been expanded to include the ability to manage customer data and segmentation more effectively.

Profitability and Performance Management

Banks continue to struggle to better assess business performance and to do so utilizing the most relevant, accurate and timely data possible. Investments in this initiative span a wide range of areas, from the data foundation up to sophisticated performance management systems. The EDM project helps banks reduce data silos and move towards a standardized and centralized approach to handling of information and reports.

On one end, we see financial institutions working on critical projects involving chart of accounts and general ledger redesigns, looking to have the right financial data infrastructure in place as they go through core system overhauls. On the other end, banks are building centralized performance management systems that aggregate a myriad of data in order to be able to deliver this information to the hands of those who need them.

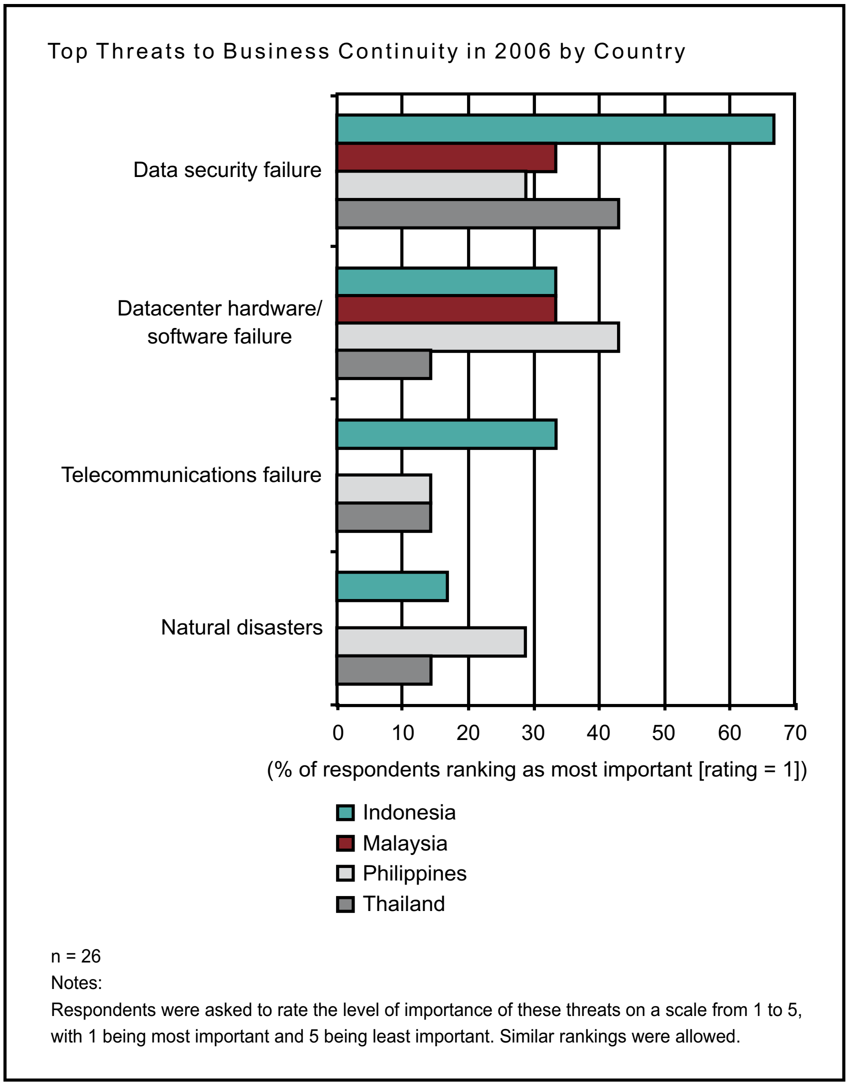
The executive suite is demanding more detailed information, driving the need for better reporting systems with granular data, more useful scorecards and intuitive dashboards. Specifically in relation to management dashboards, long an imperative for executive management, the need for quality data is all the more critical, as substandard data will directly impact management decisions across various functional areas.

Performance management is now seen as a discipline spanning finance, operations, IT and the customer, and the focus is on building and improving a host of useful metrics and performance gauges. This information is then used to better assess and improve the business, with one trend being the tying of performance metrics to incentives and compensation. The need for granular data in performance management would not be met without the EDM program.

Risk and Compliance

Banks are facing a myriad of compliance requirements in their risk management. Many of these requirements are heavily reliant on proper

Figure 2



data management. For example, a key challenge in credit risk requirements is the lack of historical data. Banks realize the interdependence between high quality reference data management and efficient risk management and this is resulting in efforts to improve reference data quality. These investments include systems for upfront data capture, linkage, storage, processing and analysis.

In addition to this, other risk and compliance related projects such as business continuity and disaster recovery (BCDR) are also driven to maintain the accuracy, resiliency and security of data. Figure 2 shows the top perceived threats to business continuity from a 2006 Financial Insights study of 26 banks across four countries.

It cannot be denied that data security initiatives as well as fulfilling the need for historical data, are all made easier with a solid Enterprise Data Management system in place.

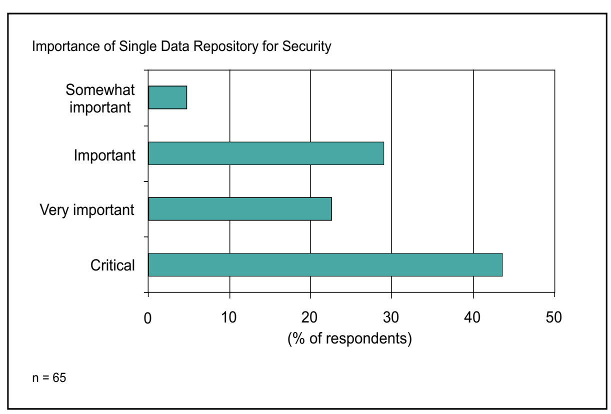
Security Management

Security investments within banks are still primarily for point solutions. However, a shift towards an enterprise-wide, network approach is being explored, to fit with the vision to centrally manage and monitor the network and identify threats and potential weak points in a real-time and proactive manner. A centralized data repository would be ideal for security management.

The benefits here lie in overseeing document monitoring, security keys and certificates, electronic signatures, and other such security features through a single, more manageable point as opposed to multiple and disparate systems. Thus, implementing an EDM system will also benefit a bank's security management systems.

Figure 3 shows that many Asian banks agree with the need for a single data repository for

Figure 3



security. This figure is derived from the results of a 2007 Financial Insights study covering 23 banks in six countries: Australia, China, Hong Kong, Singapore, Malaysia and Thailand.

The Undeniable Need for Enterprise Data Management

- With EDM seen to help banks along in several top technology initiatives, the argument that such a project is not cost-beneficial or is too complex, holds less weight.

- By implementing such a system, banks are ultimately laying a solid technology foundation on which other necessary technology initiatives such as CRM, segment management and performance management can rely on.

- The benefits of EDM cannot be disputed, and banks have to be willing to take the first step in what may seem a daunting journey.

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Financial Insights

Banking Strategies and Transitioning Demographics

It was quite a joke in the family really, particularly with my 10 year old son. Almost on a daily basis, he wants to know how many calls his parents receive on their mobiles, from banks and financial services companies offering various products and services. That was a year ago. Today, he is more discerning, more aware. He reads the daily newspaper, has a look at the many glossy mailers that are thrust into one's mailbox, and of course, he is aware that his parents receive (many) phone calls from (many) banks. The banks may not have meant this as a joke, and definitely not as a medium to reach out to youngsters either. But they have. And in the bargain, here is a 10 year old who knows what a mortgage is, well almost. He definitely knows what an ATM can do. And he knows that there are many banks offering many different kinds of products and services. I am waiting for the day when, in response to his request for something to be bought, if I refuse stating that it is too expensive, he will probably turn around and tell me "Then take a loan from the bank."

Well, this article is not about a much more aware next-gen of kids. Nor is it about savvy channel marketing by banks. It is about the fact that in a (banking) world where demographics are rapidly shifting, banks are under greater pressure than ever to offer not just products and services but to center their entire strategies around the impact that demographics will have in the coming years.

Globalization and Diversity

It is fairly clear that retail banking will remain the major and dominant source of revenue for banks for at least the next 10 years to come. Retail banking has been on a high for the past few years, and if anything, the pace of growth is only increasing. In 2006, retail banking revenues accounted for almost 57% of the global banking revenue pool of EUR 2.1 trillion. Fourteen banking groups worldwide earned in excess of EUR 10 billion from retail banking in 2006. Any wonder, then, that banks are expected to continue to plough the benefits that retail banking has to offer.

Globally, the retail banking pie is big, really very big. And it would surprise no one if competition in this area intensified like never before in the coming years. While indeed there are many factors that will contribute to this – rising customer expectations, deregulation and so on – there are two factors that banks will have to consider in their ongoing strategies. I refer to globalization and diversity. On the one hand, globalization is indeed shrinking the world, thereby opening up new geographical markets while on the other hand, diversity is dramatically increasing, offering banks a much bigger and certainly a more demographically different target segment which they can focus on.

The Financial Services World is Focused on Asia Pacific

While globalization and diversity are fairly universal phenomena today, it is probably truer of the Asia Pacific (APAC) than elsewhere. This vast region is the most populous one globally. It hosts not only some of the fastest growing economies globally, but importantly, it is evident that some of these economies will grow faster than those in the developed world over the next 5 years or so. The reasons are not difficult to comprehend – this region is driven strongly by consumer demographics, it is witnessing significant political and market reform and last but not the least, the huge and captive population offers significant economies of scale.

The region is a fascinating study in contrasts. It is home to some very mature economies, comparable with the West, such as Japan, Singapore and Australia. On the other hand, it has two of the largest economies globally, the two emerging economic super-powers, namely China and India. Banking giants are emerging in this region, all set to not only dominate their home markets but more importantly to expand overseas as well. At the same time, large banking and insurance corporations from the western world are actively looking to exploit the potential of this region as well. Global financial institutions are buying stakes in large, local Chinese banks. They are awaiting April 2009, when they will be allowed to operate more freely in the Indian banking space.

APAC. A Sample Study in Demographic Transition

In its most basic sense, demographic transition has been represented by the proportion of young and old in the population of a country, and the impact this has on the savings rate in a country, which in turn fuels further growth. The high savings rate enables economies to build substantial foreign exchange reserves, which in turn not only strengthens economies but also finds its way into other, sometimes more developed economies. All of this has immense ramifications and possibilities for the financial services industry.

The population in a country, broadly speaking, goes through three stages of demographic transition:

- In the first stage, the proportion of young in the population rises
- In the second stage, the proportion of young declines marginally, the proportion of old in the population increases modestly, but most importantly the proportion of the working population increases dramatically
- In the third and final stage, the proportion of working population falls while there is a corresponding increase in the population of the old

Of all the economies in the APAC region, India is possibly most advantageously placed as far as its working population is concerned. Almost half of its population of 1.2 billion is under the age of 25 years. China on the other hand, with 1.3 billion persons, is aging quite rapidly. Of all Asian economies, Japan has already aged rapidly and its working population is not too dissimilar from other western economies.

As a result of its one-child policy, China has possibly aged more rapidly and is expected to hit its demographic peak during the period 2010 – 2015. India, on the other hand, with a significantly younger population, is expected to reach its demographic peak only by about the year 2035. Philippines will peak most slowly amongst Asian economies and this will happen only by 2040. So, the picture as it emerges is that within the Asian economies, Japan and the Philippines are at the two extremes, with all others somewhere in between.

Demographic transition of course offers a great opportunity for growth. One of the most obvious outcomes of demographic shifts has been the immense growth in bank deposits in many of the Asian economies. Bank deposits in the major economies of Asia (China, Australia, Japan, India, South Korea and Taiwan) are expected to be around USD 11 trillion by 2010. Within this region, there is the likelihood of there being approximately 600 million bankable households. This in itself presents an extremely lucrative opportunity for banks.

Another significant feature of Asian economies is the sheer rate of growth that these economies have shown in the recent past and the evidence that the rate of growth in some of these economies is not likely to abate in the near future.

So What Does all this Mean to the Banking World?

The most obvious conclusion that one would draw is that the APAC region is full of opportunities for banks and that there is a lot of money to be made. But it might not be quite as easy. Here are some of the reasons why:

- The region is a vastly diverse one, as we have seen in preceding sections of this article. Any bank's strategy, based on a one-size-fits-all approach is likely to be nothing short of disastrous. This is equally true not just of different segments within a country but amongst the different countries within the region as well.

- The region is a highly competitive one. In many countries, the level of competition amongst local banks is already very high. These are banks which have been operating in the respective markets for a long time, have a known and proven local brand, already enjoy a highly captive client base, and would justifiably claim to know the market well. As against the local banks, there are many banks from the more mature markets trying to penetrate the region and join the party. They are fairly new entrants, do not have a captive customer base, but come with the dual advantage of a successful track record in the more mature markets and with deep pockets to suggest that they have the 'staying power' to penetrate the market and then to become long term players.

Nevertheless, challenges apart, it is evident that banks can indeed ride the demographic transition and be highly successful in exploiting the potential of the region. The following are factors that banks would do well to keep in mind as they prepare to hit the markets.

- *Know your customer:* This is an oft-used cliché in the banking world today. The truth, however, is that this cliché is more true now than ever before as far as banks are concerned. As mentioned in a preceding section, there isn't a one-size-fits-all strategy that is likely to be workable here. So it is important that banks invest time and effort in getting to know who their customers are and what they want.

- *Recognize the life-cycle hypothesis:* The Modigliani 'life-cycle hypothesis' suggests that the working population has a much higher propensity to save than a dependant population. In simple terms, what this means is that the type of products and services that a working population requires are quite different from those that are preferred by a dependant population – and that banks would do well to tailor their offerings for the respective segments.

- *The customer has a choice:* Like it or not, the customer has a choice – a choice of banking products; but more importantly, a much wider choice to opt for the vendor of these products and services. Customer loyalty and stickiness are at a premium today, particularly amongst the younger, upwardly mobile population. This presents a challenge of its own to banks, given the increasingly high cost of customer acquisition.

- *Retail banking seems very lucrative:* On the liabilities side, the explosive growth of deposits in banks suggests that savings is at an all-time high. Banks sitting on a pile of deposits automatically are able to leverage opportunities on the assets side of the business as well. Mortgage lending, brokerage, and other avenues for investments all stem from a high rate of savings.

- *Corporate banking offers opportunities too:* While it is easy to be engulfed in the retail banking-mania, banks should not shut their eyes to corporate banking opportunities. Strong economies which have high GDP also have successful corporations. Large corporate organizations are aware that they have multiple avenues to source capital, and that the cost of capital is lower than before. These corporate entities are looking to deploy capital and optimize returns in whichever market they can get best returns. So cross-border transactions are more common today, and this offers a unique opportunity for banks.

- *The rise of a wealthy class:* Studies indicate that there is a steady shift and realignment of world wealth. APAC continues to witness a steady growth of HNWI compared to other regions of the world. It has now emerged as the second largest region globally, behind North America and ahead of Europe. As far as banks are concerned, this segment offers huge potential for deploying wealth in innovative ways. As against the traditional asset classes, such as equities and insurance, there has been a steady flow of money into a variety of other asset classes including private equity, art, commodities, real estate and pension funds.

- *Explore other avenues for products and services:* Healthcare, insurance, retirement-related funds and investment planning, offer new potential for banks too, which were hitherto not available.

- *Tailor your products and services to the demographic profile of a country*: Banks cannot afford a one-size-fits-all approach. This is true not just for different segments within a country but amongst various countries in the region as well. These countries do not necessarily have exactly the same demographic profile and therefore products and services need to be tailored accordingly. Japan has a shrinking and aging demographic profile and therefore banks need to cater to the aging population accordingly. On the other hand, India has a comparatively very young population which is likely to fuel substantial growth – therefore, in India, products and services offered are likely to be different from that in Japan. Likewise, China too has an aging population. Japan and Australia have the greatest wealth per capita within the region and therefore banks are targeting those in the age group of above 50 years.

- *Invest appropriately in technology:* While recognizing that there is indeed a degree of correlation between the age structure of people and their ability to absorb new technology, the truth is that technology is here to stay. Banks will wisely invest in new technology to study customer behavior, adapt their basket of products and services based on customer behaviour and other demographics, offer multi-channel integration without doing away with the need for the personal touch when dealing with HNWI and offering investment advice. While global banks beginning to enter the region possibly come with the aid of better and newer generation technology, unless they are able to deploy this to get to know the market better and thereafter to be able to segment customers appropriately, they would have failed to capitalize on an advantage.

Conclusion

Demographic diversity is here to stay. And it has great implications in the banking world. While banks have woken up to the fact that there is enough empirical evidence to suggest that demographics have a strong impact on the savings behaviour of people, they cannot afford to take too much comfort in that. As we have seen, there is more diversity in demographics now within a local region than ever before. While it has indeed opened up immense new opportunities for banks, it is also clear that not every bank will be able to capitalize on the opportunities.

The demographic transition that has been witnessed in APAC could well be replicated in other regions too, especially Latin America, though probably not on the same scale. Global banks would do well to learn from their experiences in familiar terrains so as to capitalize on demographic transitions elsewhere in the future.

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Banking in Southeast Asia



Strong Players. Stronger Economies

Introduction

In recent years, Asia has become the hottest destination for investors, worldwide. Estimates by the Asian Development Bank (ADB) suggest that 2007 will be another bumper year for developing countries in Asia, exhibiting an overall growth rate of 8.3 percent. While this expansion is predominantly being spearheaded by the Asian dragons, China and India, a general pattern of high and in some cases accelerating growth, is emerging among the neighbouring countries of Southeast Asia as well. In fact, growing at a brisk 6.1 percent overall rate, the economies of Southeast Asia appear to have well and truly left the memories of the 1997 financial crisis far behind. In the first half of 2007, according to ADB estimates, the Philippines grew by 7.3 percent, the highest rate in almost 20 years. The country is expected to post a growth of 6.6 percent for the full year, while in Indonesia, growth is continuing to edge up and is expected to finish the year above 6 percent. Singapore, the most developed country in the region, too grew at a fast clip of 7.6 percent in the first half of 2007. Aside from the major economies, emerging countries in the region such as Vietnam too are showing vigorous growth. The projected growth rate for Vietnam, according to the ADB, in 2007 and 2008 are 8.3 percent and 8.5 percent respectively.

Southeast Asia encompasses countries that are geographically south of China, east of India and north of Australia. It includes two geographic regions: the Asian mainland, and island arcs and archipelagos to the east and southeast. The mainland section consists of Cambodia, Laos, Myanmar, Thailand and Vietnam while the maritime section consists of Brunei, East Timor, Indonesia, Malaysia, the Philippines and Singapore. For the purposes of this article, we will mainly discuss the major economies of the region, namely Indonesia, Malaysia, Philippines, Singapore and Thailand.

Banking Industry - an Overview

The countries of Southeast Asia are quite diverse in nature, developing at different rates and have adopted different models of development. In the region, Singapore boasts the strongest economy and the most well developed banking industry. A pro-business environment, sound economic fundamentals, a strong regulatory and supervisory framework, excellent infrastructure, and a highly skilled cosmopolitan workforce have ensured its position as a global and regional financial centre of choice. Estimates by research firm, Datamonitor suggest that retail savings and investment balances in Singapore have grown at a compound annual rate of 6.8 percent from 2002 to 2006, rising from US$123.8 billion (SGD189.8 billion) in 2002 to US$161.1 billion (SGD246.9 billion) in 2006. Impressively, retail savings and investments increased by 9 percent in 2006 alone. The prognosis for the country's banking industry remains strong. Interestingly, in the late nineties, Singapore was hardly affected by the financial crisis in the region. Other countries however, such as Thailand, Indonesia and Malaysia suffered significant losses due to the crisis.

Thailand, which was the worst affected by the financial crisis of the late nineties, has as a result experienced a much slower growth as compared to most of its neighbouring countries. More recently, the bloodless coup it experienced in September 2006 too had an additional detrimental impact on the country's performance and investor confidence. On the other hand, Indonesia and Malaysia have benefited considerably from restructuring initiatives launched by their respective governments to shore up their banking industries since the financial crisis a decade ago. Indonesia's central bank launched a consolidation program, Indonesian Banking Architecture initiative, to improve the capital structure of the banking industry, while the Malaysian government has focused both on consolidation and on reducing non-performing loans within the banking sector. As a result, in Indonesia, the banking industry is expected to see nearly 20 percent increase in loans in 2007, up from 14.1 percent the previous year, and the proportion of bad loans at Malaysia's banks has dropped from roughly one-quarter in the late nineties to about 7 percent today. Like these countries, the Philippines banking industry too is on an upswing. Over the past three years, the financial industry has been the main driver for growth in the services sector buoyed by strong performance by banks and the stock market.

Some of the key trends and characteristics evident within the Southeast Asian banking system are:

1. **Consolidation**

   Post the financial crisis, governments in Southeast Asian countries have encouraged bank mergers and acquisitions to help strengthen the domestic banking industry to enable them to complete against foreign entrants. This has led to tremendous consolidation in the banking industry in the region and there is still more to come. In Indonesia, the number of banks has reduced from 164 in 1999 to around 130 with the government aiming to have this further reduced to 60-70 healthier banks. In Singapore too, while consolidation has led to the three main banking groups in the country, DBS, UOB and OCBC, experts maintain that the country's banking sector would be much more competitive if there were only two entities. Malaysia underwent a first round of consolidation at the beginning of this century when 54 banks and financial institutions reduced to 10 'anchor' bank groups. It is now undergoing a second round of consolidation which was kicked off by CIMB, a unit of banking group Bumiputra-Commerce Holdings, acquiring smaller rival Southern Bank. This was followed by ANZ Banking Group purchasing a majority stake in Malaysia's fifth-largest lender, AMMB Holdings.

2. Islamic Banking

Islamic banking has taken off in the Southeast Asian region in a big way in recent years especially in Indonesia - a country with the world's largest population of Muslims, Malaysia, and Singapore. Banks in these countries are offering Islamic banking in an effort to differentiate themselves. New Islamic banks have been established and foreign banks are offering Islamic banking products and services. That in many cases Islamic banking is growing faster than conventional banking, only adds to its overall attractiveness. Moreover, this trend is being encouraged by the authorities as well. In Indonesia, Bank Indonesia, the central bank, issued a "blueprint" for Islamic banking in September 2002, forecasting growth for the sector to reach 5 percent of total banking assets by 2011. In Malaysia, the government and the central bank, Bank Negara Malaysia, have a stated target that Islamic banking should account for 20 percent of all banking assets by 2010, up from 10 percent in 2006.

3. Multi-country, multi-entity banking

In a bid to increase their size and profitability, many leading banks in the region are expanding their operations beyond national borders to become regional banks. Prime examples of this trend are Maybank of Malaysia and DBS Bank of Singapore. DBS is the largest bank by assets in Singapore offering the full gamut of financial services and it has made its intent of being a regional player very clear. Through acquisitions such as Bank of Southeast Asia in the Philippines and Thai Danu in Thailand, it has established its presence across all key markets in Asia.

4. Focus on regulation

Basel II and Anti-Money Laundering have assumed high priority in the Southeast Asian banking industry. Unwilling to repeat the fiasco of the financial crisis of the late nineties, central authorities are very particular about risk management and other regulatory requirements. Banks in the region are therefore actively investing in ensuring that they effectively meet regulatory requirements in these areas. In the area of Basel II compliance for instance, the central banks in the regions have stipulated individual timelines for banks in their respective countries to adhere to Basel II. In Indonesia, banks are expected to implement the Basel II Capital Accord by 2008, while Bank of Thailand intends to have banks adopt Basel II in full by 2009. Bank Negara Malaysia, on the other hand, intends banks in the country to adopt Basel II in full by 2010.

Investment in Banking Technology

Technology is a key element of the banking industry in Southeast Asia. In most of the leading economies in the region, several major banks have deployed first generation core banking platforms which are not able to meet their ambitious expansion plans. Moreover, these platforms are often not flexible and agile enough and do not have the required functionality to meet the ever increasing set of regulatory requirements. These banks therefore require to upgrade their legacy systems. Additionally, in emerging economies, many banks are taking their first step towards automation of their core banking system.

Interestingly, in recent years, there have been very few notable decisions by top tier banks in the region to replace their outdated core systems. A landmark decision was one taken by DBS Bank of Singapore. In 2005, the bank announced plans to replace its ageing in-house core banking system in Singapore and a number of disparate systems in Hong Kong with Finacle from Infosys. The bank wanted to deploy a real-time core processing solution, rapidly develop and offer new products and gain maximum use of its existing CRM system. It also wanted to support its future expansion activities in new geographies. Another leading bank, that has replaced its legacy platform in recent years, is Union Bank of Philippines, among the top ten banks in the country, which successfully replaced its mainframe based system with a new generation open systems based solution from Infosys.

Notably, unlike the top banks, tier 2 and 3 banks are further down in the decision making cycle regarding core banking replacement. There are several other factors too that are driving up the investment in banking technology such as customer centricity, regulatory compliance, performance management and process reengineering. Banks are actively deploying risk management solutions and platforms to meet the Basel II deadline. They are also investing in their delivery channel infrastructure. Research firm, Datamonitor expects growth in Indonesian retail banking IT spend at CAGR of 14.3 percent respectively from 2005 to 2010. It also predicted growth in Indonesian retail banking related to distribution channels IT spend at CAGR of 17 percent respectively from 2005 to 2010. Leading research firm, Financial Insights estimates that by the end of 2006, IT and related financial technology spend by Indonesian banks was more than US$ 500 million. In Thailand, Financial Insights predicted that from US$619.5 million in 2006, total industry IT spending will grow by about 5 percent in 2007 to US$650 million, which will further grow by about 14 percent in 2008 to US$740 million. Channel-related spending will approximate 45 percent of total spending in 2007 and 2008, says Financial Insights.

Conclusion

The prognosis for the banking industry in Southeast Asia is extremely positive. The process of reforms in most of the economies afflicted by the East Asian financial crisis, have significantly helped transform their banking industries, making local players stronger and much more competitive. The process of consolidation is expected to continue as banks and governments try to create healthier banking entities. The coming years will see the continued growth of Islamic banking and also see more banks trying to become pan-Asian players. All these trends, along with the need to meet regulatory compliance requirements, will result in continued investment in open solutions and new generation technologies.

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Levaraging IT for Growth

Interview with Elsie Foh
Managing Director,
DBS Bank

Interview with David Malligan
Managing Director,
Core Banking Program
DBS Bank

Headquartered in Singapore, DBS is one of the largest financial services groups in Asia with operations in 15 markets. The largest bank in Singapore as measured by assets, and a leading bank in Hong Kong, DBS' "AA-" and "Aa1" credit ratings are among the highest in the Asia-Pacific region. DBS has leading positions in corporate, SME and consumer banking, treasury and markets, wealth management, securities brokerage, equity and debt fund raising. Beyond the anchor markets of Singapore and Hong Kong, DBS serves corporate, institutional and retail customers through its operations in China, India, Indonesia, Malaysia, Thailand and Phillipines.

Inside Talk

> *In terms of opportunities, the rapid opening of the emerging markets will mean that banks need to be agile, flexible, and poised for greater competition.*

Elsie Foh is Managing Director at DBS Bank and heads up the bank's regional core banking program. She is the DBS Core Banking Program Sponsor. Before that, she was the Chief Operating Officer for DBS' Singapore Consumer Banking Group. In her capacity as the COO, she oversaw the core operations of the Bank's retail business. Within the DBSH Group, Mrs. Foh was a director of DBS Asset Management Ltd. Externally, she was a director of Network for Electronic Transfers (S) Pte Ltd (NETS) which was founded by Singapore's leading banks in 1985 to operate payment networks and drive adoption of electronic payments. It has been at the forefront of Singapore's cashless revolution for twenty years. Mrs. Foh is a veteran career banker with more than 20 years' experience and extensive knowledge relating to various aspects of the financial services industry. She is a director of Financial Industry Disputes Resolution Centre Ltd (FIDReC) which is an independent and impartial institution specialising in the resolution of disputes between financial institutions and consumers.

FinacleConnect speaks with Mrs. Elsie Foh about how the right IT solutions can enable banks to leverage growth opportunities.

Q What do you see as emerging developments in the retail banking segment in Asia Pacific?

A Asia Pacific is experiencing unprecedented growth and is the home of the world's fastest growing market for high net worth individuals. Customer acquisition and retention is key. Because of this, competition for customer business is very keen, thereby creating sharper pricing and product commoditisation. At the same time, the various markets in Asia Pacific are also at different stages of maturity and development. This poses additional challenges and creates abundant opportunities as well.

Q How do you deal with the diversity of markets?

A Because they're at different stages of maturity and development, one size does not fit all. In Hong Kong or Singapore, banking needs are generally more sophisticated and customers more demanding. In fast-moving emerging markets like India and China, however, there will be segments that are very mass-market orientated, and also those of rising affluence and considerable pockets of high net worth individuals. In terms of opportunities, the rapid opening of the emerging markets will mean that banks need to be agile, flexible, and poised for greater competition. There are opportunities to gain market share, but banks will have to redefine their segmentation strategies differently in these markets. The other emerging trend is technology and making sure that current and future requirements can be met, that solutions are scalable, easily configurable, maintainable and upgradable.

Q How do you see recent advances in technology helping you specifically?

A With advances in technology you can develop a common platform for growth with the ability to standardise and export your best practices. You can roll out your products faster to the market with re-usability to replicate processes Where necessary you can customise your products and services for the more affluent segments. It is important to leverage technology to develop the kind of capabilities that bring in new customers and increase value to existing profitable customers. Remember the "right time, right product, right channel" rule.

Q Governments and regulators are working to flatten the playing field. How does this affect you operationally?

A It is important to reinvent the operating model to keep yourself agile and flexible. The focus on execution—thinking real time, continuously enhancing your capabilities and being able to predict trends in customer behaviour—is key. In a flattening world, winning means you have to get your workforce to be more collaborative, add value and act quickly in a crowded environment. It is also about uprooting the "old world" model that breaks processes into little pieces that may cripple and create roadblocks. Today in the "flat world", we want to compete, be more innovative and cost-efficient, therefore we need to be more rapid and think about having more straight-through and automated processes.

Q For DBS, what have you been doing to leverage your technology for the next generation of banking?

A We have embarked on a core banking programme which involves a business transformation initiative and a technology re-platform. It is important to be one step ahead so that we can respond to customer demands quickly. The next generation will be even more technosavvy. Furthermore, accurate and timely information must be made available to customers to make price sensitive decisions. Our approach with technology is to be customer-centric, improving services and operations to serve our customers better. Another way to leverage today's technology is to work with implementation partners to deliver quality solutions, honing on universal skills and methods and tools. Our choice of Finacle from Infosys, and the use of other banking solutions, is integral in powering our business transformation plan. We would like to leverage on advances in such technology to drive product innovation and differentiate ourselves to meet the various oncoming challenges of operating in a dynamic region.

"Keeping pace with new technology and sometimes setting the trend and standards of operations will allow us to take the lead."

David Malligan is Managing Director, Core Banking Program at DBS Bank. He joined DBS Bank in 2005 to program manage its Core Banking Program (CBP) which is implementing the Finacle Core Banking System in five countries - India, Indonesia, China, Hong Kong and Singapore. The CBP is a business transformation and standardization program for DBS, impacting business operations, systems standardization, reports, training to over 7000 staff and 800 products. Mr Malligan has extensive experience in the Asian banking industry. Prior to joining DBS, he has worked in Australia with Westpac Bank, in Indonesia with Bank Danamon, Bank Negara Indonesia and as CIO at Bank Rakyat Indonesia. He has also worked at Hewlett Packard and Bank of Baroda as Project Director in India implementing Core Banking.

Q **What are the main challenges facing banks in the Southeast Asian region today?**

A In my personal opinion, the biggest challenge is attracting and retaining people. Banks in Asia are growing very aggressively and are faced with a shortage of talent. DBS itself is expanding operations in the emerging markets of China, India and Indonesia and our home markets of Singapore and Hong Kong and it is a big challenge to get good and experienced people, both at the top and at junior levels.

Q **With reference to the earlier question, how can banks overcome these challenges?**

A Besides competitive remuneration and interesting work scope, processes that empower staff to make decisions and contribute to the bank's success will help attract and retain the right talent.

Q **In your opinion, what role does technology play in banks today?**

A Technology is an integral part of banking in today's world. Since the 60s, a whole range of products and services are completely technology based. Today, systems transfer billions of dollars of remittances daily around the world, the ATM/POS, internet banking and credit card businesses are heavily reliant on the speed and reliability brought by technology. Risk and security systems are heavily reliant on technology too.

Q **Can you describe DBS Bank's technology strategy?**

A Our technology strategy is to standardize business processes and technology systems across various markets. We look at packaged applications as an essential element to operating in today's environment. In line with this we are deploying one core banking platform, Finacle from Infosys which replaced a number of package applications and in-house developed systems to create a more homogenous and integrated operating environment.

We have already implemented Finacle and gone 'live' for our businesses in India, Indonesia and China. The platform is being tested in Hong Kong and is soon scheduled to go live there, following which we will deploy it in Singapore.

Singapore being our home market has the most complex set of systems in place, as DBS has had a central system in place for over thirty years and as a consequence, many of the IT system functionalities are in place and must be replicated, and in some cases enhanced with the new Finacle system.

Deploying a single platform across multiple geographies is not simple. Business processes have to be standardized and implementing to budget and scale is challenging.

Q **How is your bank preparing for the future?**

A DBS will continue to invest in its people, systems and products to meet the challenges that we will face. Keeping pace with new technology and sometimes setting the trend and standards of operations will allow us to take the lead, and offer more innovative products and services to our customers in Asia.

tECH WATCH

SaaS – A New Delivery Paradigm

Software as a Service (SaaS) is an emerging mechanism of releasing software applications to customers, which is gaining increasing popularity. It is differentiated by the fact that it can be implemented rapidly and eliminates the infrastructure and ongoing costs that traditional applications require. Analysts, the world over, predict that up to 30% of all software applications are expected to be delivered through this mode in the coming years. While this presents a significant threat to traditional solution delivery models, it also throws open a never-before opportunity for technology solution providers and users to explore the arena of 'SaaS-able applications'. The trend to move to the SaaS delivery model is more prevalent for core business applications, across domains. Besides, solutions for functions like customer relationship management, human capital management and accounting applications are rapidly moving towards this new delivery mode. It is also not uncommon to witness this phenomenon in the social commerce and Internet applications space.

SaaS for Banking

For banks this presents an exciting opportunity to take a good and hard look at their IT landscape, to identify applications with the potential to be transitioned into the SaaS model. Solutions for payroll, HR systems, intranet and Internet-based systems are ideal candidates for early movement. Core banking solution deployment for a specific geography or with a specific line of function like deposit products only, is another solution fast emerging as SaaS-able. This implementation mode promises the ease and speed of deployment critical for banks venturing into new markets and exploring additional avenues for business, with focused product lines.

What's Fueling SaaS in Banking

Several innovations have driven the growth of SaaS. While the business drivers turning the tide in favour of SaaS cannot be ignored, clear technological factors play a pivotal role in supporting the adoption of SaaS.

Network & Bandwidth Availability

Traditionally financial institutions and banks have been frontrunners in the use of connectivity and network infrastructure. They strive for exponential increase in connection and bandwidth availability, for faster, secure and reliable transactions. This has resulted in the development of centralized applications that work through the browser front end (or thin client) with processing executed by the back end servers.

The end user needs no more than an industry standard browser to access applications, virtually putting an end to software distribution hassles. Most of these contemporary web-enabled applications run with the end-user having little knowledge about the details of the hosted application. The number of users accessing the technology platform has dramatically increased and several thousand users access today's enterprise applications simultaneously. This brings us to the undeniable fact that contemporary web-ready applications can be adapted to the SaaS model quickly and with relative ease, for roll out to large numbers of users.

Application Scalability and Parameterization

The increase in processing power and storage capacities, combined with reductions in the cost of hardware has enabled software vendors to build bigger and better applications with the potential to serve millions of users at the bank. Scalability is further enhanced with the usage of state-of-the-art optimization methods throughout the software development life cycle. Modern day applications are built to promote sharing of resources between multiple entities like users, branches and banks. This makes them truly scalable and handling of peak loads is more predictable and reliable.

New age banking applications are also built using multi-tenet architecture with parameters to control diverse business requirements. Parameters such as language, products, user interface, security and business rules are configurable at the user or client level. All these are parameterized with no changes to the base code of the application. This enables multiple institutions to work on the same application instance with different parameters for each institution.

From the user perspective, this builds a strong case for the relatively easy and smooth transition to the SaaS delivery model.

Emergence of Open Standards

Financial institutions and banks have multiple technology platforms in place that interact seamlessly with each other to support business. Over a period of time most banks have moved (or are in the process of moving) to a reference architecture that is open, modular and standards driven. This has resulted in the definition of standards that make interaction between systems predictable. A new breed of middleware applications has also emerged, to effectively ease integration complexities.

Application interaction has been simplified with the definition of various standards which are easily understood by the wider vendor community. Standards such as XML, IFX and ISO8583 have made integration between different applications so much easier. With the adoption of SOA most applications have an open architecture and can easily co-exist with other applications. With the advent of Web 2.0, Rich Internet Applications

(RIAs) have been developed for the enterprise space, to cater to large numbers of users.

These developments have aided the adoption of SaaS by making application deployment from a remote location a tangible reality. A model where part of the business uses software in the SaaS mode, while the rest of the business continues in the traditional model, is being explored. This presents enormous flexibility for banks considering SaaS adoption premised primarily on business requirements.

Application Complexity

While applications are becoming parameter controlled and open to integration, they are also growing increasingly complex due to frequent business related changes and multifaceted product offerings. Added to these are the intricacies of changing regulations and market dynamics. Today's applications come with a large number of options for deployment, vendor selection, platform selection and performance options. This poses a challenge for banks, striving to select optimally from the vast array of options available. More often than not, expert advice is sought, in addition to specialized skills and tools being deployed to maintain enterprise applications. This builds up additional costs.

The centralization of these application complexities into a data center in the SaaS mode brings clear discipline into the bank's day-to-day operations, marshaling mature processes. Banks can also save on costs accruing from investments in application-related specialized skills like database analysis and performance guarantee, monitoring operating system performance, fire-wall maintenance and security software maintenance.

Speed of Application Releases and Adoption

Most high end banking solution providers respond to market or compliance requirements and release newer versions of their solutions at frequent intervals. A number of components like the operating system, database, app servers, web servers, hardware devices and middleware are frequently updated with newer versions and bug fixes. Banks often face the daunting task of matching the versions and releases of various components and effectively adopting them into their business environments. This calls for continuous and dedicated monitoring of all the components in the IT environment and attuning these applications for optimal leverage.

SaaS enables quicker central adoption and easy maintenance of application health. Adapting to new compliance requirements or enabling quicker launch of products is decidedly easier in the SaaS mode.

Security

Security methods embraced by the IT industry in the past few years have made remote software deployment robust and practically impenetrable. Encryptions, digital certificates, VPN and SSL have ensured safe interaction of data between various applications both in the private and public domains. In addition, the availability of software for detection and elimination of attacks has helped the cause of remote banking application deployment, and accessing applications over public domain is no longer considered a threat. This has further fuelled SaaS adoption by pushing technology intensive areas like Internet applications hosting, and financial accounting applications into the remote deployment space.

Not Without its Challenges

Both application and service providers today are looking at the SaaS model to improve overall cycle time for application deployment and to lower the costs of multiple version maintenance that are an integral aspect of the traditional model. There is also significant effort from technology vendors to bring in efficiency and maturity into the SaaS delivery model, in a bid to lower TCO of the solution offered. While all of this spells well for banks considering technology solutions in the SaaS mode, the proposal is not without its own challenges.

Integration Hassles

Applications in the SaaS mode are deployed through the remote data center and use industry standard data exchange mechanisms. While this works perfectly well for new generation applications, enterprises leveraging applications that run on legacy systems may be at the losing end; as these technology dinosaurs may have been developed in platforms with poor support for integration. Besides, in several cases there may be insufficient documentation support available to develop interfaces with these obsolete systems.

Large scale integration with applications running in the SaaS mode is still in its infancy and is expected to develop with the availability and usage of newer and efficient tools. However, usage of middleware applications solves this problem to some degree. New adapters are being built for legacy systems to work with open systems and this is expected to benefit SaaS adoption too.

SaaS Platforms

While developing the SaaS-able application, vendors need to consider a number of important aspects. Separate engineering tools - SaaS Integration Platforms (SIP) and - SaaS Delivery Platforms (SDP), are required for new application development and deployment in the SaaS mode. These tools are expected to provide help in:

- Choosing platforms
- Choosing technologies
- Application development
- Application deployment & monitoring
- Metering
- Migrating
- Administering SaaS applications

This field is as yet evolving and several vendors are engaged in the process of developing applications to enable quicker SaaS orientation.

Conclusion

The current scenario can be summarised with the following take-aways:

- Traditional applications, across enterprises including banks, are expected to migrate to the SaaS mode.
- Technology innovations are the primary driver for SaaS adoption.
- New application developments would do well to opt for the SaaS delivery model.
- Everyday, newer tools and techniques are emerging and intensifying the progress of SaaS adoption. Enterprises and clients exploiting these tools and techniques would be better positioned to capture and lead the SaaS market.

Suggested Additional Reading

1. Gartner Press releases on SaaS
2. McKinsey Quarterly - "Delivering Software as a Service" May 2007
3. McKinsey Podcast – Software as a service (http://www.mckinsey.com/clientservice/hightech/index.asp)
4. Wikipedia-http://en.wikipedia.org/wiki Software as a Service

Lakshmikant Sharma
Delivery Manager
Finacle
Infosys Technologies Ltd.

Infosys in the news

Q3 Revenues Grow 32.0 Percent YoY

Infosys Technologies Limited announced financial results for its third quarter ended December 31, 2007. Revenues for the quarter aggregated 1,084 million, up 32.0 percent from $ 821 million for the quarter ended December 31, 2006. Net income was $ 310 million ($ 218 million for the quarter ended December 31, 2006.)

Infosys Receives 2007 Balanced Scorecard Hall of Fame Award for Executing Strategy

Infosys Technologies Ltd has entered the Balanced Scorecard Hall of Fame for Executing Strategy to achieve breakthrough performance results using the Balanced Scorecard (BSC). Infosys is the first IT consulting and services company worldwide to receive this distinction. The award has been instituted by the Palladium Group, Inc., a leading global professional services firm that enables companies to better measure and manages performance using the Balanced Scorecard approach. Past winners of this award include UPS, Best Buy, Siemens, Motorola and AT&T Canada.

Fortune: Infosys Grooms Leaders of the Future

Fortune magazine ranked Infosys tenth on its 'Top Companies for Leaders 2007' list. The magazine conducted a survey of companies who "inspire, nurture and empower a new generation of global leaders." Fortune partnered with Hewitt Associates and the RBL Group, and evaluated 550 companies that groom future leaders.

As part of the survey, Fortune covered Infosys' 'Voice of Youth' program. The program offers young employees the opportunity to participate in the management council and "debate, discuss, and critique" any aspect of business.

Finacle – The Universal Banking Solution from Infosys

Alliance Bank Partners with Finacle to Power Business Transformation

Alliance Bank, ranked among the five largest banks in Kazakhstan and one of the most dynamic banks in the region, has chosen Finacle Universal Banking Solution, to power its strategic business transformation initiative. Alliance Bank will be using the Finacle solution for its core banking, e-banking, CRM and treasury operations.

Finacle will perform a key function in helping Alliance Bank scale operations, enhance functional efficiencies, proactively respond to new opportunities and help enhance its existing image of being a socially responsible institution in Kazakhstan for customers, employees, investors and the State.

Finacle launches Bank-in-a-Box - a Rapid Technology Implementation Framework for Mid-sized Banks

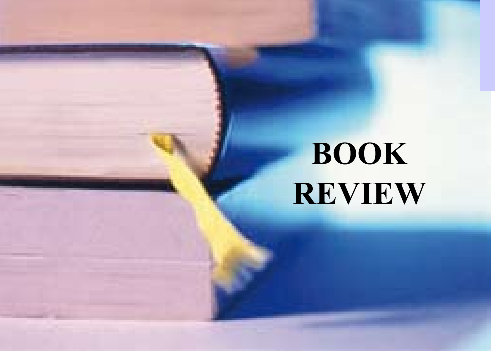
Finacle announced the launch of Finacle Bank-in-a-Box (BIAB), a pre-configured and fully integrated framework for banking transformation. Developed on the powerful architectural foundation of Finacle, it brings a fully web-enabled application and process stack in a ready to deploy state.

The global expertise in powering close to 100 banks across 55 countries has enabled Finacle to offer this specialized framework for various regions. At this time, the regional framework has been developed for three regions – Europe, Middle East and South East Asia.

Customer Speak

"We are overhauling our IT systems to meet our changing business requirements. We chose Finacle for the comprehensive breadth of the solution, scalability, retail orientation and its proven ability to deliver on complex and large scale projects. We realize that such large-scale projects require constant support and involvement from the bank itself, and believe that the current stage of our development matches the complexity of such a project."

Alexey Vorontsov
Managing Director (Project Office)
Alliance Bank, Kazakhstan

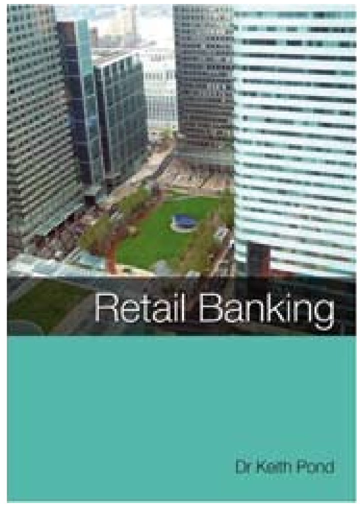


Keith Pond

Retail Banking

While nearly every retail banking customer would have a basic understanding about how a bank operates through their interaction with banks, banking is a much more complex topic. At one end there is the bank-customer relationship and the business environment that a bank operates in and at the other end is the bank's internal processes and operations. A thorough understanding of banking calls for an understanding of both these ends of the banking system, which is what Keith Pond sets out to achieve in his book, 'Retail Banking', albeit in a very simple, non-complex manner. 'Retail Banking' describes the key economic concepts that underpin much of banking activity today, briefly discussing the historical genesis of banking along with the role of a bank in a modern economy. It touches upon the all-important concepts of national and international regulation along with issues around bank profitability.

Pond discusses the legal and practical issues faced by banks as they interact with customers, covering topics such as key credit risk tools. The book dwells at length on payment systems, analysing how different types of payment systems work, differences between international and national payment systems and the changing trends in this space. An interesting chapter is the one on clearing systems and legal mechanisms behind payment systems. Pond briefly covers the importance of banking securities and the advantages and disadvantages of taking a security. He also very briefly touches upon the technological drivers in retail banking.



Notably, the author has focused only on the UK. A few chapters in the book are entirely devoted to describing the retail banking industry in the UK including the political, historical, economic and social aspects of banking in that country. Examples and discussions throughout the book are also UK-specific. While this might be a little off-putting for anyone looking for specifics on retail banking in other countries, it is important to understand that the basic tenets of retail banking are more or less the same throughout the world.

'Retail Banking' is not an in-depth discussion on banking and more importantly, does not pretend otherwise. The book adequately provides a bird's-eye-view of the key issues in retail banking. All concepts have been described concisely without delving into too much jargon and complex terms. The book's charm lies in its simplicity and brevity. This simplicity however, is a double-edged sword, both a strength and weakness. 'Retail Banking' is highly recommended for an avid explorer seeking to understand the key elements of retail banking. However, nearly each topic covered in the book can independently be the theme of a book. So for a seasoned career banker or academician, looking for more depth on the topic of banking, and a flavour of banking across the world, 'Retail Banking' might be just too simplistic a book ▪

Rekha Menon
Research and Contributing Editor
FinacleConnect