banking insight

IDEAS FOR LEADERS
JUNE 2013

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Innovative Banks

The most exciting innovations in financial services right now are coming not from the banks, but the technology providers.

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35880 P

COMBATING MONEY LAUNDERING

MOBILE BANKING GAINS MOMENTUM

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Maybank is ranked the 13th strongest bank in the world by Bloomberg Markets.

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to our Leaders for creating a conducive business environment for us to thrive,
to our Regulators for guidance and instilling greater discipline in us,
to our Shareholders for your untiring support and faith in us, and
to our 47,000 Maybankers for your hard work and dedication.

1 Malaysia

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Thank you for partnering us in this journey, Malaysia. We have come a long way together.
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FANNING THE FLAMES OF INNOVATION

NOWADAYS IT IS NO LONGER SUFFICIENT FOR BANKS to light the spark of innovation in order to compete. Rather, this spark has to be fanned into fierce flames that permeate the entire culture and operations of banking and finance organisations if they want to excel in a dynamic environment.

The theme of *Banking Insight* this time around is innovation. Two clear trends were visible as we worked on this issue. One, banks which lead in innovation are able to leverage technology to become more customer-centric in order to compete effectively and capture market share. Two, these banks are able to integrate innovation across all dimensions of an organisation; whether in sales or training or compliance or customer relationship management. Innovation must not exist in silo, whereby a chief of innovation huddles together with his specialist staff. Instead, leadership and management must champion innovation and embed it throughout organisational DNA and culture in order to move forward. These are the gist of the messages contained in our cover story on 'Innovative Banks'.

It is also crucial for banks to innovate in risk management and anti-money laundering measures in order to mitigate risks and protect their reputations. In 'Combating Money Laundering', Eckart Koerner, KPMG Executive Director and Head of Financial Risk Management Services advises fast-growing Asian banks to improve their preventive anti-money laundering and counter financing of terrorism measures to curb money-laundering risks, still one of the biggest risks faced by most Asian banks.

Meanwhile, regulators too are innovating in the area of legislation to help regulate the growth of the banking sector in an environment which is becoming more challenging. A good example of this is Malaysia's new Islamic Financial Services Act 2012, hailed as an omnibus piece of legislation that will pave the way for a better, more robust and stable Islamic financial market. Gauge the industry's reaction to IFSA 2012 in 'Milestone for Islamic Finance'.

Reiterating our theme of technology driving banking innovation, nowhere is this message better espoused than in contributions from our thought leaders Oracle and SEEBURGER entitled 'Engaging Customers for Banking' and 'Innovating Banks' IT Infrastructure' respectively. Both organisations argue that banks should be investing in new customer-centric solutions and technologies to replace legacy systems. While legacy systems may still be functional, these are less effective when it comes to executing new strategies, and may hinder banks from riding on the emerging mobility trends and delay bringing new products and services to market.

Finally, banks should also be innovative in their approach to training and education to ensure that their staff are capable of meeting and exceeding customer expectations. 'Innovative Learning: Finding Training that Optimises Client Connections' contributed by Moody's Analytics advises that training must enable staff to acquire technical excellence while focusing them on genuinely helping the customer. Again, this is customer-centricity in action. At the same time, banks should be able to use metrics to best measure return on training to help them make the best decisions on how to best allocate scarce training resources.

I think it is safe to say that banks which embrace the innovation message have higher chances of survival in the twenty-first century and beyond. I hope that this issue sparks numerous ideas for improvement among readers, and enables you to fan the flames of innovation at your respective organisations. ✱

THE EDITOR

Hope you have a fruitful read.

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Ideas for Leaders

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HOW TO GROW MOBILE PAYMENTS

FINANCIAL INCENTIVES and mobile-based financial-management tools could increase consumers' use of smartphones as payment devices, according to an Accenture survey of 4,000 smartphone users in the US and Canada.

More than half of respondents who currently use their smartphones to make payments said they were highly likely to pay by phone more often if they could use their phone to track receipts (cited by 60% of respondents), manage their personal finances (56%), or show proof of insurance (56%) or of a valid driver's license (54%).

In addition, more than half of those who currently make mobile payments also said they were highly likely to pay by phone more often if they were offered: instant coupons from retailers when buying by phone (cited by 60% of respondents); reward points stored on their phone for future purchases at the store (51%); coupons that could be automatically stored on their phone (50%); or preferential treatment, such as priority customer service (50%).

The same value-added tools and incentives could increase the adoption of mobile payments among non-users. For instance, about one in three non-users said they would be more likely to use mobile payments if they could use their phones as proof of insurance or to track receipts (each cited by 32% of respondents). And about one in five non-users said that they would be more likely to use mobile payments if they received a preferential treatment at retailers or coupons for future purchase that could be stored on their phones (cited by 21% and 20% of respondents, respectively).

As consumers expect their smartphones to improve and simplify their lives, financial institutions, merchants, mobile network operators and technology providers should consider incorporating new mobile payment applications to encourage broad adoption as quickly as possible.

However, the survey also found that security concerns are the greatest barrier to consumer adoption of mobile payments, with 45% of respondents who do not use their smartphones for mobile payments citing security concerns as a reason for not doing so. Privacy issues and the convenience of using cash, cheques or credit cards were the next-most-mentioned reasons, each cited by 37% of respondents. ✱

Asian banks first to return to normal growth rates among global banks

ASIAN IT LEADERS can now think about 'new' things in banking as regional banks become the first to go back to normal growth rates among global financial institutions, reported IDC Financial Insights Asia Pacific.

"Asia Pacific banks are returning to normal rates of growth in terms of revenues and profits," says Michael Araneta, Director for IDC Financial Insights Asia Pacific. Araneta expects that the industry in the region will see rare occasions of extraordinary gains and declines in revenues in 2013. Profit growth for the region's largest banks converged to 20% in 2012 over 2011, and will converge to approximately 15% in 2013 - similar to rates of growth in pre-crisis years. Meanwhile, revenue and profit growth in the world's leading banks has not normalised, and the swings in profitability continue to be wild among the largest non-Asian banks in the world.

The region's banks are also going back to pre-crisis growth levels for IT spending. Araneta expects IT spending in Asian banks to grow 8.8% in 2013 over 2012, an improvement from the approximately 7% growth the industry saw in the previous year, and the 6.5% the year before that.

"I believe that this speaks of banks' improving confidence in the financial conditions in the region and in the rest of the world. This also points to the theme of 'going back to normal' because this 8.8% brings us back to pre-crisis rates of growth."

A major area of spending will be on core banking modernisations. Araneta explains that as a group, Asia Pacific banks are assumed to compare favourably versus their peers in the US and Europe with respect to the age of core banking systems currently in use.

In the 'old world,' truly modern core systems are rare. In Asia Pacific, meanwhile, there have been many references of banks leapfrogging technologies and investing in new generation core systems, not to mention how several newly emerged institutions have built up altogether sophisticated core banking platforms. ✱

Landmark Legislation

MALAYSIA OPENED THE DOOR to further innovation, growth and improved regulation for the finance industry when the Financial Services Act 2012 (FSA) was enacted by the Parliament of Malaysia together with the Islamic Financial Services Act 2012 (IFSA). The Acts were published in the Gazette on 22 March 2013.

The FSA will replace four existing Acts:

- Banking and Financial Institutions Act 1989
- Exchange Control Act 1953
- Insurance Act 1996
- Payment Systems Act 2003

Whereas the IFSA will replace two existing Acts:

- Islamic Banking Act 1983
- Takaful Act 1984

According to Bank Negara Malaysia in the 'BNM Financial Stability and Payment Systems Report 2012' *(www.mifc.com)*, "The enactment of the Financial Services Act 2012 (FSA) and Islamic Financial Services Act 2012 (IFSA) marked another significant milestone in modernising Malaysia's financial sector laws to reinforce the Bank's mandate to safeguard financial stability."

"The new laws significantly strengthen the foundations for a regulatory and supervisory framework that is effective, transparent and that contributes to an efficient financial system that is resilient to future stresses. The new laws also strengthen the oversight on the market conduct of financial service providers, promote effective oversight of payment systems and payment instruments, and support preconditions for the development of the financial sector," said the report.

> ***"The new laws significantly strengthen the foundations for a regulatory and supervisory framework that is effective, transparent and that contributes to an efficient financial system that is resilient to future stresses.***

While Malaysia's regulatory and supervisory system received a positive review under the FSAP (Financial Sector Assessment Programme which is a joint International Monetary Fund and World Bank effort introduced in May 1999), with a high level of compliance observed for the domestic regulatory and supervisory frameworks for the banking and insurance sectors, the deposit insurance system and the financial market infrastructure with international standards, key recommendations made by the IMF and World Bank will be addressed with the enhanced legal framework provided by the FSA and IFSA, noted the report. ✱

Standardised Housing Loan Documentation

THE ASSOCIATION OF BANKS IN MALAYSIA (ABM) has introduced a standardised template for description of key terms and conditions in respect of housing loans or home financing agreements for individuals involving a principal sum of RM500,000 and below. Commercial banks are required to adopt the standardised template effective from 1 January 2013.

"With standardisation, commercial banks aim to present key terms in a manner which is consistent, clear and easy to understand. This will promote consumers' understanding of their rights and obligations and enable them to make informed decisions that best meet their financial circumstances and needs. Consumers will also be able to make a more direct comparison of the financial products and services offered as a result," explained Chuah Mei Lin, Executive Director of ABM. In addition, over time commercial banks hope to improve the quality of service delivery, Chuah added.

The standardisation takes the form of a 3-part agreement as follows:-

- Part A which contains the standardised provisions;
- Part B which contains other terms not covered in Part A;
- Part C which contains the respective bank's Letter of Offer.

Banks may elect to adopt the standardised template for any housing loan or home financing agreement which does not fall within the criteria envisaged. For the purpose of determining the principal sum of RM500,000 and the applicability of the standardised template, only the loan amount to be applied towards the purchase price of the residential property is to be taken into account. The loan or financing can however extend to cover renovation costs, Mortgage Reducing Term Assurance (MRTA) or such other insurance premium as may be permitted by the banking institution and legal fees incurred in connection to the purchase of the property. ✱

INNOVATIVE BANKS

The most exciting innovations in financial services right now are coming not from the banks, but the technology providers. And it is collaboration, not competition, between finance and technology that will win the game.

JESSICA FURSETH

Banish jargon, be fair on fees, and ensure full investment transparency - these were key features when Nutmeg, the UK's first online discretionary investment management company was set up. Sure, the fintech (financial technology) start-up is cute and clever, but as a David in a world of Goliaths it begs the question: in times of financial uncertainty, why would Nutmeg be the customer choice over an established, proven financial institution?

For today's adult banking customers, a company like Nutmeg may not come across as a serious contender. But by 2020, the still-under-30 Generation Y (Gen-Y) will match their older peers in terms of income, according to estimates by Javelin Strategy & Research. And these are the customers who may well look to a company such as Nutmeg and find it is exactly up their street: a no-nonsense option in a staid industry, which offers the ability for each user to personalise the experience along with the option to do it all online without time-consuming meetings with financial advisors.

GEN-Y

By 2020, the still-under-30 Generation Y will match their older peers in terms of income, according to estimates by Javelin Strategy & Research.

"We are proud that we are reforming an industry that has grown so bloated on its own profit margins that it has not always put the customer first. ... We are proud to have helped so many people get one step closer to their financial goals," said Nutmeg co-founder and Chief Financial Officer Nick Hungerford, a former Brewin Dolphin stockbroker and Barclays wealth manager. Nutmeg's social responsibility is a refreshing touch for younger customers, whose monies are safeguarded by a custodian bank holding the investments on behalf of the regulatory-approved business. This leaves Nutmeg free to focus on creating the sort of personalised and transparent service its next generation customers are looking for.

As the internet revolution continues to change the financial industry, Nutmeg has understood something vital: banking no longer exists in a vacuum. In a world where plane tickets can be bought online at midnight and tax returns can be filed in the same way, people are no longer willing to accept a banking system that requires taking time out of a busy work day to go and queue at a till. Especially, those who have grown up with multitasking smartphones and retailers with one-click ordering are going to be looking for the same ease when it comes to choosing their banks and investment providers.

"Customers judge across their entire set of experiences rather than just comparing your organisation to others like it. We want our technology to be as intuitive and user-friendly as Apple products, the service we receive to be as thoughtful as we might get from Nordstrom, and personalisation and ease of payment as good as Amazon's," Rita McGrath, Associate Professor of Management at Columbia Business School, wrote in Forbes. This seismic shift means a bank's main competitor is not necessarily other banks anymore, but a telecoms provider which has picked up clever new technology to service its clients. Just consider that 55 million Africans use basic mobile phones to transfer money, resulting in an industry worth USD61bn last year, according to research from Gartner.

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>
> **RITA McGRATH,** *Associate Professor of Management, Columbia Business School*

What customers want

Peers of Nutmeg include mobile-optimised banking solution Moven, social banking outfit SmartyPig, and next generation money transfer expert Dwolla, to name only a few. These will not be the names found in the rankings for the most innovative banks, but their presence is a vital influence when the big players set out their innovation strategy.

"For four years since the financial crisis, banks have been heads-down focused on efficiency, cost cutting and in the worst cases, simple survival. But the rest of the world is not waiting for banks to bounce back," Jeff Carter, Chief Development Officer of technology company EyeLock and founder of the Center for Future Banking, wrote in American Banker. Carter acknowledges how innovation was in part to blame for the financial crisis, in the sense that it inspired hard-to-understand financial products, but while the industry licks its wounds, the world is moving forward at breakneck speed and old rules are being rewritten.

For example, 43% of US and UK Apple product owners would dump their current bank for Apple, according to a survey by research consultancy KAE. This may seem like an odd statistic, but it says a lot about the kind of ease of use people are looking for across all their services. The trend for banking to become more fragmented and decentralised leaves room for also smaller players to make their mark. Noted Lee Powney, Marketing Chief at KAE: "It would take a remarkable display of discipline [for Apple] to resist" moving into banking; "This research tells us Apple customers perceive a fit where at first glance we would assume the brand could not travel."

Tipping points

Digital banking is set to overtake branch networks as the main way customers interact with their bank by 2015, according to findings in PwC's 2012 report 'The New Digital Tipping Point', but commercial banks have been slow to step up to this challenge, said Robin Roy, Associate Director of Financial Services at PwC India.

"The lack of investment is perhaps even more surprising considering banks are struggling to grow revenues at a time of increased regulation and an increasingly volatile economic environment. Digital products are a significant opportunity for banks to grow revenues and serve their customers in a way that they want," said Roy, noting that although banking customers are increasingly willing to pay for innovative services, the majority of banks still only provide basic mobile

"THE LACK OF INVESTMENT IS PERHAPS EVEN MORE SURPRISING CONSIDERING BANKS ARE STRUGGLING TO GROW REVENUES AT A TIME OF INCREASED REGULATION AND AN INCREASINGLY VOLATILE ECONOMIC ENVIRONMENT. DIGITAL PRODUCTS ARE A SIGNIFICANT OPPORTUNITY FOR BANKS TO GROW REVENUES AND SERVE THEIR CUSTOMERS IN A WAY THAT THEY WANT."

ROBIN ROY, *Associate Director of Financial Services, PwC India*

and internet banking services. 69% of customers said they use the internet to purchase financial products, and 33% do this via their mobiles, the latter being a rapidly growing segment.

It is perhaps no surprise then, that FastCompany's shortlist of the world's ten most innovative companies in finance only contained one traditional financial group: American Express. First on the list is Square, the little piece of hardware that enables vendors to take credit card payments straight onto a mobile device. Lending Club has been credited with bringing peer-to-peer lending to the mainstream, while OpenGamma is praised for its open-source risk management software. PayPal makes the list for its new in-store payment initiative, where customers can pay via the system even if they have forgotten their wallet. PayPal, which was originally set up to handle online transactions in a time when standard banks deemed them too risky, now boasts 125 million users and processed USD14bn worth of transactions via mobile last year; mobile payments are just 10% of the total.

Having said that, there are also plenty of banks who are pushing ahead in the innovation game. The annual 'Finacle Global Banking Innovation Awards' from BAI-Finacle and Infosys recognises banks for their innovative breakthroughs, selecting the winners after considering over 150 financial groups from 30 countries. First National Bank, a division of FirstRand in South Africa, was named Most Innovative Bank in 2012 due to its culture of innovation and advancement of retail banking. An internal competition formally encourages and supports new ideas among staff, and business units at the banks are given the power to move forward with ideas through leadership buy-ins.

OCBC Bank in Singapore was awarded for its product and service innovation, due to its practice of designing branches especially to service Gen-Y customers. This means locating them in shopping centres or school campuses, using approachable language and playing popular music, and letting customers use interactive touch screens to shop for products. DenizBank of Turkey was also hailed for its channel innovation following its Facebook banking platform, through which users can access their personal data and perform financial transactions. Lastly, Alior Bank in Poland received the award for disruptive innovation due to its virtual bank which offers full financial services to Gen-Y users, including the country's first fully online credit checking process.

Collaboration between finance and technology

PayPal, which blossomed by taking a chance where traditional banking would not, may justifiably be the sort of example that creates a source of stress for bank managers keen not to miss out on the next big thing. At the same time, banks face stricter regulatory pressures with Basel III in Europe and Dodd-Frank in the US, forcing them to deliver certain minimum capital and liquidity ratios, new data protection requirements and the challenges of balancing the threat of cyber fraud in an age where customers want quick and easy digital access to their money. In its 2012 report, 'Optimising Banking

Operating Models', KPMG issued the stark conclusion that for the foreseeable future, banks must acclimatise themselves to negative or low growth in the developed world: "To overcome inevitable loss of scale and cost issues, ... an imaginative approach is needed to cut costs and control a disintegrated value chain." Fragmentation has already started to happen, noted report author David Sayer, Global Head of Banking at KPMG UK, with financial groups across the world already having started disbanding its central operations into individual business units.

The adaptation of new technology will play a core part in the future of banking. Ramesh Nair, Partner in the financial services team at Booz & Co, spoke of technology as an opportunity to provide customers with convenience, control, recognition, and transparency in a 2012 report on how banks can use emerging technologies to provide better service. Identifying the key areas of mobility, high end analytics, big data management, next generation data processing, cloud computing, and service-oriented architecture, said Nair: "To make use of these key enablers, organisations will need to refine their operating models, governance, data and application management, and technology architecture."

In other words, some pretty major change is required. Investing in ageing IT systems will be a key challenge for banks, however there is no reason to reinvent the wheel with every new feature. For example, Visa is using cloud computing to access fraud data models from Google, noted Booz & Co; this cuts down model-building time from one month to 13 minutes. As cloud computing becomes more secure, this kind of outsourcing is becoming increasingly common. As is the pairing up of mature financial companies with smaller technology companies with good ideas - why compete if you can collaborate?

One example of how this can be done is PermataBank in Indonesia, which has teamed up with mobile money technology expert Monitise to launch a payments service for BlackBerry. Owners of the smartphone, which is popular in Indonesia because Messenger is free to use, can use the service to transfer money directly between handsets, bypassing branches or even banking apps. Monitise Asia Pacific Chief Executive Darren Sugden said: "This launch is a ringing endorsement for how businesses with different commercial needs can collaborate in the fast-growing mobile, payments and banking space." Vodafone India also has years of experience teaming up with local banks, starting with HDFC Bank in 2011 and now ICICI Bank, to provide mobile money transfers and payments. The M-Pesa scheme targets rural areas where bank branches are few and far between, meaning mobiles are often customers' only banking tool.

A cultural shift

Considering the magnitude of the challenges faced by banks as they strive to stay innovative in tumultuous times, no one claims to have the definitive roadmap to how this should be done. CEOs are acutely aware that innovation is necessary to stay in the game, knowing the tech-savvy Gen-Y customers are growing older every day, but at the same time the banks face stricter regulation and constant demands from shareholders for reassurance about strategy, and ultimately, cold hard cash.

The good news is that new and clever fintech companies are being incubated every day; Accenture launched the FinTech Innovation Lab London last year to help promote new solutions for the industry. Support and mentorship for the new companies are provided from world-leading finance names such as Barclays, Credit Suisse, Deutsche Bank and HSBC, who can bring experience, scale and global customer networks to the table. While banks need their own internal programmes to support innovation, looking around to see what else is going on may prove to be a fruitful solution - pairing up a cool new start-up with a great idea is after all a great way to tap into some of those Gen-Y sensibilities of simplicity, transparency and social responsibility.

"As a critical component of the transformation now facing them, banks should take the time to examine their cultures carefully across four dimensions to ensure they are fostering value creation," Director of Risk Management, Toos Daruvala wrote in McKinsey's annual review of the banking industry. This is not as easy as it sounds as it requires a willing heart to reassess issues that lie at the core of the financial industry. It also requires, noted Daruvala, the balancing of the interests of shareholders and society as a whole, creating value for customers, ensuring the soundness of internal processes, and influencing the mindset of employees. But as the internet revolution roars ahead, anyone who thinks these changes can be kept to the sidelines must think again: "Directors and senior managers should view cultural transformation as a strategic issue, not a public relations problem." In other words, the world has changed, and banks must change with it. There is no alternative to innovation. ✱

■ Jessica Furseth is a freelance journalist based in London.

CASE STUDY:
Commonwealth Bank of Australia

Technology is enabling the Commonwealth Bank of Australia, the seventh largest bank in the world by market capitalisation, to lead in the vanguard of banking innovation, performance and customer satisfaction.

ANNA PERRY

The Commonwealth Bank of Australia (CommBank) may have celebrated a century of business last year, but there is very little that is backwards-looking about Australia's biggest mortgage lender. CommBank, the seventh largest bank in the world by market capitalisation, is routinely singled out for its sustained commitment to innovation. Now in its 101st year, the bank continues to provide a broad range of financial services, including banking for retail customers and businesses, as well as insurance and investment services. The bank has AUD135bn in liquid assets, 14 million customers and 52,000 employees, and operates also in New Zealand, Indonesia, China and Vietnam. CommBank's approach has assured respectable financial results in a time when other banks are reporting backsliding numbers, and a maintained dividend payment for this financial year. Shareholders can peruse the numbers on the dedicated investor relations iPad app - there is an app for everything at CommBank, where the motivation is not to keep up with technology but to set the agenda.

In fact, the bank's Chief Information Officer (CIO), Michael Harte, is a popular voice in the financial IT sector, outspoken on the topic of why it is vital for banks to compete with digital upstarts such as PayPal and Google. He is an avid supporter of cloud computing, mobile payments and open source technology. Whereas the notion of keeping data in an off-site cloud has been less than popular among security-conscious financial organisations, Harte's team at CommBank started promoting the idea of the bank utilising the cloud five years ago. An AUD2bn IT overhaul has ensured CommBank now delivers a modern, interactive banking experience, being one of the very small number of major banks globally to have a real-time transaction engine with savings, deposits, loans, and all customer information in one shared repository. It delivers a customer experience which Harte is confident can compete with up-and-coming tech giants.

"If we know the preferences and behaviours of our customers and we have the ability to interact and communicate with them in real time, we can offer them a price and a package that is specific to their loyalty and their risk," Harte told 'American Banker'. While the tech giants are nimble, the privacy awarded to customers by a traditional bank is miles ahead of that of Google, which may provide a great service but will collect data on users and sell it to advertisers.

Financial rewards

Financially, the IT modernisation has also paid dividends for CommBank. "Five years ago approximately 50% of our total IT spend, that is AUD800 million dollars, was dedicated to infrastructure," Harte said in a statement following the overhaul. "Half our spending went towards the cost of doing business and conferred no strategic advantage. Today the ratio of IT expenditure on business services versus infrastructure is 74% to 26%." The bank has reduced the number of data centres from 23 to two, and has converged branches, cash machines and call centres onto a single IP (internet protocol) network. Reliability has also seen a significant boost: over the last six years, major outages have fallen from 70 to seven per year.

As part of this wide-ranging IT overhaul, CommBank redesigned its NetBank online banking services, aiming to deliver a powerful customer experience while also boosting sales via the web. This included new and better site content and secure sales processes, resulting in improved online sales, better customer satisfaction and all-round good vibes from a PR perspective. Not to mention how the AUD80 million annually the bank invested in its NetBank platform returns AUD4bn in sales every year.

Branches

The bank has reduced the number of data centres from 23 to two, and has converged branches, cash machines and call centres onto a single IP (internet protocol) network.

While the ability to perform a multitude of banking tasks via the web remains a dream for customers of many major banks still, patrons will find CommBank's offerings go far beyond the basics. For example, CommBank offers unique features such as real-time debiting and crediting of transactions, which is not only convenient but also counters one of the criticisms of major banks: a lack of transparency.

All about the apps

CommBank's innovative offerings include a mobile app called Property Guide, where users can determine what a house is worth just by pointing the phone at it. The app's augmented reality software brings up information such as past sales history, current property listing and recent nearby sales, along with estimated current values. Users can even get a mortgage approved via the app, and the bank is now generating 1% of its overall mortgage leads in this manner.

A TOTAL OF AUD6.7BN IN TRANSFERS AND PAYMENTS WENT THROUGH KACHING

Collaboration with external experts in analytics technology means CommBank now uses prediction models to respond to the ever-changing needs of its customers. Years of working with industry experts Pegasystems has resulted in a reformed approach to customer complaints, as well as how the bank reaches out to customers across the various available platforms.

One of the most exciting innovations from CommBank is the revolutionary Kaching mobile payments app. The multiple types of payment which users can make straight from the app include transfers to other accounts, bill payments, and MasterCard PayPass payments at the point of sale. The app also allows payments directly to email addresses, mobile numbers, and Facebook accounts. In the first 18 months following the launch, some 800,000 people downloaded the Kaching app, compared with the bank's 4.3 million active online banking users. A total of AUD6.7bn in transfers and payments went through Kaching in the first 18 months alone.

Best in class

"By enabling so many types of payment through a mobile phone, Commonwealth Bank is teaching its customers that if they want to make a payment - in any situation - they should use the Kaching app," commented Benjamin Ensor, Research Director serving eBusiness and channel strategy at research house Forrester. Ensor reckons banks should look to CommBank's Kaching app as an example in how it should be done: "Banks are in pole position to win the race to persuade consumers to adopt mobile payments, both because of their existing trusted payments relationships and because they can use mobile banking as a platform for mobile payments."

While major global banks have the scale and means to get ahead in the race to beat technology providers in providing next generation services, CommBank is miles ahead of many of its international peers. A relentless passion to be first is a key driver in the bank's innovation policy, Harte told 'American Banker', and the bank also pairs staff with universities and technology companies to encourage them to get excited and creative about what could be possible. CommBank wants to lead the market, not just trail along: "Our responsibility to our customers is to innovate to ensure that we retain relevance and value, and our online interactions and transaction. We cannot afford not to want to be first."

The importance of Facebook

Facebook is possibly the most important marketing platform for CommBank right now, Chief Marketing and Online Officer Andy Lark said as the bank launched Kaching's Facebook platform earlier this year. This is Australia's first such product, where users can now forward money to contacts within the social network, make payments to Facebook Events, and collaborate with others to collect money for projects such as joint birthday presents. Other functions include viewing account balances and transaction history, viewing peer-to-peer payments and gently nudging people who owe money.

"With Facebook popularity sky-rocketing to more than 55% of the population in Australia, we know our customers, particularly Facebook's core user base of 18-35 year olds, are looking for new ways to connect their banking and their lives, friends and causes inside Facebook," said Lark. But security concerns must be managed. Facebook has had plenty of security breach headlines which would bring any bank's technology chief into a cold sweat, let alone unsettle the bank's customers. CommBank has however taken a number of steps to ensure users' money is safe while moving around within the Facebook system, including a dedicated Kaching pin number, keeping information stored only temporarily, and an automatic logout even if users continue using other parts of Facebook.

IN THE FIRST 18 MONTHS ALONE.

Most importantly, CommBank guarantees to refund any losses in the unlikely event that funds should go astray.

The ability to create named savings pots within the online banking portal, boosting the incentive to save by linking the funds directly to a holiday or a new car, is another of CommBank's popular features. Last year CommBank started enabling customers from other banks to collect payments using Kaching, which also includes fun features such as letting users exchange money between them by physically bumping their phones together. Possibly slightly more practical is the NetBank Vault, where users can save important documents such as pay slips, scanned copies of passports or driving licences, plus receipts. Drew Unsworth, General Manager of Online Banking, pointed out how Vault could help customers save money on taxes, as the average Australian is potentially paying more than AUD1,000 too much in taxes due to lost receipts, according to a study from Lonergan Research.

Technology leadership

The judges praised the core banking modernisation project as 'unrivalled in ambition and risk' when they named CommBank's Michael Harte as 'Financial Sector CIO of the Year' in the 2013 Benchmark Awards from 'IT News'. CommBank has created a showcase for other CIOs looking to prove to their boards how "IT-driven innovation [can] change the function of the business itself," said the judges, before adding that they did find numerous impressive projects to be taking place across the industry.

Also on the shortlist for the award was Credit Union Australia, noted for its IT transformation programme which has replaced everything from data centres and analytics, to iPayment terminals and mobile apps, requiring a major cultural change to take place at the group. ING Direct's Bank in a Box was also nominated; this is the

world's first banking system simulator which can provision copies of its production banking system, making it possible to test new features, train staff and resolve problems at little cost. Added the judges: "This somewhat left-of-field idea has shone a light on Australian technology leadership within a global organisation."

For CommBank, the completion of the IT overhaul means heaviest of the lifting may be done for a while, but the bank is in no way looking to rest on its laurels. Speaking to the Australian Information Industry Association in May, Harte said he wants to continue building on seven years of innovation-friendly culture by making sure that one in ten new hires is a 'troublemaker', going against what he perceives as an industry-wide problem of risk aversion and fear of failure.

"[Staff] need corporations to get rid of the bureaucracy, rules and crazy things that we have put in place. You have got to take away the timesheet," said Harte, urging industry peers to stop looking to Silicon Valley case studies for innovative ideas and instead fostering experimentation and creativity among staff. While easier said than done, the recipe, said Harte, is "repeated, rapid, high-frequent, low-cost" experimentation and communication, where organisations create a space where people feel they can take risks in a safe environment: "[World Wide Web inventor] Tim Berners Lee did not have a business case; Christopher Columbus did not have a business case. They both sought the new world. … [Innovation is] the creation of anything that makes the instant better. It has to come from a need - the need can be simple or profound, therefore the discovery can be extraordinary." ✱

■ Anna Perry is a freelance journalist based in London.

MOBILE BANKING *Gains Momentum*

MOBILE BANKING IS GAINING MOMENTUM AS BANKS INNOVATE IN THIS ARENA TO WIN NEW CUSTOMERS AND MARKETS. LEVERAGING ON TECHNOLOGY IS CRITICAL TO WINNING THE WAR IN MOBILE BANKING

AMALINA ANUAR

Driven by the spread of mobile telephony and internet, mobile banking is swiftly gaining momentum. The phenomenon presents significant opportunities for banks to innovate in this nascent arena to reduce costs and deepen existing customer relationships. Indeed, through mobile banking, there is massive potential to capture new customers in emerging markets with limited access to traditional financial services.

According to Bain & Company's annual 'Customer Loyalty in Retail Banking Report (2012 Global Edition)' which surveyed 150,000 banking account holders in fourteen global markets, mobile banking has taken hold around the globe.

The Bain & Company's report found that Asia has the highest mobile banking penetration – 47% of survey respondents in South Korea said they had mobile interactions in the previous three months, the highest penetration in the survey – while survey respondents

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in the US reported the highest frequency, averaging 4.9 mobile transactions in the previous three months.

Mobile banking is having the biggest impact on routine banking activities. In other words, mobile is changing the way we traditionally approach banking. 64% of mobile banking users in the US say that the future ability to use their smartphones or tablets to check account balances would be highly valued. 41% of mobile banking consumers say that using their smart device for remote deposit capture (through a digital image of an endorsed cheque) – which is already being offered by some direct or internet-only banks in the US - would be highly valued, and 26% say that paying bills through their mobile device in the future would be highly valued.

Mobile Banking Raises Customer Loyalty

"Mobile banking presents profit-strapped banks with an opportunity to shift routine transactions from high-cost physical channels to much lower-cost digital channels," said Gerard du Toit, Bain Financial Services Partner and lead author of the report. "It also presents opportunities for banks to create more 'wow' experiences that use new digital technologies to delight customers and deepen customer loyalty."

INNOVATIVE

While mobile banking is providing a fresh banking experience in developed and urban markets, the mobile phone is becoming an instrumental tool for the unbanked to access basic banking services. Forward-looking and innovative banks are teaming up with technology providers to innovate in this arena and achieve financial inclusivity goals while growing the global market for banking and financial services.

Across all banking models, US mobile users report greater loyalty. The loyalty shift is most pronounced with larger national banks, where loyalty scores actually move from negative to positive territory. National banks also tend to have developed more advanced mobile functionality than their community bank and credit union counterparts – further underscoring the upside potential presented to national banks by mobile banking technology. "In light of recent announcements by large national banks, the ability to reduce costs and lock in long-term loyalty is critical," added du Toit. "Mobile technology can help achieve these important ends." The report finds that both Citi and JP Morgan Chase improved their customer loyalty scores relative to other large banks since Bain's 2011 customer loyalty in retail banking survey.

Customer Segmentation

While mobile banking may be egalitarian and promote financial inclusivity, this does not mean that banks no longer need to tailor products to the needs of specific customer segments. On the contrary, bespoke service and relationship engagement remains as important as ever to capture customer loyalty on the mobile platform.

There is a clear divide in loyalty among affluent customers by region. Customer loyalty scores are highest in Asia and developing markets. The bad news, noted Bain & Company is that wealthier customers surveyed in the US and European countries continue to give the lowest loyalty scores. US national banks fared particularly poorly, with solidly negative scores among households with more than USD1 million in investable assets. The picture is quite different in Asia and other developing markets, where banks have developed differentiated modes of targeting and serving the affluent and have far more extensive wealth management operations than in the US.

"Wealthy customers generally insist on premium service and tailored, expert advice," said Beth Johnson, Head of Bain's Customer Strategy and Marketing Practice in the Americas, and co-author of the report. "But the financial upside is clear if done right, with lifetime values of loyal affluent customers significantly higher than their underwhelmed peers."

Banking the Unbanked

While mobile banking is providing a fresh banking experience in developed and urban markets, the mobile phone is becoming an instrumental tool for the unbanked to access basic banking services. Forward-looking and innovative banks are teaming up with technology providers to innovate in this arena and achieve financial inclusivity goals while growing the global market for banking and financial services.

For example, in sub-Saharan Africa, the lack of developed infrastructure means that more than 80% of people have no access to traditional financial services, according to Standard Bank of Africa. This lack of access presents one of the biggest challenges in battling poverty in South Africa, noted the bank.

GROWING

The growing ubiquity of mobile phones is set to propel this banking phenomenon further. As Silicon India recently reported, the number of active cell phones will reach 7.3 billion by 2014 compared to roughly 6 billion active cell phones in the world currently. In other words, there will be more in-use cell phones than there are people on the planet right now, according to the International Telecommunications Union (ITU) at this year's Mobile World Congress.

Adopting an out-of-the-box approach, the bank realised that one of the biggest obstacles to opening a new account for many Africans was the inability to provide proof of residence. However, a large percentage had access to mobile phones.

According to Mahira Kalim, SAP Mobile Social Media Team who profiled the bank in an April 2013 blog entry entitled 'Mobile Banking for the Unbanked' on blogs at *sap.com*, Standard Bank developed a mobile app for their agents that they could use to open new accounts from any location at any time. "These agents were sent out to the field to meet unbanked individuals where they lived and worked. Once the person was identified, all they needed to open a new account was their official ID," wrote Kalim. Standard Bank observed that by using this app, a mobile agent is able to open a personal banking account in about half the time it takes to open an account at a traditional bank branch. Through this mobile outreach programme, Standard Bank has been opening up to 7,000 new accounts each day.

According to Kalim, these new accounts are benefiting the people, the bank, and the economy. Bank customers are now able to use their phones to transfer funds, pay electric bills, and buy more airtime. They also have access to credit that they have never been able to access before, enabling them to finance small business ventures and purchase basic necessities and services, therefore improving their quality of life.

Over on the Indian sub-continent, Dutch-Bangla Bank is leveraging mobile phones to serve the population of Bangladesh whereby only 13% of Bangladesh's 160 million people have a bank account, noted Kalim. Dutch-Bangla Bank's mobile banking solution enables Bangladeshis working in urban areas to send money home securely.

Fuelled by Mobile Phones

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As the growth in mobile phones outpaces the swelling global human population, the possibilities of delivering a better quality of life through banking innovation to the masses are infinite, limited only by the boundaries of technology. ✱

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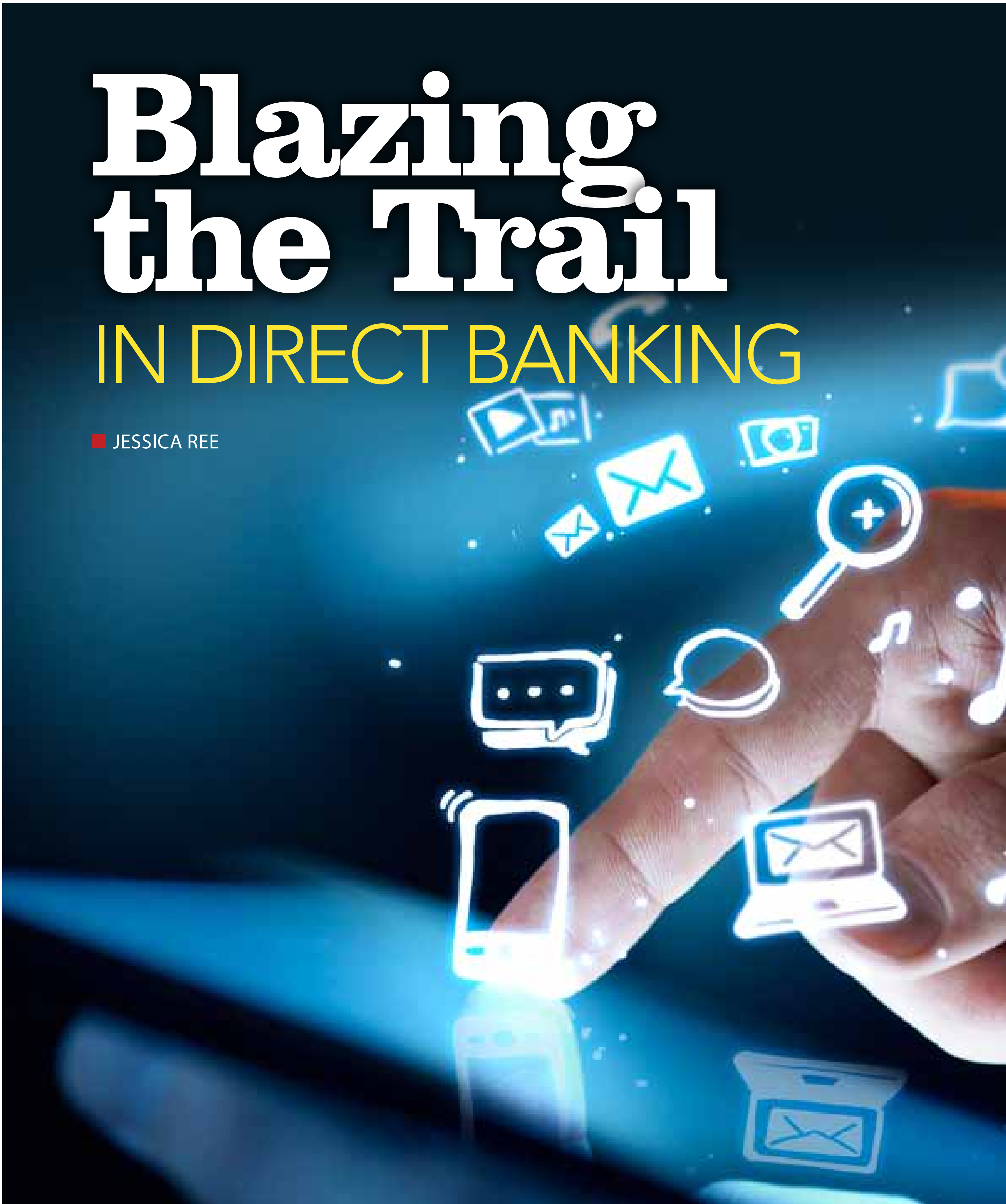
Blazing the Trail
IN DIRECT BANKING

JESSICA REE



Internet

37% of US consumers who bought a financial product in 2011 did so on the web, versus 36% in a branch.

Known for its pioneering spirit, it is hardly surprising that the country that gave us Microsoft Word and the Apple iPhone and iPad is the leading early adopter of internet-only or direct banking. But the pace is picking up globally as well, as technology coupled with more competitive rates and lower costs drives the increasing popularity of direct banking.

Most of us are used to brick-and-mortar banks, but the bank is increasingly turning into a place in the clouds that host the internet. As people spend less and less time visiting bank branches, the online world is proving to be the perfect base from which financial groups can service its customers.

This is particularly true in the US, which could be labelled as the world's leading early adopter of Internet-only banks. Also known as direct banks, Internet-only banks are starting to reach critical mass, as US deposits reached USD364bn in 2012, up by 32% from 2010, according to research group Novantas. This is a 400% rise from the 2004 numbers, apparently driven by web-based banks offering better rates.

37% of US consumers who bought a financial product in 2011 did so on the web, versus 36% in a branch, according to research from Forrester. The number of US bank branches fell by more than 750 last year, to 97,337, according to data provider SNL Financial. Meanwhile, in the UK, banks saw daily and weekly branch visits drop from 19% of customers to 15% last year, according to research by Accenture. Interestingly, online banking also declined in the same time period, with 61% of customers logging in as opposed to 69% previously, as the difference was explained by a surge in users preferring the mobile banking option. But the trend is clear: in the future we want to bank via the web, be it through our computers or our smartphones.

In order to remain relevant to markets as customers' preferences move away from branches and towards online services, banks are advised to follow suit in terms of where they direct their attention. Whereas traditional banks must change their culture to do this, direct banks are unencumbered by tradition.

Enter direct banking

Not having to pay for a branch network is a core advantage for direct banks, as diverting the focus away from brick-and-mortar frees up cash so they can offer better terms to customers and optimise operations.

Once the expensive branch network is taken out of the equation, direct banks not only benefit from eliminating this kind of legacy operation, but can also spread out across a country, or even a continent, with greater ease. For example, online-only bank Holvi is planning to expand beyond its Finland home market to take on Europe this year, offering personal finance products, social and business networking and reworked core products. Online peer Moven, a New York start-up, is making good progress with its mobile wallet concept, which enables a customer to use their mobile phone to make payments, transfer funds and withdraw cash.

Globally, the biggest online-only banks are currently four American names: Ally Bank, Discover Bank, USAA Federal Savings Bank, and Capital One 360, the latter being the new name for ING Direct. Deposits at these banks have more than doubled over the past

> "**Direct banks are beginning** to undermine traditional banks' convenience advantage. More direct bank customers describe their bank as 'the most convenient bank for me to use' than do customers of traditional brick-and-mortar banks."
>
> **CHARLES SCHEMBRI,** *Account Executive and Programme Director, TNS*

five years, according to a report from global research group TNS on direct banks and the future of consumer banking; this growth rate is more than three times the industry average.

"Direct banks are beginning to undermine traditional banks' convenience advantage. More direct bank customers describe their bank as 'the most convenient bank for me to use' than do customers of traditional brick-and-mortar banks," said Charles Schembri, Account Executive and Programme Director at TNS, adding that the four biggest direct banks will attract as many new 'primary bank' relationships this year as the four largest regional banks combined.

Ally and USAA thrive online

Ally Bank won the TNS 'Choice Award for Direct Banking' this year, in recognition for its efforts in acquiring, retaining and developing its customer base. TNS chose Ally after conducting interviews with more than 20,000 customers. Ally, which was rebranded from GMAC Bank in 2009, was founded in 1919 in order to provide finance to automotive customers. The bank has since expanded to include direct banking, commercial finance and insurance, exceeding one million customer accounts in 2012.

"[Ally] is achieving greater organic growth than any significant direct bank competitor. Not only is Ally performing best among the leading direct banks, it attracted more new primary customers in 2012 than any other direct bank and has very low attrition among its customer base," said Jim Meyer, Executive Vice-President of TNS. He added that advertising is a critical driver of growth for direct banks, and it is one reason for Ally's impressive momentum. Though its share of deposits remains relatively small, Ally Bank routinely ranks fifth among all banks in the US in terms of its advertising breakthrough, as its ad concept of 'fair treatment' seems to be resonating with consumers.

Ally Bank has also been hailed by CNN Money as one of the eight 'least evil' banks in the US, as it does not charge monthly maintenance fees nor require a minimum balance, and offers free use of cash points - all along with competitive rates, enabled by the bank's lower overhead costs. USAA was also on CNN's list of eight fair banks; this organisation started in 1922 when a group of US Army officers banded together to insure each others' cars when no one else would. USAA has since expanded to offer all basic financial products, first to all military personnel and now to their extended families too. The bank credits its military roots with many of its technological advancements, as servicing military personnel abroad means USAA remains a leader on remote access technologies such as phone banking and paying in cheques via mobile phones.

> **“The way we look at it is** the online banking site is looking more like an app, and the apps are creating more content for the website. It is an ecosystem where mobile feeds the *dot.com* and vice versa.”
>
> **NEFF HUDSON,** *Assistant Vice-President of Emerging Channels, USAA*

“The way we look at it is the online banking site is looking more like an app, and the apps are creating more content for the website. It is an ecosystem where mobile feeds the *dot.com* and vice versa,” Neff Hudson, Assistant Vice-President of Emerging Channels for USAA, told ‘American Banker’. One of the latest projects from USAA is a voice recognition application where users can speak to the app, called Nina, and the input is processed by the technology host before the users confirm the accuracy of the request. While voice interfaces, Apple’s Siri being the most famous, still have their problems, Hudson said the performance of natural language is improving: “We have high hopes for the new natural-language interfaces.”

Technology has also facilitated the entrance of new players such as Simple into the direct banking market. Simple is a start-up from Oregon that offers free current accounts along with data-rich analysis of customers’ spending patterns. Innovative features such as the ability to tag transactions mean users can search their accounts using basic commands, like asking how much money they spent on gifts in December or seeing all transactions on a geographical map.

Multi-generational approach

Online banks routinely offered interest rates at six times those of physical banks in the first quarter of this year, according to data from price comparison group MoneyRates.com. During a time when US nationwide interest yields dropped, savings rates at many online banks actually rose.

“The brick-and-mortar banks will have to figure out how to compete,” said Morningstar equity analyst Dan Werner, adding it will be a challenge for them to match the savings and loan rates offered by banks that have no branches in their cost structure. Growing familiarity among consumers, along with the availability of better rates in a time where most savings rates on the market are lacklustre at best, means online-only banking “may finally have hit a tipping point”, Sherief Meleis, Partner at financial services industry advisors Novantas, said to the ‘Wall Street Journal’. While a 2011 report by Novantas found that the majority of banking customers still look for a local presence when choosing their bank, the group also found that 25% of US retail customers have already drifted away from local branches for day-to-day banking.

The technology aspect of online-only banking means the strongest foothold is among younger banking customers: 57% of users are in the 18-25 year age span, according to research by Accenture. The study did however find that 67% of customers prefer to interact with their bank through multiple channels, whereas only 21% of customers would like to deal with their bank through a single channel, be it just the branch or just the internet. "Customer loyalty can be significantly influenced by the differentiation that is created through technology-led service innovation across all banking channels," concluded Kyriakos Voutsas, Banking Consultant at Accenture, meaning great interest rates are only one of a number of factors considered when customers choose banks.

While banking customers who are disillusioned with mainstream options have traditionally found it difficult to find alternatives that can compete on convenience, research from TNS found that internet banks are starting to successfully tap into this source. Direct banks are picking up some of the financial industry's most sought-after customers by attracting younger people; the individuals now belonging to this group only will gain more earning power as they age.

"All signs point to continued success for the direct banks. More than three-quarters of consumers now interact with their banks online. Mobile banking is booming. Two-thirds of consumers use the online or mobile channel for monetary transactions, such as deposits, transfers, and bill payments. At the same time, fewer consumers are conducting these transactions at physical bank branches," concluded TNS's Schembri.

Innovation online

Ironically, the core challenge for direct banks is also the factor that makes them so competitive on rates: the lack of branches. While the statistics show that people are increasingly happy to conduct almost all their banking online, the TNS study found people remain attached to the thought of a branch being available just in case they needed it. Direct banks will need to find a way to address this concern, possibly via a different kind of branch network where customers can come not for basic banking, but for complex issues where only a face-to-face discussion will do.

Video conferencing is another possibility to address this concern while keeping everything high-tech, just as web banks recently solved the problem of how to pay in cheques by allowing customers to photograph them using smartphone apps. "Physical branches will become irrelevant," Carlos Minetti, Discover Bank's President of Consumer Banking and Operations, said to 'American Banker'. "I think you will continue to see a role for small branches on the business banking side, but we are a totally consumer banking company, so we do not see any need for that."

Collaboration is another option to address customers' attachment to branches; for example, USAA has an agreement where customers can walk into any UPS office and have their bank card swiped and their paper cheques scanned by a UPS clerk, providing an alternative for customers who do not have smartphones.

"It should be clear that direct banks can no longer be dismissed as merely competing on the fringe. They are quickly becoming mainstream," said Schembri. "What is not yet clear is how direct banks will evolve and what this means for the rest of the banking industry."

In the meantime, more entrants are rushing into the field: Barclaycard US collected USD1bn in deposits in the first nine months after its launch in May last year. "This is going to be an important funding source for our USD14bn credit card operation," commented Steve Carp, Head of Deposits at Barclays US. "That is what we were hoping for and it is one of the key reasons we got into this direct banking business."

The US market dominates the conversation around direct banking, however the earliest example of web-only banking came from the UK, when Midland Bank (now part of HSBC) started a phone-based operation in 1989 that migrated to the web, where it exists today as HSBC Direct. The Co-Operative Banking Group also became a web pioneer when it launched Smile in 1999. Japan Net Bank was also early on the scene, starting up direct banking operations in 2000.

Directly mobile

As direct banks consider how to capitalise on their customer-winning momentum, emerging markets may hold some clues as to how to cater to a customer base that increasingly prefers to use their mobile phones to bank. "Eventually [mobile-only banks] will offer more advanced products and a fuller product line," Steven Lewis, Director of Banking and Capital Markets at Ernst & Young, said to 'Bank Innovation'. For example, Kenya's M-Pesa system enables money to be transferred via text message, while in Brazil, the loan process commonly takes place entirely over smartphone. If this is what is possible just using basic phones, forward-looking direct banks should be able to do plenty more while servicing an audience with access to constantly evolving internet-connected smartphones. The trend is clear: the future's full-service banking will happen right in our pockets. ✱

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CASE STUDY: *The future of ING Direct*

An internationally renowned name in direct or online-only banking, ING Direct's philosophy is that innovation must be founded on good deals and good service to capture customers' hearts.

ANNA PERRY

The best-known and best-loved name in the direct banking game is arguably ING Direct, whose global presence stretches across the US, Australia, the UK and Canada, as well as Austria, France, Germany, Italy, and Spain. 2013 is a year of major change for parent ING Group, however, as the deadline is here for the Dutch financial corporation to raise the funds to re-pay the €10bn it received from its government during the 2008 financial crisis. Consequently, ING Direct US has been sold to Capital One, ING Direct Canada has been acquired by Scotiabank, while ING Direct UK has been taken over by Barclays.

Jan Hommen, ING Group's Chief Executive Officer (CEO) and Chairman, spoke of efforts to rebuild trust as he delivered the group's financial results for 2012, describing it as a 'year of change' for the bank. Following the three disposals, the organisation aims to develop its remaining direct banking operations in Australia, Austria, France, Germany, Italy and Spain into full-service, mature banks. "These initiatives in Europe, coupled with our positions outside Europe, should give the Bank attractive growth potential in the long term," asserted Hommen. "ING will build on its global presence and international network and capitalise on its leadership position in gathering savings, multi-channel distribution, simple propositions and marketing."

Enter Capital One 360

The deal to sell ING Direct US to Capital One was a major step in ING Group's restructuring. The USD9bn takeover means that Capital One 360, the new name of the web-banking unit, is now one of the world's biggest players in this segment. The deal also made Capital One Financial the fifth largest financial institution in the US by deposit size, with about USD210bn in consolidated deposits. The agreement was hotly debated for almost a year before closing late last year, after the US Federal Reserve Board ruled that the deal would not pose a systemic risk to the country's financial systems. "Based on all the facts of record ... the Board has concluded that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any likely adverse effects," concluded the regulator. Capital One now holds 2.3% of the total amount of deposits in the US, well below the 10% limit set by Congress.

Commenting on the rationale behind the deal, Capital One CEO Richard Fairbank told a New York investor conference: "While we have done a lot of acquisitions in the last number of years, I very much feel that we have arrived at a destination we've spent many, many years working for." Fairbank stressed that the bank is now focusing on integrating its recent purchases, which also include HSBC's credit card portfolio.

Jon Witter, Capital One's President of Retail and Direct Banking, said the ING deal has given the company a "chance to lead the digital-banking revolution", with industry commentators looking to Capital One's investment into the area as proof that direct banking is becoming a core contender in the battle for customers; Novantas Partner Sherief Meleis concluded in the 'Wall Street Journal' that online-only banking "may finally have hit a tipping point".

Rebranding woes

For the nearly 8 million customers, however, the disappearance of the ING Direct US name has been met with scepticism, as both customers and banking industry insiders had taken a shine to the web-banking brand. ING Direct US started back in 2000 in Delaware, and got a boost in 2007 when it acquired NetBank. Competitive deposit rates, innovative online banking

ING Direct US has been sold to Capital One, ING Direct Canada has been acquired by Scotiabank, while ING Direct UK has been taken over by Barclays.

tools, a reputation for excellent customer service, and a quirky, clever brand voice, meant users are losing a favoured brand following the takeover.

Capital One has however promised to keep the elements that made ING Direct US so successful, describing the rebrand, mandated by ING Group as part of the sale, as mostly cosmetic. A new customer pledge based on ING Direct's brand promises were rolled out: "Our name is changing to Capital One 360 and our colours are changing to red and blue, but our commitment to you is staying the same," wrote ING Direct Head of Banking Jim Kelly, and Capital One's President of Retail and Direct Banking Jon Witter, ahead of the February 2013 name change.

Beyond the headache for the public relations team, the new Capital One 360 has promised a continued focus on value through no-fee, no-minimum balance accounts, accessed through intuitive web and mobile applications. Pledged Capital One 360: "We'll talk to you as we always have, with real people here ready to help you. We will always innovate and improve with you in mind, first and foremost, to create the best customer experience out there. We will keep challenging the way things are done, and get them right the first time."

Capital One 360 has hiked some of its customer incentives following the rebranding, including doubling its refer-a-friend incentive so customers now get USD20 for each friend who signs up. The friend gets USD25 for opening a savings account, and anyone opening a current account gets USD50. Savings rates have remained competitive following the takeover, and the company has since launched a fixed rate mortgage rate; furthermore, customers travelling abroad will have their foreign exchange fees waived on their debit card purchases. Keen to maintain goodwill, the company promises "a lot more awesome stuff" to come later this year.

Barclays looks to retail banking

Barclays Bank took over the reins of ING Direct UK at the end of last year, adding the direct bank's assets to its own: 1.5 million customers representing £10.9bn in deposits, and a £5.6bn mortgage book. ING said it would incur a €320 million net loss on the sale. ING Direct UK, which was established in 2003, had a similarly good reputation as its US counterpart in terms of competitive rates and good customer services. While Barclays' plans to integrate the ING customers into its existing business has met with less protest regarding branding, concern has been expressed whether rates will remain as competitive as in the past.

"Although ING Direct customers will switch over to Barclays on the same terms when the deal completes, there is no guarantee they will remain on these in the long term, as Barclays is not known for competing for 'best buy' positions on savings," Kevin Mountford, Head of Banking at price comparison site MoneySupermarket, told the 'Guardian'. Mountford did however point out there is a possibility Barclays could use the deal to improve its online offering, and hence "up the ante in the savings market."

Analysts are hopeful of the latter, as Barclays CEO Antony Jenkins has signalled the bank will be focusing more on its 15-million-customer-strong retail operations instead of the riskier investment banking. Jenkins, formerly head of Barclays' retail banking operations, took over the top chair at Barclays last autumn after investment banker Bob Diamond resigned following the Libor-rigging scandal. "To the extent that this deal signals CEO Antony Jenkins' revised strategic intentions and lower dependence on the investment bank, we view it as positive," Vivek Raja, analyst at Oriel Securities, told 'Reuters'. The ING deal means Jenkins will meet the target of delivering return on equity above the bank's 11.5% cost of equity, a trick that has proven difficult for many banks now that stricter regulation forces them to keep more unleveraged equity in-house.

Scotiabank takes a leap

Canada's third-biggest lender, Scotiabank, paid CAD3.13bn for ING Direct Canada in November last year, concluding what was its biggest deal to date. In what analysts agreed was a positive move, Scotiabank will be adding CAD30bn in retail deposits to its balance sheet, representing 1.8 million new customers. The ING brand, which launched in Canada in 1997, will be phased out over the next year; however Scotiabank has pledged to preserve its values and will run the direct banking business as a separate unit.

"This could be a very significant avenue for growth on a very specific market segment," Scotiabank CEO Richard Waugh told the 'Financial Post' just before the deal closed. "When we looked at ING Direct Canada's customers, how they have executed, and how they have got [to where they are today], I think it is a price well spent."

Earlier this year, ING Direct Canada became the first bank in the country to introduce photo-clearing for cheques, letting customers cash in cheques by photographing them with their smartphones. The Canadian Payments Association recently approved the method, which means banks are no longer required to ask customers to post the cheques. ING Direct Canada is also a keen user of social media for customer interaction, with CEO Peter Aceto telling 'Financial Post' how Twitter is a great way for customers to get a glimpse into the inner workings of the bank: "Our view is that your brand is whatever your customers think of you, and they make the decision of what they think of you based on their interactions with you."

Challenging in Australia

While speculation of a potential sale surfaces at regular intervals, ING Group still owns ING Direct Australia, which pioneered web-only banking in the country when it launched in 1999. The outfit now has more than 1.4 million customers with AUD29bn in deposits and AUD38bn in mortgages, making it the country's fifth largest lender to homeowners.

"We are not a very big organisation, and we are not the biggest bank in Australia. Our company focus is on providing exceptional customer service and attracting and retaining customers. To do that, we have to constantly innovate - offer new and better services than the competition," Wesley Naidoo, Enterprise Technical Architect for ING Direct Australia said as the bank announced a major upgrade to its Windows operating systems late last year.

Naidoo described ING Direct Australia as a 'challenger bank', considering issues such as server downtime and availability in human terms: "For example, our customer is at a supermarket, their arms are full while shopping with the kids. They want to make a payment, but at that moment the transaction fails. What does that mean to them? Ideally we want to make sure all our customers' 'moments of truth' are covered 100% of the time." Other systems, such as employee timesheets, are less sensitive, meaning a few seconds' delay now and again is probably acceptable when priorities have to be made.

As with ING's US and UK branches, customer service runs at the core of the Australian branch. Vaughn Richtor, CEO of ING Direct Australia, put it this way in a recent blog post: "It always astounds me when companies outsource their call centre, often overseas, to save money. Not only are you forfeiting direct control of your customers' experience, you are also in a position where you have to manage the culture in another company too. Straightaway there's a 'disconnect' between your customer and your organisation."

PIONEER

The outfit now has more than 1.4 million customers with AUD29bn in deposits and AUD38bn in mortgages, making it the country's fifth largest lender to homeowners.

Customer as king

"From the customer's point of view, it is an unfortunate yet accepted fact of life that service from your bank can be less than ideal," lamented Alan Gemes, Global Head of Financial Services at Booz & Co, in a report on why banking should be kept simple. "End-to-end simplification and a focus on value-adding activities help banks cut costs, enhance customer service, and improve customer retention. These measures also allow them to better position themselves for the wave of consolidation that is expected in the industry," said Gemes, adding that tasks like opening an account will become more streamlined as IT systems are simplified and consolidated. One problem for many banks now, said Gemes, is that banks do not have a clear view of what their overall operating model is, "nor do they have a clear view of the philosophy of the overall bank".

As an online-only bank with no branch network to distract its focus, ING Direct's philosophy has been clearly focused on offering good deals and good service. As ING Direct proceeds with its goal of becoming a mature direct bank in Australia, Austria, France, Germany, Italy and Spain, its solid reputation for treating customers fairly remains a core strength. In the US, UK and Canada, legacy customers are understandably nervous about what happens next, but the new owners would do themselves a disservice by stepping away from the factors that have made ING stand out from the crowd. ✱

■ Anna Perry is a freelance journalist based in London.

COMBATING *money laundering*

Eckart Koerner, Executive Director and Head of Financial Risk Management Services at KPMG Malaysia expounds on how Asian banks can strengthen their measures against the major risk of money laundering.

This may not be surprising to many as it has a long history of regulatory suspicion and warnings directed at improving its anti-money laundering practices over the past decade. The key question is, whether money laundering and terrorism financing is preventable?

Money laundering risk is still one of the biggest risks faced by most Asian banks, especially when many are still influenced by strong economic and politically-connected criminal organisations. Relationship banking is an essential part of the Asian banking culture, and this has made it even easier for many to legitimise illegal proceeds.

Some of the globally recognised Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) preventive measures and monitoring mechanisms are Customer Due Diligence (CDD)/ Know-Your-Customer (KYC) processes, Suspicious Transaction Report (STR) reporting and customer risk profiling. These tools are effective but may not be adequate given the increasing complexity of money laundering practices.

Many Asian countries are still leveraging on manual risk profiling for customer acceptance. This form of profiling is highly susceptible to manipulation and is often outdated at the point of decision as the database may not be updated regularly and if it is, can be fairly time-consuming. Prevailing

regulatory specified CDD requirements in Asia are also less comprehensive and less likely to be integrated in decision-making other than with regards to acceptance and approval of new customers. Lack of automated systems may be the key reason for lower integration across business/ support units and use of information for accounts and transaction monitoring. In many cases when banks discover irregularities, CDD information is outdated and/or irrelevant to the current state.

Strengthening these measures

In 2012, the Asia Pacific Group (APG) adopted the 40 recommendations of the Financial Action Task Force (FATF), in which member countries are advised to enforce the recommended legislation in its respective AML/CFT regulations. Amongst other recommendations, the risk-based approach to AML/CFT measures and monitoring controls were key highlights of the revised recommendations. It is designed for more efficient allocation of resources where higher risk areas are given more focus and enhanced measures; and simplified CDD measures are implemented for lower risk areas to allow added flexibility.

Some banks perform enhanced due diligence using the peer review method, where independent checks are performed on the work of the CDD investigator. Either one showing results below the acceptable threshold would mean that the customer should be rejected or prompt for further investigation. Mutual evaluations (or peer reviews) conducted by APG and other international bodies e.g. IMF are also encouraged to ensure stronger alliance and effective implementation. Co-operation and knowledge transfer between more advanced Asian counterparts and developing countries within Asia may also help identify money laundering trends that are unique in the region.

How can Asian banks improve?

Most Asian regulatory authorities have implemented AML/CFT acts and guidelines to enforce such efforts. However, what appears to be more challenging for Asian banks is embedding the right culture across the financial system to ensure effective implementation. Many of the key implementation issues apparent in Asian banks lie within the basic principles of AML/CFT **(see Figure 1).**

Lack of Board and Senior Management Oversight

Similar to many successful implementation principles, a strong 'tone at the top' is often regarded as an important factor when delivering initiatives of strict compliance and emphasis on putting extra effort in preventing money laundering. As observed and summarised in **Figure 1,** in many Asian banks, most board and senior management oversights are limited. Additional monitoring efforts such as challenging existing monitoring mechanisms and triggers; and receiving information on key medium and high-risk customer trend analyses are not commonly observed in Asian banking practices.

Past cases of money laundering suggest that senior-level management were held responsible for the illegitimate transactions but appeared to be unaware of the doings until these were picked up by industry watchdogs.

Board and Senior Management Oversight	Oversight is often limited to compliance purposes only. Other than attending annual trainings and presented with summary of suspicion transaction reports, additional effort in overseeing AML/CFT is often not commonly observed in Asian banks.
Policies and Procedures	Policies and procedures are developed to meet regulatory requirements. Many are similar replications of the local regulatory act with minimal customisation of the Bank's nature of business, size and complexity.
Enforcement of Regulatory Non-compliance	Challenges faced by regulatory enforcement on non-compliance due to economic and political influence are still prevalent in most Asian countries. Without strong enforcement, the system enables organised crime to continue.
Negative Impression Created in Reporting Suspicious Transaction	In some developing Asian countries, banks believe providing a STR could mean voluntarily putting the bank under close regulatory supervision rather than raising the issue as a result of ethical considerations and compliance.
Lack of Strong Frontline Awareness	Less AML focus is given to front-liners as most banks rely on middle and back office to detect signs of money laundering through monitoring systems even though frontliners are first line of contact to these funds.

Figure1: Key Issues of Anti-Money Laundering Practices in Asian Banks

For example, a UK-based global bank had Mexico classed as low-risk despite the country's money laundering and drug trafficking history. While almost USD7bn had been wired by its Mexican subsidiary into the US, suspicions were not raised and considered for money laundering, according to the BBC 2012 report entitled 'HSBC Money Laundering Report: Key Findings'. Failing to scrutinise control mechanisms and obtaining appropriate and adequate information could mean overlooking signs of a ticking time-bomb and poor decision-making.

In other selected money laundering crimes, it was also found that board and senior management are too focused in optimising profit-expense ratios and managing other key risks in the bank, and less emphasis is given to monitoring of money laundering activities.

Policies and Procedures for Purpose of Regulatory Compliance

Compliance audits have shown that many Asian banks develop its AML/CFT framework based on the local AML/CFT regulation only. More often than not, these frameworks are brief and almost a replication of the applicable standards to ensure documentation are regulatory compliant. It is observed that many Asian banks put minimal effort in customising their policy, procedures and control mechanisms to better suit their nature of business, size and complexity.

Enforcement of Regulatory Non-Compliance

Weak regulatory enforcement is seen as the key issue in combating money laundering crimes. Influential individuals or groups exert pressure on regulators to turn a blind eye to organised criminal activities. This is common in countries where corruption has been embedded in the social system for many decades. Banks face similar pressure in allowing illicit sources to be introduced, layered and transformed into legitimate funds.

International bodies are focusing on ways to relieve these countries from such challenges by establishing stronger alliances with higher-risk countries, strengthening transparency requirements, and introducing stricter measures on incoming funds. Such measures are expected to cascade and take effect on the source.

Negative Preconception when Reporting STRs

Rather than raising suspicious transactions as a result of ethical and compliance considerations, some Asian banks see such a practice as an invitation to the regulator to monitor the bank's activities. While most prefer to resolve the suspicion internally and improve on the practice subsequent to the transaction, many still resist providing STRs to regulators to avoid unnecessary attention directed at the reporting bank.

Awareness and confidence in the system, as well as unbiased enforcement, is crucial in order to promote transparency and trust between regulators and the institutions.

Lack of Strong Frontline Awareness

Risk management is commonly perceived as the responsibility of a dedicated back-office function. Following the 2008 global financial crisis, more emphasis has been made to extend risk management responsibility to the frontliners, which should also apply to money laundering risk. However, many AML programmes and trainings in Asia are primarily focused on middle and back office functions. Frontliners are often observed to be unaware of money laundering triggers and in many cases, are not even trained to detect signs of money laundering activity when interacting with customers.

Even though in most banks, attendance of AML training is compulsory periodically, these training programmes tend to have a universal scope applicable to all employees rather then catering for different

aspects e.g. those who are based in the front-office and those in the back-office. The scope of AML training should be tailored to the risk profile of the employee, the nature of work and the money laundering exposure level of a related group of employees. This will enhance the understanding and awareness of money laundering throughout the institutions. Additionally, this reduces the bank's likelihood of being involved in facilitating such money laundering and terrorism financing.

Conclusion

In general, Asian banks are growing fast. At the same time, pressure to conform to international practices on anti-money laundering is mounting. While enforcement of governance and regulatory compliance require the active involvement of the board and senior management in cooperation with the respective regulatory bodies, existing preventive methods can also be improved to move towards a more responsive anti-money laundering environment.

Asian banks may be challenged to overcome these teething issues. However, a strong and effective AML/CFT system is a vital step in building a stable macroeconomic and financial sector. Emerging economies in many parts of Asia would need to continuously improve and evolve their governance structures in order to achieve lasting economic development and to promote a sound social system within the country and eventually across the region. ✱

■ Eckart Koerner is Executive Director, Head of Financial Risk Management Services at KPMG Malaysia. He has extensive experience in risk management for financial institutions. In particular, he focuses on topics related to integrated risk management, Basel II & III projects (risk measurement & management, regulatory compliance), risk management processes, qualitative risk measurement tool validation and capital management as well as stress testing. In addition, he has assisted a number of institutions in assessing their Anti-Money Laundering capabilities and setting up the pertaining adequate frameworks.


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MILESTONE FOR ISLAMIC FINANCE

THE NEWLY GAZETTED ISLAMIC FINANCIAL SERVICES ACT 2012 IS BEING HAILED AS A GROUNDBREAKING PIECE OF LEGISLATION THAT WILL FACILITATE THE INDUSTRY'S FUTURE GROWTH AND PLACE MALAYSIA FIRMLY IN THE VANGUARD OF GLOBAL ISLAMIC FINANCE.

AMIRA ABDULLAH

New legislation in the shape of the Islamic Financial Services Act 2012 which was enacted and subsequently gazetted on 22 March 2013 is poised to transform the Islamic finance landscape.

One distinctive feature of IFSA 2012 is that it will statutorily enforce the management of *Shariah* non-compliance risk. In line with this, Islamic financial institutions will be required to ensure that their aim, operation, business, affairs and activities are *Shariah*-compliant at all times, according to International Islamic Banking Liquidity Management Corp Chief Executive Officer Professor Datuk Dr. Rifaat Ahmed Abdel Karim in a recent BERNAMA report.

It is also rated as a landmark omnibus law. "IFSA is significant because it is a one-of-a-kind legislation that enables and governs Islamic financial institutions anywhere in the world. It is the single most important document ever created for Islamic finance in modern history. IFSA will pave the way for a better, more robust and stable Islamic financial market," enthused Badlisyah Abdul Ghani – CEO and Executive Director, CIMB Islamic.

Insights on IFSA

IFSA is touted as the basis for a "comprehensive regime that will promote a robust and resilient Islamic financial system in Malaysia", according to the BERNAMA report. While the impact of IFSA is not tangible as yet, there will be implications for Islamic banks and *Takaful* operators. Two chief executives in Malaysian Islamic banking and *Takaful* respectively share their insights into IFSA 2012 and the predicted impact on operations.

Q What are the key details of IFSA 2012 that financial institutions and stakeholders should be aware of?

BADLISYAH ABDUL GHANI

CEO and Executive Director, CIMB Islamic

IFSA is an amalgamation of existing legislation impacting on the Islamic financial market such as the Islamic Banking Act 1983 and the Takaful Act 1984. On top of that, legislative gaps, such as Shariah Governance was also resolved by the incorporation of the Shariah Governance Framework within the ambit of IFSA. This is the first time that the Shariah Governance of Islamic financial institutions has been institutionalised in the financial market by way of legislation anywhere in the world.

YBHG. DATO' MOHAMED HASSAN KAMIL

Group Managing Director – Takaful Malaysia

IFSA would be the latest act aimed to enforce stricter regulations on group-side risk and capital management on financial services as well as greater regulatory rule over financial areas such as shareholder control and core operations.

Under the proposed Act, gazetted to come into force as early as May 2013 – composite insurers and *Takaful* players would be, among others, required to split their life and general insurance businesses under separate licenses. The key point would be non-allowance of composite insurer/*Takaful* Operator as well as the requirement on Financial Holding Company. (Under the new banking legislation affecting financial holding company restructuring, impacted companies which do not want to become financial holding companies under the Act(s) may pare down their stakes in respective financial institutions to below 50%. Meanwhile, Insurance and *Takaful* companies holding composite licences shall not carry on both life insurance/family *Takaful* business and general insurance/general *Takaful* business).

Q *What are the highlights, implications and challenges of IFSA 2012?*

BADLISYAH: There are a lot of interesting features about IFSA but the most deserving to be highlighted is the articulation of the difference between investment account and deposit account products in an Islamic financial institution. For the first time, there is clarity on what is considered an Islamic deposit account and what is considered an Islamic investment account. The former is principal guaranteed while the latter is not principal guaranteed.

HASSAN: The rationale of new legislation was to provide a more cohesive and integrated legal framework that could deliver a consistent and comprehensive treatment of similar risks, thus minimising the prospects for regulatory arbitrage and gaps, while substantially easing the process of review and updates going forward. In addition, the new legislation also seeks to promote greater transparency and accountability in financial institutions.

When enforced, the new legislation prohibits a licensed insurer or *Takaful* operator (excluding licensed professional reinsurer or Retakaful operators) from carrying out both life and general businesses.

Islamic banks have yet to digest the full breadth of IFSA 2012 to decide what will work best for them going forward, especially driving growth. This would take time as banks need to better understand the application of IFSA. Each insurer/ *Takaful* Operator is given five years' grace period to restructure its organisation into different companies for Life/Family and General Business for those with composite licences. This will also invariably increase costs initially with regards to the setting up of different management teams/Boards, etc.

Q *What should Islamic banks do to prepare for the implementation of IFSA 2012?*

BADLISYAH: Islamic banks simply need to ensure operational readiness to comply with all that is required under IFSA.

HASSAN: The Islamic financial institutions would have to equip themselves from various angles as part of the core preparation towards the implementation of IFSA 2012, specifically the organisational structure, operational and compliance readiness (as well as other aspects) to ensure each company can comply with IFSA fully.

In a nutshell, it is extremely important for all Islamic financial institutions to understand and interpret IFSA precisely in order to abide by the new legislation.

Q *Do you see any weaknesses in IFSA 2012?*

BADLISYAH: IFSA is a very comprehensive piece of documentation covering all aspects of the Islamic financial market including the clear articulation of the role of Management, the Shariah Committee and the Board of Directors. Bank Negara Malaysia has done a good job in its enactment.

If there is any issue to be raised in regards to a possible weakness of IFSA, then it would be the language that was used to describe Shariah Governance. Some aspects of it do not reflect how legislation is normally written, which may give rise to possible rigidity in its practical operations. Having said that, this is not necessarily bad in the first instance as it sends the right message to the market that Shariah Governance is very important to all stakeholders of the industry. In the long run as operational issues are identified, I am sure there will be room for enhancement to IFSA, as and when needed, through the effective public and private partnership that we have in Malaysia in building a robust and stable market.

HASSAN: We believe that IFSA is fairly well written and has gone through many rounds of discussion. However, we foresee that talent recruitment would potentially be one of the major problems going forward as the new legislation might cause many *Takaful* players to split the family and general *Takaful* businesses, hence intensifying the future demand for key talent.

On the other hand, there could be further clarifications needed in understanding how to comply as well as the interpretation of the new legislation. ✱

■ Amira Abdullah is a senior freelance journalist based in Kuala Lumpur.

Engaging CUSTOMERS FOR BANKING

BANKS MUST INNOVATE AND INVEST IN THE LATEST CUSTOMER-CENTRIC BANKING SOLUTIONS TO REPLACE LEGACY SYSTEMS WHICH ARE HOLDING THEM BACK FROM OPTIMISING THEIR CUSTOMER EXPERIENCE AND DOMINATING THE MARKETPLACE.

Customer experience has always been the favourite buzz phrase in the banking industry especially for the retail, investment, corporate and wealth management divisions. Bankers are striving to improve the customer experience in order to gain the competitive edge in today's banking landscape, in view of the fact that differentiating on price and product innovation is becoming increasingly difficult.

Based on the Oracle 'Global Insights on Succeeding in the Customer Experience Era' 2012 research report, the biggest obstacle that hinders organisations in Asia Pacific from enhancing their customer strategy is 'inflexibility of technology/application infrastructure', which affects 30% of surveyed companies. To overcome this challenge, on average, businesses estimate that they will increase spending on customer experience technology by 18% in the next two years, stating the improvement of cross-channel experience and customer analytics as top priorities.

It is critical for banks to consider how to ensure the element of customer experience becomes a core dimension across all the data, systems, processes and organisational design of the organisation, and at the same time across all aspects of the client lifecycle – sales, service and relationship management in order to offer quality service and relationship-based pricing that takes into account the customer's overall value to the bank.

Even though customers regard service quality as the most important aspect of their banking experience, they also value relevant, competitively priced and innovative products, and not forgetting effective delivery channels. Therefore, the main challenge for banking institutions is to keep abreast with the developments in these areas.

With regards to building strong fundamentals for customer relationships, banks need to make some operational changes to ensure that their customer experience strategies are effective. These changes include reviewing core banking operational processes, enhancing customer service and adopting a multiple distribution channel approach.

Products

Even though customers regard service quality as the most important aspect of their banking experience, they also value relevant, competitively priced and innovative products.

Core banking

We all know that retail banking is the core to any customer-banking relationship as it manages the customers' accounts and financial transactions. The core retail banking system holds basic customer demographics, such as name, address, age; and maintains links between accounts and customers. Ideally it provides a single view of the customer, such as opening and closing accounts, processing deposits and withdrawals, calculating interest, processing direct debits, and making and receiving payments. It is the first step to 'knowing your customer' or KYC as banks term it.

The legacy systems that most banks use are typically account-centric with customer's individual accounts grouped by product type, instead of grouped by customer. The old account-centric systems only provide a fragmented, incomplete and often inaccurate portrait of customer accounts. These systems prevent banks from getting a complete, 360-degree view of the customer which is essential for up-sell and cross-sell success. Contrastingly, customer-centric systems enable banks to strategically target products and services to each individual based on what one has, what one needs and what one lacks. These decades-old legacy core systems are inflexible, and each time a bank wants to launch a new product, they must 'hard-code' the system, which can easily take up to 12 months or more.

In this day and age, when the banks want to launch targeted products quickly to keep up with market competition, these outdated systems become the cause of holding the banks back. Banks that cannot swiftly bring the right product and service to the market will certainly be left behind in today's highly competitive business environment.

Agile technology is crucial to shorten the banks' turnaround time in launching a new product in the market. The latest version of core banking systems must be adopted and tailored to suit all banking segments, including direct, Islamic, wholesale, treasury, commercial, corporate, investment and private banking.

Customer Relationship Management (CRM)

CRM is a must-have application for banking organisations in managing relationships across all channels and customer touch-points. CRM software is designed to increase customer satisfaction and retention, as well as increase sales and expand relationships by providing a high quality of service. It can be installed in banking systems, or accessed 'on demand' from cloud computers.

CRM applications were first introduced in the 1990s and many failed to live up to expectations. By working closely with software developers, today banks have managed to iron out the problems and provide much more relevant, reliable and useful financial offerings to their respective customers.

The latest version of customer management software offers banks the following capabilities:

i) Managing customer relationships across all channels and ideally all business units. Branches, contact centres, online, and all other retail banking channels, including wealth management, SME and other units will be integrated under one system.
ii) Increasing sales of products and services to existing customers through cross-selling and up-selling.
iii) Assisting in customer acquisition.
iv) Maximising customer profitability by retaining customers and integrating with other applications.

With the latest version of customer management software in place, employees at the branches and contact centres are also able to carry out their job more efficiently, as they become an integral part of the bank's total sales, marketing and service delivery strategies. Customer management software will assist them to service, support and carry out sales seamlessly across all communications channels, thereby improving service delivery while lowering costs.

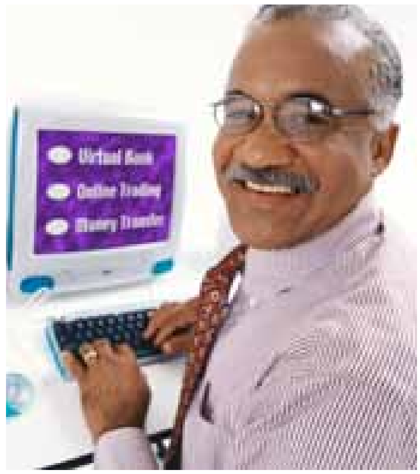
Innovative Delivery Channels

When new delivery channels such as ATMs, telephone banking, online banking, and self-service kiosks were created to complement the banking branches, many believed that branches were in terminal decline around the world. However, the decline was largely halted four or five years ago and in many cases reversed. Banks have realised the value of face-to-face contact and a high-profile brand presence. Today, the typical delivery model is multi-channel. All channels are valued and used as part of an integrated customer service strategy.

Despite the advent of ATMs, kiosks, plastic cards, telephone banking, online banking and now mobile banking, many customers still regard the branch as an important channel to carry out basic financial transactions. In addition, product complexity and regulatory changes are pulling customers into the branch for more personalised service and advice, according to 'EFMA World Retail Banking'[1].

To ensure the branches continue to play an efficient role in an overall customer services improvement strategy, banks will require changes in four areas: branch layout and design; technology; sales and service; and staff.

Better branch layout can enhance the customer experience and lead to more cross-selling. Technology can be an effective customer service tool as well, such as the self-service kiosks in the banking halls displaying screens on the latest product offerings for customers. Placing staff in the banking halls instead of behind the counters will ensure that they interact more directly with customers and this will subsequently improve delivery. Unfortunately, not all banks can facilitate this because the sales



teams still view client service delivery as a discrete set of processes, rather than considering the end-to-end service propositions across all stages of the client life-cycle according to 'Accenture's Top 10 Challenges for Investment Banks Report in 2011'[2]. Client service delivery processes need to be adaptable so that exceptions can be made to cater for high net worth clients, while ensuring that other clients are still served efficiently.

With regards to this, it is said that the challenge for banks is the difficulty of integrating channels so that customers can enjoy a borderless experience as they move from channel to channel. This challenge can be overcome if the channels incorporate customer segmentation and profiling, so that the right product is directed to the right customer through the right channel.

Customer Experience Innovation

To improve the customer experience, banks need to upgrade their business strategies and operating models. By knowing their customers holistically, banks are able to determine the fundamental purposes and functions of banking plus they are able to focus on businesses that generate the best revenues and profits, while at the same time discovering how to differentiate themselves from their competitors.

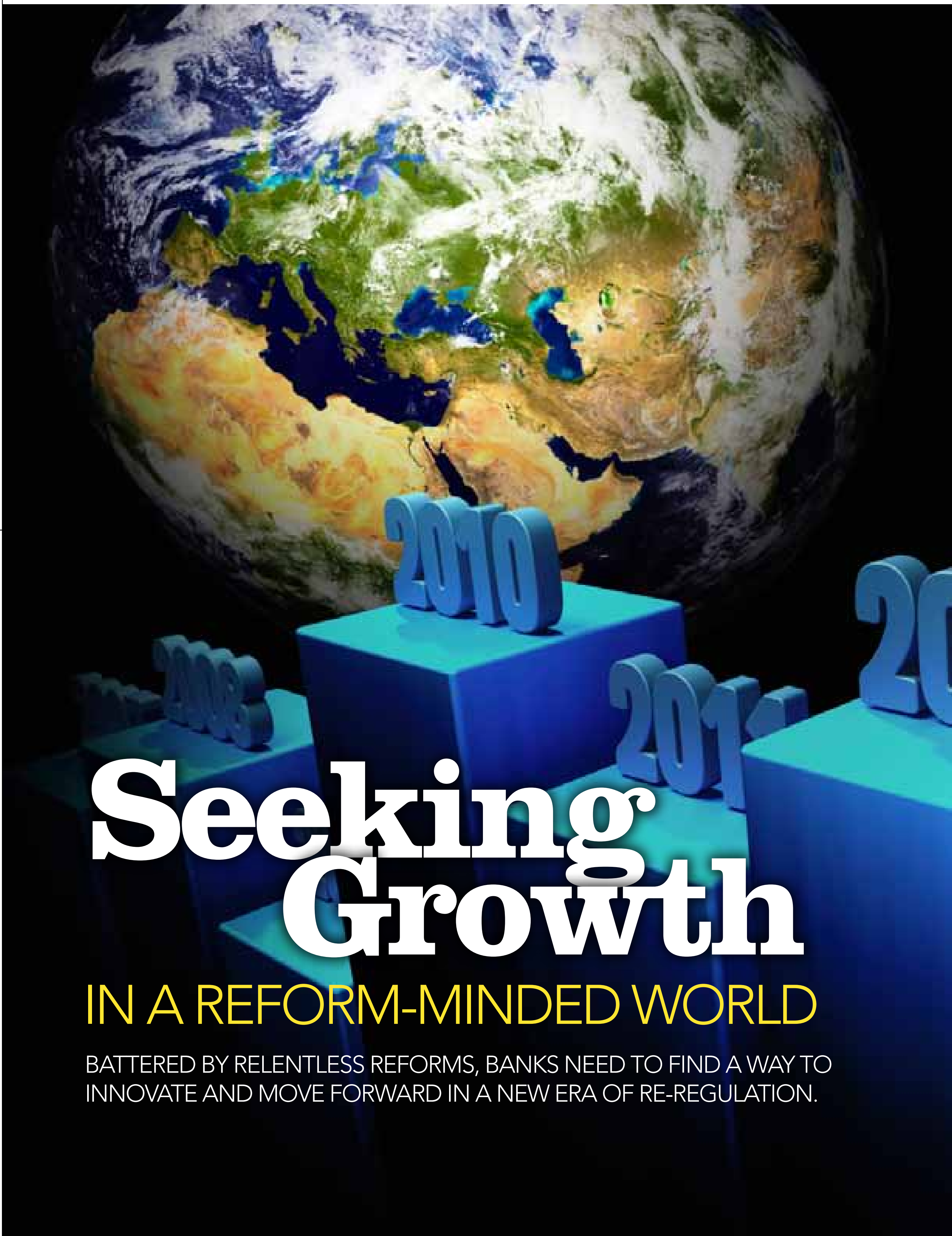
Legacy customer relationship management applications, core banking systems and traditional financial services delivery channels may still work, but they will not be as effective as the latest versions and models when it comes to executing new strategies and in particular dealing with the emerging mobility trends. By embarking on the latest customer-centric banking systems and solutions, banks will be able to collect more accurate and timely customer information. It will also allow for better management of information thus, improving operational efficiency and providing more attentive service. Lastly, an improved banking system will allow banks to bring new products to market more rapidly. ✱

■ This article is contributed by Oracle Corporation. With more than 390,000 customers – including 100 of the Fortune 500 – and with deployments across a wide variety of industries in more than 145 countries around the globe, Oracle offers an optimised and fully integrated stack of business hardware and software systems. Oracle engineers hardware and software to work together in the cloud and in your data centre – from servers and storage, to database and middleware, through applications. Oracle systems provide better performance, reliability, security, and flexibility; lower the cost and complexity of IT implementation and management; and deliver greater productivity, agility, and better business intelligence.

Footnote:

1 *As referenced from Oracle Financial Services Thought Leadership Paper February 2012: 'Modernize or Fail: The Modernization Challenges Facing Banks, and the Technology Implications' at http://www.oracle.com/us/industries/financial-services/oracle-modernization-banks-wp-1439641.pdf, Pg.07*

2 *As referenced from Oracle Financial Services Thought Leadership Paper February 2012: 'Modernize or Fail: The Modernization Challenges Facing Banks, and the Technology Implications' at http://www.oracle.com/us/industries/financial-services/oracle-modernization-banks-wp-1439641.pdf, Pg.12*



Seeking Growth

IN A REFORM-MINDED WORLD

BATTERED BY RELENTLESS REFORMS, BANKS NEED TO FIND A WAY TO INNOVATE AND MOVE FORWARD IN A NEW ERA OF RE-REGULATION.

Change

Only one certainty remains: change will not be quick to come, and when it does, it will bring with it a considerable amount of pain.

There is good news, and there is bad news. The good news is that signs of recovery are showing, even in the US, albeit slowly. There is evidence that the housing market, for instance, is recovering although jobless rates remain stubbornly unmoving. The bad news is that world markets continue to be unstable and volatile, despite economic improvements in hitherto depressed areas – or because of it. Long-term resolution of the unstable PIIGS (Portugal, Ireland, Italy, Greece and Spain) economies have not come about, and there is even the possibility of the dissolution of the European Union hovering on the fringes of all this, creating even more instability. Only one certainty remains: change will not be quick to come, and when it does, it will bring with it a considerable amount of pain.

Even the juggernaut Chinese economy is experiencing a slowdown of sorts, although this is to be expected, and may in part be due to the reluctance of China of being perceived as too successful, and therefore an economic threat to everyone else, globally. But speculation and the real or imagined 'rebalancing' of the Chinese economy notwithstanding, financial institutions around the world are steeling themselves for the inevitable: re-regulation. In the wake of the financial crisis, the most comprehensive set of new regulations has been developed – the most comprehensive to emerge in the last 70 years, according to the 'Deloitte 2013 Banking Outlook - Moving Forward in the Age of Re-regulation'. 2013 will likely be a year of implementation, at least for the US banking industry.

As the US is the world's largest economy, the rest of the world can expect a knock-on effect resulting from the implementation of new banking industry regulations. American regulatory actions remain influential in a borderless world. The challenge will most likely be in staying competitive and finding profit in an environment that grows increasingly watchful by the day. All eyes are on financial institutions, and they cannot afford to put a foot wrong. It may not be so much the new regulations, as the court of public opinion that will try them, find them wanting, and sentence them accordingly.

Generally, the uncertainties that initially beset the industry in the wake of the financial crisis, have been resolved. Organisational structures and capabilities have been reassessed; the need for increased capital requirements and consumer protection has been recognised. Analysts say that there has been an increase in loan demand among middle market corporate borrowers, but add that many consumers are continuing to deleverage their household balance sheets, so consumer loan demand is unlikely to expand substantially anytime soon.

However, ten interdependent issues have been identified that need to be considered in the analysis of banking trends in 2013, reported Deloitte. While many of these issues are not new, they have been listed because they are evolving, some faster than others, and can create significant impact.

INADEQUATE

Banks will have to seriously work on their reputations too, and earn back the trust that customers once had in them. To their credit, many institutions have improved their services but this is hardly a new strategy, and creativity and innovation will have to be applied if they really want to stand out.

2013 Top Ten Banking Trends

At the top of the Deloitte list is making hard decisions about where to compete. Bankers will restrategise so as to enable themselves to be more competitive, and there will be a big push to find areas where they can create better niches. This push will be largely driven by the new rules concerning capital adequacy stemming from Basel II and III, and the Dodd-Frank Act. Some uncertainty may linger in the US about the direction of regulatory action, especially in view of the recent presidential elections. The promulgation of legislative and regulatory action put many banking initiatives on hold but these may now move forward as their impacts begin to be better understood, and are incorporated into new strategies. Banks will start moving from analysis to action; strategic repositioning and restructuring will become imperative.

Building data-centric organisations will be next. Greater transparency, more relevance and better management – especially to achieve higher growth – will hinge on how well organisations find, develop and apply their data. Some banks have recognised this and have already begun reshaping their data management capabilities, and there will be no stopping financial organisations, once they realise the implications of developing this capability. More sophisticated analytical tools will be developed to deal with this, and the financial services industry may well morph into a wholly technology-centric business, where technology will determine industrial winners and losers, and survival will depend on how technologically advanced you are.

Banks will have to seriously work on their reputations too, and earn back the trust that customers once had in them. To their credit, many institutions have improved their services but this is hardly a new strategy, and creativity and innovation will have to be applied if they really want to stand out. In line with this, the Consumer Financial Protection Bureau (CFPB) has established a complaints database, a platform for articulation of client dissatisfaction. This will, in effect, force banks to increase their efforts at keeping customers happy. Bankers will need to comply more stringently with consumer protection regulations, practise clear disclosures, streamline processes, and develop training that reinforces proper sales behaviour.

Economic downturns inevitably cause cost reductions to protect margins. Applying technology-based strategies will mean investing in improved operations at reduced cost, in the long run. Analytic and workflow technologies are already being applied in commercial and mortgage lending operations to reduce manual handling in some organisations. But just how effective can this be, when the cost of technology can be extremely prohibitive, and banks' resources are already stretched to the limit? The good news is that the IT industry commiserates with their pain and is moving to make solutions, like cloud computing, more affordable and user friendly. With the advent of aggressive technological inroads, however, comes another issue: risk management – an area that can expect close scrutiny by users and regulators alike.

With the establishment of the CFPB's complaints database, the processes by which products are sold, and banks' service standards may see an overhaul. Banks will come to consider compliance as a business-as-usual approach rather than a regulatory requirement. While this is part of a larger ongoing effort to improve business and operations, there are more pressing related issues, in which the CFPB plays a significant role. This agency will compel banks to spend more time and resources on consumer protection, including clearer-worded product disclosures and enabling better addressing of customer complaints. Bankers say that the CFPB (and its enforcement powers) is one of their chief concerns, acknowledging that it could drastically affect the processes by which products are sold and serviced.

However, the CFPB's powers should be viewed as an opportunity rather than a threat. Banks actually stand to gain as more customer input will help them redesign their products and processes

FUTURE

What is actually required is the rationalisation of technology costs so that building future systems which will be able to cope with future demands, can start off on the right foot.

for better effectiveness. They should also consider regulatory compliance and address weaknesses in their systems as opportunities to secure the foundation to move forward and better manage their risk. Fraud, identity theft and loss of customer data continue to challenge banks, and may pose a threat to the demand for loans. There is definitely a need for more effective, better-managed technology as many banks still operate on legacy systems that are inadequate and therefore increase risk to data rather than safeguard it. Operational stability and security are imperative to maintain and enhance growth.

Implementing better systems and upgrading skills will help in dealing with disruptors in the payment business, which is another issue that banks will increasingly have to grapple with in the near future. They will be up against tech giants like Apple and Google, who are already way ahead in the IT game, and who are looking to disrupt the status quo. With payments becoming electronic-based more extensively, banks are likely to invest in emerging electronic payment technology, particularly for mobile payments. A number of initiatives between banks, mobile network operators, technology firms and emerging innovators are already up and running. Such collaborations are anticipated to intensify, but mobile payments can potentially disrupt traditional payment networks, so banks again have to tread carefully.

What all these new applications and redesigned technology is pointing to is the creation of the digital bank in every sense of the word. Currently, many large banks have ignored the fact that they are running on aging or redundant technology and systems that are growing increasingly inadequate in coping with new and dynamic demands. These systems are failing to provide much-needed front office services. While some banks have adopted a 'wait and see' attitude, others are using social networking platforms to a certain extent, to help the business. What is actually required is the rationalisation of technology costs so that building future systems which will be able to cope with future demands, can start off on the right foot.

Regulation and strategic repositioning may result in mergers and divestitures. As business structures are remodelled, larger, more complex financial institutions will become more streamlined and focused while mid-tier players may add products or expand into other markets. But remodelling will not be limited to lines of business, products and services or geographical location. Changes at the top will see new leaders and perspectives emerge to re-energise their organisations and better engage with stakeholders. The really small banks may even sell out and exit the market – an unintended consequence of new regulations – as the cost of regulatory compliance rises. There may also be consolidations on the horizon, which will separate banks with clear strategy and strong balance sheets from the industry chaff.

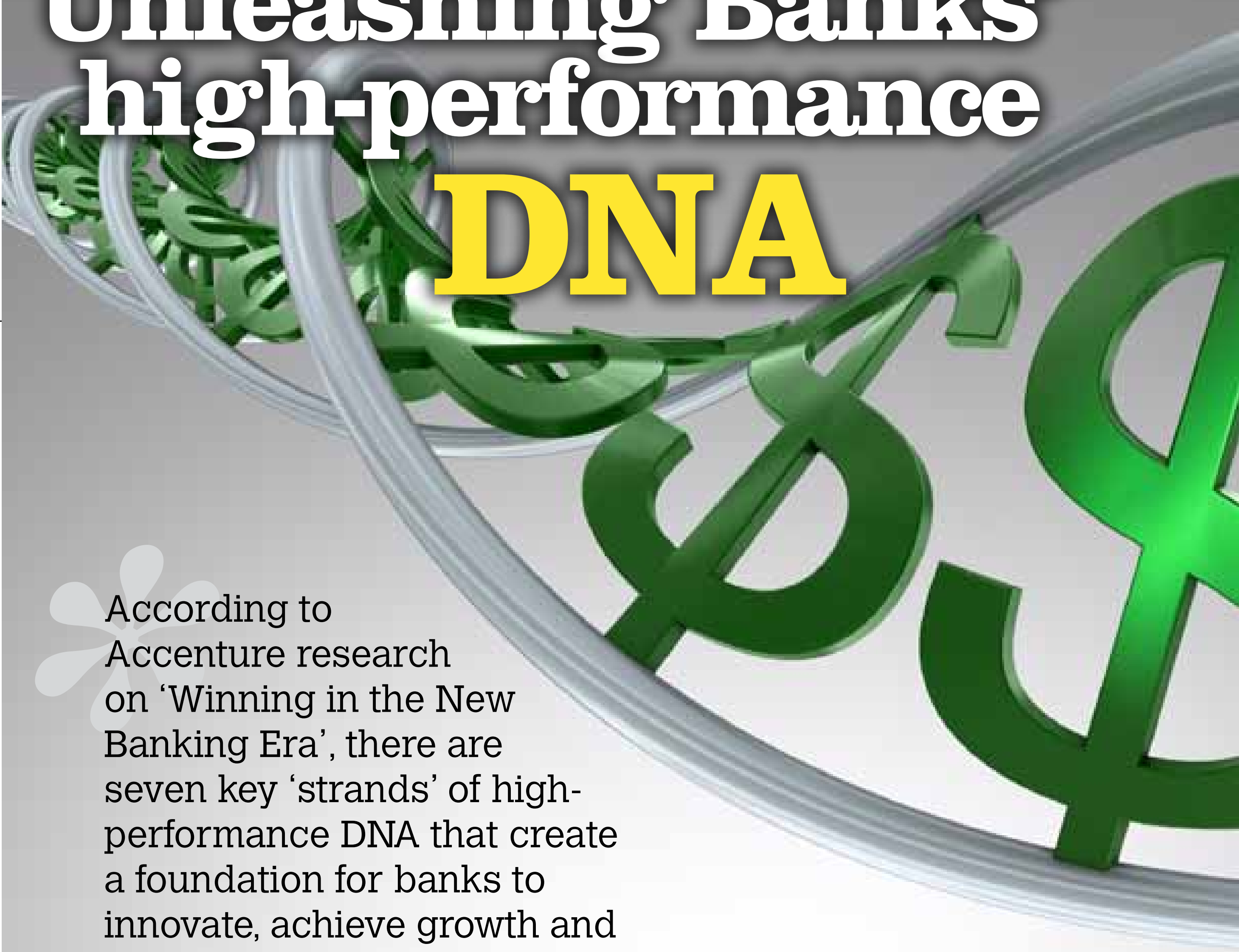
One issue unlikely to change in 2013 is banks' desperate search for growth. While conditions have improved in the US, banks are still beset by tight markets and growth has been constrained over the past six years. Sporadic economic improvements may provide some revenue growth through corporate and institutional markets. One bright spot is middle-market commercial lending and corporate transaction services. Retail banking-wise, banks will continue to focus on their best customers – the mass affluent – with high-touch, self-service products and tools but intense competition for this relatively small client base will drive down margins for everyone. Some analysts see a rebound in the real estate market which will underpin an increase in residential mortgage lending, but extreme nervousness still abounds.

In conclusion, growth will still be very hard to achieve in 2013 for the developed markets. Much will depend on not only the US economy, but how economic measures are implemented and received in Europe. Banks should instead focus on understanding the customers they have and developing products that will help them, while anticipating and leveraging on the disruption that new technology and the need for innovation is expected to create in order to get ahead in a more regulated market. ✱

■ Reporting by the *Banking Insight* Editorial Team.

Change

In short, they have to upgrade and find new ways of doing business, or risk losing everything in the wake of the financial shakeout that is being felt across the globe.



Unleashing Banks' high-performance DNA

According to Accenture research on 'Winning in the New Banking Era', there are seven key 'strands' of high-performance DNA that create a foundation for banks to innovate, achieve growth and rebuild shareholder value.

If there is one thing that is certain in the post-economic recession era, it is that nothing can ever be certain any more, particularly in the world of banking. After taking a beating, major financial institutions across the industry have had to step back, draw a long deep breath, and begin the arduous – and sometimes painful – task of honest self-examination by asking themselves, "What do we do now?" The economic crisis that battered the world from mid-2007 left an indelible impact on banks across the board, with mature markets bearing the brunt of the battering. Uncertainty remains, and, even worse, customer trust in, and loyalty to, hitherto financially upstanding institutions has been shattered, with the credibility of many banks in tatters.

Finding Effective Solutions

Given the diversity of the banking industry, it is hardly surprising that numerous solutions have been put into play. Some banks have instituted cost-cutting measures, while some governments have waded into the fray and launched a raft of reforms, such as requirements for greater capital reserves and restrictions on funding. But results have been slow to emerge, and at this point, despite cautious optimism, no one is claiming to have had the most successful measures. It is also worth noting that new technological ecosystems have entered the mix, creating yet another issue that traditionally conservative financial institutions have to deal with. What is front and centre, however, is the urgent need for banks to rebuild profitability, and rejuvenate. They will have to find new ways of attracting customers, as much to regrow shareholder value, as to rebuild their own credibility.

To do this, some institutions may find it necessary to merge or divest themselves of non-performing or non-strategic investments. But accomplishing this may be easier said than done. As much as they may want to move forward, their very structures may be what still keep them shackled. For many, their legacy commercial and operating models and technology platforms are no longer viable. In short, they have to upgrade and find new ways of doing business, or risk losing everything in the wake of the financial shakeout that is being felt across the globe. Amid the gloom and doom, however, there have been some bright spots that indicate fairly positive outcomes if financial institutions can just get over their fear of moving away from the known and into relatively uncharted waters, industrially speaking.

Banks like BBVA, Santander, Commonwealth Bank of Australia, Westpac, Nordea, Svenska, Handelsbanken, Bank of Nova Scotia, Royal Bank of Canada and the National Bank of Canada are some examples of organisations that decided to take a different route, and have ended up the better for it. What they have been able to achieve, according to the Accenture findings, is a high-performance Universal Banking model that has at its core distinct customer value propositions balanced with efficiency. In addition, they have developed the ability and structures to execute this strategy efficiently.

Seven Key 'Strands' of High-Performance DNA

According to extensive Accenture research in 'Winning in the New Banking Era', there are seven key 'strands' of high-performance DNA that create a foundation for achieving growth and rebuilding shareholder value.

These are comprised of a customer-centric universal banking model, multi-channel distribution model, industrialised operating model, prudent risk management policies, strong capital management discipline, the ability to export the model and leading-edge technology. Successful organisations prioritise efficient customer management over efficient product management, and focus on building relationships. This focus allows them to specifically tailor products to better meet customers' needs. While they add value, they also ensure their sales and service approaches are simple, convenient and transparent. Where multi-channel distribution is concerned, proximity, accessibility and innovation come first. Bank branches are still the centre of customer interaction but employee productivity is maximised.

While administrative tasks are shifted to the back office or more efficient channels, multiple branch formats and layouts are used to address market potential and customer needs. Branches also allocate more time for commercial purposes, increasing employee productivity. They also emphasise innovation, and build self-service capabilities, particularly around ATM and Internet functionalities; invest in mobile banking and develop applications and devices that enhance customers' engagement. One example is Nordea, which allows customers to start a purchase through one channel and close it from another. More than 70% of Nordea's products can be purchased online, and it is already using social platforms to source business intelligence and deliver products and services.

High performers are also known to utilise data capture extensively, particularly to increase customer interaction and sales ratio. This has been further boosted by their application of industrialised operating models which have common best practices such as the separation between distribution and servicing; centralised services; lean processes; control and transparency; clear audit trail, automated authorisation management and strict compliance; better workflow control and increased efficiency; and proactive management of complexity across the organisation. BBVA, for instance, has implemented a three-layer operating model where strategic functions are retained at bank level, high-value activities are kept internally, and the rest of non-core functions are outsourced to strategic partners.

Best Practices

Best practices include sharing – across geographical borders, regions and internally. Sharing helps you widen your outreach, efficacy and efficiency. It reduces management overheads and can help speed up turnaround time. Nothing makes a customer smile more than being able to complete transactions in 'one go'. High performers have been known to originate a current account in under 20 minutes, take less than two weeks to process a mortgage, and complete a consumer loan in two days. This does not mean that they compromise on rules and regulations. On the contrary, they apply very prudent risk management policies to ensure low bad-debt ratios. They manage this, among other things, by reinforcing early detection, and focusing on underwriting first, collecting second.

In the case of BBVA, 65% of applications are actually approved by front-line staff, which significantly reduces origination times; the system controls the authorisation, enhanced by advanced analytic and electronic tools. Sales force personnel are also the first level of risk analysis, trained to assess customers' credit risk, and tailor pricing according to their financial capacity. Across the board, robust capital management appeared to be a common denominator of high performers. They tend to manage capital planning and consumption, risk and finance in an integrated way through enhanced understanding of where, why and how their various products are used, enabling them to allocate their resources in a more productive manner.

They are efficient at generating appropriate information which is then analysed to produce accurate early warnings, or forecast results to support informed decision-making. This helps them act speedily in volatile, unpredictable markets. The rewards are substantial. Banks with robust capital strength and capital management discipline are likely to enjoy reduced – and sustainable – funding costs over the long term. Not only have they developed their own workable strategies; they have been able to replicate these wherever they expand. Santander and BBVA, both Spanish banks, have applied this successful formula to a diversified business and geographical mix, and are now generating more than 50% of their net profit from foreign operations, straddling developed as well as emerging markets.

Results Validate Strategy

Just what have they been able to achieve? BBVA – despite the ongoing economic recession in Europe – can boast of operating in more than 32 countries worldwide. In addition, it has lowered its cost-to-income ratio by ten percentage points, down to 43% in the last decade. Santander has made its model work not only in Latin America but in the developed markets of continental Europe and the UK. It entered the UK market in 2005 and has since then increased revenues by about 15% on a yearly basis. Its cost-to-income ratio was even more impressive than BBVA: 39% at the end of 2010, down from 70% in the previous five years. But all this could not be achieved without technology, which has become pivotal, allowing organisations like BBVA and Santander to 'change the bank' versus 'run the bank'.

Notably, high performers combine technology with customer centricity, business process orientation, 24/7 availability, one-stop processing, lean processes, scalability and multi concepts to achieve high performance. However, while technology may be a great enabler, it cannot operate independently of a myriad other factors. Appropriate application of technology in the first decade of the new millennium succeeded in freeing up resources which then went into value-added applications like CRM (customer relationship management), risk, MIS (management information systems), analytics, and digitalisation, which all contributed to cost-efficient growth. But, in the second decade of the new millennium, that may not be enough to maintain a competitive edge. New ways must constantly be found to integrate IT with the business in a manner which continually supports growth.

Many different factors have come into play, as the traditional role of banks undergoes a metamorphosis. While they recover, financial institutions will need to balance efficient execution with agility, and respond to an always-dynamic business agenda while applying innovation to survive in an increasingly difficult environment. Best practices have shown that a good move is to pay more attention to customer experience rather than cost reduction. Some market watchers predict that new technologies will bring about a significant change to core banking services. But for many financial institutions, embarking on a core banking transformation is a complex decision, a strategic business initiative which will have to go beyond mere cost reduction.

Factors to Consider

This new strategy may involve substantial changes to the business operating model and renewal or replacement of core systems, including migration to other platforms. Big banks tend to make gradual changes to core banking while small banks often choose global transformation but the chosen strategy will very much depend on the market and environment that the organisation operates in. Overall, the new-generation core banking solutions are generally seen as being able to improve pre-existing capabilities, making institutions more flexible and scalable. If there is one thing that has become evident in the past five years, it is that sticking to past formulae will not work. High performers look set to continue undertaking holistic transformation programmes more innovatively and creatively.

Business and operating models will continue to evolve and reduce in complexity, becoming simple and flexible, while organisations grow leaner.

Financial institutions that tolerated previous downturns well were not those that made major cutbacks; the successful ones were those that quickly restrategised and were agile enough to follow through. They shifted focus, from upholding and protecting their entrenched systems – i.e. what was good for them – to customer-based perspectives, i.e., what was good for the customer. The new buzz phrase is customer centricity; everything is evolving around the customer, as attested to by the 'seven DNA strands' of high performers. Ultimately, customers may even be able to personalise their own product bundle offerings, pricing and fee models, and service levels. In other words, the customer will indeed be king, or at least call the shots.

Business and operating models will continue to evolve and reduce in complexity, becoming simple and flexible, while organisations grow leaner. New technology will continue to be a driving force, but again, will be customer-centric. Trends like cloud computing, service-centric architecture, IT security and data privacy, user experience, social platforms, data accessibility and analytics are set to strengthen. A new generation of core banking IT solutions is expected as more organisations come to the realisation that existing capabilities require constant innovation for them to stay in the game. Flexibility, simplicity, ubiquity and scalability will be regarded as the 'new normal'.✱

■ Reporting by the *Banking Insight* Editorial Team.

GAUGING INTERNAL *Audit Readiness*

Exactly how prepared are Malaysian banks and their internal audit functions with regards to risk management in a more complex environment? To gauge the true picture, IBBM commissioned KPMG to conduct a joint survey on the 'Readiness of Internal Audit Function on Risk Management Related Issues in Malaysian Banking Institutions'.

What the survey concluded was that internal audit training needs to improve in scope and frequency to address any knowledge shortfalls. Curricula for internal audit training should be regularly reviewed and expanded to ensure relevance. To bridge the gaps in risk management knowledge, both the IA and RM functions could collaborate and share resources to enhance their performance.

The internal audit function has long been regarded as a watchdog in an organisation, being the 'eyes and ears' to the management and the board of directors. Nowadays, their role has expanded beyond compliance to various internal and external statutory regulations to encompass risk management as well. As such, the internal audit function has to fulfil an enhanced level of expectation from many quarters amidst a more complex and challenging environment for risk.

Recently, IBBM and KPMG conducted a joint survey on 'Readiness of Internal Audit Function on Risk Management Related Issues in Malaysian Banking Institutions', to gauge how prepared internal auditors were to meet higher expectations and demands *vis-à-vis* risk management. What did the findings show? Notably, the survey found that survey respondents were concerned about competency levels and infrequency of training which could be addressed through increased training and education. More concerted collaboration between the risk management (RM) and internal audit (IA) functions, and mutual knowledge-sharing could also help strengthen the IA function with regards to RM.

About the Survey

The survey is part of IBBM's ongoing commitment to promoting thought leadership and contributing to a high-quality body of research and knowledge on key areas in the Malaysian banking and finance environment. In October 2012, IBBM appointed KPMG to assist in conducting this online survey, which received a 60% response rate and was targeted at all local and foreign Malaysia-based banking institutions.

The survey looked into the expectations of the Chief Internal Auditors (CIAs) and Chief Risk Officers (CROs) in relation to risk management issues, the capabilities expected of banks' internal auditors on these issues, and the support which could be provided by the risk management unit of the respective banks.

Research

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THE FINDINGS – A SUMMARY

The resulting findings from both the IA and RM functions can be summarised as follows:

- Internal Capital Adequacy Assessment Process (ICAAP)/Capital Management
- Both functions raised concerns about the competency level of internal auditors in ICAAP. This indirectly undermines the level of comprehensiveness of the scope for audit review. It also calls into question the preparedness of internal auditors in managing ICAAP.
- Market Risk - Almost 20% of the RM function is dissatisfied with internal auditors' skills with regards to liquidity risk and/or asset liability management.
- Training - The internal audit function is not fully satisfied with the training frequency, training contents and training approaches currently undertaken. Neither were they fully satisfied with the current curriculum established for the development of internal auditors.
- Governance and Reporting - IA was able to meet expectations in governance and reporting, but it can develop its roles to become a strategic driver of business performance.
- Others - Interestingly, both functions indicated 100% satisfaction with IA's preparedness regarding the Foreign Account Tax Compliance Act (FATCA) and operational risk.

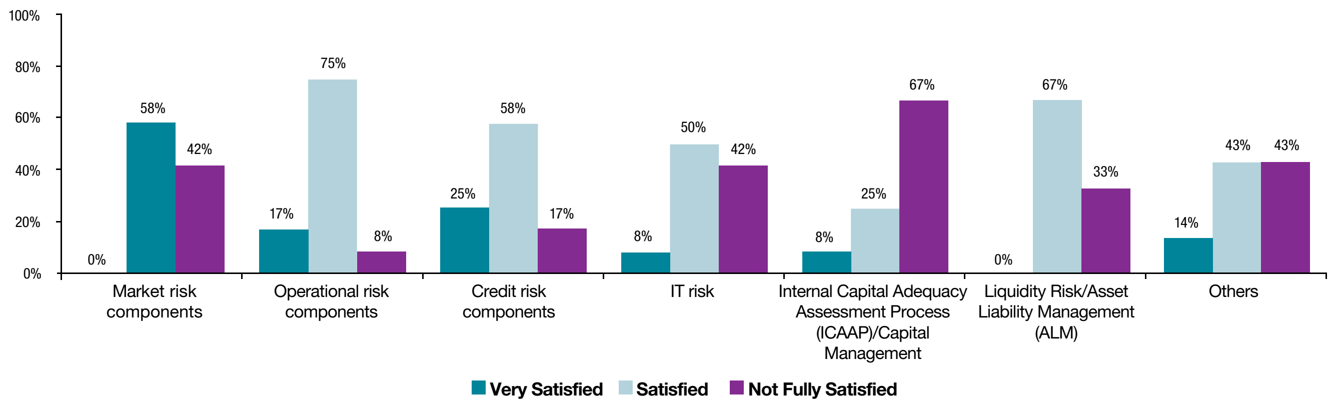


Figure 1 : Internal Audit : Question 3.4

Level of satisfaction with the present internal auditors' competency level with appropriate specialised skills to deal with the nature, size and complexity in managing the above risk stated therein.

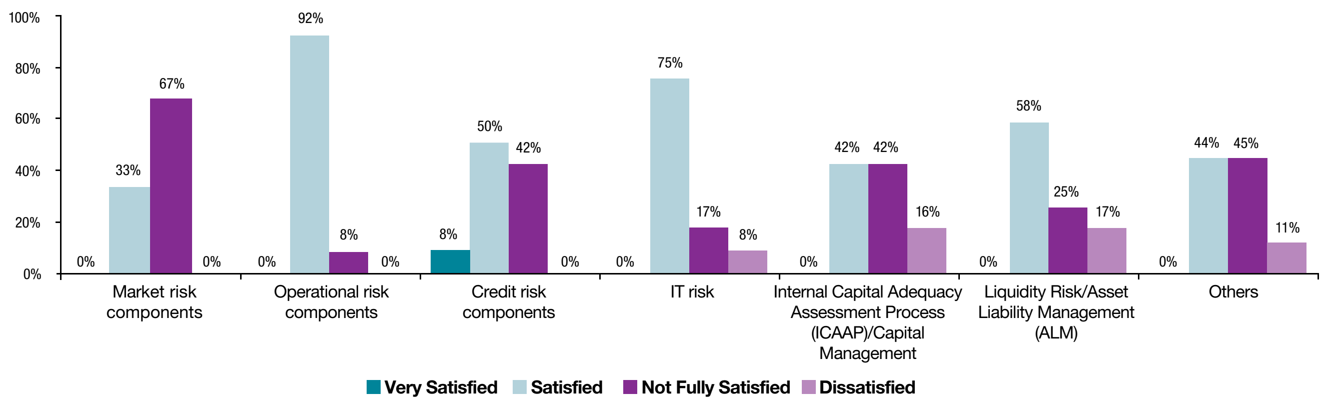


Figure 2 : Risk Management : Question 3.1

How satisfied are you with the present internal auditors' competency level with appropriate specialised skills to deal with the complexity of the risk management related areas?

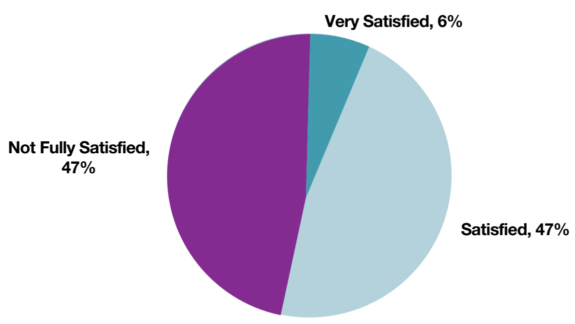


Figure 3 : Internal Audit : Question 3.1

Level of satisfaction with the current frequency of the relevant risk management training attended by the internal auditors.

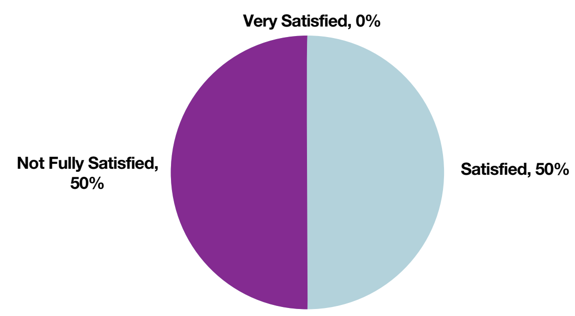


Figure 4 : Internal Audit : Question 3.2

Level of satisfaction with the comprehensiveness of the topics covered for the relevant risk management training attended by the internal auditors.

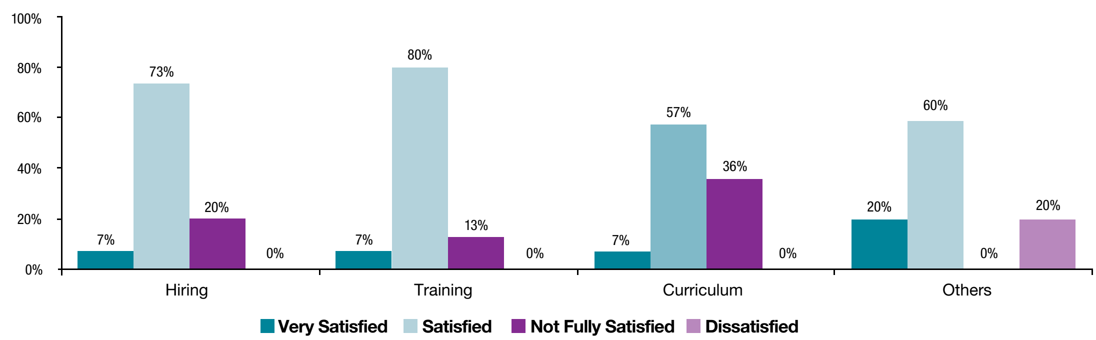


Figure 5 : Internal Audit : Question 5.1

The Bank has established processes for internal auditors in the area of risk management in the above areas.

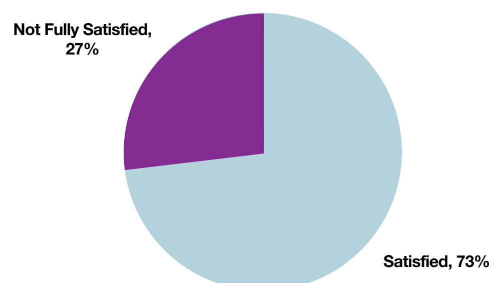


Figure 6 : Risk Management : Question 3.2

How effective is the Internal Audit function in meeting the risk management expectations on risk coverage?

Key Findings

COMPETENCY AND SKILLS

Figure 1 and Figure 2

Based on the survey results, the internal auditors' biggest concern when it comes to competency and skills is ICAAP/capital management. 67% of internal auditors were dissatisfied whereas 42% of RM respondents were dissatisfied in this area.

Competency in managing market risk was also a concern, whereby two-thirds of RM respondents were not fully satisfied with IA's competency level.

INSUFFICIENT TRAINING ON RISK MANAGEMENT

Figure 3 and Figure 4

Survey findings pointed to two main training concerns. One, almost half of the IA respondents are not fully satisfied with the frequency of the risk management attended by internal auditors. Two, topics covered for risk management training do not fully satisfy half of the IA respondents.

Figure 5

In terms of training, more than a third of IA respondents are dissatisfied with their bank's established curriculum processes on risk management for internal auditors.

MEETING EXPECTATIONS ON RISK COVERAGE

Figure 6

Notably, 73% of RM respondents were satisfied with IA in meeting RM's expectations on risk coverage.

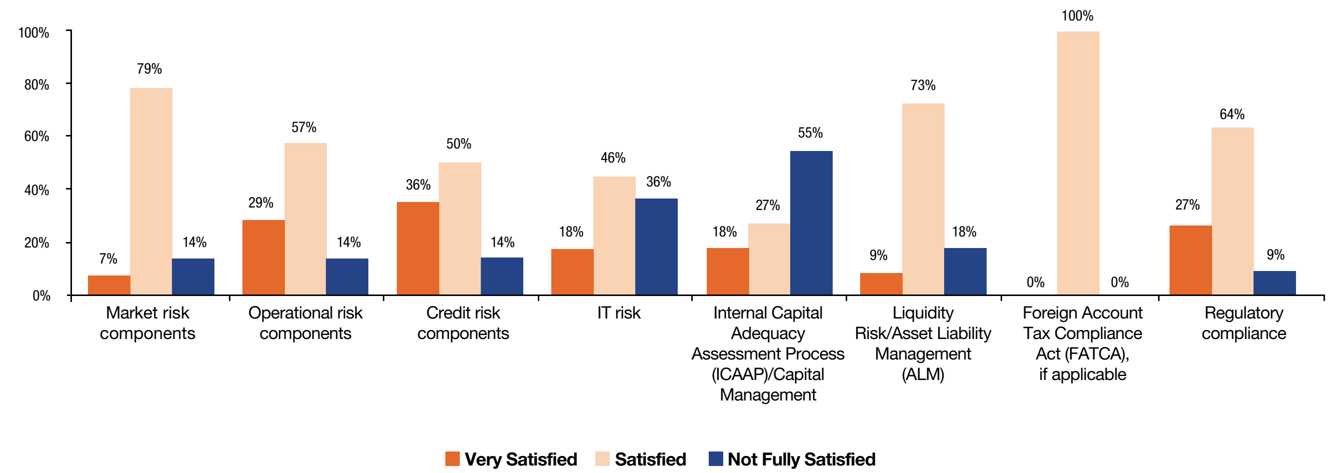


Figure 7 : Internal Audit : Question 1.1

Level of satisfaction for the comprehensive scope of audit review proposed and its readiness in terms of the above areas.

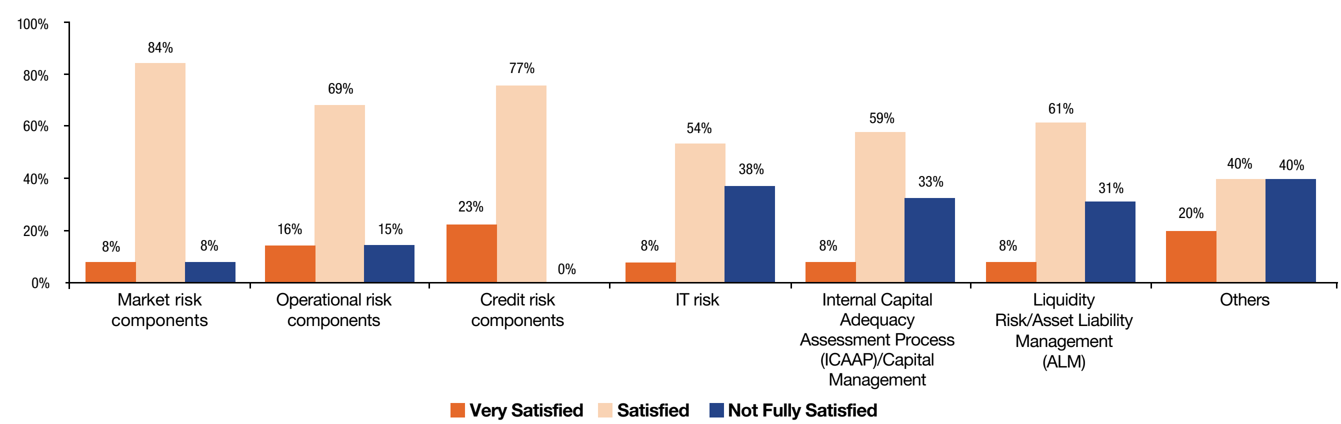


Figure 8 : Internal Audit : Question 4.3

Adequacy of audit programme being constantly updated and/or revised timely with the latest risk management approaches and related issues.

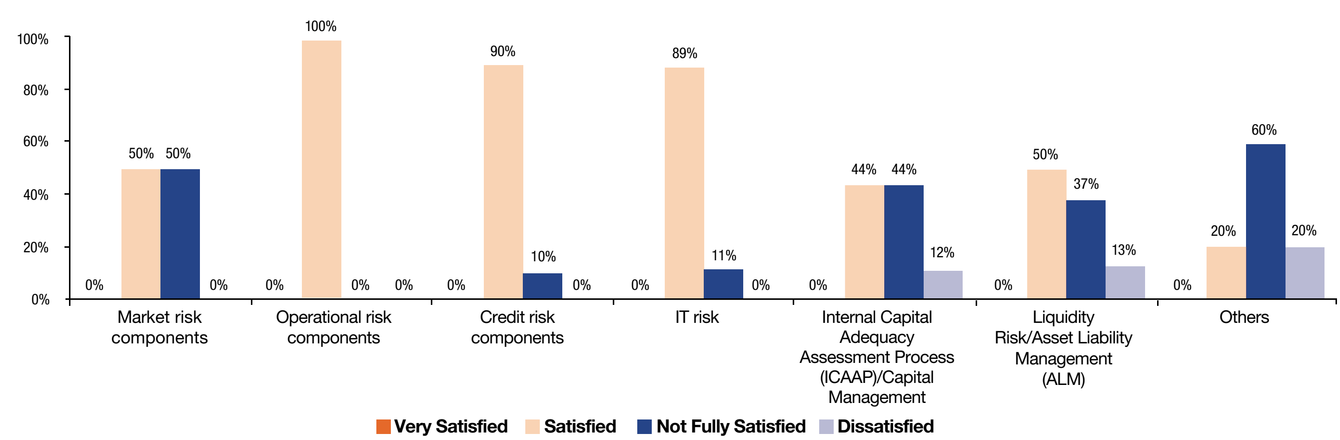


Figure 9 : Risk Management : Question 1.1

Level of satisfaction on the existing scope of Internal Audit's risk management activities given the nature, size, and complexity of the Bank and its operating environment for the above risk areas.

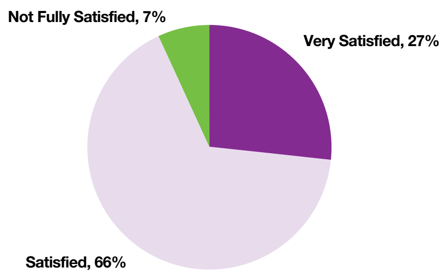


Figure 10 : Internal Audit : Question 2.1
Are there adequate considerations given by the Audit Committee on monitoring of risks affecting the Bank and the risk assessment processes undertaken by the management?

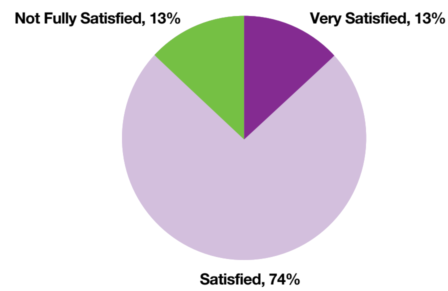


Figure 11 : Internal Audit : Question 6.1
Level of satisfaction on the overall quality and clarity of the audit review report (in particular the comprehensiveness of the risk components assessment).

SCOPE OF AUDIT REVIEW AND IA READINESS

Figure 7, Figure 8 and Figure 9

The survey found that IA had two main concerns in the area of Scope and Objectives for the internal audit review. Namely, 55% of respondents were not fully satisfied with the comprehensiveness of the scope for the proposed audit review and IA's readiness in managing ICAAP. Meanwhile, 36% of the respondents were not fully satisfied with the scope of audit review and IA readiness in managing IT.

GOVERNANCE AND REPORTING

Figure 10 and Figure 11

More than 90% of the IA respondents are satisfied with the considerations given by the Audit Committee (AC) on monitoring of risks affecting the Bank and the risk assessment processes undertaken by management. Most of the RM respondents are also satisfied with IA's assistance in identifying, measuring and managing the Bank's risks.

Almost 90% of IA respondents are minimally satisfied with the overall quality and clarity of the audit review report. 87% of RM respondents are satisfied that IA reports provide sufficient independent, relevant and sufficient information to support decision-making.

Challenges to Internal Auditors

The life of an internal auditor has never been more challenging. Internal auditors are professionally required to monitor and evaluate the effectiveness of the organisation's risk management processes, which typically involve three main areas: credit, market and operations. Today, these have expanded to include ICAAP, liquidity, asset-liability management and stress-testing.

Among other duties, the IA function is entrusted with reviewing the soundness and completeness of the ICAAP methodology, relevancy of assumptions and results, and validation of models, as part of its supervisory review process. This is according to Pillar 2 of the Basel II guidelines.

In relation to market risk, IAs are now expected to perform reviews on incremental risk charge, reserves for market risk position, and counterparty credit risk treatment among others. It is highly likely that the RM function will also find itself facing challenges that will impact on the business, as risk is an integral part of banking.

IA plays an integral role in corporate governance as well, where its main focus is to assist the Audit Committee of the Board of Directors in discharging its responsibilities, including the reporting of critical internal control problems and external auditor coordination.

Summary of conclusions

Ultimately, what the survey highlighted is the need for increased competency, expanded and more frequent training and curriculum review in the various fields pertaining to IA and support for RM. This is imperative because risk management affects practically every aspect of the organisation, and impacts overall Bank performance.

Other key factors identified as being helpful to banks in maintaining and improving performance were more concerted collaboration between the RM and IA functions. Both functions are also advised to improve knowledge-sharing that will mutually benefit both parties in enhancing the bank's holistic culture of risk management.

In conclusion, banks would be well-advised to develop their capacity and competencies in IA and RM as these are gaining increased recognition as strategic drivers in a volatile business environment that is becoming significantly riskier. ✱

■ Reporting by the *Banking Insight* Editorial Team.

NEW CYBERSECURITY Rules

While technology may equate to more convenience and accessibility for customers, banks will have to innovate and improve cybersecurity frameworks in order to satisfy customer concerns with security and privacy.

SARAH KAMAL

Security and privacy are uppermost concerns for financial institutions as news about major cybersecurity breaches has alarmed consumers, such as the high-profile distributed denial-of-service (DDoS) attacks on US commercial banks and the New York Stock Exchange. This has led banks to redouble their efforts to protect their technology infrastructure.

Banks are advised to remain cognisant of the trends for cyber risk and security protection in the financial services industry in 2013 in order to build the most effective defences. Booz Allen Hamilton, which works with financial services firms to identify and benchmark best practices and challenges for long-term cybersecurity prevention and protection, identified the Top 10 Financial Services Cybersecurity Trends for 2013:

1. Business/Information Risk protection is not just a Technology Issue – Spending on new technology alone is not enough to protect a firm's information and business. Firms must also invest in people and in fine-tuning processes to ensure, not only the proper use of technology, but that the processes that require interfaces between organisations are well managed and executed flawlessly. No matter how good a technology is, if not used correctly by skilled employees who follow well-defined processes, vulnerabilities will surface that can be leveraged by both internal and external threat actors.

2. Data disruption attacks may become data destruction attacks – The potential of threat actors actually destroying data is a major concern among risk and security professionals. Over time, the financial services industry will face threats from extremist groups who, when denied access to weapons of mass destruction, will use cyber as a 'weapon of mass disruption.' Additionally, threat actors who mean to disrupt a firm's business operations to make a statement or prove what they consider a moral point will also utilise destruction of data to ensure they make an impact.

3. Nation states and threat actors are becoming more sophisticated – More sophisticated threat actors such as smaller nation states and terrorist elements are obtaining similar capabilities and technologies. The financial services industry must fully understand the entire threat landscape and what this means in terms of employing the right people, technology and processes to ensure business continuity and proper risk management.

4. Legislation could push industry standards around cyber risks and improve threat intelligence information sharing – Banks already share information, but they will need to do more in light of possible

Defence

Banks are advised to remain cognisant of the trends for cyber risk and security protection in the financial services industry in 2013 in order to build the most effective defences.

legislation to set standards for cyber protection. If governments permit the sharing of important national security information, industry standards could become a benchmark requirement that firms must meet before they are given access to such government information. Additionally, such legislation could help in reducing the valid fears of firms in sharing cyber incident information due to the threat of penalties and further regulation. The industry and government must acknowledge and treat firms as part of the nation's critical infrastructure because a breach at any one bank or firm can have severe, cascading effects on the nation's stability.

5. Predictive threat intelligence analytics will create a more effective risk management capability - Financial services firms must begin to employ a more predictive threat intelligence capability to determine who might be trying to attack them and how. Focusing on understanding their own individual business risks, (as well as industry risks), and combating real potential threats that could focus on such risks is much more effective than trying to create a defence that could cover any possible threat.

THREAT

More sophisticated threat actors such as smaller nation states and terrorist elements are obtaining similar capabilities and technologies. The financial services industry must fully understand the entire threat landscape and what this means in terms of employing the right people, technology and processes to ensure business continuity and proper risk management.

6. Cyber risk continues to be a board-level issue – Information, legal documents, communications with clients and employees are all becoming more and more electronic every day to include an even greater usage of mobile technologies and social media. The boards of financial institutions must create and embrace a culture that acknowledges the evolving risks and more openly share incident information across the industry, with technology providers and both law enforcement and the federal government.

7. Vendor Risk Management is becoming an increasingly important concern among firms – Most firms buy much of their information technology and services from suppliers. Therefore, these suppliers' vulnerabilities become the vulnerabilities of the firms they provide products and services. Firms are becoming more focused on the security requirements for these suppliers and engaging independent third parties to evaluate the risks around such products and services.

8. Firms must continue to embrace and adapt to the new 'boundless network,' and must also invest in training its workforce to properly access and protect corporate data – Cloud, social and mobile technologies, including 'Bring Your Own Device' (BYOD), are simply too cost-efficient and effective for institutions to ignore them. Security and risk professionals need to better integrate these technology trends, which will require they embrace the fact that the corporate network now has extended beyond their control. Risk management and mitigation is evolving to better control how corporate data travels these boundless networks and ensuring the education of their employees on the responsibilities they have in securing such data.

9. Identity and Access Management is becoming a key security control area in which firms will continue to invest heavily – The days of focusing solely on perimeter defence are long since

past. Phishing and other social engineering strategies employed by threat actors have been very effective in allowing them to penetrate almost any network. Banking institutions must assume these actors can get in. Ensuring the proper identity of an authorised individual is a key area that is being addressed by all firms in all industries to address this new paradigm. Most threat actors employ a strategy to gain access to networks and information by gaining access to valid authorised credentials of a firm's employee so that they can go undetected in their actions. Firms will continue to invest heavily in ensuring that an authorised user is actually an authorised user. Additionally, firms will invest more heavily in tracking unusual activity of a user to detect stolen credentials or an insider threat.

10.The Financial Services industry will rely more heavily on cyber benchmarking – The financial services industry is investing more and more in protecting its information assets and wisely spending these scarce dollars is becoming increasingly important, not only from an effectiveness standpoint, but to also be able to articulate to business leaders the value of such an investment. The financial services industry, therefore, will continue to use industry benchmarks to understand how their competitors and suppliers are investing in people processes and technology for cyber risk management. ✱

■ Sarah Kamal is a freelance reporter based in Kuala Lumpur.

STRATEGY

Ensuring the proper identity of an authorised individual is a key area that is being addressed by all firms in all industries to address this new paradigm. Most threat actors employ a strategy to gain access to networks and information by gaining access to valid authorised credentials of a firm's employee so that they can go undetected in their actions.

Innovative Learning:

FINDING TRAINING THAT OPTIMISES CLIENT CONNECTIONS

Elevating the success of client-facing staff often requires an innovative approach to their training, one that grows them technically and relationally while focusing them on genuinely helping the customer. However, it is also important to be able to use metrics to measure return on these innovative training programmes and to guide where to best allocate training dollars.

KEVIN HADLOCK

Much of the client-focused training done today is 'sales' training. Its purpose, not surprisingly, is to teach bankers how to find more customers and maximise revenues from each. The training usually emphasises how to 'sell to' clients or how to 'negotiate with' clients. But it is often done in isolation, lacking nuanced integration with the technical aspects of the services and products a client might need. It thus frequently comes off as being one-sided with no real appreciation for the results the customer might experience going forward.

This suggests there is room to innovate when it comes to training bankers to optimise connections with their customers in ways that benefit both the institution and the client. That innovation lies in training that puts into practice a fully-integrated regime, one in which attention to technical knowledge blends seamlessly with enhancement of personal effectiveness skills, each taught with the other – and the client – in mind. It is surprising just how valuable the subtle distinction between this approach to banker training and traditional technical or sales training can be.

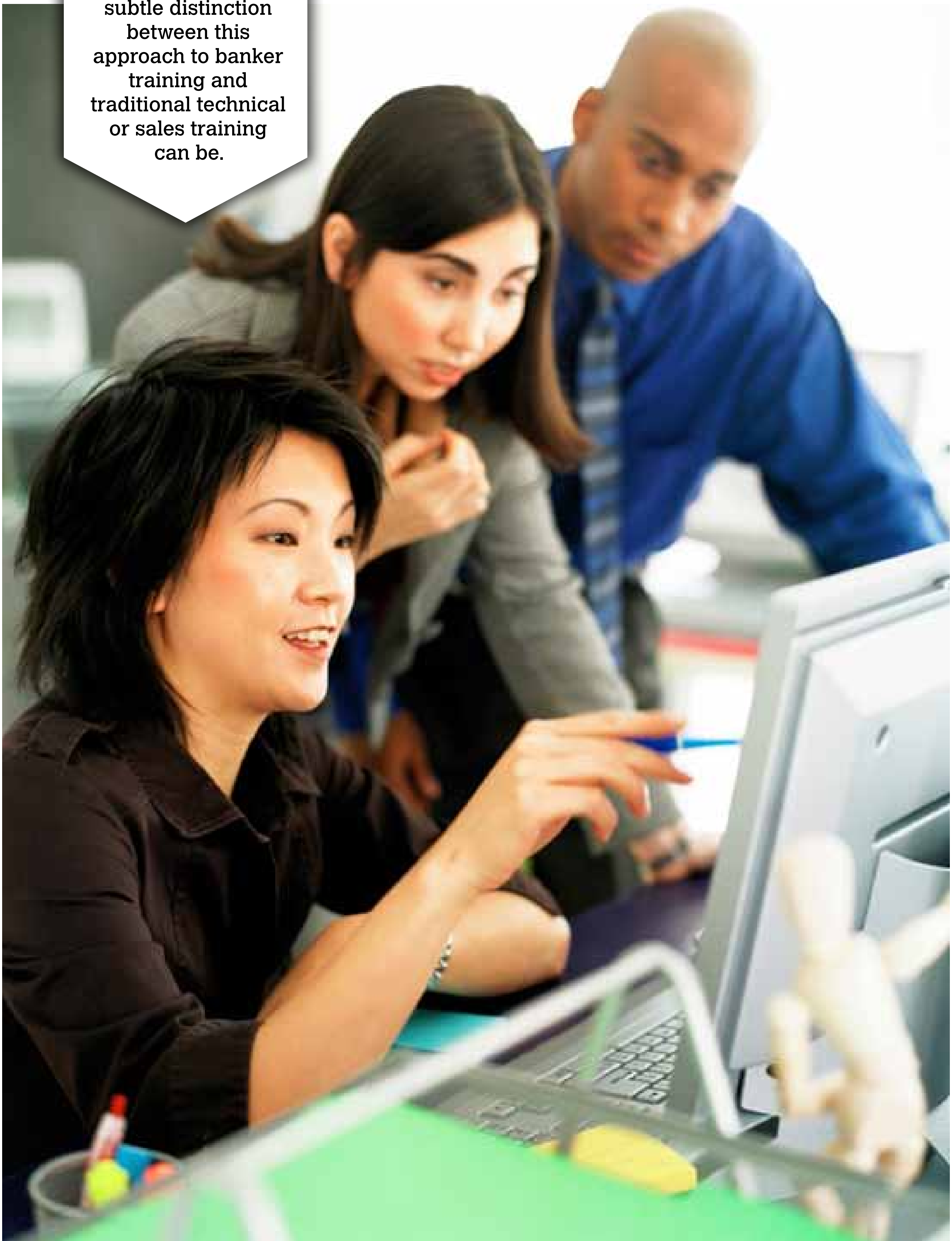
'Uptiering™'

One approach to optimising customer engagement is through what Moody's calls 'Uptiering'. That word has two meanings, one focused on moving banker skill levels up at least one tier, while the other emphasises moving the client up at least one tier in terms of its success and the number and value of solutions it buys from the bank.

'Uptiering' is an interdisciplinary approach to customer-focused banking. By elevating broad technical and 'soft' skill sets in unison, it delivers measurable benefits to individual employees while helping transform the bank's internal culture to one that values banker/client partnership and mutual growth. 'Uptiering' typically includes these four components:

- *Technical Skills* – Elevating the banker's knowledge and ability regarding bank solutions and how they can help clients;
- *Personal Skills* – Enhancing the motivation and ability of bankers to work both internally and externally to generate more and higher-quality business;
- *Client Relationship Skills* – Elevating relationships with clients, understanding how to use communication and adaptation skills, empathising in a more actionable way, negotiating effectively, addressing problems, building trust, and providing value;
- *Strategic Objectives* – Aligning the attitude and abilities of client-facing staff with the bank's strategic ambitions and plans to move the organisation forward to higher levels of growth.

It is surprising just how valuable the subtle distinction between this approach to banker training and traditional technical or sales training can be.



PERFORMANCE

And it is the fact that employees who perform independently on a regular basis typically deliver better top and bottom line results than those who require frequent hand-holding, especially in the world of income-generating assets such as loans.

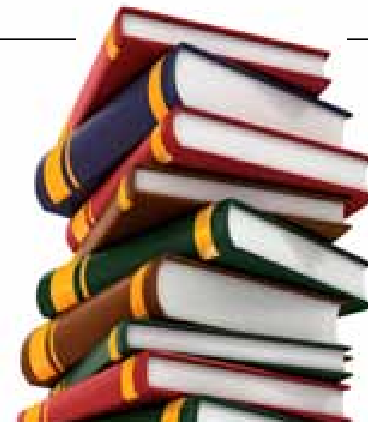
A well-executed 'Uptiering' regime helps bankers transform their own, very personal way of doing business such that it becomes far more harmonised with the aspirations of the client, all while contributing increasingly to the bank's strategic objectives.

The Conundrum: Making Training Innovation Happen

Wanting to take a more innovative approach to training client-facing staff and then actually putting it in place in a cost-effective way are two different things. Many well-intentioned managers have stumbled while trying to move from aspiration to delivery. Some have tried to focus on return on investment (ROI), a logical and noble approach, but one that is extraordinarily difficult to achieve in the context of training solutions. So many non-training, uncontrollable factors affect an employee's performance that it is exceedingly difficult to isolate and measure that portion of on-the-job activity that ties back directly to any given training input.

Yet we are compelled by limited budgets and the budgetary process itself to justify learning and development expenditures, especially those that are innovative or otherwise uncommon in nature. And the question is simple: "If we spend a given amount on training, what do we get in return and will it be worth it?" A slightly more complex version of the query goes like this: "We know we have to spend something on training…so which of several possible interventions will give us the greatest return in improved employee performance and company profitability? And will even that best option be worth what we pay for it?"

Interestingly, we are not left entirely without metrics. One underlying consideration often carries significant weight in such deliberations, whether it is consciously contemplated or simply assumed. And it is the fact that



INTUITION

The calculation of IPRs for the two programmes crystallises the enhanced value of the second, both in terms of time to competency and profitability. It also demonstrates how higher priced but innovative training programmes can be cost-justified, rather than relying on intuition and hoping for the best.

employees who perform independently on a regular basis typically deliver better top and bottom line results than those who require frequent hand-holding, especially in the world of income-generating assets such as loans. A competent and autonomous employee both reduces direct costs and captures more revenue opportunities. These facts make a compelling case for providing training that shortens the time it takes an employee to become fully competent (i.e., that reduces 'time to competency') wherever skill and knowledge deficiencies exist. And therein resides an opportunity for measurement.

The Independent Performance Ratio (IPR)

Assuming we cannot confidently calculate ROI outright, perhaps we can at least consider the concept of time to competency and its impact on profitability. And if we can do that, we may be able to find ways to reduce the former, while consciously driving the latter upwards...which is what we are trying to accomplish anyway. In the absence of a dependable ROI indicator, this is an attractive proposition, especially if it can serve the additional purpose of providing clarity when comparing alternative training regimes.

It helps decision-making if we can make use of a ratio that helps measure the relative value of training. Moody's Analytics has developed a ratio that does so precisely by isolating the critical factors of time to competency and profitability - the Independent Performance Ratio (IPR). It is calculated as follows:

IPR = TTCrim x (IP / II)

*...where **TTCrim** = Time To Competency reduction in months; **IP** = Incremental Profit; and **II** = Incremental Investment.*

For a given training alternative, this ratio couples the expected reduction in time to competency with the percentage improvement in net profitability to arrive at IPR. One of three possible results arises from this calculation:

1. If IPR equals TTCrim then the training alternative does not change profitability;
2. If IPR exceeds TTCrim then the training initiative increases profitability (and should be explored further; the higher above TTCrim a given IPR, the better the option from which that IPR arises);
3. If IPR is less than TTCrim then the training initiative results in decreased profits (and should be discarded).

If competing training options are under consideration, the one having the highest IPR should be adopted, all other things being equal and assuming that IPR is greater than TTCrim.

IPR In Practice

Let us say a fictitious commercial bank presently pays USD840 per employee for its current training programme for incoming Relationship Managers (RMs). It is trying to decide if it should stay with its current training regime, modified slightly, for 250 new RMs, or switch to a completely new approach.

Scenario #1 below assumes the bank's modified training programme will reduce employee time to competency by two months. The cost of the tweaked training programme per employee will thus be USD1,100, resulting in an overall incremental cost of USD65,000 compared to the pre-existing programme. Incremental, aggregate profit from the revised regime will be USD97,957. This assumes estimated incremental profit per employee of USD196 per month, multiplied by the 250 RMs in the training population, and all that multiplied by TTCrim. ('Incremental profit per employee' is the difference between the profits gleaned

INNOVATIVE

Since innovative programmes can sometimes be harder to justify, either due to higher costs or lack of familiarity by training sponsors, use of methodologies such as IPR can be helpful in quantifying opportunities and selecting best approaches.

from an independently performing employee versus one who requires significant ongoing attention. In this case, for illustration purposes, the figure is an estimate, based on the experience of a large banking institution, with the profit per autonomous employee being 2% above the average and the 'needy' employee contributing 2% less than the institution mean. Obviously, in a real scenario, cost and profit figures pertinent to the specific training population would need to be used). Given these assumptions, the IPR calculation looks like this:

IPR Scenario #1 – Current Training Regime as Adjusted

IPR = TTCrim x (IP / II)
= 2.00 x (97,957 / 65,000)
= 3.01

The 3.01 IPR, being greater than the TTCrim of 2.00, suggests that modifying the existing scenario would be worth the investment, even though it increases the cost per employee by USD260. Still, 3.01 is not a lot bigger than 2.00, so caution would probably be in order (especially since the incremental net dollar gain is only about USD33,000).

As helpful as the simple analysis above may be, it is even more valuable when comparing the scenario #1 IPR with the projected IPR arising from a completely different training solution. In scenario #2, one involving just such a new training approach for the incoming RMs, let us assume time to competency is reduced by four months instead of just two. And let us assume that the cost per employee will be USD1,350, which is USD250 more than in scenario #1. All other assumptions are held constant, including the incremental profit per competent employee of USD196 per month. The resulting IPR would be as follows:

IPR Scenario #2 – Completely New Training Regime

IPR = TTCrim x (IP / II)
= 4.00 x (195,914 / 127,500)
= 6.15

IPR in the second scenario is 3.14 higher than in the first, which is a reasonably intuitive outcome given the level of improvement in TTC. (Interestingly, if the training in scenario #2 can somehow be delivered for the same cost per employee as scenario #1, the IPR of the second approach increases all the way to 12.06!)

The bottom line, and the critical value of the exercise, is that, given the choice of these training alternatives, the higher IPR in scenario #2 reveals it to be the better option. The calculation of IPRs for the two programmes crystallises the enhanced value of the second, both in terms of time to competency and profitability. It also demonstrates how higher priced but innovative training programmes can be cost-justified, rather than relying on intuition and hoping for the best.

In Summary

Elevating the success of client-facing staff often requires an innovative approach to their training, one that grows them technically and relationally while focusing them on genuinely helping the customer. When this occurs, clients almost always buy more bank products, yielding top and bottom line growth for the institution. Since innovative programmes can sometimes be harder to justify, either due to higher costs or lack of familiarity by training sponsors, use of methodologies such as IPR can be helpful in quantifying opportunities and selecting best approaches. By combining data related to time to competency and profitability, IPR can help measure the value of training and the relative merit of competing training alternatives. Thus, IPR stands to add value to an organisation's efforts to measure the impact of its training as it seeks to leverage client connections, and inform considerations as to where training budgets may be best spent in the process. ✱

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INNOVATING BANKS' IT INFRASTRUCTURE

LEVERAGING ON TECHNOLOGY SHOULD BE PART OF A BANK'S STRATEGY FOR INNOVATION AND SUSTAINABILITY. PHASING OUT LEGACY SYSTEMS AND USING A SINGLE CONSOLIDATED DATA TRANSFER PLATFORM FOR IT INNOVATION CAN HELP BANKS ACHIEVE GREATER OPERATION EFFICIENCY AND DATA TRANSFER INTEGRITY.

JAMES HATCHER

Today, most banking and financial institutions believe that innovation and modernisation of IT infrastructure is crucial to continuously support the banks' objectives to remain competitive and to provide the optimum customer banking experience.

However, looking at today's banking business landscape, operating on a fragmented IT infrastructure is a reality for many financial service institutions. Often banks have legacy IT systems due to a failure to consolidate systems after mergers and acquisitions, or rogue purchasing of point solutions by business units that have aged out-of-vendor support. In order to improve operation efficiency, banks require an up-to-date IT infrastructure that is more cost-effective and flexible. Failing to optimise IT infrastructure jeopardises the organisation's chances of being able to interact efficiently with partners and customers.

Based on the '2012 State of the CIO Survey' conducted by *CIO Magazine*, IT executives cited 'the need to improve business process' as the No. 1 IT management initiative. Improving business processes entails two aspects, which are transforming/optimising processes and then automating them.

To optimise and then automate manual processes, IT leaders need to replace the outdated systems that do not support modern services, such as the large-file exchange and monitoring features within enterprise applications.

The Risks of Operating with an Older IT Infrastructure

Many banks run a mix of point solutions acquired on a piecemeal basis for Electronic Data Interchange (EDI) and file transfer. These piecemeal applications are expensive and complex to manage and lack advanced capabilities such as visibility enabled by integration with enterprise applications. Briefly, other risks and downsides of running legacy business-to-business (B2B) and file transfer solutions include:

i) A lack of functionality and visibility in older infrastructure: This can certainly impact the bank's ability to comply with governmental and/or industry directives for security, auditability and reporting. In particular for the banking and finance industry, strict data privacy and confidentiality regulations are

difficult to comply with under the absence of a modern data transfer platform. It can be very expensive to comply with these standards with an out-of-date infrastructure. Meanwhile, to meet regulatory mandates such as Basel III, financial services companies need secure data transfer systems that provide the necessary functionality to be compliant. Furthermore, the lack of functionality in older IT systems also limits the banks' ability to adapt to ever changing financial business requirements.

ii) The costs and risks of supporting disparate systems: If IT consolidation is not part of the bank's innovation strategy, the costs and risks involved in supporting unrelated systems and solutions to fulfil the current banking requirements and demands could turn out to be terribly high and the solutions can be incredibly complex. As a result of not consolidating the IT systems, banks are required to create the connection between all systems and applications manually, such as to handle both the structured and unstructured data streams. The cost of continuing to operate this way grows even higher as the people who understand the connections retire or move on to other positions.

iii) Lives of existing software do come to an end: When software vendors end the support of their applications or technology, many organisations are faced with a number of choices that have a number of challenges associated with them. Once these applications are retired, many vendors no longer offer support or version updates to meet the B2B standards. They may end up needing to hire costly professionals to engage for any type of support service.

iv) Lack of re-evaluation for IT Roadmaps: Financial Institutions need to re-evaluate their IT roadmaps in light of technological developments and new hardware and software offerings at least every three to five years in order to remain innovative and increase efficiencies.

Benefits of Using a Single Platform for Transactions of All Types

Significant benefits come with replacing outdated, contrasting systems with a single platform that can handle all types of data transfer securely and reliably. The benefits associated with using a central platform for transferring both structured and unstructured data for increased visibility are as follows:

i) 'Single source of truth': It is difficult to get accurate answers and insights when data resides in multiple systems. For example, a customer sends an inquiry about the status of a credit card application that came in a few days ago. If the customer service agent has to go to multiple systems to piece together an answer, there are many opportunities for inaccuracy and inefficiency to creep in. By having a single

platform it means that employees need to check only one place to get an answer. This will increase the speed and accuracy of service, two crucial aspects in boosting customer satisfaction and confidence.

ii) Consistent capabilities: For instance, because employees are so used to using one standardised system all across the banking functions at work, they will not get confused or lost looking for an answer in a wrong system because there is only one single system. In addition, it also eases out the burden of attending training for multiple different systems.

iii) Consolidated database for reporting: It can be the single place for all information to be recorded, including what happened with transactions, file transfers and orders. Continuing to operate disparate systems hampers banking operations by increasing exposure to risks, administrative costs, and potentially jeopardising customer relationships. In fact, numerous dangers are inherent in not upgrading and optimising IT infrastructure as it makes the banking system vulnerable as well.

Therefore, banks should consider using a single data transfer platform for IT innovation to streamline, protect and accelerate the supply chain processes and business operations, in order to reduce the threat of data being misdirected, late, lost or stolen.

Most importantly for the financial services industry, using a single platform for transferring both structured and unstructured data services ensures compliance with government, industry and customer privacy as well as security mandates. Thus, replacing an outdated system with a single data transfer platform proactively generates more business value in the bank's innovation strategy. ✱

■ James Hatcher is Regional Director of SEEBURGER Asia Pacific. SEEBURGER is a global provider of business integration and secure managed file transfer (MFT) solutions that streamline business processes, reduce operational costs, facilitate governance and compliance, and provide visibility to the farthest edges of the supply chain to maximise ERP effectiveness and drive new efficiencies.

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