

ASIAN BANKS MUST RETHINK IT

by Ranu Dayal, Ashish Garg, Boon Teck Kuah, and Ching Fong Ong

IN RECENT YEARS, BANKS in Asia have enjoyed explosive growth—with annualized growth in assets above 20 percent for the biggest Chinese banks. These banks' IT departments have played an important role, quickly creating custom-built solutions to support the expanding businesses.

Now many of these banks are consolidating and looking to optimize the use of their assets and resources. They are integrating their channels, rationalizing their products, and optimizing their operations to improve their competitiveness. Their IT departments see the complexity that has built up as a potential barrier and are taking steps to simplify their operations and put in place the building blocks for the future. (See the sidebar “IT Strategies for the Different Stages of a Bank's Growth.”)

The complexity of the IT function at these banks is manifested in several ways. One is the presence of a large number of bespoke solutions that were implemented quickly in response to new market opportunities. These solutions got the job done initially but are often difficult to scale up and aren't well suited to changing requirements. Another manifestation of complexity is the decentralization of IT governance, a result of development teams being deployed to fast-moving business units.

Bespoke systems and decentralization of IT governance make sense during rapid growth,

because they allow businesses to be more nimble. But they can also lead to waste, increased risk, and an inconsistent customer experience across locations, channels, and products, undermining the unified brand image that banks want to project. A customer experience that's inconsistent can make it difficult for a bank to take advantage of its hard-earned scale.

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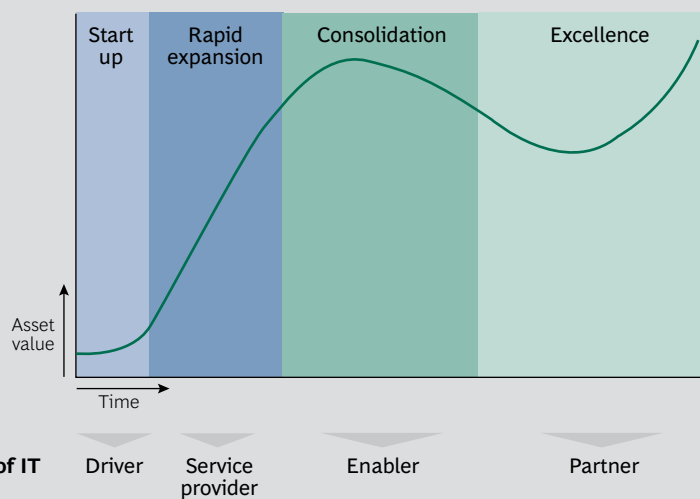
Now that they have entered the consolidation phase, Asian banks face two big challenges. The first is containing the complexity of the IT deployments they already have. The second is making incisive IT investments that will enable new business capabilities critical for the next phase of growth. One thing that Asian banks have in their favor is the sizable growth that's expected in their IT budgets; this will give them the headroom they need to make investments. (See the exhibit, “Actual and Forecast Growth in Banks' IT Spending, by Region.”) Still, prudent management is needed to allocate capital between the enhancement of core systems and projects in new areas such

IT STRATEGIES FOR THE DIFFERENT STAGES OF A BANK'S GROWTH

Consolidation is the third of four stages in a bank's growth cycle. (See the exhibit below.) Each stage presents IT with a different set of challenges and priorities, requiring different strategies. In the start-up stage, IT drives the business with basic but quick solutions. In the rapid-expansion stage, IT falls into a service

provider role, trying to keep pace with the rapidly changing requirements of the business. At the consolidation stage, IT enables the business to capitalize on its scale advantage. The cycle is complete in the last stage, excellence, where IT serves as a key business partner.

FROM REACTIVE TO PROACTIVE: IT'S EVOLVING ROLE



Source: BCG analysis.

as mobile banking, big-data analytics, and social-media marketing.

Actions to Take in the Consolidation Phase

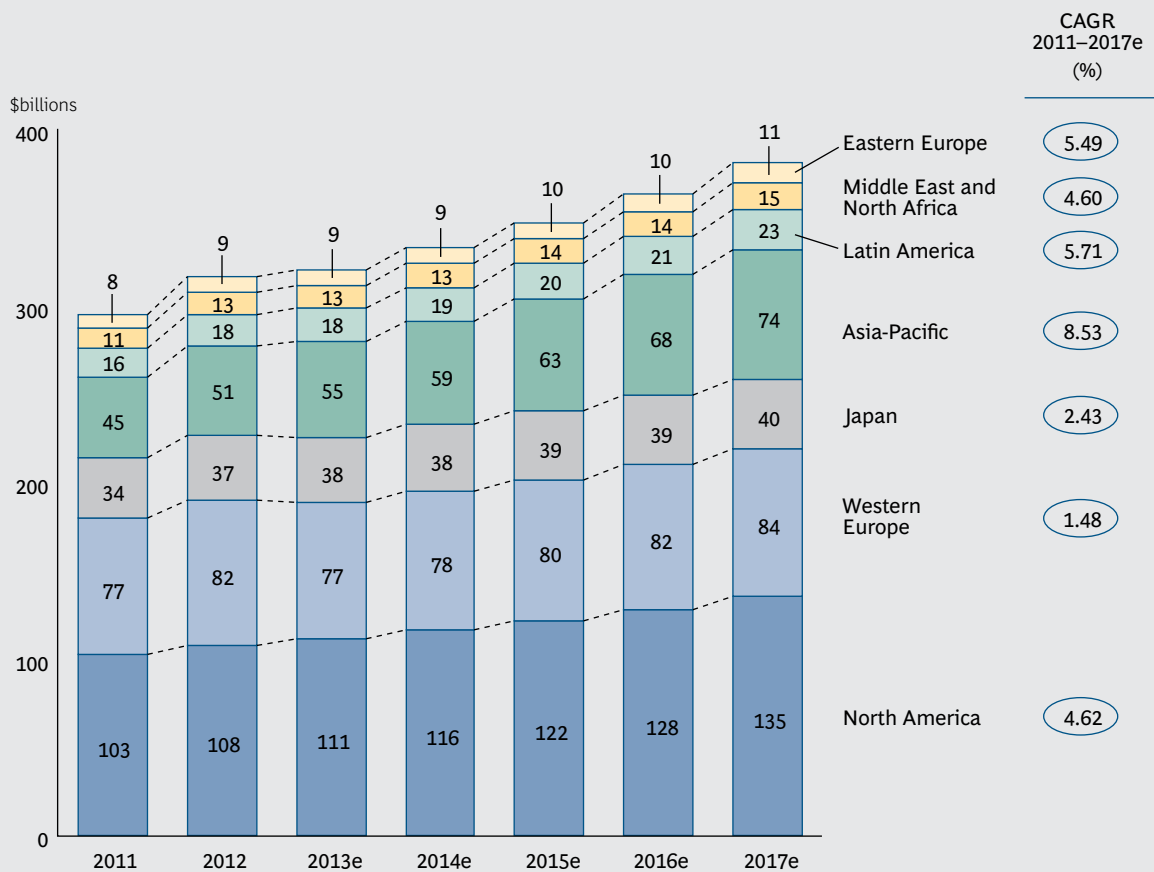
To lay a technological foundation for the future, banks in the consolidation phase should take advantage of four levers: modernizing the critical components of IT architecture, simplifying IT applications and infrastructure, recreating the centralized-IT operating model, and developing new IT capabilities around agile architecture, cost excellence, and performance measurement. These levers are linked, and the required activities should be spelled out in an IT transformation roadmap.

The roadmap should be reviewed by executives in the C-suite to ensure that the IT and

business strategies are aligned. In addition, business executives may want to leverage the IT transformation program to enable business transformation. This is especially relevant in situations where the C-suite is looking to create greater transparency and gain more control over fiefdoms within the enterprise. While tying the IT transformation to a simultaneous transformation in the business increases the complexity of the undertaking, it strengthens the business case by more tightly aligning business and IT priorities.

Modernizing the Critical Components of IT Architecture. By the consolidation stage, banks' IT architecture has become inadequate to support some emerging priorities, such as bundling across product lines and real-time management controls. Modernization is required, usually by replacing core

Actual and Forecast Growth in Banks' IT Spending, by Region



Sources: Gartner; vendor interviews; BCG case experience.

components with solutions that provide greater flexibility and allow individual businesses to change their processes and rules as their needs evolve. Some banks take aim at their core-banking systems and embark on multiyear programs to replace them; others start by modernizing the branch-level sales and service platforms that affect customers most directly. The key is a roadmap whose steps and milestones take account of the overall business strategy.

Simplifying IT Applications and Infrastructure. In any field, an obligation not dealt with today can lead to bigger problems in the future. In the case of banks in Asia, the debt that must be paid is the need to improve a lot of poor IT-architecture design. Banks in the consolidation stage should start by rationalizing their software applications and infrastructure. These banks have too many applications that address the same requirements—in areas such as workflow and document manage-

ment. They also have too many infrastructure patterns—combinations of hardware, systems, and middleware. By eliminating redundant technology, banks can offer better service, start capitalizing on their scale, and take an important step toward modernization. (See “Simplify IT: Six Ways to Reduce Complexity,” BCG article, March 2013, for the complete simplification methodology.)

Recreating the Centralized-IT Operating Model. As the bank gets a clearer idea of where it wants to excel across customer segments, products, and channels, IT should play an enabling role and add new capabilities to its core. It can start by centralizing and strengthening the infrastructure operations group; this will improve service delivery and mitigate risks. Next come demand management and enterprise architecture management, two areas where the IT department needs to amass expertise similar to that of a professional IT-services company.

Developing New IT Capabilities. The rethought IT group will also need new and specialized capabilities to be effective—changing the reporting lines will not be sufficient. During the consolidation stage, three clusters of capabilities are especially critical.¹ The “agile IT architecture” cluster defines the architecture framework, develops the architecture roadmap, institutes governance processes, enforces compliance, and gets buy-in for further architecture investments. The “cost excellence” cluster defines the financial framework and accounting methodology, increases the transparency of budgeting and funding, and rigorously tracks IT expenditures against the budget. Last, the “high-performance organization” cluster monitors the overall performance of IT and continually makes improvements in people, processes, and structure.

Asian banks need to take a fresh look at their IT strategies.

Where necessary, the new capabilities can be nurtured in centers of excellence before rollout. For example, Taipei Fubon, a leading bank in Taiwan, is setting up such a center to introduce testing tools and formalize approaches to testing new applications.

Leveraging the IT Program to Enable Business Transformation. IT-enabled transformation of the business model—an approach that brings the four levers together to maximize impact—can make a lot of sense during the consolidation phase. For one thing, the slowdown in growth makes business managers more receptive to new ideas and new ways of doing business; they know that change is inevitable. In addition, a move to common IT platforms, with standardized processes and consistent data definitions, can break down business silos. Finally, the implementation schedule for a major technology project—two to three years—can be used to set the pace of change

throughout the bank by timeboxing change initiatives.

IT-enabled transformation programs are significantly more complex than traditional IT projects; project teams cannot simply ask for the business requirements and deliver siloed solutions. Instead, the business executives who are leading the transformation must be disciplined about setting priorities (allowing IT to focus its own resources), and they must challenge the status quo and spearhead the move to improved practices. The new, more mature technology triggers discussions within and across the business units on better ways to do business. Strong leadership is then needed to implement the changes required by the transformation.

IT is playing an enabling role in business transformation at Taipei Fubon. The bank’s executives are leveraging the modernization of their core-banking platform to seed changes in their operating model. (See the sidebar “At One Taiwanese Bank, IT Is a Key Pillar of Growth.”)

AFTER YEARS OF explosive growth, many Asian banks are entering a period of consolidation. To move ahead of their competitors, they need to take a fresh look at their IT strategies. There are four levers IT executives should consider to improve their operations, reduce complexity, and invest for the future. However, these levers must fit with the strategic objectives of the business. In parallel, bank executives should explore the feasibility of an IT-enabled transformation program in which IT sparks business change instead of simply reacting to it. All these steps will help banks ride the next wave of opportunity.

NOTE

1. Banks can learn how strong their IT capabilities are in these clusters—and in others—by using the Innovation Value Institute’s IT Capability Maturity Framework. The framework includes an assessment test that has been taken by more than 200 CIOs.

AT ONE TAIWANESE BANK, IT IS A KEY PILLAR OF GROWTH

With its asset growth having slowed from 8 percent (from 2005 to 2010) to 4 percent (from 2010 to 2012), Taipei Fubon is an example of a bank in the consolidation phase that is using IT to position itself for new opportunities.

Ms. Yao, senior vice president at the bank, which is a unit of the second-largest publicly traded financial holding company in Taiwan, answered questions about the core-banking modernization program she is leading.

How has the role of IT at Taipei Fubon Bank changed in recent years?

While our IT infrastructure remained centralized at the group level, our application development had been decentralized. The change was made to be more in sync with the business unit strategies and the pulse of the market. That worked, but it also made it harder to have a common mindset for shared services. There was a cost in terms of efficiency.

Looking back, what would you have done differently during the rapid-expansion phase?

If I could go back and change one thing, it would be to encourage more business-unit cooperation at the corporate level and capture value from the synergies. IT struggled, as it had to respond to inconsistent requirements from the different business units.

What are your IT challenges today?

We have four big challenges. The first is shifting to open standards from proprietary mainframes; that's an architectural challenge. We're also in the midst of broadening the skills that our IT workers have, and of updating our IT-management processes. These changes are necessary to respond to new business requirements. We're setting new service-level expectations as a way of becoming more cost effective. Finally, we're repositioning IT resources to support our geographic expansion, most notably into China.

You oversee Fubon's Core Banking System Development Center and report directly to the bank's CEO. In what ways does your work at CBS help the business?

Our move to replace the core-banking system, and our commitment to business-operating-model enhancement, are both multiyear strategic initiatives—and they are closely connected. We are treating the transformation of our core-banking system as an opportunity to draw leaders of the BUs together to discuss changes and institutionalize them.

The new core-banking system will enable a service culture with a foundation built on single customer views, streamlined processes, accelerated product designs, and improved operating efficiency. We'll need all of that if we're going to be successful with our expansion strategy.

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