

## Asian Banker Research

# Indonesia International Banking Convention 2012 **Assessment of Banks in Asia for Retail, Technology, Risk and Transaction Banking**

Jakarta, 16 February 2012

# Agenda

- **Retail Financial Services**
- Transaction Banking
- Risk Management
- Technology

# We assess and identify banks in retail banking that demonstrate a sustainable and profitable franchise based on sound processes and infrastructure capabilities

## Scorecard for retail financial services

<p><b>Value of Franchise (7%)</b></p> <ul style="list-style-type: none"> <li>▪ Market share in core retail deposits (%)</li> <li>▪ Core retail deposits (\$)</li> <li>▪ Retail banking customers (#)</li> </ul>	<p><b>Financials (20%)</b></p> <ul style="list-style-type: none"> <li>▪ Operating Profit</li> <li>▪ Assets</li> <li>▪ Revenue</li> <li>▪ ROA</li> </ul>	<p><b>Sustainability (12%)</b></p> <ul style="list-style-type: none"> <li>▪ Cost of funds</li> <li>▪ Portion of recurrent Income (%)</li> <li>▪ Fee income</li> <li>▪ NIM changes (bps)</li> <li>▪ Portion of fee income (%)</li> <li>▪ Cost to income ratio (%)</li> </ul>	<p><b>Strategy (3%)</b></p> <ul style="list-style-type: none"> <li>▪ Clearly conceptualized strategy</li> <li>▪ Excellence Submission made</li> <li>▪ Depth of and transparency of reporting</li> <li>▪ Senior executives quoted in media</li> </ul>	<p><b>Sales (10%)</b></p> <ul style="list-style-type: none"> <li>▪ Product holdings</li> <li>▪ Market share in assets</li> <li>▪ Market share in mortgages</li> <li>▪ Market share in credit card</li> <li>▪ Average spend per premium card</li> <li>▪ % of card holders are revolvers</li> <li>▪ Number of new products introduced</li> <li>▪ Income from B/I</li> </ul>
<p><b>Risk Management 20%</b></p> <ul style="list-style-type: none"> <li>▪ Delinquencies 30+</li> <li>▪ Gross write offs</li> <li>▪ Recovery</li> <li>▪ Ratio of promises kept to promises made</li> <li>▪ Classification of Delinquencies</li> <li>▪ Retail group risk management structure</li> </ul>	<p><b>Process &amp; Tech (10%)</b></p> <ul style="list-style-type: none"> <li>▪ Validation for process/business lines</li> <li>▪ Core banking platform</li> <li>▪ Time to market for a genuinely new product</li> <li>▪ Customer turnaround time for a credit card product</li> <li>▪ Account opening process</li> <li>▪ Debtor contact management</li> </ul>	<p><b>Distribution (10%)</b></p> <ul style="list-style-type: none"> <li>▪ Proportion of self service transactions</li> <li>▪ Customers per branch</li> <li>▪ Customers per FTE front line</li> <li>▪ First contact resolution (call center)</li> <li>▪ % of active bill payment users in internet banking</li> <li>▪ Active mobile banking users</li> <li>▪ Number of branches/ATM</li> </ul>	<p><b>People's Skill (5%)</b></p> <ul style="list-style-type: none"> <li>▪ Portion of senior executives with more than 10 years of experience in the Bank</li> <li>▪ Attrition rates (Sales, Non Sales)</li> </ul>	<p><b>Ethical Banking (3%)</b></p> <ul style="list-style-type: none"> <li>▪ Published ethical service document</li> <li>▪ Depth of social corporate responsibility</li> </ul>

Source: Asian Banker Research

# Top 10 banks maintain lead in risk, technology, processes and distribution efficiency, but struggle with higher attrition rates

Top 10 Banks in Asia in the Excellence in Retail Financial Services Programme 2011

Ranking				Strategy	Value of Franchise	Financial Performance	Sustainability	Sales	Risk	Process Technology Efficiency	Penetration Efficiency Distribution Channels	People Skills	Ethical Banking	Total Scores
2008	2009	2010		4.0	4.0	7.0	5.0	5.0	5.0	5.0	5.0	5.0	2.0	47.0
4	1	1	CBA (AU)	3.1	2.6	3.3	2.7	2.6	4.6	4.0	3.7	2.1	1.6	30.3
3	3	2	ANZ (AU)	2.4	2.8	3.9	1.9	2.6	4.8	3.9	3.3	2.1	1.6	29.1
8	2	3	HSBC (HK)	3.2	2.2	3.5	3.4	2.2	3.9	3.6	3.4	1.8	1.8	29.0
7	6	4	UOB (SG)	3.1	2.7	2.9	2.1	2.0	3.2	3.6	3.4	2.2	1.5	26.6
70	29	5	CTCB (TW)	2.4	1.7	4.0	1.8	2.4	3.5	2.5	3.1	2.7	1.8	25.8
15	8	6	HDFC (IN)	2.6	1.2	4.6	3.5	1.9	2.9	3.3	3.0	1.7	1.3	25.8
2	4	7	OCBC (SG)	2.8	2.0	2.4	2.1	1.9	3.2	3.8	3.4	2.4	1.5	25.6
5	5	8	Hang Seng (HK)	2.6	0.8	3.4	3.3	2.2	2.5	3.0	3.4	2.7	1.7	25.5
na	na	9	Absa (ZA)	2.6	0.9	3.5	2.3	2.0	3.3	3.1	3.3	3.3	1.3	25.5
7	7	10	Westpac (AU)	2.0	1.8	2.6	1.4	2.3	4.0	3.7	3.4	2.3	2.0	25.5
Average Score Top 10				2.7	1.9	3.4	2.4	2.2	3.6	3.5	3.3	2.3	1.6	26.9
Average Score all 165 banks				1.7	1.2	2.6	1.7	1.7	2.2	2.3	2.4	2.5	0.9	19.3
GAP				1	0.7	0.8	0.7	0.5	1.4	1.2	0.9	(0.2)	0.7	

Source: Asian Banker Research, N=165 Banks

Areas managed very well

Highest GAP to Top 10

# Bank by Bank and Country Assessment

## Excellence in Retail Financial Services Programme 2011 Indonesia

Ranking			Strategy	Value of Franchise	Financial Performance	Sustainability	Sales	Risk	Process Technology Efficiency	Penetration Efficiency Distribution Channels	People Skills	Ethical Banking	Total Scores
2008	2009	2010	4.0	4.0	7.0	5.0	5.0	5.0	5.0	5.0	5.0	2.0	47.0
1	2	1. BCA	1.6	1.7	3.9	2.5	1.4	2.3	2.5	3.1	4.0	0.4	23.5
2	1	2. Bank Mandiri	2.6	0.8	2.9	1.9	1.7	1.9	2.1	3.0	4.3	1.0	22.1
5	5	3. Bank CIMB Niaga	2.1	1.7	3.2	1.8	1.4	2.9	2.0	2.6	3.6	0.6	21.9
		4. Citibank	1.9	0.3	3.6	2.1	1.8	2.0	2.5	2.6	3.0	0.7	20.5
10	8	5. Bank Permata	2.1	1.3	2.1	1.4	2.0	2.0	2.5	2.6	2.3	0.6	18.9
3	4	6. BRI	1.6	1.6	3.7	1.4	1.3	2.3	1.3	1.4	2.1	0.8	17.5
4	3	7. Bank Danamon	2.4	1.1	2.8	1.7	1.6	1.8	1.4	1.6	1.7	0.6	16.6
11	11	8. HSBC	1.4	1.4	1.1	1.0	1.4	1.4	2.4	3.0	2.7	0.5	16.3
9	10	9. SCB	1.4	0.6	1.1	1.2	1.7	1.4	2.4	2.9	3.0	0.7	16.2
6	9	10. BII	1.4	1.5	2.5	1.5	1.5	1.6	1.2	1.4	2.7	0.3	15.5
7	6	11. Bank OCBC NISP	1.6	1.4	1.9	1.2	1.5	1.8	1.7	2.0	2.0	0.4	15.4
8	7	12. BNI	1.4	2.1	1.8	1.4	1.6	2.1	1.2	1.4	1.5	0.3	14.9
Average Scores Indonesia			1.8	1.3	2.6	1.6	1.6	2.0	1.9	2.3	2.7	0.6	
Average Score Top 10			2.7	1.9	3.4	2.4	2.2	3.6	3.5	3.3	2.3	1.6	
Average Score all 165 banks			1.7	1.2	2.6	1.7	1.7	2.2	2.3	2.4	2.5	0.9	
<b>GAP of INDO Industry to TOP 10</b>			-0.9	-0.6	-0.9	-0.8	-0.6	-1.6	-1.6	-1.0	+0.4	-1.0	

Source: Asian Banker Research, N=165 Banks

 Areas managed very well

 Highest GAP to Top 10

## We also apply scorecards for each of the business lines (mortgages)

Category	KPI / Ratio	Description
Yield	<ul style="list-style-type: none"> <li>Pricing</li> <li>Cost of fund</li> <li>Net interest margin</li> <li>Fee/ total income</li> </ul>	<ul style="list-style-type: none"> <li>Gross interest margin</li> <li>Fund transfer price (FTP)/ interest expense</li> <li>Pricing – cost of funds</li> <li>Contribution of fee income to total product revenue</li> </ul>
Cost	<ul style="list-style-type: none"> <li>Revenue/ Staff cost</li> <li>Acquisition cost/ customer</li> <li>Direct cost/ total cost</li> </ul>	<ul style="list-style-type: none"> <li>Revenue contribution for every dollar investment on staff</li> <li>Cost to acquire a single customer</li> <li>Direct cost contribution relative to total cost</li> </ul>
Credit	<ul style="list-style-type: none"> <li>Delinquency rate</li> <li>Loan impairment</li> <li>Expected loss</li> <li>Recovery rates</li> </ul>	<ul style="list-style-type: none"> <li>Indicator of repayment behaviour and collection effort</li> <li>Individual and portfolio impairment provisions (lag indicator)</li> <li>Probability of default X loss given default (lead indicator)</li> <li>Recovery of delinquent loans 30d:60d</li> </ul>
Profitability	<ul style="list-style-type: none"> <li>Cost/ income</li> <li>Risk adjusted revenue</li> <li>Operating margin</li> <li>Loss coverage</li> <li>Return on assets</li> <li>Return on equity</li> <li>Account level</li> <li>Client level</li> </ul>	<ul style="list-style-type: none"> <li>Cost as a percentage of income</li> <li>Revenue- loan impairment</li> <li>Net profit before tax/ revenue</li> <li>(Revenue-cost)/ loan impairment</li> <li>Net profit after tax/ average assets</li> <li>Return on assets/ capital adequacy ratio</li> <li>Profitability at account and client level is the key indicator for many decisions about pricing, service levels for different segments, exit decisions</li> </ul>
Customer	<ul style="list-style-type: none"> <li>Attrition rate</li> <li>Customer satisfaction / NPS</li> <li>Market share</li> <li>Product holdings</li> <li>Refinancing rate</li> </ul>	<ul style="list-style-type: none"> <li>Measure of customer attrition relative to base period</li> <li>Customer satisfaction score through surveys/ net promoter score</li> <li>Product/segment share of total market</li> <li>Measure of bank product held by customers</li> <li>Ability to re-finance</li> </ul>

Source: Asian Banker Research



# The Best Banks in Asia

## Deposits

- Maybank (MY)
- StandChart Asia

## Internet Banking

- HSBC (HK)
- CBA (AUS)

## Branch Banking

- Citibank Asia

## Automobile

- Public Bank (MY)
- HSBC (Brunei)

## Bancassurances

- OCBC (SIN)
- HSCB (HK)

## Direct Banking

- Rakuten Bank (JP)
- Japan Net Bank

## Remittances

- Banco De Oro (PH)
- ICICI Bank (IN)

## Mortgages

- E.Sun Bank (TW)
- HSBC (HK)

## Credit Cards

- Citibank (SIN)
- CMB (CHINA)

## Mobile Banking

- SMBC (JP)
- Hana Bank (KO)

## Consumer Finance

- Citi Financial
- Adira Finance (IN)
- CBA (AUS)

## SME

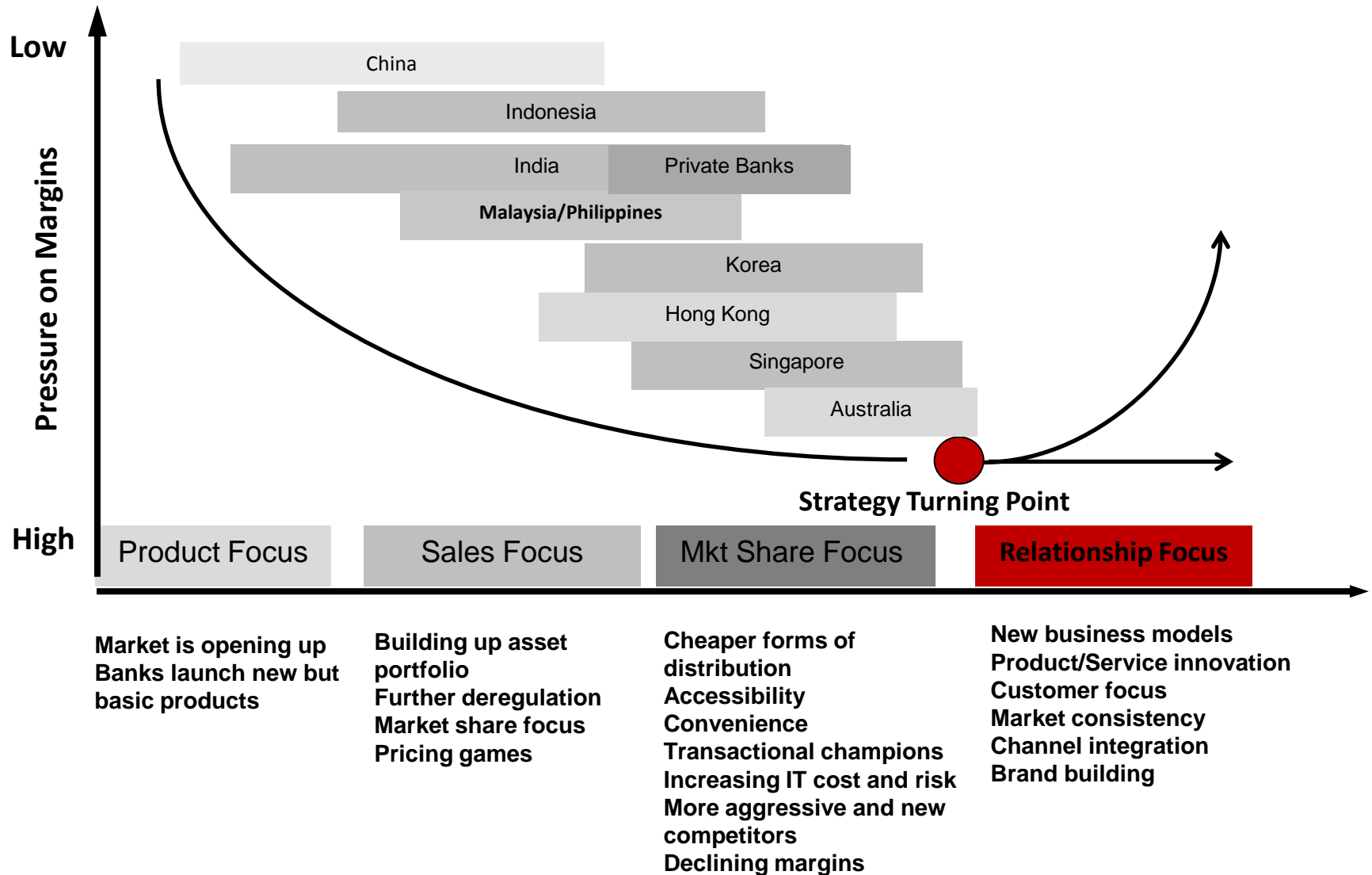
- UOB (SIN)
- NAB (AUS)

Source: Asian Banker Research



# Macro Level Fundamentals (Retail Banking)

## Industry Evolution



# Market Level Fundamentals (Mortgage Lending)

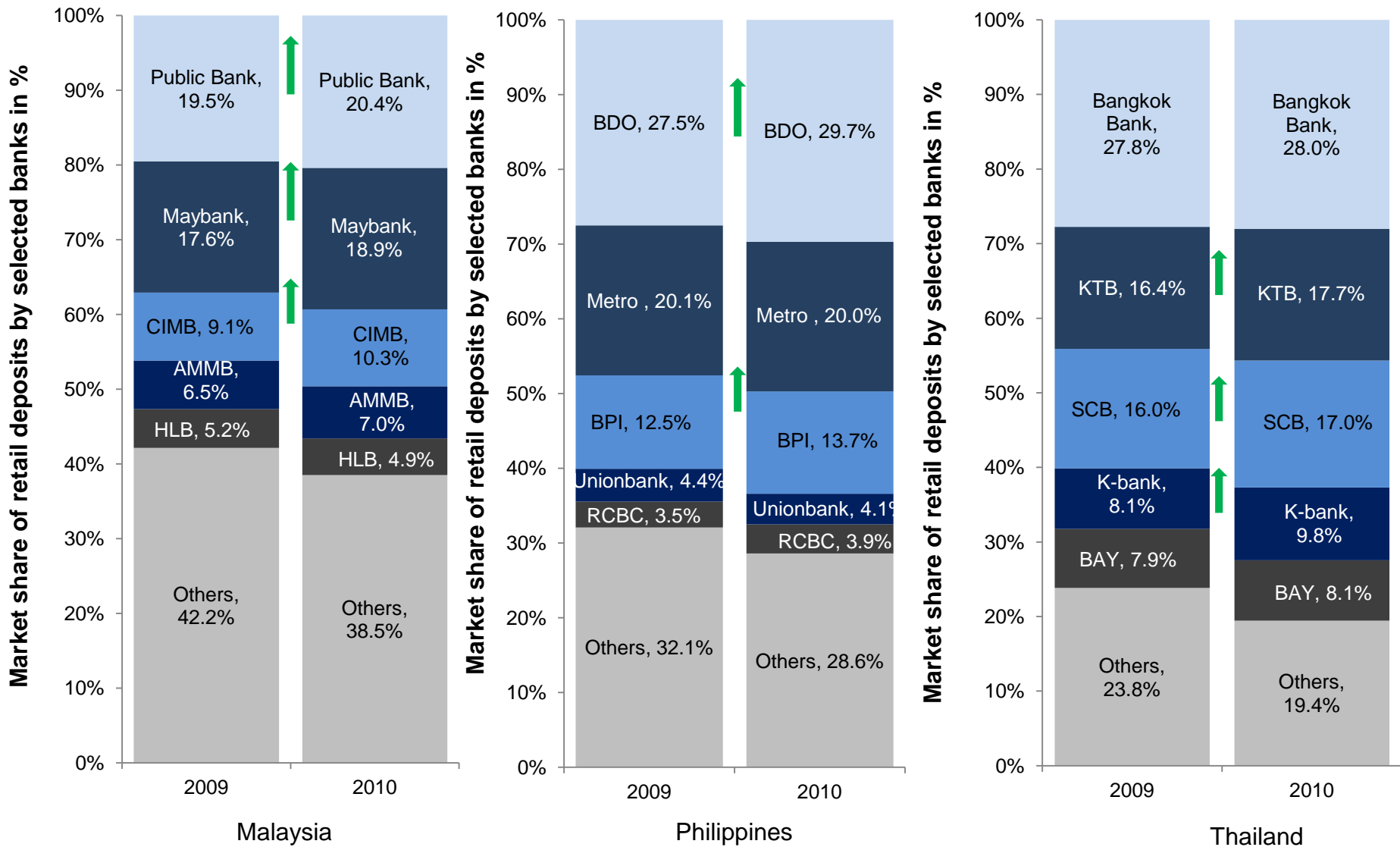
## Critical success factors CHECKLIST

Mortgage Lending
<input type="checkbox"/> Strong developer network
<input type="checkbox"/> Competitive pricing
<input type="checkbox"/> Accurate sales deployment and cross-sell initiatives backed by strong analytics
<input type="checkbox"/> Profitability on account and client level
<input type="checkbox"/> Proactive and quick approval process (developer stage)
<input type="checkbox"/> Cost management in thin margins environments
<input type="checkbox"/> Able to integrate various verification sources into one credit score
<input type="checkbox"/> Depth and scope of product offering and integration with other products
<input type="checkbox"/> Avoiding outgoing refinancing, while attracting incoming refinance loans
<input type="checkbox"/> Transparency to customers (no hidden fees, structures, documentation)
<input type="checkbox"/> Segmentation
<input type="checkbox"/> Local evaluation practices
<input type="checkbox"/> Granular analytics
<input type="checkbox"/> Back and front office productivity
<input type="checkbox"/> Superior processing support
<input type="checkbox"/> Mapping distribution strategies with property transaction activities and house price index

Source: Asian Banker Research

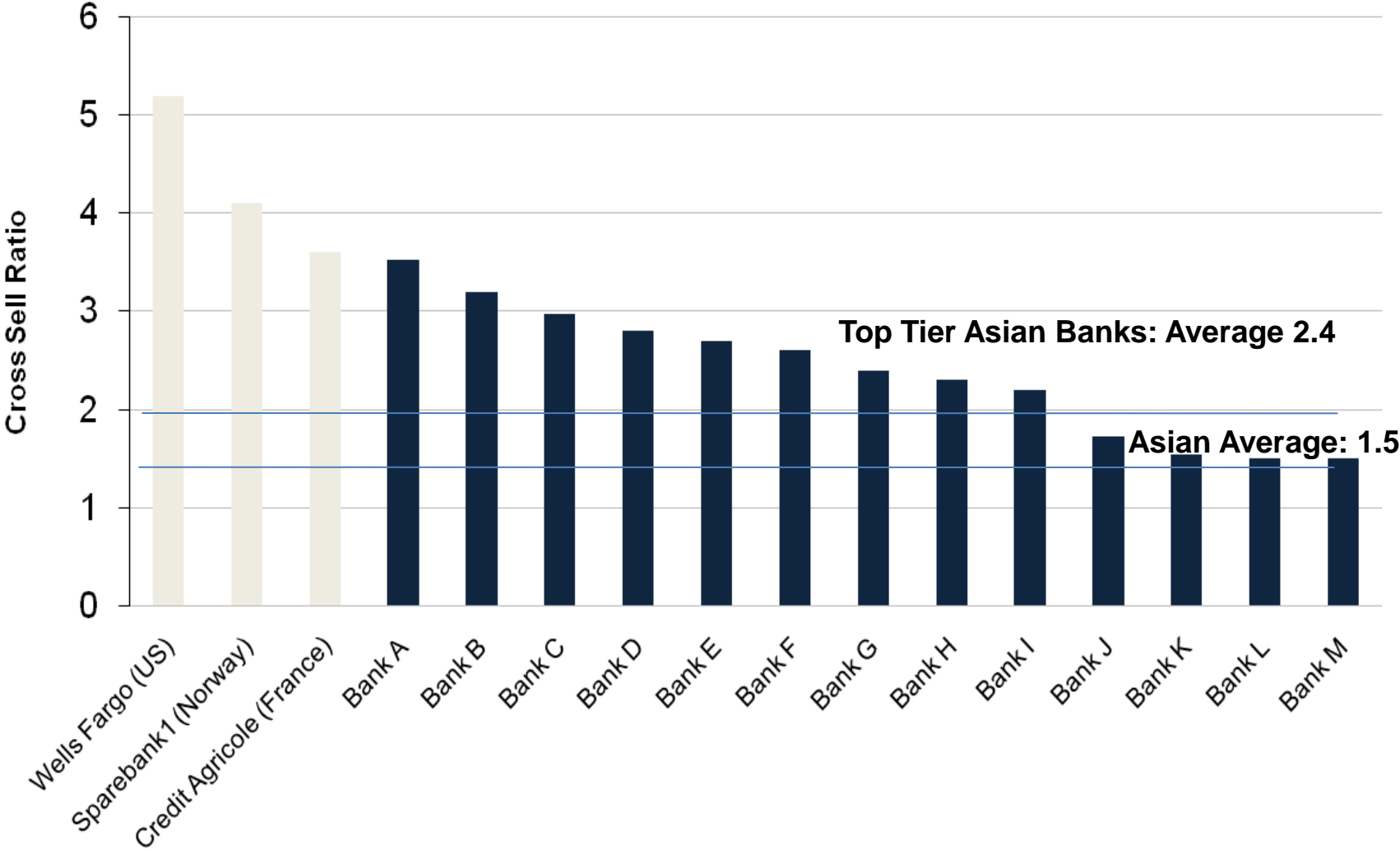
# Market Level Fundamentals (Deposits)

## Market Share



# Street Level Fundamentals

## International Cross Sell Ratios and their Asian Counterparts

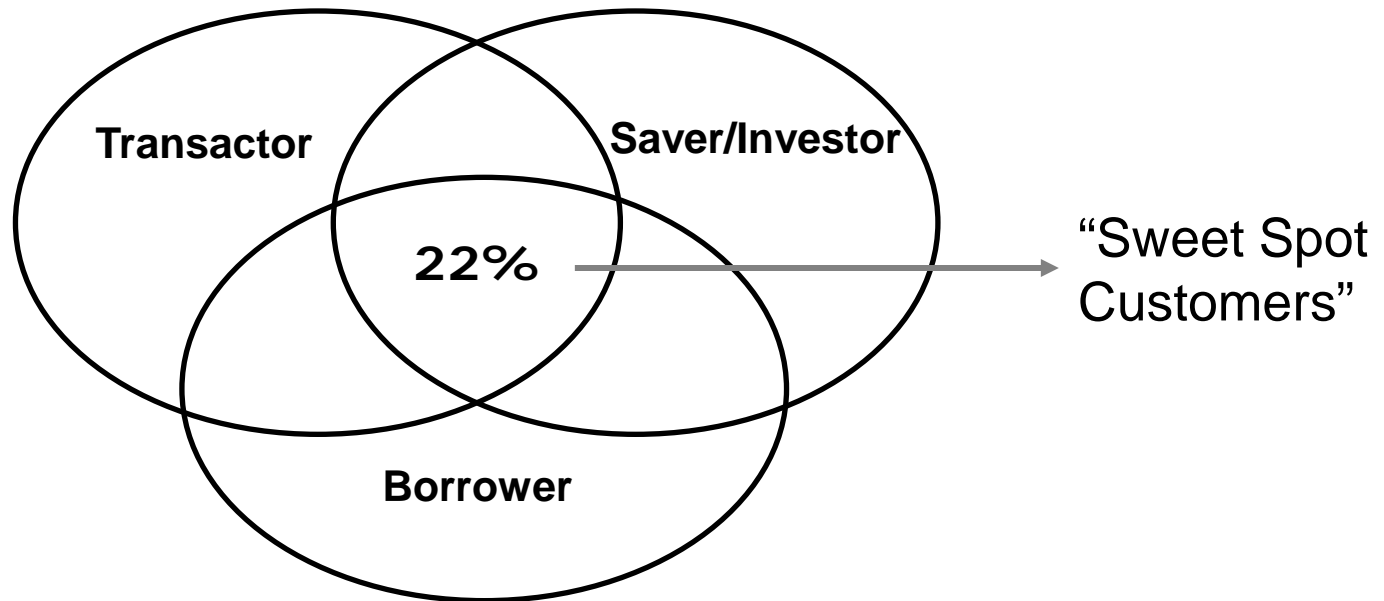


Source: Asian Banker Research

# Street Level Fundamentals

## Sales Management Strategies and KPIs

Sweet Spot Customers in Wells Fargo/Wachovia (US)



- 90% of sweet spot customers have been with Wachovia for more than 5 years
- 1% gain in this segment = \$84 million in annual revenue
- Average Balance: Transactor (\$630) Transactor/Saver/Borrower (\$53,200)

Source: Asian Banker Research/CSFB

# Street Level Fundamentals

## Account Opening Process

First Contact	Receptionist	Teller (Meeter Greeter was out)	Receptionist	Security Guard	Receptionist
Account Opening Location	Form Filing at 1. Reception 2. Consultation Area	PC Stand	Consultation Booth	Open Booth	Consultation Booth
Form Filing Method	Paper	Electronic	Interview + Paper	Paper	Paper
High Level Process (including post notification load)	<ol style="list-style-type: none"> <li>1. ID Check</li> <li>2. A/C Explanation</li> <li>3. Form Filing</li> <li>4. A/C Explanation</li> <li>5. Sign Application</li> <li>6. Staff Enters Details into System</li> <li>7. PIN Setting for ATM Card &amp; Phone Banking</li> <li>8. Receive A/C Package</li> </ol>	<ol style="list-style-type: none"> <li>1. ID Check</li> <li>2. Form Filing by PC</li> <li>3. Wait 10 Minutes</li> <li>4. Sign Application</li> <li>5. Receive ATM Card</li> <li>6. PIN Setting for ATM Card by PIN Pad</li> <li>7. Channel Explanation Navigation (optional)</li> </ol>	<ol style="list-style-type: none"> <li>1. ID Check</li> <li>2. Tell Staff Address, Birthday, Employment Status</li> <li>3. Staff Input Data into System</li> <li>4. Write Name and Stamp on Pre-Printed Application Form</li> <li>5. Receive A/C Package</li> </ol>	<ol style="list-style-type: none"> <li>1. Form Filing</li> <li>2. Sign Application</li> <li>3. PIN Setting for ATM Card By PIN Pad</li> <li>4. ID Check</li> <li>5. Receive ATM Card</li> <li>6. Channel Explanation/Navigation (optional)</li> </ol>	<ol style="list-style-type: none"> <li>1. ID Check</li> <li>2. Form Filing for Bank Account</li> <li>3. Form Filing for UT Account</li> <li>4. Sign Applications</li> <li>5. Form Filing for Seal Registration</li> <li>6. Sign for PIP</li> </ol>
Account Opening	60 Minutes	15 Minutes	30 Minutes	X Minutes	X Minutes
Time to get ATM Card	3 Days	Instant	5 Days	Instant	2 Weeks
Onboarding Experience	●	○	Qualifiers		
Simplicity	○	●			
Relative Speed	○	●			
Needs Based Dialogue	●	○			

Source: Asian Banker Research

○ Absent ● Provided

# Agenda

- Retail Financial Services
- **Transaction Banking**
- Risk Management
- Technology

# We assess the cash management, payments and trade finance business of commercial bank

## Scoring Parameters

### Cash Management

#### Overall Value of Franchise

- New net mandates won in cash management
- Strength score transaction business
- Strength score in Cash management
- Satisfaction score in Cash management( 1-5)
- % of clients consider FI as primary bank

#### Infrastructure Capabilities

- % of FI employees are client facing
- % of transaction employees to total
- % of FI is IT staff

#### Financial Performance

- Volume of transactions (mn)
- YoY growth in volume of transactions (%)
- YoY revenue growth
- YoY deposit growth
- Average deposit balances (bn)

#### Product and Services

- # of products and services offered
- Innovation level and impact on business (1-5)
- Size and significance of cash management deal (1-5)

#### Operations and Processes

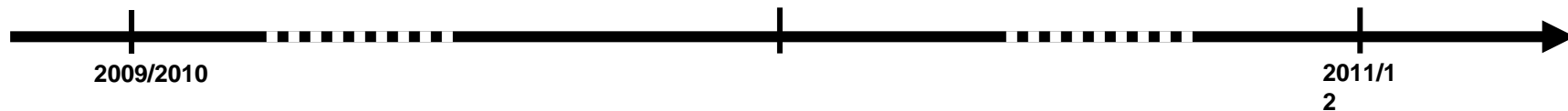
- % are electronic payments
- Degree of global integration of processing platform (1-5)
- Degree of integration with back office (1-5)

#### Distribution Capabilities

- Number of countries domestic in
- Services scope on Internet
- Transaction Banking Services separate for corporate and SME



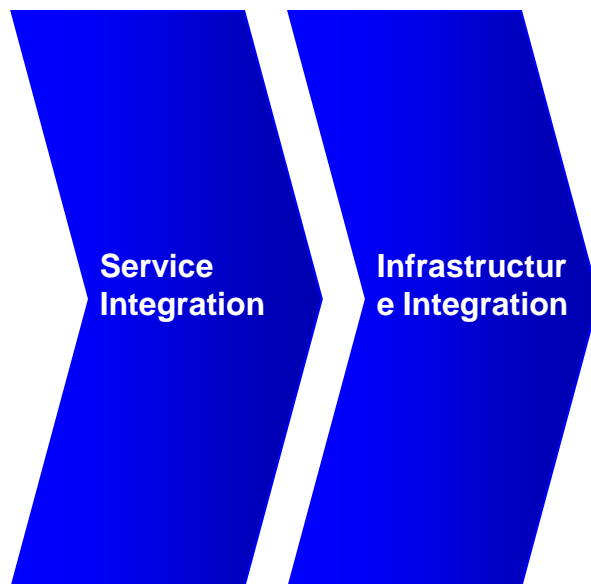
# Futuristic business model looks at globally integrated suit of products for transaction banking backed by IT investments for service innovation



## Fragmentation

### Characteristics

- Strong price competition, Single digit growth in transaction revenue that too backed by cost cutting
- Product innovation being considered as key competition driver
- Domestic banks still working on fragmented services on cash, trade and payments
- Separate Touch points for client interaction in Cash and Trade
- IT investment focused towards processing improvisation
- Selected banks looking at processing centralisation
- Banks increasing risk mitigation measures, adding visibility and controls



Source: Asian Banker Research

## Integration

### Characteristics

- Single global platform to meet all transaction needs
- Transaction processing completely centralised. Real time transaction processing
- Intra-Asia Trade forming a large component of trade transaction business
- Service quality a key competing factor. Whitelabelled technology and Internet enhancements provide competing propositions
- Customised and consultative approach, collaborate closely with Corporate, FI client & provide integrated product service
- Supply chain financing to become a significant revenue generator for banks



# Agenda

- Retail Financial Services
- Transaction Banking
- **Risk Management**
- Technology

## Basic Threshold Scorecard (Risk Management)

No.	Pillar	Parameter
1	Risk Organisation Structure	Distinct departmental structure
		Office of the Chief Risk Officer
		Competence of senior management & staff recruitment
2	Infrastructure Capabilities	Data consolidation processes
		Software & architecture used
		Basel II compliance
		Potentiality of Basel III compliance
		Operational risk readiness in loans processes
		Operational risk readiness in fraud detection
3	Historical References	Past instances that demonstrate risk culture
		Reputation
4	Balance Sheet	Balance sheet quality

# Agenda

- Retail Financial Services
- Transaction Banking
- Risk Management
- **Technology**

# General Criteria Scorecard (Technology) and Assessment Areas

## General Criteria Scorecard

Strategic Alignment

Delivery of Business Value

Project Management

Project Execution

Vendor Strategy/Evaluation

Contract Development Management

Project Management Guidelines

Cost Management

Meeting Quantifiable Targets and Goals

Risk Mitigation



## Assessment Areas

Core Banking

Middleware Implementation

Data Analytics

CRM

Product Application

Banking Security System

ATM Installation and Management

Call Center/E-Banking

Branch Automation

HR Systems