IBM Global Business Services
Executive Report

Banking

IBM Institute for Business Value

Fit, focused and ready to fight

How banks can get in shape for the battle ahead

IBM Institute for Business Value

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior executives around critical public and private sector issues. This executive report is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to iibv@us.ibm.com for more information.

By Shanker Ramamurthy, Srini Giridhar and Cormac Petit

Many banks appear unhealthy and out of shape as they emerge from the global financial crisis. As they recover from this experience, they must embark on a new fitness regimen that includes a diet restricted by tighter regulations. Battling toward a healthy future, banks must act today to redefine their business models, restore client trust and understanding, and reform their risk management culture.

As the world recuperates from its recent economic malaise, bankers face a host of questions as they seek to improve the industry's health and foster long-term growth. In addition to determining how to strengthen their financial fundamentals and create new avenues for sustainable revenue and profit growth, banking leaders need to address client trust and insight while simultaneously developing strategies to better manage risk.

With many economies moving toward recovery, now is the time for banks to chart their course to a new reality. Where should they begin? Managing future growth while, at the same time, strengthening the balance sheet is one of the most important immediate challenges for banks. Cutting costs alone will not suffice. Banks should find new, sustainable sources of revenue and profit.

To drive long-term success, today's banks need to **focus on their business models** and make changes that enable growth, reduce costs and concentrate on those areas in which the organization wishes to excel. Each bank should determine its own specialization strategy and build the business model to support it. Banks must concentrate on decreasing complexity and increasing efficiency. Along the way, some banks will become candidates for mergers and acquisitions, such as smaller banks that lack economies of scale. At the same time, some larger banks, whose size has created extreme complexity, will divest divisions. While some of these divestitures will be required by regulators, large banks should consider divesting low performing divisions to maintain their focus and fitness.

In addition to business model health, banks must address the declining **health of their client relationships**. Our research indicates a clear trust gap between banks and their clients. Clients overwhelmingly believe banks operate primarily in their own interests rather than those of their clients – and, surprisingly enough, many bankers agree! To rebuild client relationships and reestablish trust, banks must understand what clients want, what they need and for what they are willing to pay. One way to do this is by employing a new approach to client segmentation – one based on what clients value rather than on traditional attributes like age, health, stage of life, etc. Such segmentation will lead to a healthier, more sustainable relationship with clients and, in turn, a more profitable one.

Finally, the recent economic crisis has underscored the need for banks to become more astute in their approach to risk. Historically, banks' risk management techniques have been implemented in silos aligned along individual lines of business or regions of operations. These silos hinder an essential **enterprise-wide view of risk**. Banks should move toward an integrated risk management framework that transcends silos and cohesively addresses financial risk, compliance and governance, and fraud and financial crimes. At the same time, banks must work with regulators to create a financial architecture that improves stability and allows insight into systemic risk.

Based on extensive industry research and surveys and interviews with industry executives worldwide, we have identified the areas we believe banks should focus on as they fight to overcome their challenges and thrive in this new environment. **To get into shape and maintain fitness, banks must make a significant transformation to redefine their business models, restore their client relationships and reform the risk management culture.**

Research methodology

For this IBM Institute for Business Value study, we utilized data from surveys of thousands of individuals and businesses and secondary research to determine how firms will compete for the future.

Scope: Our analysis focused on insights from select financial institutions including:

- Traditional banks (universal banks, national and multinational banks, regional banks, savings and loans and building societies, and cooperative banks)
- Specialist and boutique banks
- Regulators/government officials
- Operational specialists and service providers
- Others (nongovernmental organizations, academics, etc.).

Approach: We included data from IBM Institute for Business Value Financial Services surveys of over 7,300 consumers in 13 countries and over 2,500 business leaders from 500 firms, as well as qualitative interviews of more than 100 executives and secondary research. Thirty-four percent surveyed and interviewed were in the Americas, 36 percent in Europe and 30 percent in Asia and Australia. In addition, a quantitative financial model of 139 financial institutions was developed, including a geographically diverse selection of 117 of the top 200 banks by assets.

The battle ahead

With the majority of dust having settled from a disruption in the financial services sector, many organizations are moving forward, taking with them lessons learned as they get in fighting shape to prepare for future growth and success. The good news is that several parts of the world appear to be on a road to recovery. However, many economists speculate there are still major bumps ahead.

As banks venture down this road – bumps or not – they will find new opportunities, as well as some challenging realities. Since the start of the crisis, banks across the world, particularly those in the United States and Western Europe, have made significant writedowns. In fact, from July 2007 to March 2009, asset writedowns exceeded capital raised worldwide by more than 16 percent.[1] In particular, European banks are likely to face further writedowns.[2]

Banks must now focus on raising capital, improving asset quality and increasing profits. No doubt, this is a multiyear journey. New and proposed regulations all point to additional requirements for greater capital. Further complicating matters, banks' access to capital from equity markets is constrained by existing loans, an overall decline in public wealth and low current performance. And, having already spent more than US$10 trillion on banks, governments will be hard pressed to assist any further.[3]

With all this in mind, how does the banking industry move from peaked to prosperous? How can the industry grow amid increased regulations and capital requirements? Where must banks focus today as they fight for a healthy future? We believe the answers involve a commitment to fitness in the areas of business model innovation, client insight and risk management.

The financial ecosystem

For the purposes of this study, we have classified institutions in the financial ecosystem into three domains outlined below. This paper focuses on institutions in the traditional banking domain, which has been further segmented into three categories: universal banks, national and multinational banks, and specialized and regional banks.

- *Traditional banking:* Deposit-taking institutions that provide financial services to retail and institutional clients.
  - ***Universal banks*** are large global banks that typically have significant operations in 12 or more countries and generate a minimum of 2 percent of their revenues from each of these countries. These banks have assets of US$800 billion or more.
  - ***Multinational and national banks*** include banks with significant operations in 11 or fewer countries with an asset base between US$250 billion and US$800 billion that receive 50 percent of their revenue from their home base. They typically rely on both their deposit base and the capital markets as funding sources.
  - ***Specialized banks and regional banks*** include specialized banks that operate in one or more countries, have an asset base of less than US$250 billion and gain 75 percent of their revenue from one or two major countries or lines of business.
- *Customer intimacy:* Financial institutions or organizations specializing in the distribution of one or more product groups or firms providing business information/customer data to financial institutions. Included in this group are integrated monolines, niche and cross-product distributors, and insight specialists.
- *Operational excellence:* Businesses that provide operations or operational support to other banks, with business operations as their main revenue source. This group is further broken down into hybrid manufacturers and processors, processing specialists and networks.

Business model innovation

Data from this study confirms what numerous IBM Institute for Business Value studies have indicated: that specialization is a winning theme within the financial ecosystem.[4] While pre-tax profits were down 9 percent from 2003 to 2008 (compounded annual growth rates) for traditional banks, customer intimacy firms' pre-tax profits declined only 1 percent and operational excellence firms saw growth of 12 percent.[5]

To capitalize on this specialization theme and compete in the post-crisis environment, banks need to rethink their business models – and they are aware of this need. In fact, 75 percent of executives interviewed point to business model uncertainty as the issue that keeps them "awake at night."[6]

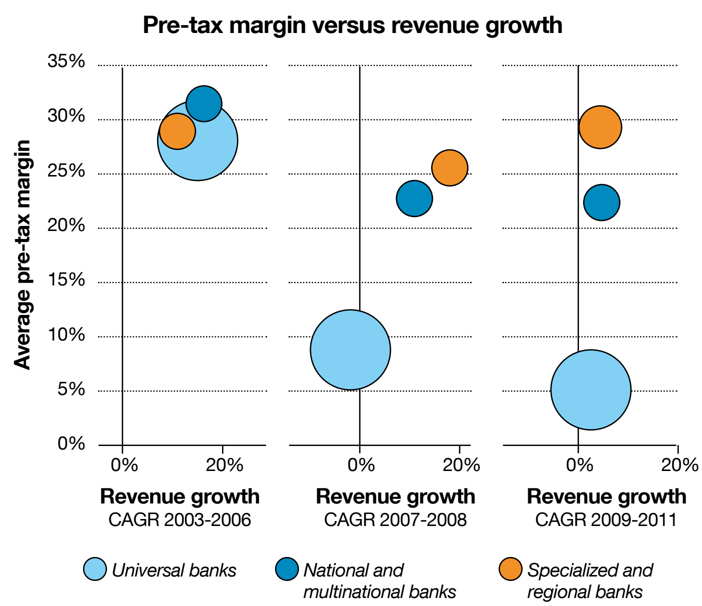
Many banks, universals included, face lower income levels for a number of reasons, including lines of business that suffered during the crisis, lower levels of economic activity, higher loan losses and provisions, increased customer resistance to fees and greater pressure on margins. Overall, this has resulted in reduced profit pools. Furthermore, banks face increasing competitive pressure for deposit funding and difficulty in raising additional capital. Some also face pressures from regulators to downsize.

What can bank executives do to alleviate uncertainty so they can sleep better at night? The answer begins with a critical look at their business models. Specifically, banks need to nail down their areas of specialization – or, more simply, determine who they want to be – and build a supporting business model. They should seek sustainable new sources of revenue and focus on the markets and customer segments that will reap the most profits while reassessing less profitable markets. At the same time, they need to improve scale advantage – via mergers, acquisitions, divestitures, collaboration or other means – and lower costs by improving long-term efficiencies.

Change is in the air

Profit pools are shifting – and many predict the returns of the past are over. The universals have seen the most drastic decrease in profits (see Figure 1). Other banks have been better able to endure the changes, with the national and multinational banks expected to recover fairly well going forward despite the dip their profits took during the height of the financial crisis in the 2007 to 2008 timeframe. However, they too face economic challenges and cost pressures and must make lifestyle changes for improved fitness and growth.

With such dramatic shifts in profits and growth, many bankers have begun to doubt their business models. As banks take a critical look at their strategies, they should consider the pitfalls associated with trying to be all things to all people.



Note: Size of ball reflects revenue. Pre-tax margin calculated as ((Pre-tax profit) / (Net interest income + Non interest income)). Revenue assumed to grow at a rate of 0 percent for 2009 and 50 percent of the average 2003-2008 growth rates for 2010 and 2011 respectively. Further, 10 percent reduction in cost and loan loss provision is assumed between 2009 and 2011. N = 139.
Source: IBM Institute for Business Value analysis.

Figure 1: **Shifting profit pools.**

"Our direction is more specialization."

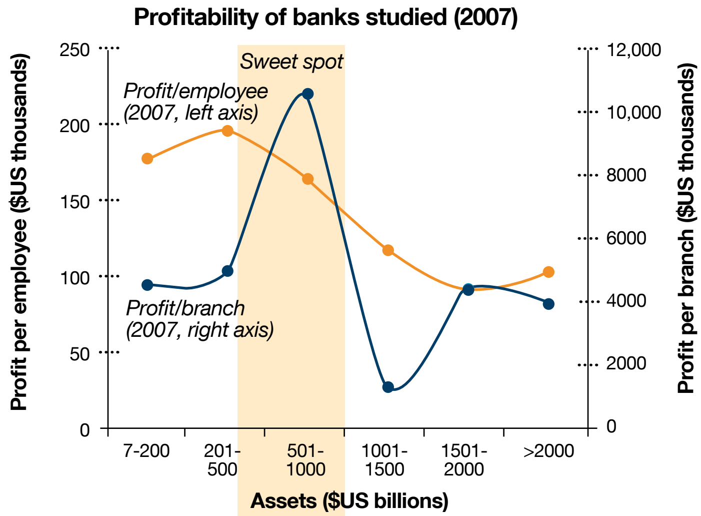
Japanese bank executive

In summary, banks must determine their areas of specialization and expertise. They should focus their efforts on those customers, markets, products and distribution channels they can manage effectively and efficiently and consider extending the business only when economies of scale and scope are clearly present. To fill gaps in product range, market reach and distribution, banks should consider strategic alliances with other banks or organizations.

Finding the sweet spot

When analyzing the profitability of the banks in our study, there appears to be an optimal size – or a "sweet spot" – at which a bank is large enough to achieve economies of scale but not so large that it suffers from the adverse effects of complexity and inefficiencies (see Figure 2).

On one end of the size spectrum are small banks, many of which are successful due to their focus on specialization. However, the profit levels of a number of the small banks suffer because these banks are unable to achieve economies of scale. On the other end of the spectrum are very large banks, some of which also do not achieve economies of scale – but for different reasons. For these banks, the complexities of managing a large bank with numerous branches and businesses in varying geographies has nearly nullified the potential for economies of scale and scope – a phenomenon we have dubbed "scale squander."

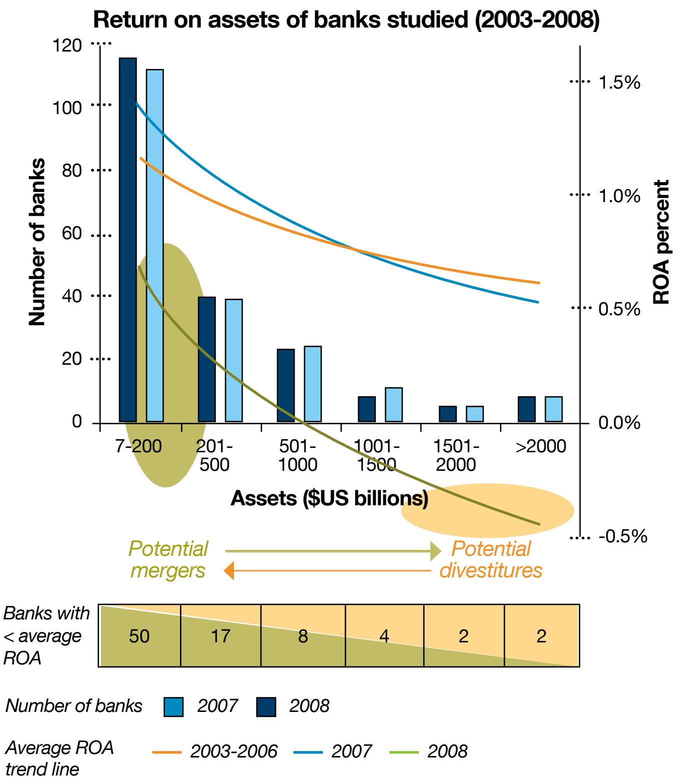


	7-200	201-500	501-1000	1001-1500	1501-2000	>2000
Branches per bank ('00s)	8	32	56	139	64	56
Employees per bank ('000s)	15	40	92	152	190	196

Source: The Banker. Top 1000 World Banks. July 2009; IBM Institute for Business Value analysis.

Figure 2: **Profitability and asset size.**

As banks seek to achieve scale advantage and improve return on assets (ROA), we will see an acceleration of mergers, acquisitions and divestitures. For example, a small bank with below average ROA might be acquired by a bank seeking to achieve better operational efficiencies, better economies of scale and higher profits. Other smaller banks might elect to collaborate on certain functions to enable those economies of scale they lack. On the other side of the coin, those large banks suffering scale squander might elect to divest poor performing business units (see Figure 3).



Note: Average for each period, as per available information.
Source: The Banker. Top 1000 World Banks. July 2009; IBM Institute for Business Value analysis.

Figure 3: **Opportunities for mergers/acquisitions and divestitures.**

Lowering costs, increasing efficiency

Banks' total cost structures remain high despite the recent declines in revenue and profit. Across all three categories of banks (universals, nationals and multinationals, and specialized and regional banks) from 2006 to 2008, staff costs decreased slightly – *but all other costs continued to increase*. All three bank categories also experienced reduced profitability by 2008 – with the universals declining the most.

Banks will have to service future growth from radically lower cost structures. Most banks in Europe and the Americas would have to undertake very steep cost cuts to restore the profit levels of 2003 to 2006 (see Figure 4). Emerging market banks are an exception, as many of them are likely to achieve past profits level through growth in revenues. Further, many of these banks already enjoy significant cost advantages in comparison to the banks in mature markets.

In particular, many universals, nationals and multinationals must focus on new business models, since cost cutting alone will not return them to past levels of profitability. These banks are faced with structurally lower revenues, as revenues from some businesses are likely to remain poor for the near future. Hence, these banks will have to emphasize conventional revenue sources, such as interest generated from loans and fees from deposit accounts, as well as revenue from new sources. With the exception of the emerging markets, the return to previous levels of profit will be a journey spanning multiple years.

All banks must look at longer-term structural efficiencies to increase agility and integration and to reduce costs based around their chosen strategic focus. This will enable them to design an efficient platform for growth.

"Who will be the winners of the future? Those who master operational efficiency…"

Scandinavian bank executive

	Average pre-tax profit margin (2003-2006)	Pre-tax profit margin (2007)	Pre-tax profit margin (2008)	Staff costs and administrative costs as percentage of total income (2008)	Reduction in costs over 2008 required to reach historic (2003-2006) profit margins in one year		
					Americas	Europe	Emerging markets
Universal banks	35%	26%	-21%	67%	40% – 55%		NA
Mulitnational and national banks	38%	41%	32%	43%	30% - 40%		0% - 10%
Specialized and regional banks	30%	25%	6%	64%	15% - 20%	25% - 30%	0% - 10%

Note: Revenue growth is assumed to be 0 percent in 2009. For projection, depreciation and amortization and loan loss provisions are assumed to remain at 2008 levels; one-off costs are assumed to be zero.
Source: IBM Institute for Business Value analysis.

Figure 4: **Required cost reductions to reach 2003-2006 profit levels.**

"Banking is an IT game – everything is around IT: management competence and IT capability."

Australian bank general manager

Many banks have already implemented simple initiatives to drive near-term savings via reduced capacity, such as staff reductions, management delayering, project and service streamlining, etc. However, to drive long-term savings, sustained growth and greater agility, they must shift the entire cost curve downward through transformation initiatives in areas such as IT, shared services and front/back office integration.

For example, by optimizing IT resources, banks can reduce complexity and increase efficiency. They could similarly optimize shared services in enterprise data management, enterprise content management, call centers, human resources and finance. Finally, banks could better integrate front and back office functions, particularly in the areas of collections and recovery, the lending process, transaction processing and core banking system transformation, and account opening and client data management.

In essence, banks must make substantial changes to their business models to facilitate long-term health, fitness and growth. They must determine their areas of specialization and design their business models to support them. Concurrently, they must respond to opportunities for mergers and divestitures in the ecosystem, as well as make organizational adjustments to simplify operations and eliminate complexity.

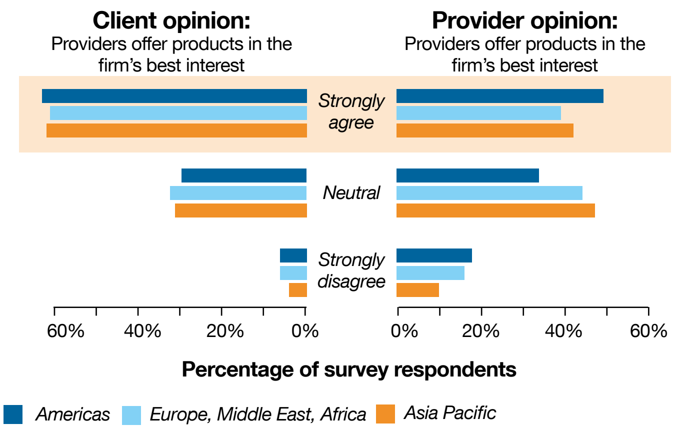
While these changes associated with business models are important – and indeed imperative – to the future of banks, they are only one piece of the puzzle. Such changes will be meaningless if banks do not simultaneously take a deeper look at their client relationships.

"It's not just about reexamining business models... it is also about management of the client experience…"

U.S. bank executive

Client insight

The banking industry has some serious work to do in terms of reestablishing trust in client relationships. Our research indicates a large trust gap between banks and their clients across all geographies (see Figure 5). Clients do not trust banks to offer products and services that are in the clients' best interests.



Note: Question asked: To what extent do you agree/disagree with the following statement about trust. Rank on a scale of 1-6. Financial services providers are likely to offer products and services in their own best interest. N = 762.
Source: IBM Institute for Business Value survey.

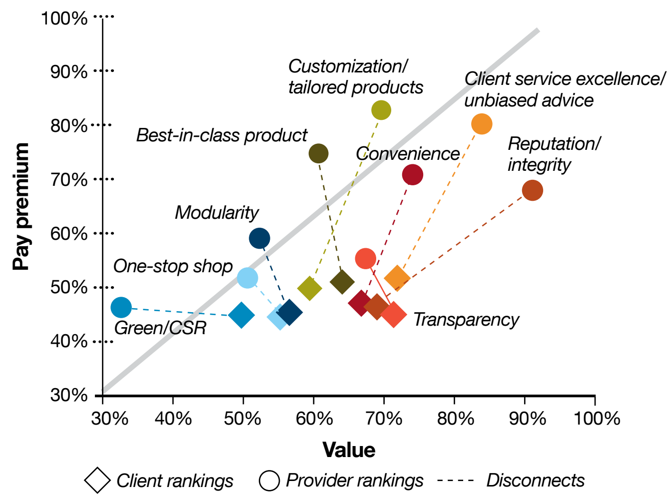
Figure 5: **The trust gap.**

The unknown client

To close the trust gap, banks must gain a deeper understanding of their clients – what they value, what they need and what they expect. Today's client are more active and enabled, and many are willing to look outside their banks to meet their needs. As such, banks must find a way to reconnect with their ever-evolving clients.

We surveyed over 7,000 clients in 13 countries and asked what attributes of banking products and services they value most and what additional premium they would be prepared to pay for each of these attributes. We also asked providers the same questions about their clients (i.e., what providers believed their clients valued and for what they would pay). The results reveal huge disconnects, indicating banks do not know their clients nearly as well as they should (see Figure 6).

Client versus provider perceived value and premiums



Note: Questions asked: 1) Which financial services capabilities become more/less important to you/your clients in the next 3-5 years? Rank 1-6. 2) How much would you/your clients be willing to pay over existing rates to ensure delivery on specific factors? Select 0%, 5%, 10%, 15% or more, don't know. For customers, N = 7454; for providers, N = 226.
Source: IBM Institute for Business Value survey.

Figure 6: **Disconnects between clients and providers.**

"Money is simple. The art is raising trust and dealing with people."

Eastern European bank CEO

Among the items rated high in value by clients are client service excellence/unbiased advice, transparency and reputation/integrity. Some that are relatively less important include modularity, one-stop shop and green/corporate social responsibility (CSR). Bankers somewhat underestimate the value clients place on green/CSR and overestimate the value clients place on client service excellence/unbiased advice and reputation/integrity.

"Customer intimacy will generate client loyalty."

Japanese bank executive

Bankers overestimate what clients are willing to pay for across the board with the biggest gaps for customization/tailored products, client service excellence/unbiased advice and reputation/integrity. As such, typical banks are inclined to charge premiums that are in excess of levels clients are willing to pay. On average, there seems to be little difference in the readiness of clients to pay more for various attributes, though they are slightly more willing to pay for client service excellence/unbiased advice, best-in-class products and customization/tailored products.

Overall, clients indicate variance as to which factors drive value in their eyes. However, there is a much narrower band of variance in the amount of premium they will pay. Banks were off the mark across the board in both respects.

Client segmentation

Segmentation can reveal what clients value, how they behave and for what they are willing to pay a premium. By segmenting clients based on attitudes and values, banks can more effectively determine price sensitivity and potential for premiums.

Using advanced clustering and statistical methods, we segmented the client survey population into six segments based on attitudes and values (see Figure 7). Convenience desirers want easy-to-configure products, prefer to receive advice and service online, and may be open to value pricing. The price-sensitive analyzers desire accessible information, easy-to-compare products and transparency/comparability in pricing. The active demanders also appreciate accessible information – but value customizable services when it comes to products.

The uninvolved minimalists seek flexibility, convenience, and ease of use and understanding. Some of the more challenging customers are the traditional service expectants, who have "special needs." They want customizable services – but at low prices. Their preferred channel of interaction is often a branch.

Segment	Convenience desirers	Price-sensitive analyzers	Active demanders	Uninvolved minimalists	Traditional service expectants	Ethics seekers
Percent	21.9%	21.4%	20.6%	19.1%	9.2%	7.9%
Key theme	"Make it easy for me at whatever cost."	"I want the best bargain."	"I want it all, and I want it now."	"Finances are important, but I don't know how."	"I have special needs, and I want you to take care of them."	"I want a smarter, more responsible provider."
Defining characteristics	Convenience, simple, easy to use	Service, best value for money, transparency	Tailor-made products, product quality, brand integrity, best value	Convenience, service excellence, transparency, reputation	High-quality and individual products, one-stop shop, advice	Reputation, green, transparency, service, unbiased advice

Source: IBM Institute for Business Value surveys and analysis.

Figure 7: **Client segments.**

The smallest group is the ethics seekers, who want a responsible provider with a good – and green – reputation that can provide service, unbiased advice and transparency.

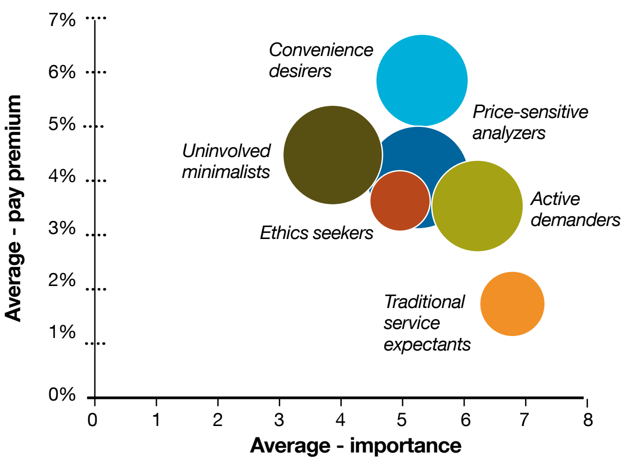
As we saw previously, when the survey population is grouped as a whole, there is little variance in overall willingness to pay premiums for various services. However, once clients are segmented, a clearer picture emerges of which clients are willing to pay more for which services or offerings (see Figure 8).

For example, traditional service expectants, who tend to rate all attributes higher, are also less inclined to pay a premium for bank products and services. They have high expectations but are not willing to pay more – which makes them a somewhat challenging group. Convenience desirers, on the other hand, are more willing to pay a premium than the other groups for various products and services.

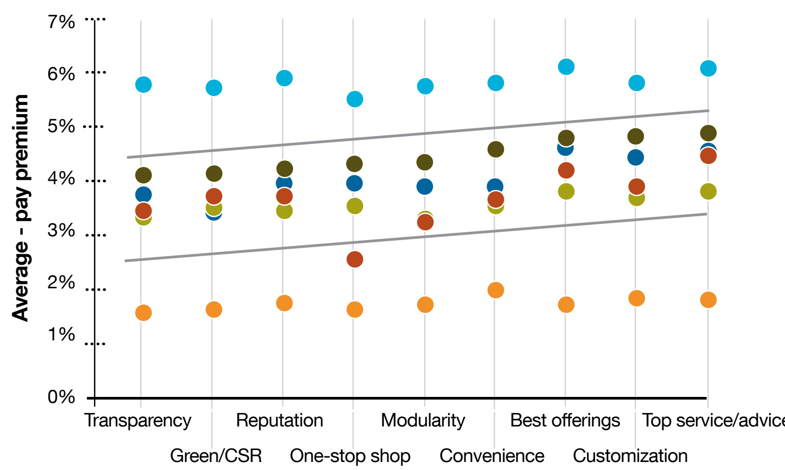
"Profitable business is in the client segments. We must really deepen relationships and attract like customers… We need better customer analytics."

Canadian bank executive

Client indicated value versus premiums by segment



Client indicated premiums for value drivers by segment



Note: Questions asked: Which financial services capabilities become more/less important to you in the next 3-5 years? Rank 1-6. How much would you be willing to pay over existing rates to ensure that you deliver on specific factors? Select 0%, 5%, 10%, 15% or more, don't know. N = 7454.
Source: IBM Institute for Business Value.

Figure 8: **Value and premiums by client segment.**

We also found that the client segments vary by country (see Figure 9). Countries with developed, saturated markets, such as Japan, Spain and the Netherlands, tend to have a higher proportion of uninvolved minimalists, while markets such as Mexico and Poland have a much higher percentage of price sensitive analyzers and active demanders.

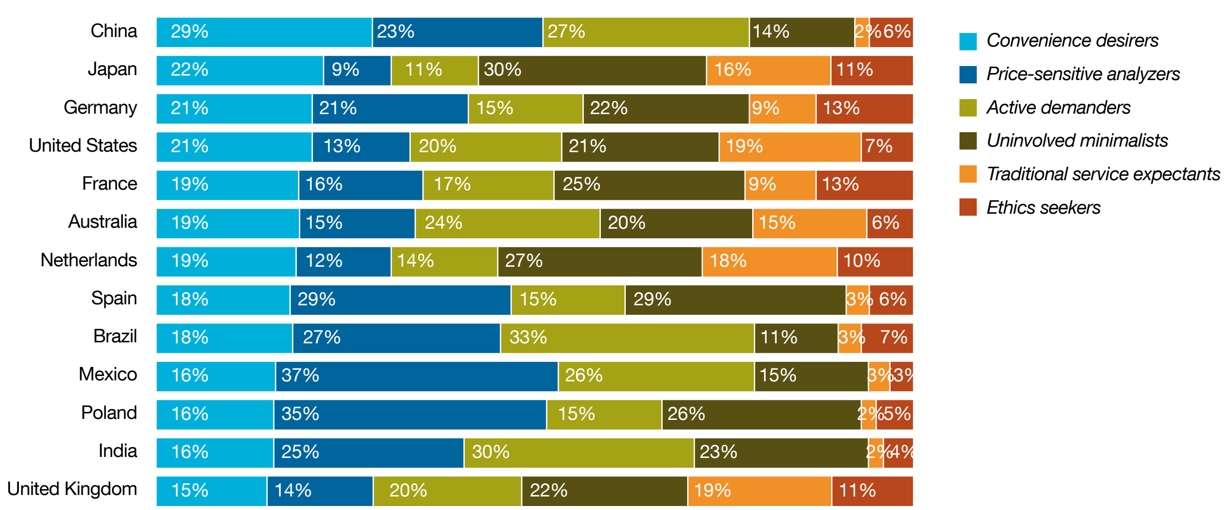
Smart banks will invest in customer analytics to gain new customer insights and effectively segment their clients. This will help them determine pricing, new products and services, the right customer approaches and marketing methods, which channels customers are most likely to use and how likely customers are to change providers or have more than one provider.

By segmenting customers to gain deeper insights regarding their values and behavior patterns, banks can begin to close the trust gap and build a healthy mutually-beneficial relationship with their clients.

Risk management

Risk management is the last piece of the puzzle for banks as they consider their regimen for success. Recent failures in the banking industry have underscored the need for improved risk management techniques.

As professional risk managers know, traditional models tend to discount the frequent occurrence of extreme events and hence underestimate risk. However, we believe these models are but one of several problems. The difficulty in forming good judgments and making decisions based on the information that is available is another significant area of concern. We believe two main issues contribute to this difficulty – silo implementation of risk management techniques and a weak systemic view of risks across the banking ecosystem. To combat this, banks must implement an integrated, enterprise-wide risk management framework.



Note: N = 7454.
Source: IBM Institute for Business Value survey.

Figure 9: **Segment distribution by country.**

"We have models, but we do not have systemic models."

Belgian bank CIO

Beyond financial risk…

In addition to traditional financial risks such as credit and market risks, banks also face risks associated with financial crime, operations, and governance and compliance. And in each of these areas, the same two themes of silo implementation and lack of a systemic view emerge.

Financial risk:

Current risk models have limitations in coping with today's realities. Furthermore, a weak risk culture and a tendency to implement systems and processes departmentally make it difficult for many banks to gain sufficient insight into risks. The result is an inability to assess risks accurately.

Financial crime:

The fraud aimed at banks is becoming more and more sophisticated – and more and more prevalent. Although many banks gather incident information from across the organization, their success is limited by systems that have been organized by business lines or departments. In addition, there is little sharing of data between banks, making it difficult to combat fraud across the ecosystem.

Operational risk:

Expanding globalization and rising numbers of financial transactions have brought with them increases in operational risks. In addition, the growing demand for processing capacity has led to mounting costs. Banks are increasingly dependent on external information sources to evaluate operational risks. Some banks are forming consortiums to pool data and better understand the occurrences and associated potential losses. However, this fragmented approach to risk – both internally and externally – remains a handicap.

Governance and compliance:

To react rapidly and effectively to changing events, banks need accurate, real-time information. Reliable and easily-accessible financial information enables timely responses to external demands and effective internal business insight.

Banks are challenged by the absence of consistent, complete data and by the lack of common enterprise-wide frameworks and methods for analyzing risk. This information challenge is further exacerbated by poor communication between departments, a weak organizational risk culture and data being defined and understood differently by different departments within the overall enterprise.

Integrated approach

An industry report indicates only 17 percent of firms surveyed have completely integrated their governance, risk and compliance processes.[7] Today's firms cannot continue using piecemeal approaches to risk and compliance management. To move away from silo implementation and gain a holistic, systemic view of risk, financial institutions must embrace enterprise-wide risk management.

To address the various areas of risk, banks should:

- Interconnect the numerous risk silos to better comprehend the bank's full set of risks and opportunities.
- Instrument the organization – i.e., provide it with the sensors it needs – to detect and intercept risky events.
- Intelligently anticipate and mitigate potential risk from failed internal processes, people or systems.
- Be smart in complying with regulations and build competitive positioning of the bank.

By employing an integrated risk management system across all functions and across the entire organization, banks can move beyond regulatory reporting – and move toward better and more complete management information. Once this is achieved, banks could move beyond organizational boundaries toward integration across the banking ecosystem and, ultimately, cocreate a new financial architecture with governments and regulators.

So, yes, banks need to recast models and analytics to understand risk. However, above and beyond that, they need to look toward an integrated risk management framework that transcends silos and addresses financial risk, fraud, compliance reporting and financial crimes.

Are you fit, focused and ready to fight?

To flourish in the "new normal," banks must redefine their business models, rebuild customer trust and understanding, and reform the risk management culture. In addition to an ability to adapt, success requires decisive action:

- Revitalize the balance sheet and restore shareholder value.
- Rethink strategic focus areas and build a business model to support them.
- Refresh processes to eliminate complexity.
- Rebuild customer intimacy to help close the trust gap.
- Recast existing and invest in new customer analytics to segment customers based on values and behavior patterns.
- Reevaluate analytics for risk and intelligence.
- Reform the corporate culture to enable effective risk-based decisions, while integrating risk and compliance management holistically.

There are great opportunities ahead for the banking industry. To seize them, banking executives must begin a transformation today to help ensure they are fit, focused and ready to fight any challenges standing between them and success. By working toward improved fitness in their business models and renewed focus on customer insight and risk management, banks can help secure a strong and healthy future.

About the authors

Shanker Ramamurthy is General Manager, Global Banking and Financial Markets, IBM. He has over 20 years of consulting experience and, prior to his current role, held several leadership roles as a consulting partner within IBM and Pricewaterhouse Coopers Consulting (PwCC), including Global Managing Partner for the IBM Banking and Financial Markets consulting practice, Global Lead Partner of the Financial Services Strategy practice in both IBM and PwCC and Lead Partner for PwCC's Australasia Financial Services practice. He has advised numerous Fortune 100 financial institutions in North America, Europe and Asia Pacific; is a widely quoted thought leader and speaker; and has written several major papers. *Euromoney* magazine ranked Shanker as one of the 50 most influential financial services consultants worldwide. He can be reached at *shanker.ramamurthy@us.ibm.com*.

Srini Giridhar is the Banking Lead for the IBM Institute for Business Value. He has over 20 years of international management and technology consulting experience. Srini has worked extensively in retail and commercial banking, lending, wealth management and capital markets. His areas of expertise include commercial and retail loans, anti-money laundering processes and compliance reporting. In addition, Srini has experience in business strategy development, IT governance, business transformation, technology issues in mergers and acquisitions, and eXtensible Business Reporting Language. He holds a master's of science degree in computer engineering from the State University of New York at Buffalo, obtained an MBA from York University and is a graduate of the Wharton Business School-York University International Program. Srini can be reached at *srini@ca.ibm.com*.

Cormac Petit is a Chartered Accountant (South Africa). He is specialized in business strategy and in business and IT alignment and has over 20 years experience advising senior management teams around the globe on strategic IT and business issues. He has worked extensively in the retail and wholesale banking and insurance industries. He has published many research studies and articles in a variety of journals and is a regular speaker at banking and IT conferences worldwide. He obtained joint MBA/MBI degrees at the University of Michigan, Ann Arbor, USA, and the Erasmus University, Rotterdam, The Netherlands, with an award for best student and for "outstanding dedication, leadership and performance." Cormac can be reached at *cormac-petit@nl.ibm.com*.

Contributors

Divya Bansal, Business Strategy Consultant, IBM Global Business Services, India

Wendy E. Feller, Program Manager, IBM Global Business Services

Anshul Gupta, Business Strategy Consultant, IBM Global Business Services, India

The right partner for a changing world

At IBM, we collaborate with our clients, bringing together business insight, advanced research and technology to give them a distinct advantage in today's rapidly changing environment. Through our integrated approach to business design and execution, we help turn strategies into action. And with expertise in 17 industries and global capabilities that span 170 countries, we can help clients anticipate change and profit from new opportunities.

References

1 "Global Financial Stability Report (GFSR)." International Monetary Fund. October 2009. http://www.imf.org/External/Pubs/FT/GFSR/2009/02/index.htm; "Asia Capital Markets Monitor." Asia Development Bank. April 2009; IBM Institute for Business Value Analysis.

2 "Global Financial Stability Report (GFSR)." International Monetary Fund. October 2009. http://www.imf.org/External/Pubs/FT/GFSR/2009/02/index.htm

3 BBC News Web site. September 10, 2009 (accessed November 3, 2009). http://news.bbc.co.uk/2/hi/business/8249411.stm

4 Ramamurthy, Shanker and Michael Robinson. "Simplify to Succeed, Optimize the customer franchise and achieve operational scale: Retail financial institutions in 2005." IBM Business Consulting Services. 2002. http://www-935.ibm.com/services/us/imc/pdf/g510-9109-00-simplify-to-succeed-retail-banking-in-2005-full.pdf;
Hedley, Kimberly; John White; Cormac Petit; and Sunny Banerjea. "The paradox of Banking 2015: Achieving more by doing less." IBM Institute for Business Value. 2005. http://www-935.ibm.com/services/us/imc/pdf/ge510-6225-banking-2015.pdf;
Banerjea, Sunny; Robin Kahn; Cormac Petit; and John White. "Dare to be different: Why banking innovation matters now." IBM Institute for Business Value. 2006. http://www-935.ibm.com/services/us/gbs/bus/pdf/g510-6322-dare-different.pdf;
"The enterprise of the future…in the banking industry." IBM Institute for Business Value. 2008. http://www-935.ibm.com/services/us/gbs/bus/pdf/gbe03107-usen-ceo-banking.pdf

5 IBM Institute for Business analysis (of data from The Banker. Top 1000 World Banks. July 2009; revenue and profit data from various companies' financial statements; and Reuters). 2009.

6 IBM Institute for Business Value interviews. 2008 - 2009.

7 "Governance, risk and compliance in financial services." Economist Intelligence Unit. June 2008.

IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
December 2009

GBE03272-USEN-00