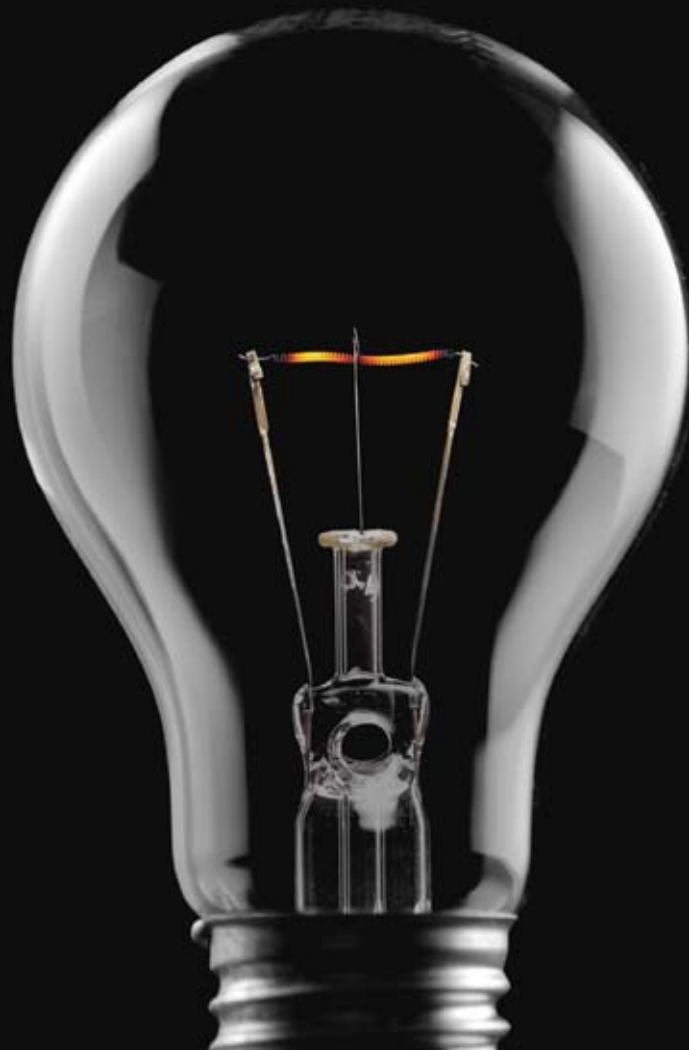


Innovation in Retail Banking

Asia Pacific

SEPTEMBER 2010



THE ASIAN BANKER®
STRATEGIC BUSINESS INTELLIGENCE FOR THE FINANCIAL SERVICES COMMUNITY

 **Finacle**
from
Infosys®

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Preface

Finacle from Infosys and Asian Banker Research are pleased to present this report on Innovation in the context of retail banking in Asia Pacific.

The objective of the report was twofold. First, to give the reader an overview on what innovation is currently happening in Asia Pacific. And second, to develop an understanding on how innovation works in banks, to determine the major barriers and to describe how banks overcome those barriers.

This report brings together a consolidated view of the nature, scope and trends in retail banking innovations by financial institutions in the Asia Pacific region. It introduces the latest trends and developments in innovation activities that domestic and foreign commercial banks alike pursue to improve their competitive advantage and re-define the nature of competition.

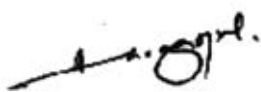
The survey found that banks go through four distinctive stages in innovation, depending on the maturity of the market, transcending from a product to sales to market share and finally to customer service innovation emphasising specific activities.

The dynamics of growth in Asia Pacific, though impacted temporarily by the new global economic environment - particularly in mature markets, includes increasing domestic consumption and low levels of individual debt which will accelerate the demand of retail financial services in the region. Banks in this region have continued to increase their investment in innovation, and the focus is clearly set on innovation in channel network distribution and products.

Across our interviews, we have found financial institutions whose activities in the area of products, channels, operational processes and customer relationship management were not only innovative but also successful, making a significant contribution to the bottom line in a sustainable manner. In total, we interviewed executives from 59 banks across 14 countries by dividing Asia Pacific into three major regions: South Asia, Southeast Asia (including Australia) and North Asia. We interviewed heads of retail banking, CIOs and heads of technology/operations, heads of strategy and CEOs. One benefit of speaking with such a large and diverse group of senior banking practitioners is to share their best practices and success stories.

For the purpose of comparative analysis between the three sub-regions, the survey introduces the Innovation Index, which is based on a self assessment by banks on how innovative they are across products, channels, operational processes and customer relationship management. Executives in North Asia, including Hong Kong, Taiwan, South Korea and China, expressed the highest level among all regions.

With this report, we hope to offer financial service executives a broad perspective on innovation activities taking place in Asia Pacific that can be leveraged by bankers to differentiate themselves in the market.



Haragopal M

Senior Vice President and Global Head – Finacle
Infosys Technologies Limited



Chris Kapfer

Senior Director
Asian Banker Research

Executive summary

- **Innovation happens out of dire necessity**
Our research shows innovation is not a fancy engagement but a response to severe market challenges and regulatory constraints and pressure. Innovation is a continuous change management process which is often messy and chaotic, striving to succeed amidst the complex silos in financial institutions
- **Successful innovation is determined by a combination of factors**
The most successful financial institutions initiate a myriad of strategic and operational changes, involving processes and technology, workflows, changes in network distribution and service delivery to implement successful innovations.
- **Financial institutions go through distinctive stages in innovation**
Depending on the maturity of the market; banks go first through product innovation, then progress to sales innovation and market share innovation and eventually focus on customer service innovation.
- **Retail banking in Asia has become more innovative in the last two years**
90% of the responding bankers said that their bank today is more innovative than two years ago at the time of the Lehman collapse. The crisis increased the level of innovation across the board although products and channels still remain the key focus of innovation activities.
- **Despite the financial crisis banks continue to increase their investments in innovation**
63% of the respondents on average state that their banks increased the level of innovation in the last year, while 34% say there was no change.
- **The main objective of innovation is growth**
23% of the responding banks stated they mainly innovate to grow, while 62% say they seek both growth and efficiency. Analysing the findings in detail, it turns out that growth is the main driver, while efficiency is better defined as a supplementary goal.
- **The majority of banks do not see the necessity of having a formal innovation strategy or of having a dedicated innovation department**
Only 18% of banks have a formalised innovation strategy and even less (9%) have a dedicated innovation department to coordinate innovation. Asia Pacific has highly innovative banks without formalised structures indicating that there is no strong relation between fixed structures and innovativeness.
- **Strategic innovation is rare and concentrates around international banks and small niche players**
56% of banks state that they are mainly working on incremental innovation and only 12% focus on strategic innovation. Since examples of strategic innovation are almost a once in a lifetime experience, the 12% claim of strategic innovation seems exaggerated.
- **North Asia is the most innovative region in Asia Pacific**
The Innovation Index shows that on a scale from 1 to 5 banks in the Asia Pacific region regard their innovativeness as 2.6. This number goes up to 2.9 in North Asia, followed by Southeast Asia by 2.5. South Asia is the least innovative sub-region with only banks regarding their innovativeness as 2.4.

- **Managing the interface between technology and business people is the greatest challenge in the innovation process**

Corporate culture, management behaviour, employee adaptation rates, legacy systems, and IT bottlenecks were all mentioned as obstacles by the respondents. Less important challenges mentioned are regulations & compliance and complex hierarchies.

- **Payments, consumer loans and wealth management were perceived as the most innovative products introduced since 2007**

While banks in Southeast Asia saw payments as their most innovative product line, South Asian banks were most innovative in consumer loans. Banks in North Asia instead perceived wealth management as their most innovative product line.

- **57% of Banks in Asia Pacific regard themselves as leaders in IT innovation**

98% of the bankers agree that IT is very important for innovation. While 70% of South Asian banks see themselves as leaders in IT innovation, banks in other areas are more conservative. 57% of banks in Southeast Asia and 44% in North Asia claim to be leaders in IT innovation in their market.

- **Every second bank sees IT systems and processes as a barrier to innovation**

47% of bankers answer with yes, when asked whether IT is a barrier to innovation. Interestingly 68% of mature market banks say IT systems are a barrier, while only 29% of emerging market banks have the same problem.

1 Innovation in the context of retail banking



Innovation in the context of retail banking

Long term and sustainable banking franchises are not built on the backbone of hot products and one trick ponies, but on those initiatives that make a significant and recurrent impact to the institution's bottom line. Very often, they are driven by a person, not necessarily in the CEO management office, but often business line executives that have clarity of vision and ideas that have the potential to reshape the terms of competition in their own markets and beyond, a thorough understanding of the industry and a readiness to take the necessary decisions with a core team, despite internal and external challenges.

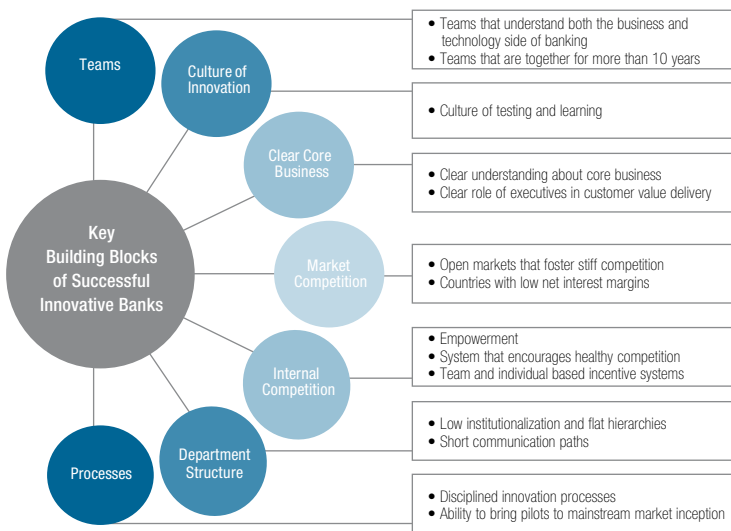
Our research observed that innovation is done out of dire necessity; it is not a fancy engagement but a response to severe market challenges and regulatory constraints and pressures. Innovation is a continuous change management process, but it is often messy and trying to strive amidst chaos and the siloed complexity of financial institutions. Without innovation banks do not survive in today's market place. This is in particularly true in markets where the traditional lending business of commercial banks and the ability to demand high net interest margins has ossified and players are forced to rely on other sources of income. Our research shows that banks that are capable of extracting a high proportion of their fee income from the market show on average higher levels of innovative activities compared to their peers. Yet, overall, markets in Asia Pacific are unexciting and undifferentiated, with competition based on pricing. Price-based competition alone will need to give way to non-price innovations for developing core relationships.

2.1 What makes Asian financial institutions successful innovators?

The survey identified seven operational key building blocks that all successful innovative banks in this region that we have spoken to have in common. These are not necessarily those banks that have disciplined innovation processes in place or committees; these were found in fewer than 10% of the responding banks in the region. More important are the team characteristics; a culture of innovation, clear core business and stiff external and healthy internal competition. A growing number of banks are also leveraging on Voice of Customer systems and social media to stimulate innovation.

Figure 2-1

Key operational building blocks of successful innovative banks in Asia Pacific



Source: Asian Banker Research

We observed that on average six out of ten innovation projects fail in the pilot phase. Thereafter, there is no guarantee that innovation will contribute significantly to the bottom line. Perhaps in no other business line than payments is the history of failure so high. Today, new payment innovations have to offer superior convenience, added security and better cost efficiency than existing payment systems in order to be adopted by consumers

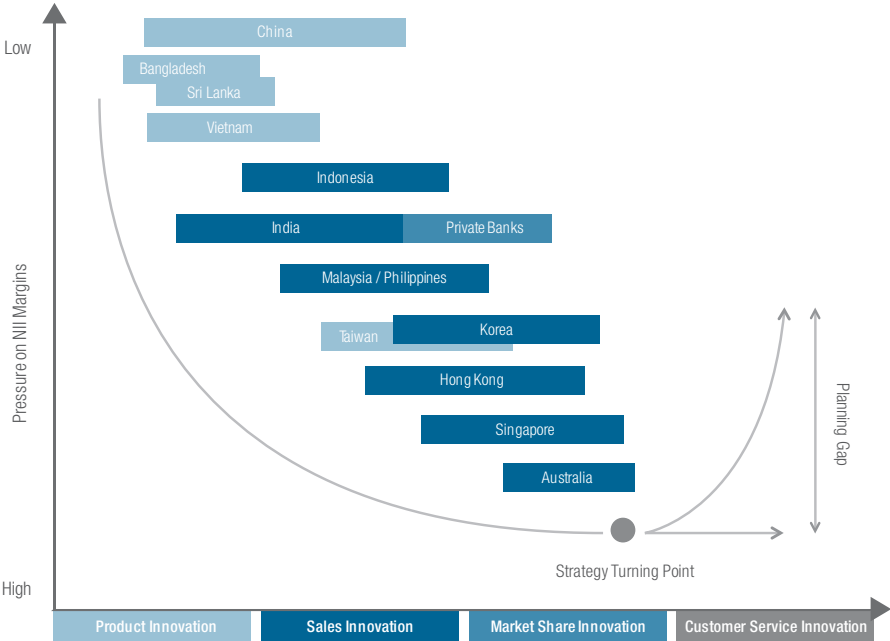
and merchants. A case in point was Standard Chartered Bank's (Asia Pacific) introduction of a credit card with a risk-based pricing mechanism in 2003 and Citibank's world's first card-less biometric payment service in 2006.

Standard Chartered's Manhattan Card was an engineering masterpiece, but it was designed without clear insights into customer payment behaviour. The risk-based pricing on overdrafts did not offer the market more savings based on a customer's personal risk profile. Instead, it was perceived as inferior to the recently introduced instant cash back features. Citibank introduced a payment mechanism that enabled cardholders to pay for goods and services with a touch of their fingertips, eradicating the need for cardholders to present their credit card when paying for purchases. Targeted at cardholders that were upwardly mobile and technology savvy, they simply needed to press a finger to a biometric scanner located at participating merchant outlets. It was expected to set new benchmarks in convenience and security. The innovative and differentiating feature however, failed to achieve economies of scale due to merchant and customer acceptance to whom holding and presenting a physical card in payments is important.

Our research showed considerable differences in terms of what banks in different markets want to achieve with innovation, and the actual innovation patterns and activities that are aligned with the stage of retail banking evolution they operate in. There are four stages of innovation regardless of the market a bank is operating in:

Figure 2-2

Evolution in retail banking innovation



Source: Asian Banker Research

Product Innovation Stage: In rapidly developing markets like Vietnam, China, Sri Lanka, Bangladesh and India, with large unbanked populations, regulations have been opening up in recent years to allow banks to diversify their intermediary services into new consumer finance products. Generally, financial institutions have a large mortgage portfolio, contributing 85% or more to retail assets. The market is relatively closed to competition from outside and is exclusively the realm of domestic banks. Banks launch new but basic products.

Sales Innovation Stage: In markets like Thailand, Philippines, Malaysia, Indonesia and India that have already reached a fair level of basic infrastructure development, private banks balance efficiency and growth, considering them to be of equal importance for the bank's future development. When banks are still strongly growing their customer touch points, they benefit largely from innovation in process efficiency, thus reducing turnaround times, reducing costs

and streamlining processes, while centralising operations. Ahead of further market liberalisation, banks have been focusing on building up their asset portfolios, often using price innovation in order to gain market share.

Market Share Innovation: At this stage banks start to introduce cheaper forms of distribution, which together with accessibility and convenience are the key to the bank's competitive position. Banks are optimising workflow processes, integrating transactions with the back office and rationalising their network points. Players are not yet fully integrated from a customer point of view, but innovation in processes and operations is moving in that direction. These markets are also characterised by thinning margins in the traditional lending business. Highly effective organisations emerge, as they have been exposed to tough competition from local and international banks. Intent on achieving higher market share at all costs, results in increased risk and IT expenditure. As it becomes harder to achieve further gains from efficiency, banks focus on growth in market share. Markets at this stage are often unexciting and undifferentiated and have a full-blown pricing war raging.

Customer Service Innovation: Reaching a strategic turning point, banks are forced to re-invent themselves by introducing new business models and non traditional fee-based lending products. Innovations in customer experience and superior customer service delivery, network integration and franchise building dominate the operational agenda as banks move into this stage.

2.2 Waves of innovation in retail banking in the region

In the aftermath of the Asian financial crisis in 1997, banks' large-scale exposures to corporate defaults put the financial services industry in Asia Pacific in an anaemic state for years. Despite offering some opportunities for growth, consumer banking at that time failed to receive the necessary resources and accounted for less than 13% of banks' balance sheets. Up to the turn of the millennium, innovation in consumer banking was a prerogative of the international banks, particularly Citibank, which was the cradle of consumer banking innovation in the region. Citi incubated many of the CEOs and key executives, both local and western who became the first pioneers of consumer banking.

Figure 2-3

Key innovation periods in retail banking in Asia Pacific

Innovation Period	Bank Name	Successful Strategic Innovation in Retail Banking in Asia Pacific
1980 – 2000 Forming Period	<ul style="list-style-type: none"> • Citibank (Singapore) • BRI (Indonesia) • Citibank (Asia) • HSBC & Hang Seng (HK) • Citibank (Singapore) • Citibank (Asia Pacific) • Citibank (Japan) 	<ul style="list-style-type: none"> • Introduction of first ATM in Singapore (1980s) • Introduction of micro financing as core business in Asia Pacific (1985) • Introduction of internet banking services and online financial planning site in Asia Pacific • Piloted the first real-time cash deposit machine in Hong Kong (1993) • 1st unsecured revolving overdraft facility in Singapore (mid 1990s) • Making available the SET channel for Visa cardholders and merchants in Singapore (1998) • 1st ATM network with Japan Post and 24 hours availability in Japan (2000)
2001-2006 1 st Innovation Wave	<ul style="list-style-type: none"> • Japan Net Bank • StanChart (Singapore) • ICBC (China) • Citibank (Singapore) • E.SUN Bank (Taiwan) • OCBC (Singapore) • MBF Cards (Malaysia) • SMBC (Japan): 	<ul style="list-style-type: none"> • Introduces Internet only banking in Asia Pacific (2001) • Roll out of 'Mortgage One' (2002) • First to consolidate 1000 data centers in 1 in China (2002) • Introduces an instant cash back features in Singapore (2003) • Introduces a relationship based mortgage proposition (2004) • Introduces mobile phone banking in South East Asia (2005) • Roll out of the first 'PayWave' contactless" card in the world (2004) • Introduces contactless small value payments, transportation and credit card payments for mobile phone banking in Asia Pacific (2005)
2007-Today 2 nd Innovation Wave	<ul style="list-style-type: none"> • ADCB (UAE) • StanChart (Singapore) 	<ul style="list-style-type: none"> • Introduces an institution wide loyalty programme in Asia Pacific/EMEA (2007) • Introduces as a first in Asia Pacific the 'Pay-any-Card' service that allows customers to pay their StanChart bills from any bank regardless of the card issuer (2010)

Source: Asian Banker Research

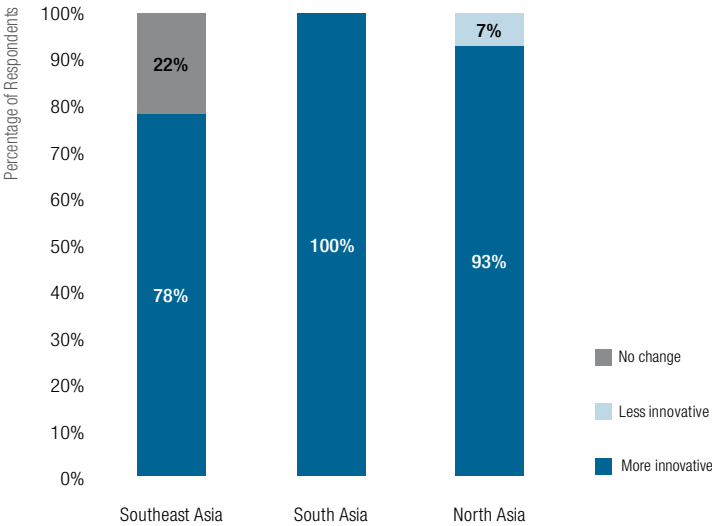
It was not until 2000/2001 that most domestic banks in Asia started to diversify their loan portfolios to include more consumer credit. Banks that were bold, which anticipated market challenges and that responded to retail customer needs, outperformed their peers over the subsequent six years. Early movers with good strategies emerged in the first wave of innovation to become the region's top players in retail banking: India's ICICI Bank, Thailand's Siam Commercial Bank and China Merchants Bank on the mainland, to name a few. These banks made tough decisions early on and executed their strategies in a systematic and disciplined manner to take leading market positions in retail financial services in their respective countries. During the first wave, innovation activities shifted to local banks, mainly in the four Asian Tiger states with their highly developed economies, Hong Kong, Singapore, South Korea and Taiwan, as well as Japan. The focus of innovation was back office infrastructure, products, payments and channel management.

Today, retail financial services contribute, on average, 35% to a bank's total income for the first and second tier banks in Asia Pacific. In particular Chinese Banks have built in the last years a credible retail banking business currently contributing, on average, 19% to their total assets with Bank of China (29%), China Merchants Bank (30%) and ICBC (18%) leading the way.

The second wave of innovation is focusing on customer relationship management and service applications but so far no clear champion has emerged – foreign or local - in mature or emerging markets. Drivers such as demographics, technology and integration of systems and services will be the key to transformation of retail financial services in the next years in the Asia Pacific. Retail executives respond in particular to above global average growth of HNWIs and mass affluent customers, with China and India likely to lead growth in the Asia Pacific. Their retail financial services continue to differentiate their wealth management segments and align their network distribution to this growth story. The unbanked and low income segments and the next generation of customers seeking instant fulfillment and 'always on connectivity' will also be defining areas where banks will have to respond with cost effective product and network solutions.

Figure 2-4

Do you think the banking industry has become more or less innovative in the last two years?



Source: Infosys and Asian Banker Survey Results

We have been tracking the innovation activities of banks for several years and there has been a drastic change in the focus of innovation in the last years, which we will showcase in chapter 6 "Innovation and Growth". Generally the level of innovation in Asia has increased in the last two years across all markets and banks see themselves as more innovative.

The impact of the crisis 2 on innovation



The impact of the crisis on innovation

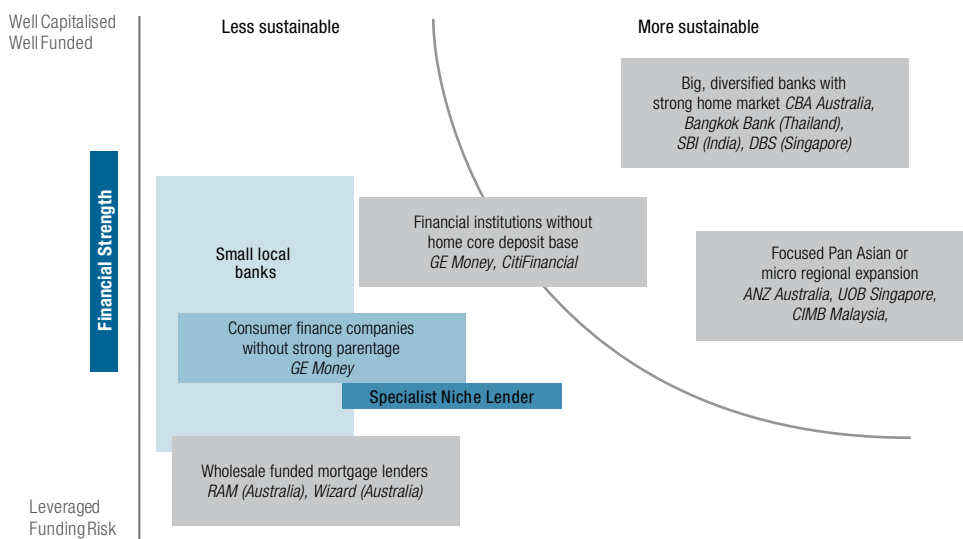
Although nowhere near the institutional collapses of the West, the global financial crisis did impact the retail portfolios of financial institutions in Asia Pacific. Mature markets such as Taiwan, Korea, Hong Kong and Singapore faced zero or negative growth in the financial years 2008 and 2009. It is expected that growth in these markets will recover quickly, however banks are likely to face a low growth rate environment of below 10% in 2010, and are under pressure to innovate in order to defend their positions or seek new growth areas.

Retail operating income dropped from a regional average annual growth rate of 19% in 2007 to 10% in 2008, and turned negative in 2009. Australia and emerging markets, including China and India, were enjoying retail growth rates close to or above 10% even during the 2008-2009 period. In emerging high growth countries, with relatively closed markets, such as India, China and Vietnam, innovation in distribution, branch and products will determine the most successful institutions in the years ahead. While it is still unclear how the crisis will reshape the industry in the next years, the signs so far are that it will change how retail banks represent, offer and sell products and services. There are tough choices to be made between change and continuity and smart banks will know where to strike the balance in order to adapt and survive.

Independent (non-bank) financial institutions including mortgage mono-liners in Australia, e-bank and internet only banks in Japan, finance companies such as GE Money and CitiFinancial have been struggling since 2008 or have been absorbed by larger commercial banks. Well diversified retail financial service businesses that are well capitalised and well funded with a high deposit ratio have proven to be resistant and strong, often cannibalising weaker players.

Figure 3-1

The last two years have also revealed the type of business strength



Source: Asian Banker Research

While universal banking has been the trend, banks find it increasingly difficult to cater to a wide span of customer segments within the existing universal cost model. Therefore the industry will likely see the emergence of distinctive businesses within the universal model. A differentiated cost-to-value analysis will force banks to introduce stand alone business initiatives that can capture specific segments of the market. Entities such as Commonwealth Bank of Australia and Wizard, Westpac and RAM (Australia) or Shinhan Bank and LG Card (Korea) are part of the overall group but have their own branded franchises and a distinctive brand proposition, with integrated back office and management functions. Mergers with weaker financial entities and better management of diverse brands are creating larger but integrated financial holding companies.

Large domestic financial institutions in Asia Pacific continued to purchase Western bank assets such as ANZ's acquisition of the Royal Bank of Scotland's (RBS) retail, wealth and commercial businesses in Hong Kong, Indonesia, Singapore, Taiwan and its institutional operations in the Philippines, Taiwan and Vietnam. Chinese and Indian banks are also eager to venture out of their home markets, but their regional subsidiaries remain small and the comprehensive regional blueprint is limited so far. As such none of these banks will pose a major competition to the three big regional banks in the region: Citibank, HSBC, and Standard Chartered. The bank which seems most ambitious to stir up the established order is ANZ Australia.

Case Study 1: ANZ (Australia) - Building a regional retail bank

In 2007 ANZ launched its new Asia Pacific strategy, which seeks to establish the bank as major regional player, closing the gap to the three international banks Citi, HSBC and Standard Chartered. ANZ's new strategy can be seen as the first serious attempt of an Asian bank to break the dominance of Western banking groups in Asia regionally.

The bank already operated in a number of Asian markets, but only held full commercial banking licenses in Hong Kong, Vietnam, Cambodia & Laos, Korea, Japan, Taiwan, the Philippines and Indonesia. With the acquisition of the Royal Bank of Scotland (RBS) retail, wealth and commercial business in Hong Kong, Indonesia, Singapore, Taiwan and institutional operations in the Philippines, Taiwan and Vietnam the bank leapfrogged to regional importance, outbidding HSBC and Standard Chartered. The step tripled its Asia Pacific customers by adding 2 million new customers, added \$7.1 billion in customer deposits (accounting for 30% of its Asia Pacific deposits) and \$4.0 billion in net loans (17% of Asia Pacific loans), 54 branches and achieved considerable cost savings through the centralisation of its IT infrastructure and a sizeable distribution network to build a regional cash and transaction banking proposition. The premium of \$50 million makes the deal a worthwhile investment, given the extensive benefits.

But ANZ not only relies on inorganic expansion but continues the establishment of locally incorporated units across Asia. It made an important step in its China strategy, when it received the preparatory approval for the local incorporation of ANZ China, a fully owned subsidiary in April 2010. The bank also has strategic partnerships in Shanghai Rural Commercial Bank (19.9 stake) and Bank of Tianjin (20%).

OCBC Singapore beat off strong competitors like HSBC and DBS to purchase ING's Asia private banking franchise for \$1.46 billion in cash at the end of 2009, fully funded from internal sources. OCBC more than tripled its private banking assets to \$23 billion. And Malaysia will see the merger of Hong Leong Bank and EON Bank, creating the fourth largest banking group in the country with a total asset size of \$35 billion.

Case Study 2: OCBC (Singapore) – Establishing a new private banking franchise

OCBC hitherto mainly known as Singapore's family bank expanded its value of franchise with a strategy, and organisational change. Its limited private banking operation previously contained only 50 relationship managers and an AUM of \$ 3.7 billion. After the acquisition of ING's private banking franchise in Asia (IAPB), OCBC's newly established private banking unit "Bank of Singapore" is in the top league of private banks, backed up by 150 relationship managers, more than 5,000 clients, coverage of 12 primary markets and \$15.8 billion AUM. With the innovative dual franchise, both customer segments can be optimally served, while the interests of the other are not jeopardised.

However, integration and leadership issues remain to be seen how they work out in the next three years. Given the large market coverage and strong business presence of the IAPB franchise in Asia, the amount of work that needs to be addressed during the business integration process is expectedly mountainous. The newly acquired IAPB will be integrated within OCBC's current private banking operation. The potential frictions and conflicts that can arise from the integration process are vital. It really depends on the OCBC's management to synergize the two organisations, both structurally and culturally.

The region will likely also see the emergence of innovative low-cost discount and direct banking business models delivering a more cost efficient proposition, particularly to the low income and unbanked population in Asia Pacific.

With the temporary slowdown of growth due to the crisis and the various mis-selling incidences, dramatic changes took place in the retail financial services job markets in 2008 and 2009. Foreign and local banks trimmed their direct sales forces and their IT and back office staff by 5-10% of their workforce. This job shedding was often compounded by a high churn in heads of retail banking, in particular in mature markets, hampering or slowing down ongoing innovation. In the same vein, large banks were extremely cautious, though possessing healthy balance sheets, about entering new business fields or markets. Adding new products and services leads to further complexity which is often not desired in slowdowns.

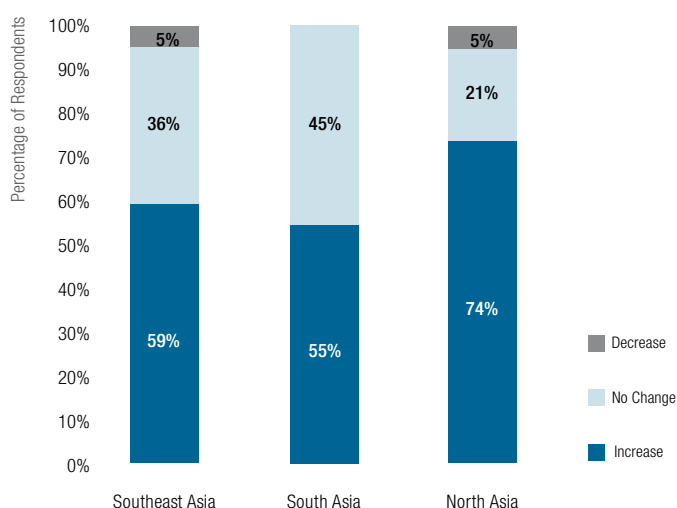
The crisis also revealed severe shortcomings in the selling practices of financial institutions and regulatory authorities; in Hong Kong and Singapore in particular it was found that retail investors were exposed to financial products with a value of \$ 3 billion linked to Lehman's structured notes following its collapse. The regulatory fallout was inevitable and forceful and the direction shifted from principles-based to rules-based directives. Regulatory authorities in these countries are likely to continue to haunt commercial banks in the next few years regarding customer protection and front line engagement. In January 2009, 65% of all first tier commercial banks in Asia Pacific acknowledged they were re-thinking their business approach in wealth management, however fewer than 10 banks in the region have structurally changed the remuneration model of their sales force. OCBC Bank in Singapore was one of the first to introduce an innovative but more sustainable compensation model in wealth management, keeping a claw back mechanism of up to three years for all sales made.

3.1 Level of investment in innovation

In North Asia 74% of the respondents mentioned that investment in innovation in their banks has increased despite the crisis. Southeast Asia comes second with 59% of banks increasing their investment. On the other hand, very few banks in Asia said that their banks have decreased the level of investment.

Figure 3-2

Has your bank changed the level of investment for innovation in 2010?



Source: Infosys and Asian Banker Survey Results

Main reasons for the increase were ongoing major investments in IT architecture and long-term growth and investment strategies. If the crisis had an effect on innovation in Asia, it was mainly that banks realised the importance of efficiency

and a low-cost base in difficult times. For this reason banks have initiated various efficiency improvements, such as moving away from print and streamlining and automating the account opening and loan origination process.

Our research furthermore revealed that Asian banks re-invest between 5% and 20% of their revenues into innovation. These figures of course become higher when there are major IT upgrades or areas of key concern. Some banks also stated that despite smaller budgets in general, the money invested in innovation is exempted from any budget cutting exercises. A banker from a mature market stated: “We focus on stable investments. Thus there are no changes in our long-term investment strategy. We will not scale back, as long as long-term goals are satisfied.”

While banks in emerging markets more often increase the level of investment, the innovation budgets of mature banks remain more or less stable without major changes. Expensive investments are usually planned several years ahead and are then written down over a number of years. Other banks re-prioritise between immediately necessary investments and those that can be stalled or postponed to a later time if budget restraints occur.

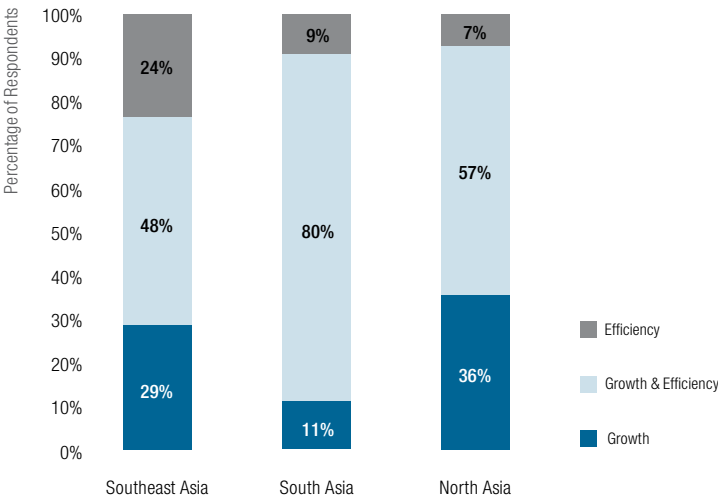
3.2 Are banks more focused on efficiency?

A number of respondents when asked what for them is the main objective of innovation, named customer centricity as their top objective. The research on the other hand shows that the primary goal of innovation for banks in Asia is growth in terms of revenue, profitability and market share, while customer centricity is seen as a sophisticated strategy to achieve this goal. Customer centricity has become a catch phrase and is seen as the ultimate remedy in an environment with intense competition, a lack of differentiation, and continuously shrinking margins. But customer centricity is a hard sell to shareholders and employees if does not translate into growth in hard numbers. This statement is supported by Figure 3-5 where on average, 85% of banks rank growth as important or very important for innovation, compared to 64% in Figure 3-6, who see efficiency as very important for innovation.

When the operating environment deteriorated in 2007 and 2008, many banks began to address operational efficiency, introducing numerous ambitious projects in the back office. However efficiency improvement is only a supplementary goal, supporting the primary goal of growth in competitive environments.

Certainly, when the operating environment deteriorated in 2007 and 2008, many banks began to address operational efficiency, introducing numerous ambitious projects in the back office. However efficiency improvement is only a supplementary goal, supporting the primary goal of growth in competitive environments.

Figure 3-3
What is your banks major target behind innovation?



Source: Infosys and Asian Banker Survey Results

According to Figure 3-3, on average 25% of the responding banks state that they mainly target growth with innovation while 61% say they follow a balanced approach between growth and efficiency. We attribute the dominance of the balanced approach results to two points; firstly, balanced approaches are popular with banks and survey respondents are biased towards it, as they do not need to make a decision. Secondly, most of the responding banks fall into the category of emerging markets (70%) and are in the stage of “sales innovation and market share innovation” as described in chapter 2.1 “What makes Asian financial institutions successful innovators?” and therefore are in the stage of development in which efficiency or growth is more important.

Figure 3-4

What are the key factors forcing banks to be more innovative?

Southeast Asia	South Asia	North Asia
1. Growth in markets of strength	1. Growth in new global markets	1. World-class customer service
2. Compliance & risk management	2. Growth in markets of strength	2. Compliance & risk management
3. Cost pressure	3. World-class customer service	3. Growth in markets of strength
4. World-class customer service	4. Scaling technology architecture	4. Growth in new global markets
5. Asset Quality	5. Cost pressure	5. Asset Quality
6. Growth in new global markets	6. HR	6. Cost pressure
7. Scaling technology architecture	7. Asset quality	7. Scaling technology architecture
8. HR	8. Compliance & risk management	8. HR

Source: Infosys and Asian Banker Survey Results

Asking banks to rank the factors that force them to be innovative (Figure 3-4), shows that growth in market strength is seen as the major driver in Southeast Asia and in South Asia and still plays a dominant role in North Asia. Indian, Chinese and Korean banks are currently aggressively venturing out into global markets, so for them growing internationally has become another major driver to innovation.

Delivering world class customer service is the second key factor driving innovation. This matches in a way the findings from the open question (Figure 3-3): “What are the main goals behind innovation?” asked at the beginning of this chapter. Given the huge investments banks have made to develop their CRM systems - bringing together the needs of the frontline with a solid analytical data warehousing solution and re-arranging the corporate culture around it - it makes sense that respondents hope for returns and see it as a key driver.

Giving bankers a list of factors, they clearly rank growth first, and customer service second, whereas in the open question the first thing that popped in to their mind was customer centricity, indicating that there is a difference between the stated reason for innovation and the real reason. As the crisis has receded, banks are worrying less about asset quality, as a lot of their bad assets have been discarded and balance sheets have been cleaned. HR does not seem to be a driver of innovation at all.

Cost pressures have become important for banks in Southeast Asia’s emerging markets, whereas they are not considered a driver for the rapidly growing South Asian and Chinese banks, such as the low-cost banks in Hong Kong and private banks in Taiwan.

Returning to the discussion whether banks innovate to grow or to become efficient, a look into the stage of development helps to understand the survey findings. In Southeast Asia, the emerging markets with

tough competition, such as Thailand, Malaysia, Indonesia, and the Philippines describe their urgent need to grow market share, to aggressively collect deposits and pump loans into the market, but with a more recent focus on efficiency. Centralisation of back office operations into back office hubs, automation and streamlining of processes, such as account opening and loan origination and the use of technology to reduce turnaround times, paper usage and cost has increased particularly since 2008. However not a single bank taking part in our research indicated that innovation focused on efficiency only. Growing the top line remains the major KPI for banks in emerging markets as losing out in the tough battle for market share, while pursuing efficiency only will not give banks the competitive edge they need to succeed.

In emerging markets of an early stage such as Bangladesh, Vietnam, and rural China and India, where banks face large unbanked populations and new customers are easy to get, the only goal is growth. High margins put banks into the comfortable position that revenues still outgrow costs, and for this reason they do not need to manage costs nor address efficiency, yet.

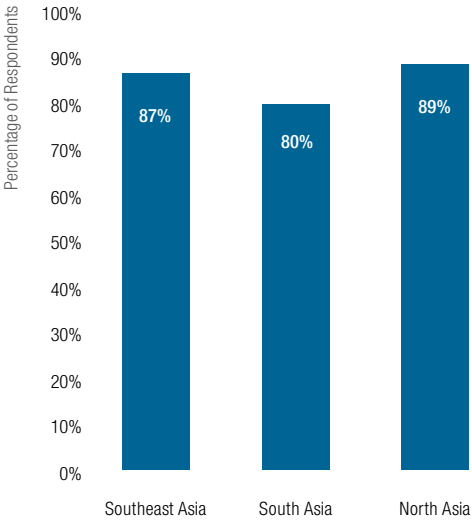
Banks in mature markets have reached a high level of efficiency, but margins have contracted, so that only high volumes keep banks profitable. This is best reflected in North Asia, where three out of four markets are regarded as mature. Here growth becomes the major goal beyond innovation again, which is seen in the fact that 89% of North Asian banks target growth in Figure 3-5, compared with only 44% (Figure 3-6) aiming for efficiency.

The volume rule also applies to leading emerging market banks, which of course are in a more comfortable situation than banks in mature markets, as they benefit from higher margins and lower costs. A head of retail from a leading emerging market bank states: “Our cost base is among the lowest in the market and where it should be. The only way to reduce it further is to increase activity; thus we innovate to grow. This is how we improve efficiency.”

All three South Asian countries are classified as emerging and therefore innovation targets are both efficiency and growth. Efficiency is important for 81% of the banks (Figure 3-6) and growth for 80% of the banks (Figure 3-5).

Figure 3-5

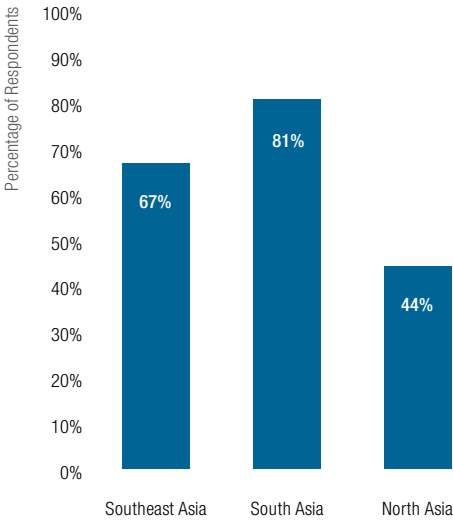
**How important is innovation for growth?
(Respondents ranking importance high or very high)**



Source: Infosys and Asian Banker Survey Results

Figure 3-6

**How important is innovation for efficiency?
(Respondents ranking importance high or very high)**



Source: Infosys and Asian Banker Survey Results

3 Innovation strategy



Innovation strategy

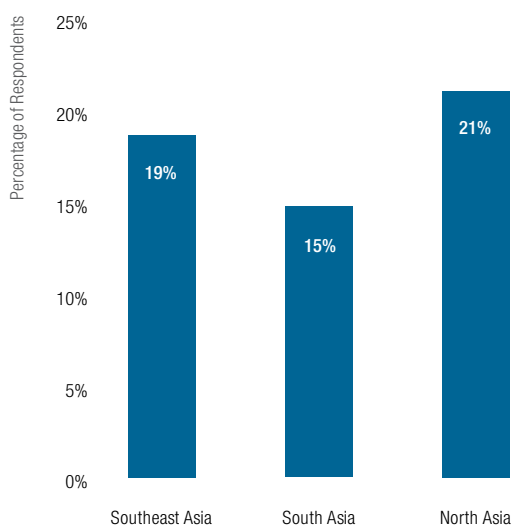
4.1 How common is it to have an innovation strategy?

Most Asian banks do not have a formal innovation strategy. Although innovation in most cases is a part of the overall strategy, banks rarely deploy an innovation strategy, but rather have a statement to be innovative as one of their core strategy pillars. Most banks instead drive innovation on an ad hoc basis.

For strategic innovation projects, such as expensive IT infrastructure which relies on the integration and implementation of other systems and changes to the business model, the planning involved is more comprehensive and formalised, but still mostly happens on an ad hoc basis. For instance a new Customer Relationship Management system (CRM) requires banks to also develop data warehousing, data analysis, frontline integration, complaint and sales management, etc., as well as training and cooperation across business lines. For such projects banks usually follow a specific strategy, but not a generic innovation strategy.

Figure 4-1

Does your banks have a (formalised) innovation strategy?



Source: Infosys and Asian Banker Survey Results

Only 18% of the banks stated that they have a formalised innovation strategy, which we defined as meeting any three of the following criteria:

- Formalised innovation targets, measured against a verifiable metric
- Department or team coordinating innovation across the bank
- Special funding to support innovation
- Innovation as a key pillar of the corporate mission
- Strategy to increase the level of innovation

North Asia, where 21% of respondents claim to have an innovation strategy, leads the field and has the most formalised structures in terms of strategy. South Asia, with 15%, has the least. This does not come as a surprise as according to the stereotypes North Asians are more bureaucratic, plan more and are more formally organised than South Asians and Southeast Asians.

Innovation strategies are helpful for banks to clearly communicate corporate goals to convey them to employees, customers and shareholders. Thus an innovation strategy can help to create a breeding ground for new ideas and guide the way into a new era if a bank needs to reinvent itself.

Case Study 3: Maybank (Malaysia) – Leaping ahead with “Leap 30 Transformation”

Maybank, Malaysia's largest bank has been losing market share and revenues to its ever-improving peers in the last years. In order to turn around the deteriorating performance, the management launched the Leap 30 Transformation Strategy, a two-phased programme of change initiatives touching on major business segments. The programme essentially has three major thrusts – domestic leadership, regional growth and talent management with 17 business initiatives, six talent initiatives and seven enabling initiatives. The programme seeks to provide the basis for continuous innovation and a change in business practices. LEAP 30 aims to improve revenue growth in priority segments and enhance cost and capital efficiency as well as to breed a pool of talent and improve the performance culture. The work of the sales transformation team is complemented by a business-as-usual team, reviewing existing products such as home loans and making them more competitive. The team also looked at internal policies and processes and revisited the referrals to top management, which could be relieved by empowering more junior officers. Another focus of the team was on increasing efficiency through IT improvements.

The bank was furthermore moving towards creating a more innovative corporate culture, engaging employees to contribute their ideas through a President Innovative Award programme, incorporating innovation as a KPI for performance managers and setting up improved processes and structures to facilitate innovation in the bank. The bank has managed the turnaround successfully growing consumer banking revenues by 9.5% to \$1.4 billion in the financial year ending in June 2010, outgrowing cost, resulting in profits growth of 8.3% to \$500 million. A stable margin combined with 14.9% retail loan growth and 5.4% retail deposit growth laid the basis for this success, as well as decreasing NPL ratios across all product lines.

Innovation strategy also involves the prioritisation of certain products and channels given banks' limited budgets. While large players used to dominate markets across the whole retail banking portfolio, this is more difficult today as smaller players have conquered a number of niche segments and products. While big banks usually focus on certain core areas where they allocate most of their innovative efforts, they neglect other areas. These non-core areas are often maintained simply to avoid losing customers to other peers. This situation opens up space for smaller banks, which can expand into those segments and be more innovative than the big guns. A powerful example is China's credit card market, where China Merchants Bank was the first mover and still commands the biggest market share with 20%, while being a small bank in other areas.

4.2 Factors which explain different approaches to innovation

Due to the major differences between the various countries in Asia such as geographic size, population, state of development, geographic and infrastructure challenges and customer behaviour, we think a more granular differentiation has to be made than in more uniform regions such as Europe or the US.

Macro level (Market)

- Competition
- Stage of Market Development
- Regulation
- Geographic requirements/ infrastructure

Micro level (Banks)

- Corporate culture/ Business Ownership
- Maturity of IT Infrastructure
- Company structure (domestic, regional, international)
- Margins and cost-base
- Security

Street level (Customer)

- Customer Needs
- Technology adversity/progressiveness
- Lifestyle factor

Macro level factors set the operating environment of banks. Whether a market is competitive or not affects the level of innovation. If banks have too much market power, there is little need to innovate.

The stage of development merely affects the prioritisation of innovation. We have shown in chapter 2.1 "What makes Asian financial institutions successful innovators?" how banks go through different stages of innovation. From product innovation to sales innovation to market share innovation to customer experience innovation, banks have different goals for each phase.

Regulation can either be a major driver or a near insurmountable barrier to innovation. While regulators can push banks to innovate such as when Malaysia's regulator required the roll-out of EMV cards in 2004, they can also be a major barrier to innovations, such as the restriction of new channels for international mobile payments due to privacy concerns. Regulation can also be an innovation booster as banks tend to seek new solutions as they explore grey and unregulated areas.

Geographic requirements and infrastructure can also force banks to be more innovative. The geography of Indonesia or the Philippines, with thousands of isolated islands, means it is a challenge to reach customers in the periphery. This forces banks to overcome infrastructure restraints through the adoption of new technologies such as the mobile phone.

Micro level factors concern internal issues inside the banks which we will explore later in this paper.

Case Study 4: UnionBank of the Philippines: Setting up a robust innovation infrastructure

UnionBank changed its strategy in 2003, identifying innovation as crucial to its success. As a result the bank attracted innovation experts from the consumer goods arena, such as Proctor & Gamble, a company known for its innovativeness. The bank furthermore set an ambitious goal that 25% of its revenues needed to derive from new products and services. This target seems a bit overambitious given the fact that the bank only achieved it twice in the last ten years, but the message to employees and business owners is clear. The president of the bank also introduced a special fund for innovation, which allows him to allocate resources to innovative projects, if they do not meet the business case but are believed to give the bank a first mover advantage, even if it is only in terms of branding.

UnionBank introduced product managers to lead product management teams made up of experts from various departments such as product, risk, compliance, technology, and operations. These teams are the major innovation workforce, doing the legwork from idea generation to conceptualisation to implementation. At first one product management team was introduced on the group level, but later it was extended into the various business lines in order to work more closely with the business units. Today product managers report to their respective business heads. The importance of the product management teams is highlighted by the fact that the performance appraisal of the team members is done jointly by their regular business head and the project manager. For this reason the team members are forced to bring themselves into the team and cooperate with other members from different departments.

The project management teams are then overseen by the product innovation committee, consisting of the business heads, who are responsible for screening and performance assessment and on a quarterly basis examine each project.

New products in the end are approved by the policy committee, consisting of the innovation committee plus president and chairman, which takes the final decisions. As such the innovation process is clear, with clear responsibilities and short path ways.

Street level factors touch the customer and circle around his specific needs and preferences. While customers in Hong Kong use a wide variety of financial services, from online bill payments over the mobile phone, to contactless micro payments in the mass transit system to sophisticated investments products, only 20% of the population in Vietnam even have a bank account and cash is the preferred payment means.

While Westerners are very concerned about privacy and the security of personal information, Asians have considerably less concerns and are even willing to verify a new account with fingerprints.

As financial products often do not really differ, for example a debit card pays bills, this lack of differentiation forces banks to turn a plastic card into a lifestyle product. Exclusivity and customisation can make a difference for the target audience and the “out-group”.

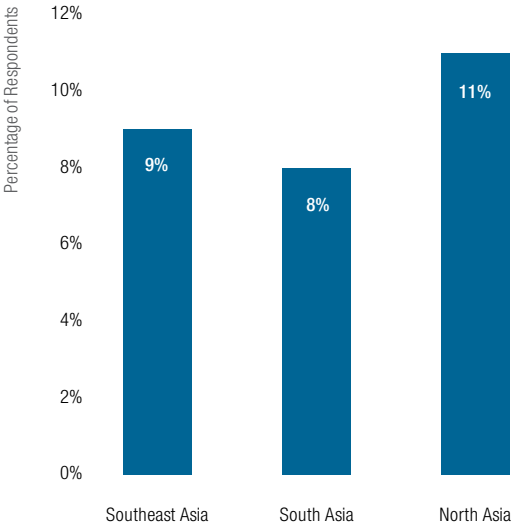
Focusing now on the micro level factors, as this are the only ones a bank can influence, the next chapters discuss whether formal structures, such as a formalised innovation strategy or a dedicated innovation department have a major impact on the innovativeness of banks.

4.3 Do banks need an innovation department?

It is not surprising that those banks which have a differentiated innovation department are also more likely to have a formalised innovation strategy. But we do not see a relationship between having a formal strategy, an innovation department and greater innovativeness in retail banking. 89% of banks in North Asia, and 92% (Figure 4-2) of banks in South Asia do not have formalised structures but they are highly innovative.

Figure 4-2

Do you have a dedicated department coordinating innovation in your bank?



Source: Infosys and Asian Banker Survey Results

We believe that the factors mentioned in the chapter 4.2 “Factors which explain different approaches to innovation” have a bigger impact on innovation than formalised structures. The nature of the competition, corporate culture and business ownership, and customer needs are the main drivers.

For banks operating in several markets the coordination between countries is more difficult and so international banks have developed regional structures, whereby regional headquarters supervise, coordinate, conceptualise and execute innovation. Citibank Asia Pacific provides an interesting example of this. The bank

seeks to develop a uniform architecture and product offering across the 19 markets where it is operating in Asia. For this reason the regional technology team is a major driver for technology innovation in the region, developing new ideas together with the local technology department in order to incorporate local needs and requirements. New projects are first tested and rolled out in a controlled environment, and once successful are extended to other geographies. Besides obvious cost and efficiency benefits, this allows the banks to have the same architecture in place in every place and thus they develop economies of scale by centralising back office operations in regional hubs, while providing the customer with a uniform banking experience.

We believe that structures that are too formal with numerous and overstaffed committees may also limit the innovativeness of banks. The public perception of banks as rather slow-moving and inflexible institutions is not necessarily wrong and probably even wanted by regulators and customers. However having too many people involved slows innovation down, as it is much harder to gauge everyone's opinion and difficult compromises can undermine originality. The CIO of a major international banking group highlighted the benefits of un-bureaucratic, short and direct communication between key stakeholders, who are taking initiatives and driving innovation even against internal resistance.

Our research indicates that a more formal innovation structure, such as formalised strategy and a dedicated department, does not result in a higher level of innovation. There is no evidence that the 20% of banks having formalised structures are more innovative than those without.

4.4 Informal innovation structure

While informal innovation structures are difficult to map (Figure 4-3), there is generally an “Overseeing Committee” on top of the structure consisting of key stakeholders of the company such as the top management and the heads of the concerned business segments. The committee takes final decisions, screens the projects and allocates funding.

The “Change Council” is the actual innovation management body and is responsible for a specific project. Its composition varies with each project but it may consist of the persons responsible for the idea generation and selection as well as overseeing conceptualisation along with business heads, product heads and their counterparts from other departments such as technology and operations. Very often it is chaired by a “Project Sponsor”, who is the main driver of the project. The “Change Council” decides which ideas are followed or dumped. The frequency of the council meetings varies along with business needs, or it is on a fixed schedule depending on the corporate culture. One of the main challenges is to drive innovation through the respective business or product lines and urge people to cooperate with other departments, while seeking the best possible outcome without wasting time.

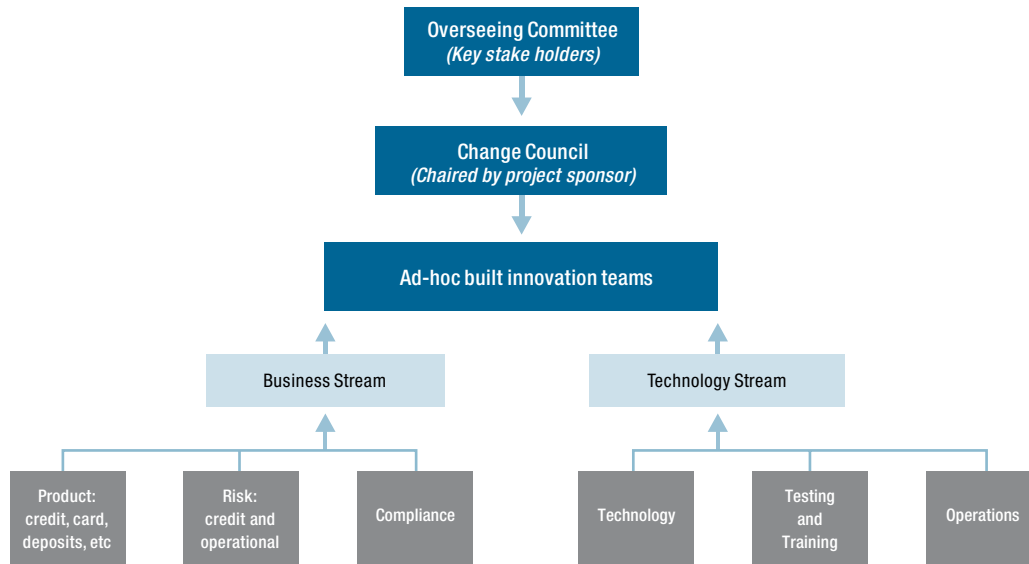
The Change Council decides on the composition of the “Innovation Team”, which is comprised of experts from all affected business or technology/operations departments. The Innovation Team is also a purpose-built, temporary, and cross-departmental working body, which does the main legwork, creating the business case, refining the idea, testing it in a pilot, and finally implementing it.

This structure has the advantage that the Change Council can be small, efficient and determined to get the project done, while still involving all related departments. As soon as an idea finds a sponsor, the process can begin and as soon as the overseeing committee approves the idea and funds, the conceptualisation stage can begin. Every project is purpose-driven and therefore multiple projects can be run simultaneously, with each team or council only focusing on its particular project. For minor innovations, there is not even the need to get approval from the overseeing committee, if the funding comes out of the operational budget.

However this structure strongly involves the Change Council. Its members will find themselves in several projects and will be at the centre of the innovation process. For this reason in many banks innovation is strongly focused on the higher management.

Figure 4-3

Informal innovation structure in banks



Source: Asian Banker Research

Banks also find various ways to make this basically easy model more complicated and bureaucratic by adding more committees, inflexible plans, inflexible funding etc. thus reducing its strength, which is speed and short pathways between key stakeholders.

While the survey shows that a more formalised innovation structure has the possibility of further burdening an already overdrawn communication process and stifling hierarchical command structure, it is incorrect to ignore the benefits of focussing on innovation. The insights clearly indicate that the most successful innovative financial institutions in retail banking in this region have internalised innovation as a deeply embedded process, as a collective ownership across unit heads, teams and departments, synthesising and leveraging on a variety of changes in IT and technology, processes and operations and successfully marrying them with the human interface both for front line staff and customers.

4.5 A disciplined innovation process

As always a disciplined approach seems to be helpful for the success of innovation, even despite the absence of formalised strategies and departments. Asian banks generally follow international best practice and usually have developed an approach based around a number of key stages:

- Idea generation
- Business case preparation and review
- Idea screening
- Conceptualisation
- Decision making process and funding allocation
- Prototyping, Piloting
- Implementation
- Measurement of success

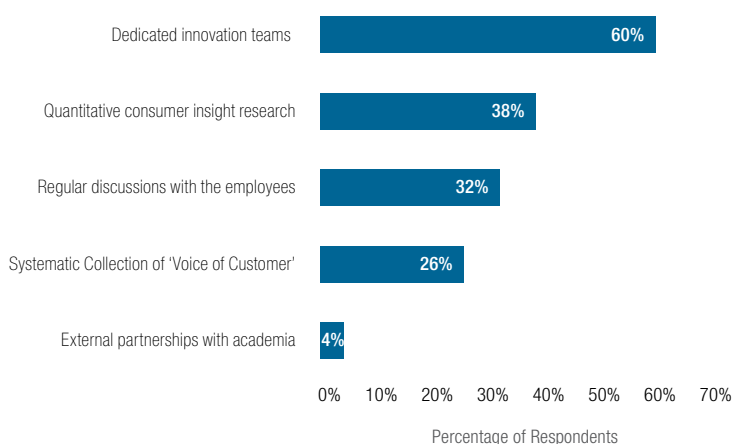
These stages have been widely adopted in the industry, and apart from minor innovations, such as process improvements, banks do more or less follow the above mentioned phases, particularly if there are high costs involved.

While many banks have created a culture which rewards idea generation across all levels of hierarchy and designations, the main driver behind innovation is mostly either the business head as the project owner and/or product managers as major executors and sometimes idea generators.

Often the business heads and product heads also sit on the screening committee, which of course affects the independence of the committee and creates a bias towards only one possible solution. The screening process is extremely important for the project's success and thus needs to be managed carefully.

Figure 4-4

How is innovation driven internally in your bank? (excluding management)



Source: Infosys and Asian Banker Survey Results

The main sources for the generation of ideas remain dedicated innovation teams deployed in 60% of the banks (Figure 4-4). These think tanks work mostly on an ad hoc basis and are driven by the business owners in banks. As the business heads, or other top management members, are the main drivers in practically every bank, we have excluded management in this graph.

Quantitative consumer insight research is also common. Banks deploy focus groups, mystery shoppers and customer satisfaction indexes to understand the needs and pain points of customers. We were surprised how many banks today seek to involve all employees in the innovation process. In Southeast Asia almost every interviewed bank said it has a more or less comprehensive customer engagement programme in place to get the employees to contribute to innovation and the improvement of the bank.

Voice of Customer programmes (VOC) have become more wide-spread, however there remains the problem that customers cannot clearly specify their own needs and describe the product they would buy. This limits VOC to figuring out the customer pain points and to meet his needs. The increasing amount of customer data which is piling up in the data warehouses can add important information on transactional behaviour and spending behaviours. It often remains a trial and error process until banks achieve their objective of additional wallet share of their customers.

The head of retail of an emerging market bank, formerly from Proctor & Gamble says: "Consumer interviews (VOC) do not really work in banking, unlike for consumer goods. Customers can only give a broad description of what they do not like and vaguely name what they need. But they cannot pin it down." Hence banks need to gather as much information as possible to understand the pain points and needs of the customer and design a product around it. Once the prototype or idea is there, focus groups and VOC help a lot to predict the usability.

4.6 Measuring the success of innovation

As mentioned growth is the ultimate target of innovation, and so growth in revenues and market share are the most prevalent metrics for the success of innovation.

After all it is not an easy goal to measure revenues on a granular level, compared with the more common generic approach. Banks can easily determine how many new products they have sold and how many new customers they attracted but splitting revenues across channels is challenging. Even more difficult is estimating the granular revenues for a specific unit or product and the cost involved, while ruling out other factors that might have been of greater importance, as well as positive/ negative spill-over effects from other products and services. Even banks in mature markets still struggle to measure and analyse revenues for a particular product, or a specific ATM or branch.

Figure 4-5

What key metrics are used to measure the success of innovation?

Southeast Asia	South Asia	North Asia
1. Revenue growth from new products	1. Improvement in profitability	1. Revenue growth from new products
2. Increase in market share	2. Increase in market share	2. Improvement in profitability
3. Time to market	3. Revenue growth from new products	3. Increase in market share
4. Improvement in profitability	4. Increase in productivity	4. Increase in productivity
5. Increase in productivity	5. Better risk and compliance capabilities	5. Time to market
6. Better risk and compliance capabilities	6. Time to market	6. Better risk and compliance capabilities

Source: Infosys and Asian Banker Survey Results

Pre-defined sales targets are a must to get a feeling for the success of a product innovation, such as targets for take-up rates and sales conversion rates. However a number of banks stated difficulties in cancelling a product, once it has been launched, if it does not live up to expectations. One of the big five banks from Thailand stated that if this happens it will stop further investment in the product, but will not take it off-the-shelf due to its corporate culture. A Singaporean bank in contrast highlighted the necessity to react; to try to correct what is wrong, and if necessary terminate unsuccessful products to keep a lean, profitable and powerful product line-up.

Time to market is also an important metric, as speed is crucial for the success and impact of an innovation. But it is also difficult to benchmark, because each product has different timetables, challenges, and infrastructure requirements. One way to deal with this is the example of a Philippine bank that no project development goes beyond six months, but this also limits the space for major strategic innovation.

Feedback from focus groups is important for product fine-tuning and constant optimisation process. But it also indicates banks' lack of ability to communicate with their own customers and deploy the right metrics to measure the success in-house.

Some banks in emerging markets made it clear that revenue is not the single most important metric and that branding and public perception are also very important. Customer satisfaction is an area where innovation can have a huge impact and both North and South Asian banks see it as the area where innovation has the most impact.

Figure 4-6

In which areas has innovation the most impact on the business?

Southeast Asia	South Asia	North Asia
1. Grow top-line	1. Raise customer satisfaction scores	1. Raise customer satisfaction score
2. Improve cost to income ratio	2. Raise market share	2. Grow top-line
3. Raise customer satisfaction scores	3. Grow top-line	3. Raise market share
4. Raise ROA	4. Raise ROA	4. Better risk management
5. Better risk management	5. Improve cost to income ratio	5. Lower write-offs
6. Raise market share	6. Better risk management	6. Improve cost to income ratio
7. Drive liquidity	7. Drive liquidity	7. Raise ROA
8. Lower write-offs	8. Lower write-offs	8. Drive liquidity

Source: Infosys and Asian Banker Survey Results

Liquidity, risk management and lower write-offs on the other hand are seen as less impacted by innovation. In North Asia, particularly in China and Taiwan, banks have done a lot on risk management over the last few years, which reflects in the expected impact of innovation on risk management and asset quality.

4.7 The potential for open innovation

Open innovation is a term becoming more popular in the global retail banking industry. The effect on Asia remains somewhat limited though. Many banks have become more cautious when it comes to outsourcing vital business areas. There is an increasing preference for keeping these areas in-house, and even bringing formerly outsourced tasks back in-house. Moreover, regulators in Asia also seem very concerned about information security and therefore may set boundaries to third party cooperation. Regulators furthermore limit cooperation between banks to secure competition in the market.

There is no denying there is close cooperation between banks and IT vendors and technology providers in general. Standard Chartered for example built its I-phone banking application directly on the Apple platform, and did not just launch an application guiding the customer to its internet banking platform but it also moved its internal business phones from Blackberry to I-phone, as this allowed customer-facing staff to directly use the phone when interacting with the customer.

A number of banks work with consulting companies and market research companies for focus groups, mystery shopping, customer satisfaction indexing and market data.

Almost every bank has well-established partnerships with retailers for co-branded products and reward programmes. Generally the payment space is more prone to cooperation with service providers and even competitors when it comes to networks. As disintermediation grows, banks have more non-bank competitors offering financial services, which also provide opportunities for cooperation.

The most obvious partnerships are in the bancassurance space, where banks have entered into close cooperation with insurance providers, seeking to create synergies in terms of know-how and the customer base, increasing cross-selling and up-selling opportunities.

4 Strategic versus incremental innovation



Strategic versus incremental innovation

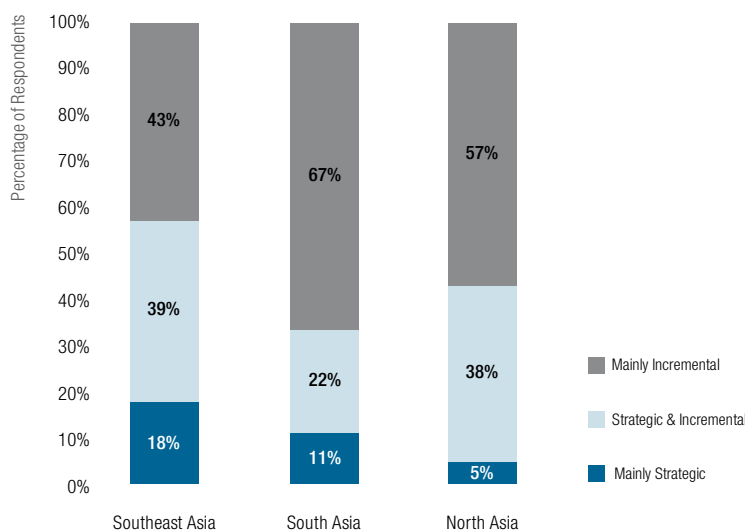
We define strategic innovation as innovation which is significant for the business model of a bank and which creates a real competitive advantage. Banks following strategic innovation have developed a culture of learning experimentation, trial and error over time, so this has become part of their DNA. They tend to be pro-active and have the foresight to implement major changes to the business.

According to this rigid definition, examples of strategic innovation are not common across Asia, or indeed in any other part of the world. However there have been a number of banks, who through their corporate culture, innovativeness and success have exerted considerable influence on how retail banking has developed in their respective markets, or even across the region. A bank simply cannot be innovating strategically all the time. Rather, it is the sum of smaller innovations, particularly in efficiency improvements, which add up to major improvements.

These observations lead us to identify two sorts of banks which qualify as strategic innovators. The first type is a major international banking group which has developed a culture of innovation and which, on an ongoing basis, launches innovations that are new to the region. The other group is made up of smaller niche banks, which in order to establish their place in the market, venture into new business models and whose unique market approach hits the right note with the customer.

Figure 5-1

Is your bank working mainly on incremental or strategic innovations?



Source: Infosys and Asian Banker Survey Results

Strategic innovation is uncommon in Asia, as we can see in the responses in Figure 5-1. Southeast Asia is leading the region with 18%. In addition to the presence of a number of international banks, it also holds a number of small, innovative niche players, such as Alliance Bank (Malaysia), RHB (Malaysia), Bank of Ayudhya (Thailand), which have innovative business models. The rest of Southeast Asia's banks are evenly distributed between incremental and a combination of both.

In South Asia the dominating pattern is incremental innovation accounting for 67% of the respondents. Banks follow existing business models with few exceptions, such as ICICI Bank, which continues to re-invent itself in bringing strategic innovations to market.

North Asia's strategic innovation is perceived to be the lowest, although there have been some outstanding strategic innovations in the past. However with the exception of HSBC, we have not seen much strategic

innovation recently, nor are there banks with innovative business models. Banks in North Asia tend to be large and inflexible and rather focus on incremental innovation.

Case Study 5: ICICI Bank (India) – Bringing CRM into the remittance business

ICICI Bank is the first bank to have developed a clear segmentation of the NRI life cycle and has aligned specific products and services to each segment. The bank deploys a full-fledged Customer Relationship Management (CRM) programme using a customer database for targeted marketing and effective segmentation to deliver and develop superior products and services to its clients.

A comprehensive business strategy seeks to develop premium customer satisfaction and expand customer loyalty. All these terms in relation with the NRI business mark a milestone for the financial industry in India. The strategy also involves comprehensive process improvements and a multi-channel strategy.

The bank's leads-to-conversion ratio more than doubled in the financial year 2010, while marketing cost have dropped by 70% within one year.

Usually strategic innovation is driven in a top-down approach, whereas tactical and incremental innovation drags in a wide pool of ideas, incorporating ideas of employees, customer feedback, different levels of management and works more in a bottom-up approach.

Case Study 6: Abu Dhabi Commercial Bank (UAE) – Adopting an institution-wide loyalty programme

The bottom line for true customer loyalty is about establishing a relationship with customers that makes them feel special and helps convey the message that banks understand what is important to them and are willing to go the extra mile to provide it. Data collection, effective database management, and above all, effective use of customer data are a few of the critical elements that can make it happen.

The ADCB TouchPoints loyalty programme was launched in October 2007 to reward customers for their overall relationship with the bank. The programme has been received exceedingly well by customers and has received a lot of praise and appreciation from the banking community.

Customer experience management requires the alignment of strategy across the bank to monitor the various interaction points which create "moments of truth" from the customer's perspective. At ADCB, the different departments such as Marketing, Service Quality, Performance Management and Human Resources, all work closely together to maintain consistent service delivery and a customer centric culture.

Furthermore, as there is a direct correlation between customer satisfaction and employee satisfaction and engagement, ADCB monitors employee satisfaction and engagement through an annual Employee Survey – analysing the results and taking remedial action to address any issues of concern. Behavioural service standards and shared values have also been established at ADCB.

5.1 Disruptive innovation in the coming years

We have identified six areas of disruptive innovation which the respondents of our survey have named as the core innovation areas for the next few years, which will have an impact on the retail banking industry as a whole. These disruptive innovations are likely to change the way the retail financial services industry is run today.

Figure 5-2

Areas of potential disruptive innovation affecting retail banking in Asia Pacific in the next years

Payments	<ul style="list-style-type: none"> Swiped plastic cards will eventually be replaced by "NFC" wireless payment options at POS terminals. Trials with using fingerprint technology have proven unsuccessful so far, hence the mobile phone is seen as the likely successor.
Social media	<ul style="list-style-type: none"> First movers target to go beyond social media's usual purpose as marketing and customer communication tools. Emerging P2P payments trend on social networks are a concern, as is the fear of further disintermediation. (see box below)
Branch banking	<ul style="list-style-type: none"> A specific sector of customers have shown their willingness to pay fees for high-value services, further encouraging a two-tier branch system. This new business model includes moving customers to alternative channels and charging fees for each and every branch transaction.
Mobile phone	<ul style="list-style-type: none"> The mobile phone has the greatest potential to reach out to the unbanked and deliver value-add services to existing clients. Customers have embraced mobile services such as microfinance options, P2P and P2B payments, e-wallets, and remittances.
Loyalty and rewards	<ul style="list-style-type: none"> Loyalty programmes will move away from product-bound rewards systems towards a relationship-based model. Each transaction, purchased product or availed service will contribute to the client's standing in the programme.
Disintermediation	<ul style="list-style-type: none"> Non-bank players are pushing into the retail financial services space, slowly eating up market share traditionally dominated by banks. This includes P2P payments, lending via loan auction houses, and e-commerce and e-money services including deposits with non-banks.

Source: Asian Banker Research

Innovation in each of these areas has begun with some pioneering banks, while the majority have opted to observe or continue to make plans. The mere fact that leading bankers today are discussing and planning around such issues is turning these disruptive innovations into self-fulfilling prophecies. However they will not have an equal chance of survival or success – some will come to dominate the business while others will fade away.

5.2 Innovative start ups

Competition is tough in most Asian markets and for this reason markets tend to consolidate rather than breed new competitors. The crisis has forced international players out of the market and a number of banks have been buying their assets as in the case of Royal Bank Scotland, ABN Amro, GE Money, and AIG.

Disintermediation is a different issue and there is reason to believe that we will see more players as non-bank financial institutions will increasingly expand their presence across Asia. Loan auction houses have already spilled over from the US to Australia and also to India, China, Japan, and Korea.

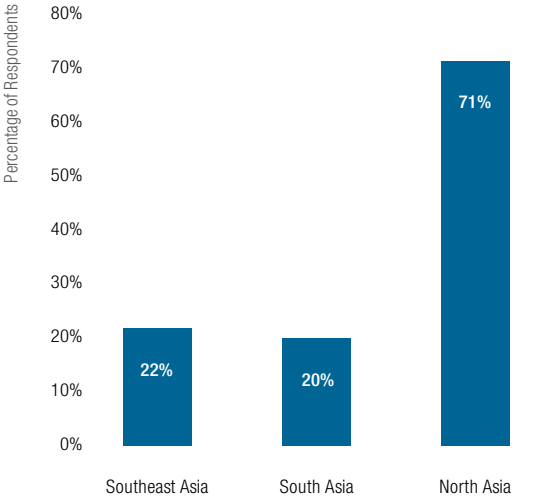
Third-party payments has become a major business in China, as Chinese banks are seen as slow, expensive and unsuitable for the fast paced e-commerce economy. This growing industry has forced the Chinese regulator CBRC into action and since 2010 it has been regulating third party payments.

North Asia offers the most opportunities for non-bank financial service providers (Figure 5-3), where we have open and flexible regulators in places like Hong Kong, dynamic markets in places like China, where new ideas

can rapidly develop momentum long before the regulator takes action, and active non-bank players in Korea, where the telecommunication providers are driving mobile related innovation and can easily become competitors to traditional banks.

Figure 5-3

Is there a threat to established retail banks in your market from innovative new entrants and business models?
(Respondents ranking threat high or very high)



Source: Infosys and Asian Banker Survey Results

South Asia by contrast has very restrictive regulators, who watch the financial industry with eagle eyes and limit new competitors. Similarly, markets are only being slowly opened up in Southeast Asia. Regulators in Indonesia, Thailand, and the Philippines seem rather protective regarding their banking sectors, limiting foreign shareholdings in local banks and restricting the activities of foreign banks. Only Malaysia is further opening its banking sector to new competitors at the moment and banks there are concerned about increasing competition.

Case Study 7: Alibaba - Alipay (China) – Pioneering online payments and e-commerce in China

China's online payment industry has grown at impressive rates over recent years and has more than doubled each year since 2004. It has now reached a level of more than \$80 billion in 2009, which is considerable given that China's credit card transaction values accounted for \$260 billion in 2009. Alipay, a subsidiary of China's e-commerce giant Alibaba, was launched in 2004, and has since become the most popular and extensively used online payment tool for all areas of e-commerce in China, garnering a market share of more than 50% of third party payments. Alibaba developed a B2B e-commerce model specifically for China, beating out competitors by eliminating transaction fees and building trust among buyers and sellers and by understanding how important the payment link was to a successful e-commerce business.

In March 2010, Alipay had more than 300 million users and a daily transaction volume exceeding \$200 million. Alipay is building relationships with major banks in China and offers itself as an e-commerce payment partner of choice for financial institutions. Alipay has also expanded its footprint into nine foreign countries and regions including Hong Kong, Taiwan, Australia, and the US.

5 Innovation and growth

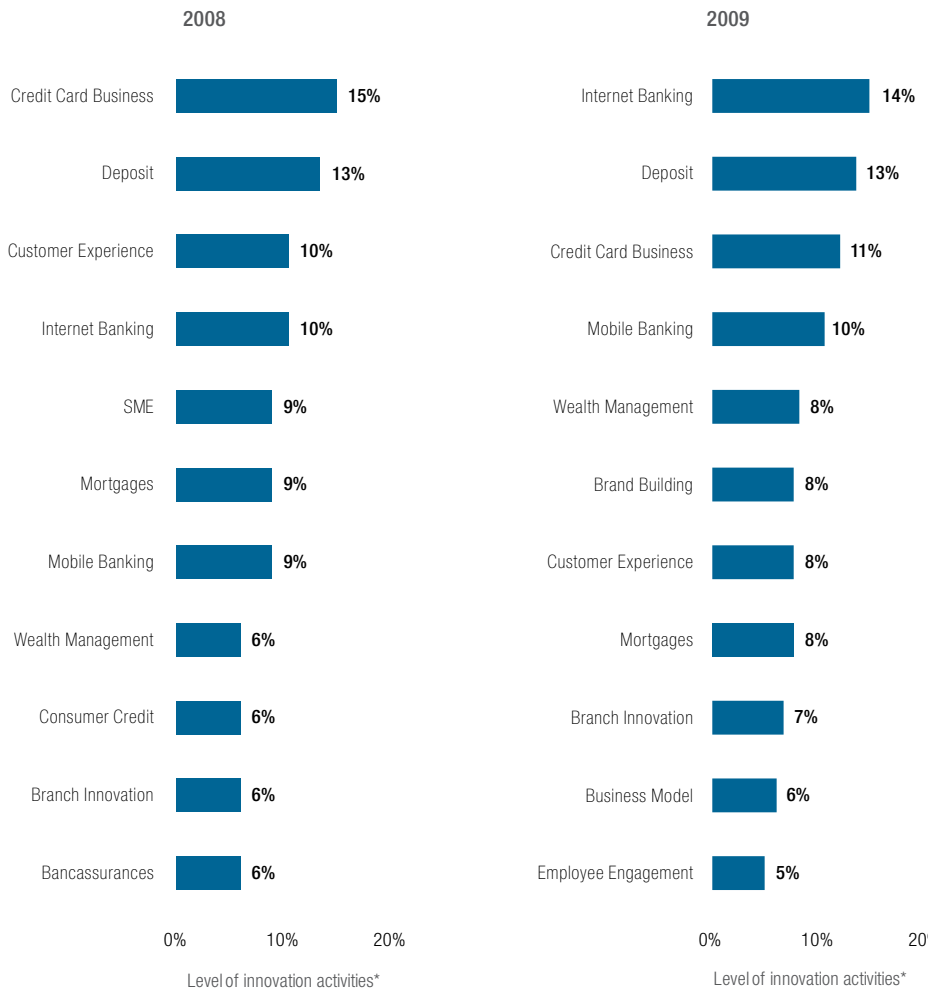


Innovation and growth

We asked senior retail financial services executives which business lines or operational processes were the focus of innovation attention in 2009 compared to 2008. While front line innovations, in particular cards and payments, deposits and electronic banking dominated the agenda in both years, financial institutions were introducing or expanding their payments applications. Internet banking has advanced to the most important innovation activity in Asia Pacific and the ability to generate a low cost core deposit base consistently dominates the operational agenda. Wealth management received a setback as banks fee income business had been predominantly built on a commission-based fund business. It has recovered but remains well below pre-crisis levels. While fixed income products have gained much momentum, high-yield risk products have lost much of their charm for investors and may not come back any time soon as a source of revenue. Customer experience, a key element in the strategic agenda, gained visibility as a reflex to the crisis but lost momentum in 2010, similar to mortgages and the SME business, where fewer innovation activities were reported.

Figure 6-1

Innovation activities in the years 2008 and 2009



Source: Asian Banker Research

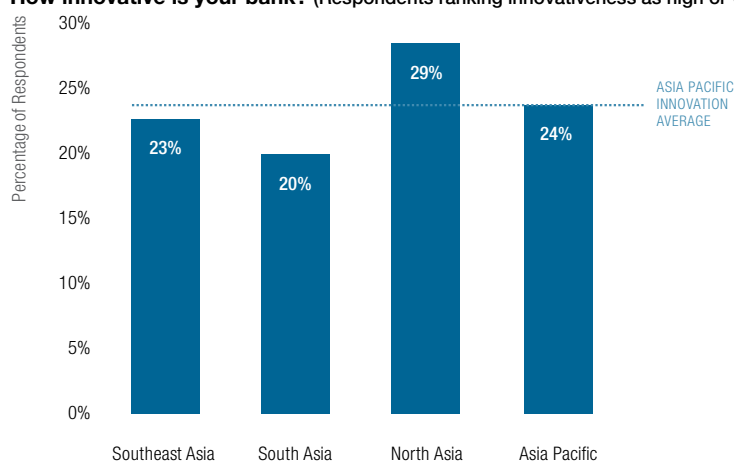
* Note: Graphs indicate the degree of innovation to total retail banking initiatives in retail banking

6.1 Innovation Index

Asking banks on how innovative they are, the average of all responding banks in Asia Pacific rating their level of innovation as high or very high determines the average threshold with 24% (Figure 6-2). North Asia leads the field, at least self-perceived, crossing the threshold with 29%, while Southeast Asia lies marginally below with 23% and South India at the end with only 20%.

Figure 6-2

How innovative is your bank? (Respondents ranking innovativeness as high or very high)



Source: Infosys and Asian Banker Survey Results

For the purpose of comparative analysis between the four sub-regions, the survey introduces the Innovation Index (Figure 6-3) which is based on a self assessment by banks on how innovative they are across products, channels, operational processes and customer relationship management.

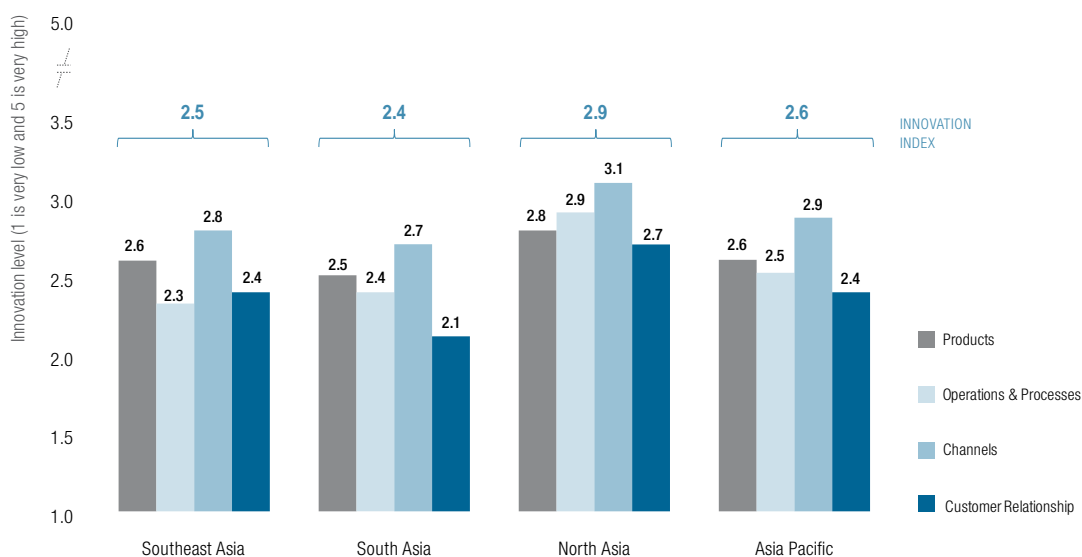
Mature markets have higher levels of innovation in customer relationship management and workflow process optimisation compared to emerging markets such as India, Indonesia and China. For this reason North Asia, with three mature markets out of four, shows by far the highest level of innovation, particularly in channels, operations and workflow process optimisation (Figure 6-3).

In Southeast Asia and South Asia banks are most innovative in channel management and products and have improved their innovation in business lines such as deposit products, bancassurance and credit cards. Most banks have launched full-fledged mobile banking, though OCBC (Singapore), BPI (Philippines) and Citibank (India) have introduced the most innovative propositions in South and Southeast Asia. We observed that players with a strong integrated insurance arm such as HSBC (Hong Kong), Siam Commercial Bank (Thailand) and OCBC (Singapore) could cushion the drop in fee income from fund management better than their peers between 2008 and 2009. All three, despite holding the leading market position, maintained or improved market share with innovations in new products, process/technology systems and customer relationship management. We observed that banks with a low contribution of retail income to total group income across all regions continue to show innovation on the product side such as Bank Mandiri (Indonesia) which introduced a complete new range of mortgages to the market in 2009/2010.

In China and South Asia, network distribution is a volume game. Private banks in India have doubled their branch networks and in 2010 started exponentially increasing their online banking transactions. In China, mega-banks have been building channels on an industrial scale. ICBC, with over 16,000 branch outlets, constructed more than 1000 wealth management and VIP financial centres in 2009. Between 2006-2009 it refurbished 1,000 outlets annually, while China Construction Bank added even more wealth management/VIP financial centres and has more than 35,000 self service machines and 8000 self service centres across China.

Figure 6-3

Innovation index: How innovative is your bank across products, channels, operational processes and customer relationship management (1 means very low and 5 very high)



Source: Infosys and Asian Banker Survey Results

The earliest adopters among the domestic banks in Asia Pacific launched their data warehouse projects for retail financial services in 2000/2001 with the establishment of a single marketing customer information system as the foundation for all future CRM applications. Today, the most advanced players such as ANZ (Australia), Westpac (Australia), Bank of East Asia (Hong Kong) and HSBC (Hong Kong) have added event-based management applications with real time dynamic offers, behavioural analytics and the integration of remote channels and their core banking systems to their tool kits to address business issues related to customer satisfaction and retention, new customer acquisition, and cross-selling and up-selling.

6.2 Potential areas of operational innovation

Looking ahead the responding bankers predict that the product innovation will have less impact on the business, than customer relationship management and operational processes. The speedy and relatively easy copying of new products is probably the main reason for the low impact of product innovation.

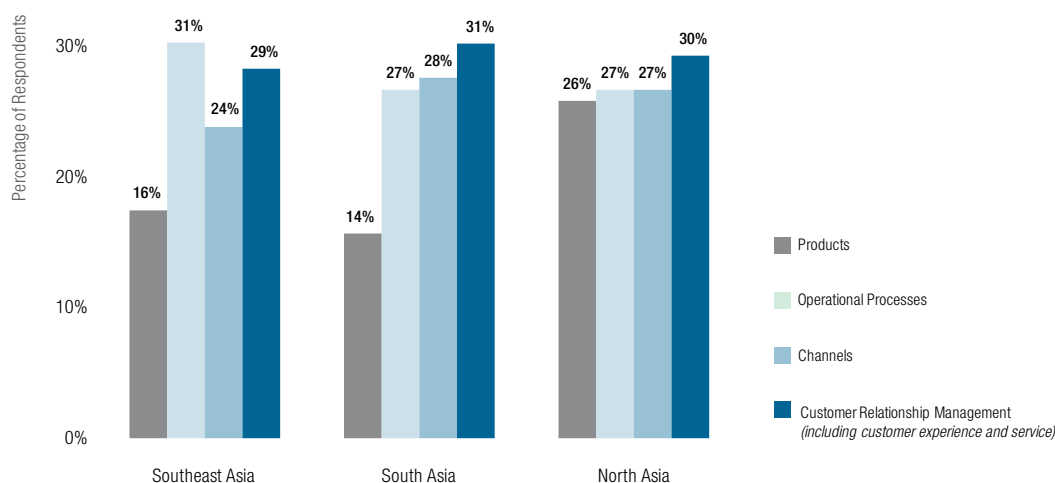
The ability of banks to turn alternative channels into revenue generators, rather than a cost factor, is crucial to improve the impact of channels on the business. Banks in North Asia and South Asia seem to be more optimistic to meet this challenge, than banks in Southeast Asia.

Financial institutions in Asia Pacific will intensify the focus on innovation in customer relationship management and a customer centric business model. The major innovation activities we are likely to see in the next three years are:

- Creating deep business insights into customer preferences
- Creating customer-focused strategies by understanding customer needs more effectively
- Integrating distribution and channel management
- Building cross-selling capabilities
- Streamlining and automating customer-facing processes
- Creating a consolidated view of the business and customers
- Improving service quality and customer interactions
- Enhancing marketing productivity

Figure 6-4

Where do you think innovation will have the most impact between 2010-2013?



Source: Infosys and Asian Banker Survey Results

The biggest challenge is how to put everything onto a single platform, including shared applications and products with third parties while equipping personnel with the right data in a short period of time. We discovered that innovation on the CRM side often depends on the willingness to share data in the first place; management needs to convince user departments to open up their data and to share it openly with each other. Once this hurdle has been jumped, executives quickly realise that they are in ‘Treasure Island’, as one respondent told us, as they can easily get all the information they need and a ready set of leads for all their promotions.

A further difficulty comes from campaign management using the whole distribution platform. Even if banks can build an interface between e-banking, phone banking, mobile, branches, call centres and link this to the warehouse, they still face the task of managing it under a single promotional agenda that will be systematically operated by the team or by the different users across departments. This is one of the hardest things banks need to overcome to start innovating at the front end more effectively.

6.3 Product Innovation

Product innovation was rated by senior executives as the second most innovative area after channel management and we have selected the most innovative market launches in 2009 and 2010 to illustrate some of the main developments.

Wealth management in North Asia stands out as the most innovative product area; this is hardly surprising given that the biggest banks in the world, ICBC and BOC aggressively tapped into this market in 2009 when it was already being actively worked by traditional Hong Kong banks such as HSBC and Hang Seng. But the whole business model fell apart when the crisis struck, at least outside China. As the market declined and customers needed more secure investments, banks in Hong Kong moved away from aggressive high-yield wealth management products, and offered fixed deposits and other more conservative products to their customers.

In Southeast Asia banks focused strongly on payments and cards, as well as deposit products. The innovations in payments were geared towards prepaid cards, contactless payments, and lifestyle credit cards, whereas attracting deposits was a necessity due to the raising capital requirements of regulators and the Basel Committee.

Figure 6-5

Which product lines were the most innovative in the last two years?

Southeast Asia	South Asia	North Asia
1. Payments & cards	1. Consumer loans & mortgages	1. Wealth management products
2. Deposit products	2. Payments & cards	2. Payments & cards
3. Consumer loans & mortgages	3. Commercial lending (SME loans)	3. Deposit products
4. Wealth management products	4. Deposit products	4. Consumer loans & mortgages
5. Commercial lending (SME loans)	5. Liquidity and cash management	5. Commercial lending (SME loans)
6. Liquidity and cash management	6. Wealth management products	6. Liquidity and cash management

Source: Infosys and Asian Banker Survey Results

Among South Asian banks the main target was consumer loans and mortgages. After ICICI Bank quit unsecured lending, an area in which state-owned banks have little exposure, the field was left open to a few banks such as HDFC, which grabbed a considerable market share. Microfinance has also become a hot topic in South Asia with banks following two business models, either using their own networks or those of self-help groups. A number of banks follow both business models.

Innovation in Deposit Products

In the deposit arena, the stimulus for innovation sprang from various sources. In South Korea it was the threat of disintermediation from non commercial bank players; in Australia it was dependence on wholesale deposits as the level of core deposits to total funding is among the lowest in the region, in Malaysia it was the necessity to grow low cost CASA deposits, to satisfy higher capital requirements. In general the benefit of building a strong core deposit franchise has forced banks to find innovative ways to raise low cost deposits in the market. Most deposits that are introduced into the market are supported by pricing, promotion and marketing innovations, often topped up with extra perks apart from higher interest. Expensive marketing budgets and pricing often though nullifies the benefits of deposits as a lower cost of funds. Market winning deposit products combined a strong network franchise with added functional flexibilities that meet the needs of specific target groups such as the flexibility of a current account, high interest rates and robust transactional capabilities.

Case Study 8: Standard Chartered Bank (Singapore, Korea) – Building a core deposit franchise

Standard Chartered has been setting the benchmark for deposit products in Singapore and across the region. The bank declined engagement in hefty price wars on deposits instigated by its domestic peers; instead it focused on innovative deposit products which offered a real value proposition to its customers. Standard Chartered linked deposits to other products such as mortgages, cards, investment products and loans in a manner that made sense to customers.

Standard Chartered manages to stay on top of the deposit business in every market it operates particularly with its innovative 'Xtra-saver' and 'Do-Dream' accounts.

The 'Xtra-saver' account has been the bank's flagship deposit for a number of years now. Launched in 2006 in Singapore, it has become one of the most successful deposit account products in Singapore, supporting a 40% increase in overall retail deposits in 2006. Within six month after launch the bank acquired 25,000 new customers. The innovation was to link a savings account to a MasterCard debit card, a first in the region at that time. It marked a new approach to retail

deposit-linked products as it was able to lure huge deposits without offering high interest rates, and keep its own costs low by encouraging debit card spending through attractive cash-back rebates.

The Do Dream savings account, a flexible long-term savings account offering the convenience of CASA to the customer helped the bank to tap into Korea's large deposits successfully, following the acquisition of Korea First Bank in 2005. The Do Dream account which offered customers an initial interest of 0.01% p.a. interest on the first 30 days and a 3.6% after that period, helped the bank to boost its market share in Korea, from 4.8% at the beginning of 2008 to 9.1% at the end of 2009.

That Standard Chartered Bank has turned into a key player in the deposit market in Singapore is reflected by the government's decision in 2010 to provide its "Baby Bonus Scheme" through Standard Chartered Bank's Children Development Account (CDA); the only foreign bank to participate. Parents will receive a cash gift of up to \$6,000 each child and will receive Government contributions in the form of a dollar-for-dollar match for the savings parents contribute to the child's CDA. Stanchart bundled the CDA account with an accident insurance for the child, as well as a daily S\$ 50 hospitalisation cash benefit for treatment of Hand, Foot and Mouth Disease (HFMD), an outbreak of which caused the closure of kindergartens in Singapore in August 2010.

Case Study 9: CIMB (Malaysia) - Offering lifestyle benefits for saving accounts

CIMB launched a savings account called 'AirAsia Savers Account' that created the first lifestyle benefits for a deposit account in Malaysia. The launch of the account was in collaboration with the air carrier AirAsia, a popular low budget airline in Asia Pacific, as a strategic partner. This would build on the strengths of the respective partners in terms of brand, channels and communication strategies. The product was supported by a holistic marketing campaign and was executed with different value propositions such as, but not exclusively, a free flights contest to selected destinations and exclusive low fares with no administrative or fuel charges from AirAsia.

Case Study 10: Asia Commercial Bank (Vietnam) – Introducing a floating interest deposit

Asia Commercial Bank (ACB) introduced a medium-term deposit with floating interest rates. Its 36 month-term depositors could choose between six different interest payment periods between one and twelve months - the longer the period the higher the interest rate. However the deposit can also be withdrawn before maturity at a minimum rate equal to normal deposits with a similar term. Due to a loophole in the regulations the deposit account allows ACB to hold lower reserve requirements as it qualifies as a medium term deposit, but still gives customers attractive rates and the flexibility to access their money. Hence it is inexpensive for the bank and attracts customers through better interest rates and flexibility. Within a year of the launch, this product made up 64% of the total customer deposits at ACB, attracting more than 200,000 new customers in the two years following its introduction, reaching a balance of \$3.5 billion.

Innovation in Cards and Payments

Despite the consolidation within the industry, the payments landscape in Asia Pacific remains fragmented with multiple payment systems competing for the same users both across and within countries. New electronic payment options are emerging in the Asia Pacific for small, medium and big ticket purchases. Contactless payments have already gained a foothold and contactless mobile phone payments will be the next step in the payments arena in 2010/2011. While pre-paid cards have not taken off yet, we see some banks starting to introduce this in their payment portfolios. We will also see more banks adopting remittance payments on mobile phone banking, a move which has huge potential in fees. Banks in the region have also introduced innovative, consolidated and flexible rewards and redemption schemes.

In July 2007, Hang Seng offered Hong Kong its first virtual identity smart bank card for university students. The card is embedded with the digital certificate from the Hong Kong Post Certification Authority and customers can use it to make legally-binding instructions (PKI-based) for payment of tuition fees and other campus bills. The launch of the digital certificate payment service is an important endeavour to promote a secure and green alternative to paper cheques, as well as to serve as a prototype for a new form of electronic commerce with trusted identities.

Case Study 11: Bank Mandiri (Indonesia) – Introducing contactless payments

Bank Mandiri (Indonesia) has built up a strong payments and cards portfolio without compromising business performance. Its-cost-to-income ratio is the lowest among the local players and below 35%, while its average ROE stands at above 75%, the highest among its domestic peers, resulting in a market share in card spend close to 10%. Together with Hypermart, a leading player in retail goods, Mandiri was the first bank in Indonesia to introduce a contact-less payments card. The co-branded card combined payment convenience with contact-less payments, with an active rate of higher than 70% on average (3 months base). It has shown the highest growth rates in value and volume of transactions among emerging markets players in Asia Pacific, generating a large proportion of its income from annual fees.

Case Study 12: Standard Chartered (Singapore) – Pay-any-card from one account

Standard Chartered was the first bank in Singapore to introduce the pay-any-card initiative enabling customers to pay all their credit card bills from any Singaporean bank from their Stanchart account. The Pay-Any-Card service is crafted based on a research showing that one in two credit cardholders want a one-stop payment channel, where they can consolidate and make payments for all their credit card bills, regardless of the card issuer. This service is designed to meet the expectations of Singaporeans, many of whom hold up to 7.8 cards – this allows consumers to save time and avoid the hassle of having to access different banks' accounts for their payment needs.

The combination of the pay-any-card initiative and Stanchart's large number of billing partners puts the bank in a good position to aspire its goal of market leadership in the online bill payment space.

Case Study 13: Citibank (Taiwan) – Building a customer-centric approach in credit card management

Taiwan's credit card market went through two consecutive turbulent years following the 2006 credit crisis. Just when major issuers resumed market activities in 2008, the market suffered a second blow when consumer retail sales contracted as a result of high inflation and the lowest consumer confidence in the past seven years. The market shrank by 23% in terms of the number of plastic cards, revolving balances fell by 46% and consumer spending dropped 8% compared with the beginning of 2006.

Citibank's solution was based on understanding customer concerns and focusing on the changing needs of clients. Citibank created a diametrically different trend by understanding customer concerns and focused on the changing needs of clients. It introduced a series of new functions at the height of credit crisis when competitors were focused on controlling their credit losses. A combination of new market features, 24h turnaround time in credit card issuance, instant SMS reward redemptions, and a one-call solution approach to improve customer experiences. This enabled a number of best-in-class achievements, such as leadership in revolving balance, in revenues, and in active cards, which grew from 65% in Q1'08 to 80% in July'10. Sales per card in force (CIF) grew from \$161 in 2008 to \$217 in July 2010, which is considerable 65% higher than market average.

Case Study 14: China Merchants Bank – Building a superior credit card franchise

Despite the size of the market and the huge potential of credit cards in China, the credit card penetration remains low in the country. The number of credit cards per capita was only 0.1 in 2009, compared to 4.4 in the U.S. and 2.6 in Singapore. Managing a credit card portfolio in China also involves high costs, due to expensive infrastructure and considerable risks, while revenues remain low compared to Europe and the US. Generally, the best banks generate only up to \$50 in revenue per card. The barriers to market entry are high and the market is relatively concentrated with only seven banks accounting for 80% of the card receivables in China. China Merchants Bank (CMB) was the first Chinese retail bank to concentrate on mid and high-end retail clients with the promise of good customer service, product and channel innovation. Today it has more than 700 branches. While this is a tiny network compared to the large scale banks, it has emerged as the sixth biggest retail bank in China, just behind the country's largest state-backed players, with more than 40 million retail clients, compared with just 2 million in 1999. Today it has over \$ 58 billion in retail deposits and retail revenue which accounts for more than a third of the bank's overall revenue. Note the smallest large scale bank in China, which is Bank of Communication, has a network of 3000 outlets. Despite CMB's comparatively small network size it commands a market share of 20% in active credit cards although down from 30% in 2006. 77% of all China's retail financial services business is done through online banking.

CMB launched its all-in-one-card, a milestone in China's retail banking industry in 1995 and this card remains one of the most popular payment instruments today. Aside from giving access to savings, the all-in-one card can also be used to make payments such as utilities and telephone. Presently, CMB has more than 50 million cards in circulation with an average deposit amount of more than \$1200, 2.5 times the national average. The all-in-one-card customers bring in 40% of CMB's savings deposits and it is popular among China's booming e-commerce websites in China, such as Sohu and Sina, with 80% of the credit card transactions on these sites handled by CMB. When CMB started in the credit card business it was the only bank in China that did not partner with international banks, though it was heavily courted by Sandy Weil, Citibank's former Chairman and CEO who wanted to issue joint-name credit cards. Instead CMB built an independent credit card business by hiring a team of talented experts from overseas institutions, bringing in advanced technology and restructuring its processes. It was also the first bank that actively marketed its products where people live and work, going into universities, workplaces and residential areas, a novel way of marketing products in China. Within four years after start-up, they made their first profit, four years ahead of its goal.

Case Study 15: E. Sun Bank (Taiwan) – Creating the first mortgage department store

E. Sun Bank (Taiwan) initiated the "flagship mortgage department store" concept in 2004, and was one of the first local banks in the region to provide a range of mortgage products to meet the needs of each customer. These products can be combined and individualised based on the customer's income, their ability to shoulder risk, and the overall family situation. The bank seeks to have the highest share of outstanding mortgages but its most important goal is to increase customer value. E. Sun Bank believes that what home owners require is not only a home loan, but overall household financial planning. This specific mortgage can be linked to personal insurances, short-term revolving funds and long-term investments. From a customers' point of view this product suite truly meets his requirements. Due to this customer-oriented strategy the retail cross-sell ratio improved from 2.9 products in 2008 to 3.2 in August 2010. In addition to fulfilling the customers' needs, E. Sun maintained the best asset quality in the market with a non-performing loan ratio at the lowest level of 0.25% until June 2010.

Case Study 16: HSBC (Singapore) – Offering loyalty bonus for mortgages

HSBC (Singapore) rewards customers for their loyalty and banking relationship. It was the first bank in Singapore to offer a decreasing interest rate spread on their home loans in 2009. Customers are provided with a home loan offer as they deepen their relationship with the bank. With a minimum average annual total relationship balance of \$75,000, customers receive a 0.1% year-on-year discount on their interest rate spread from year 2 to 5. Year 5 to 9 is a flat spread and it is reduced to 0% interest rate spread at year 10. There is no lock-in and a portability feature allows customers to carry forward the package's rates to a second home loan if they sell their first property. As the first bank to offer a home loan package with a decreasing interest rate spread to reward customer loyalty, the campaign concept emphasised the universal human value 'relationship' through the use of family visuals, using the insight that the bank's customers value relationships in life and aim to provide a better home for their families.

Innovation in Mortgages

Financial institutions in Asia Pacific market their mortgages mainly through pricing innovation. Process improvements and shorter cycle times for approvals and disbursements are also important innovations in operational areas where mortgage approvals cycles can exceed 20 days, due to poor product knowledge, lack of consolidated guidelines in the sales process and long and tedious processes for approvals and valuations. Due to increased productivity of underwriters, better systems for processing loan applications and automated processes for simpler and faster drawdown of funds, speeding up the turnaround time became a key area of innovation activities. Approval in principle in some cases got down to less than 60 minutes, and the time from the application to receiving funds fell to between two and four days. Increasingly banks in the region use a wealth management approach towards mortgages, basing it on customer life stages/lifestyles. They collaborate with key property developers to initiate and launch tailor-made services and programmes and use CRM analytical tools to find out when customers will be receptive to home-equity loan offers.

6.4 Innovation in Channel Management

Although in recent years the retail financial services industry in Asia Pacific has paid significant attention to the development of e-banking, there has also been a new wave of branch banking innovations to improve frontline execution by coordinating automation, workflow process optimisation and frontline staff to enhance service delivery and sales capabilities. We expect this to be the forerunner of more connectivity, interactivity, discovery and instant delivery at branch sites.

Financial institutions will increasingly shift lower value products to the self service zone. Hong Kong banks for instance issue travel insurance via self service units. Mobile phone banking has become mainstream; 91% of first tier banks in Asia Pacific had implemented a full-fledged mobile phone banking proposition by 2009/2010. The most innovative and popular current applications centre around SMS alerts, remittances and increasingly micropayments. A key lever of innovation, we observe is the establishment of teams that are not tied to any one conventional channel. These specialist teams tend to possess a strong vision of channel integration from the outset, take ownership of initiatives, keep track of successful adoption strategies, are bold in experimentation and place an emphasis on indirect revenue generation and service customisation. They also attempt to be holistic in their approach towards channel performance management by identifying and measuring the synergies that arise from multi-channel integration whilst continuing to monitor the performance of specific channels.

Case study 17: Citibank (Japan) – Introducing the next generation in branch banking

Citibank (Japan) gave a glimpse into the future of branch banking by setting up a high tech multimedia branch that offers the latest interactive technology in a single 'store' and an integrated paperless workflow with information transfers and discovery in an open workbench environment. A superior human interface and a high degree of automation aim to tap into customers' expectations for instant delivery and "always on" connectivity. The revolutionary approach is made possible due to the state-of-the-art touch points.

(Read the full story in Chapter 11 CASE STUDIES - Case study 26: Citibank (Asia Pacific) – Changing course in retail banking)

Case Study 18: AmBank (Malaysia) – Wireless ATM

AmBank wireless ATMs based on the Global Systems for Mobile Communications (GSM). As traditional land lines in Malaysia can pose problems to banks, such as causing system downtime due to limited bandwidth, AmBank (Malaysia) overcame this limitation by introducing a new ATM concept deploying Secured Wireless Connectivity (SWC), which builds on an existing infrastructure of wireless signals like 3G. The SWC offers the same security features as regular lines including end-to-end IP VPN tunnelling with AES 256 bit encryption. However, the new technology now enables AmBank to deploy its ATMs anywhere there is a mobile telephony service. This can be in rural areas or temporary locations such as at fairs, festivals, or other major public happenings and it also offers new ways of banking such as mobile express branches in areas where the traditional infrastructure is overloaded. While satisfying the regulator's security requirements, the new ATM concept reduces time to market and offers vast possibilities to position ATMs and cash dispensers in off-premise locations. It also involves considerable cost savings of around \$1000 a year compared with regular units.

Case Study 19: Bank of the Philippine Islands – Building a mobile banking business

Bank of the Philippine Islands (BPI) started its mobile phone services by providing SMS services in 2002. Five years later it took mobile phone banking to the next level by introducing a menu-based mobile banking services in partnership with the telecommunication provider Globe. In 2009, BPI launched internet-based mobile banking and opened up the mobile channel for remittances to customers abroad. Also in 2009, BPI launched mobile commerce, a first in the Philippines, where customers can order and pay via the mobile phone at selected merchant partners.

Mobile phone services were expanded to include micro financing, micro savings and micro insurance to deliver branchless banking to the hitherto unbanked in the Philippines. Today, BPI runs the largest mobile banking platform in the Philippines, servicing more than three million customers in the country and abroad. By identifying successfully customers unique payment and user pattern on a mobile phone, it was able to improve its product and services offering. When a client enrolls one of his accounts in mobile banking; all his other accounts are automatically enrolled in the facility. Another innovative feature is the handy bills payment system with over 300 bills payment options ranging from utilities to clubs and schools. BPI also rewards clients for their bill payment transactions and, as the clients' cash-free wallet. The latest innovation of BPI is the partnership with fast-food giant Jollibee to allow overseas workers to send Jollibee package meals to family members back home. When BPI expanded this service to groceries, rentals, bill payments and transport usage it allowed remittance senders to gain control over the usage of their funds. BPI has around 150,000 enrolled users, among the largest number of users in Asia. BPI predicts that with the new initiatives it will grow to 250,000 users by the end of 2010.

6.5 Innovation in Customer Relationship Management

The subprime mortgage crisis in 2008 rocked the financial markets around the world, and financial institutions faced many serious problems including a credit crunch, extremely risk-averse investors, and rising unemployment rates that reduced consumption. Some markets such as Taiwan, Singapore, Hong Kong and Korea additionally suffered from severe mis-selling incidences from the Lehman Brother fall out, which brought to the fore the previously unnoticed link between risk/sustainability and the compensation structure. Though many players have upgraded their sales processes to be more customer-centric, often under pressure from regulators, only a handful of banks in the region made significant changes that addressed the root cause: the structure of compensation.

OCBC created sustainable customer relationships by changing its compensation and remuneration practices, keeping a claw-back mechanism of up to three years for all sales made. This not only changed its incentive structure by giving equal weight to service quality and sales, but it also altered the bonus system for team managers by extending it to include coaching and successful execution of service quality in addition to sales. The final pillar was to provide a consultative review system aimed at retaining those staff who were aligned to these performance goals. By introducing these measures, OCBC was not only able to increase the quality of work and the quality and quantity of interactions with customers but it also encouraged long term sustainable behaviour and better retention of top performers. OCBC's wealth management business was not affected by any mis-selling cases.

A strong example of a powerful and innovative branding campaign was the DBS "Living Breathing Asia". This personalises its branding in a unique way by encouraging employees to talk about their personal dreams and vision and links this to the DBS agenda. It is a smart campaign showing real employees as the key carrier of the message using traditional media tools.

6 Innovation and efficiency



Innovation and efficiency

Efficiency in retail banking only found its way into Asia's mainstream retail banking industry around the year 2005. Before that banks did not focus much on efficiency. This applies particularly to state-owned banks, even in relatively mature markets like Taiwan.

While mature market banks and international banks have done a lot since 2005 and have reached a decent level of automation and efficiency, banks in emerging markets addressed efficiency issues in 2008 and 2009. This is related to the increasing competition in Thailand, Malaysia and Indonesia, among the private banks in India and the bigger banks in China. The gradually deteriorating operational environment in 2007 and 2008 supported this development. Cost management became a higher priority for the banks, as did delivering better customer service through automation, faster turnaround times, integrated forms, streamlined processes and a more uniform banking experience.

Case Study 20: Citibank (Asia Pacific) – Centralisation of Asia Pacific's technology and operations in regional hubs

International banks operate in various markets which require them to follow various local regulations and geographic requirements. In order to achieve cost savings and economies of scale, these banks need to build standardised infrastructure and products across the regional franchise. Building the development infrastructure and capabilities while complying with local regulations when automating processes and consolidating customer information across the region is a major challenge.

Citibank has consolidated its operations and technology into a new purpose-built eco-friendly global hub in Singapore. This has resulted in improvements in cost efficiency and overall productivity such as fewer credit card losses, simpler organisational structures, more support from the centre, consistency of products and coverage, more cross-selling between businesses and countries, and O&T optimisation.

The standardisation of the bank's appearance requires close cooperation between local entities and Citi's regional technology department. The tech centre supervises tests and conceptualises projects across the region. Usually projects are piloted and rolled-out in limited geographies and then expanded to other markets after being modified to meet local needs and requirements.

Banks such as HSBC (Japan) and Shinsei (Japan) introduced paperless account opening processes in 2006 and 2007 and have begun to use biometric readers for the account opening process. These technologies only found their way into Southeast Asia in 2008 and 2009 in line with the "go green" movement. Needless to say they immediately became very popular among banks as by moving away from print they were able to reduce costs, while giving themselves an eco-friendly image. Banks in Thailand and Malaysia introduced biometrics readers, e-forms, and queue-management tools to speed up the account opening process. The national ID card combined with a fingerprint provides and verifies the personal information necessary for the account opening process. CIMB (Malaysia) managed to reduce the time for account opening from 30 minutes to 10 minutes through this technology, while scaling down its back office operations by almost 50%.

The loan origination process has also received a lot of attention. Some best practice banks have become fully automated, streamlining and integrating applications with the credit risk management process, so that most of the applications go straight through, unless there is a red flag. This has resulted in a reduction of turnaround times; fewer staff needs to be involved and it has also minimised risk. In principle approval times for mortgages have come down to around 60 minutes as is the case in Commonwealth Bank of Australia. Time to disbursement however remains between 4 and 10 days for the best practice players in the region, which is still a considerable advance given that only two years ago these players still required 15 to 20 days until disbursement. Bank OCBC NISP (Indonesia) has to be mentioned in this regard - as it managed to reduce time to disbursement from 20 days to 4-6 days by streamlining its credit process, reducing steps in the process, and establishing clear guidelines, responsibilities and rules to reduce back-logs and waiting times.

It is long overdue but finally the first bank in Asia has introduced a service pledge to serve its customers within a certain period of time. While this has been common for retailers and even public authorities or airports, banks have long ignored this commitment of service to the customer. Standard Chartered Singapore will launch its eight minute service pledge in 2010, giving a donation if the queuing time in the branch exceeds ten minutes.

Asian banks have developed more sophisticated risk management mechanisms in recent years, but risk can hardly be described as a very innovative field due to its conservative nature. Risk-based scoring, behavioural analysis and risk modelling have come a long way and have slowly become standard among banks in emerging markets too. The quality of credit bureaus has also improved and banks are more cooperative in sharing information. Operational risk, though still not receiving the necessary attention it deserves, has gained more attention from Asian Banks due to regulatory pressure, brand perceptions and high fines from US and European authorities for sanction violations. A regional, if not global best practice example, is Singapore's DBS, which has centralised all operational risk and financial crime risk into a single department. The bank now has a single tool monitoring all areas of operational risk across all channels, products, and countries. This is a world first, which in the next years is likely to become standard for banks operating internationally. Chinese banks have improved in terms of anti-money laundering and financial crime risk and allocated some resources to develop the analytical tools needed to report suspicious transactions to the regulator. However this only came about when the regulator finally followed international agreements and there is still room for more rigid execution of legislation by the banks.

Case Study 21: HDFC Bank (India) – Introducing infrastructure as service

During the economic slowdown and the increasing domestic business pressures, HDFC Bank had to face the difficult task of establishing a large number of new bank branches equipped with the latest IT infrastructure. Yet there was a need to minimise the high expenses in power consumption of systems/cooling, curb rising branch infrastructure management costs, and reduce the turnaround time for infrastructure support and high capital expenditure of servers and associated hardware for branches. HDFC Bank faced other business challenges including the need for a low cost model for rural branches, better monitoring & manageability (security) of resources due to shortages of skilled staff and essential IT applications, utilising the branches for other business endeavors, and meeting the demand for transactions during local festivals and after marketing campaigns.

In response to these challenges, the "Infrastructure as Service" initiative was born which at the branch level eliminates many day to day IT operational overheads like backup, freeing up time to focus on business related issues and endeavors. Additionally, IT resources are now assigned to the branches to help test and size the application hardware accurately, increasing the productivity of the IT staff who now have the responsibility of making decisions and fine tuning without having to procure and set up the hardware. These IT resources are now readily available for emergencies and would just return back to the pool after the issue is resolved.

Indirect business benefits include an increased capacity to deal with demand spikes in transaction rates, better system delivery for further application development, an increase in the utilisation and availability of system resources, instant server image portability and deployment across various physical locations, and efficient system performance management from a single console.

Currently, the bank has successfully rolled-out "Infrastructure as Service" initiative in more than 190 branches. Going forward, other critical backend activities will also be virtualised to realise more benefits. The implementation has reduced the Time to Market and turnaround time (TAT) roll-out for new branches from six weeks to one week as well as the TAT for recovering from server hardware downtime at branches from twelve hours to two hours. There is now an increasing level of confidence in enforcing compliance and security related policies from a central location.

Efficiency innovation has to be appreciated as a difficult and very innovative process. No bank has the same infrastructure, people and management constraints or processes. For this very reason process and back office improvements are very innovative endeavours, which do not come easily and demand discipline, sustainability and foresight. Process optimisation methods such as Six Sigma and lean management have been widely adopted in Asian banks and ISO standardisations have also become more common.

7 How banks
can be more
innovative?



How banks can become more innovative?

The best way to answer the question “How banks can become more innovative?” is to first address the challenges and barriers to innovation and then seek for solutions.

Figure 8-1

What are the most significant challenges for innovation initiatives in your banks?

Southeast Asia	South Asia	North Asia
1. Managing the interface between business and IT departments	1. Employees' behaviour	1. Managing the interface between business and IT departments
2. Employees' behaviour	2. Managerial attitudes	2. Technology bottlenecks
3. Technology bottlenecks	3. Technology bottlenecks	3. Employees' behaviour
4. Managerial attitudes	4. Managing the interface between business and IT departments	4. Managerial attitudes
5. HR if training and management is insufficient	5. Lack of adequate technical expertise	5. HR if training and management is insufficient
6. Flexibility of IT systems	6. HR if training and management is insufficient	6. Regulations and compliance
7. Huge level of hierarchy	7. Flexibility of IT systems	7. Flexibility of IT systems
8. Lack of adequate technical expertise	8. Lack of support from IT vendors	8. Lack of adequate technical expertise
9. Lack of support from IT vendors	9. Huge level of hierarchy	9. Lack of support from IT vendors
10. Regulations and compliance	10. Regulations and compliance	10. Huge level of hierarchy

Source: Infosys and Asian Banker Survey Results

A major difference between Asia and other “older” geographies is the role of IT as a barrier. As retail banking in the region evolved much later than in Europe or the US, banks do not have the same difficulties with legacy systems and IT bottlenecks. Asians are generally very open towards new technologies and are exposed to a rapidly changing environment which facilitates the implementation of new IT and constant change, such as in process modifications.

What is challenging however is managing the cooperation between “IT” and “Business”, meaning IT experts on one side and people from the business lines on the other, such as frontline staff, relationship managers, business heads etc. Both sides have different incentives, different expectations, different understandings of a problem, sometime even different languages. For example a business user wants to facilitate his workflow through customisation, an IT person seeks to optimise system performance and uniformity, while both sides want to minimise the impact on their cost centre. Bringing these two sides together is among the major difficulties facing IT-based innovation. A Singaporean banker described it very clearly: “Business needs to specify what it needs and IT needs to make clear what it can deliver. Innovation needs to have a business perspective and business needs to keep practicality in mind.”

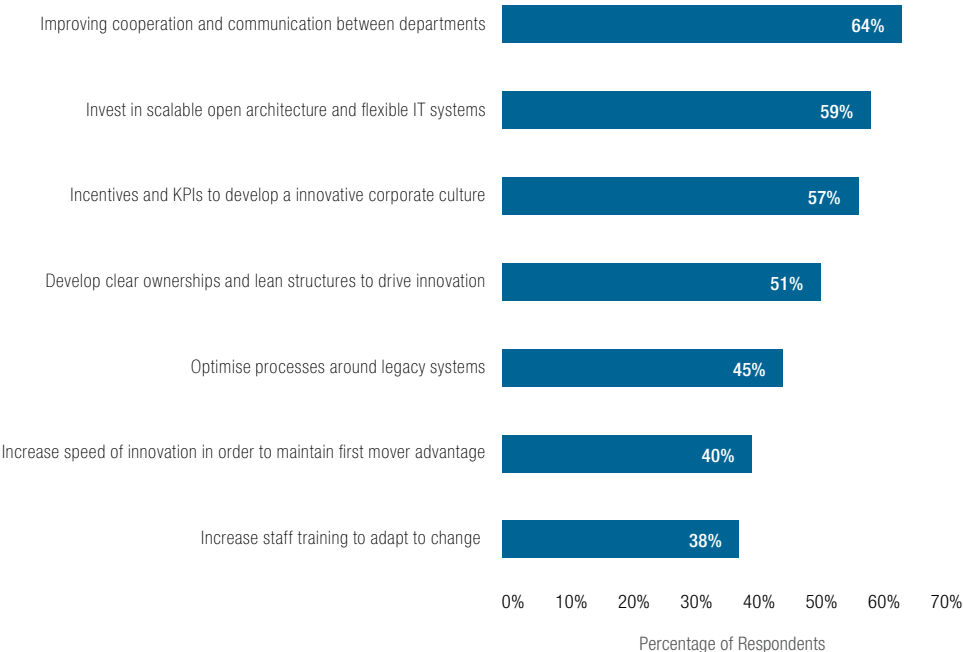
If the technology department is overly ambitious but the business people are not, or they go in a different direction, then the banks end up with high capabilities which are not properly adapted to their situation and do not translate into a strong business case and profitability.

To overcome this problem OCBC (Singapore) introduced a solution in which the technology department sends IT experts to work in the business lines so they can learn and understand the business. For up to a year the IT expert works as a part of the business team with the support of a mentor and takes over business tasks. On his/her return to IT, he has developed an understanding of business needs as well as “business” people’s mentality and has developed personal relationships with the people on the business side. The success is reportedly outstanding. Other banks do it the other way around and send business people through intensive IT training. We also saw a number of executives on the business side with a professional background in technology or operations and vice versa.

Some banks mentioned the problem that the IT department is so preoccupied with its day to day business, it does not have the time to observe what is happening in the marketplace. UnionBank of the Philippines set up a separate team, which evaluates IT and operations, but runs under “business”, not the technology department. Knowing the business needs and what is going on in the market place makes this team an important idea generator for technology-related innovation.

Figure 8-2

What actions does your bank take to overcome barriers in innovation?



Source: Infosys and Asian Banker Survey Results

Good communication is also an easy term for something very difficult to achieve. A Philippine bank described its difficulties to get its employees to work with new IT, which resulted from the fear of job losses due to increased automation. Very clear messages from management to employees are necessary to avoid any tension as well as helping people adjust to change. An innovation strategy can help to explain the goals of innovation and its impact on the business and job security. Offering training to move rationalised stuff to other areas helps to dispel fears and improves adaption to change.

Corporate culture also affects innovation from other perspectives. It matters for example how frequently the top management changes. Where banks have frequent personnel changes the whole organisation is affected - new projects are launched, others are re-prioritised or even put on ice. Business continuity is crucial for the development and quality of new innovations.

On the other hand, where the same management has been in place in a bank for too long, it might have difficulties innovating in hitherto unknown areas, or where a prior decision indicates a mistake, stakeholders might be unable or unwilling to correct it. But stable managers have the advantage that they can see projects through until the end; their approach is more balanced and strategies are more consistent.

Another management problem is that when the IT fails, it is usually not the IT people who feel the pain from the customer, but the frontline staff. This of course creates tensions between business and IT. Banco de Oro (Philippines) tries to overcome this problem by giving strict KPIs to IT, linking the KPIs to the business. This means the IT department is incentivised to react promptly in the event of a system failure.

Legacy systems, though not as much a problem in Asia as in other regions, are a problem banks are very aware about. Thus many banks moved away from mainframe based systems and towards open architectures and scalable systems. But as IT systems cannot be upgraded every year, banks need to be innovative in designing processes and tools to get around restrictions from legacy systems. A Malaysian bank states that banks need to really understand what the system is capable of and many systems are underleveraged. Before upgrading or changing a system, it is necessary to optimise it to its full extent says the head of retail of the Malaysian bank. If legacy systems cannot be further up-scaled, further manual processes are unavoidable, but come at a high cost. Hence it makes sense to assign a team to build the infrastructure around the legacy system and to optimise the processes involved. Banks should become more innovative to leverage other tools to circumvent legacy system restrictions.

Budget constraints are of course another major constraint. Innovation is expensive, while copying others is cheap. Indeed, copying others is considered to be a major innovation strategy in some Asian markets. This puts a lot of emphasis on speed for innovation. The longer a bank can maintain its first mover advantage, the better the pay off.

8 The role of IT in innovation

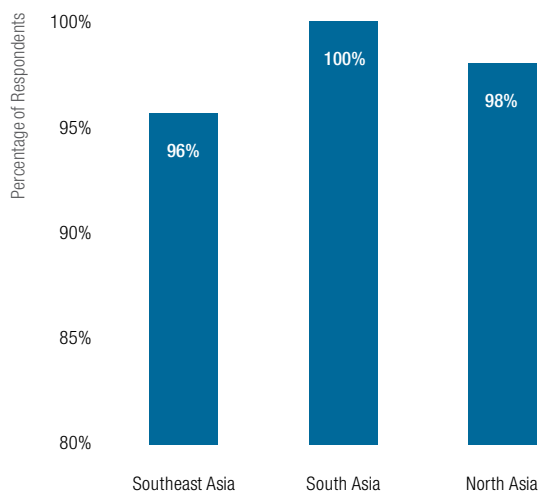


The role of IT in innovation

Technology is of great importance for the success of innovation. Almost every bank we interviewed rated the importance of IT for innovation as either high or very high (Figure 9-1). This is particularly so in North Asia, where customers are very tech savvy and open towards technology. This is not only the case in Japan and Korea, but in China too, where people are very open towards new technologies. This puts some pressure on the banks, as non-bank players are faster and more innovative than the state-owned mega banks.

Figure 9-1

How important is IT for innovation in your bank? (Respondents ranking importance of IT as high or very high)



Source: Infosys and Asian Banker Survey Results

India is renowned for its IT industry and Indian banks rank among the most innovative and rapidly progressing in the world when it comes to IT related innovation. This is reflected in the survey, where 100% of the South Asian respondents rank the importance of IT for innovation as high or very high. Here some banks have even developed comprehensive in-house programming and developing capabilities to be independent from vendors and they develop highly customised systems and applications.

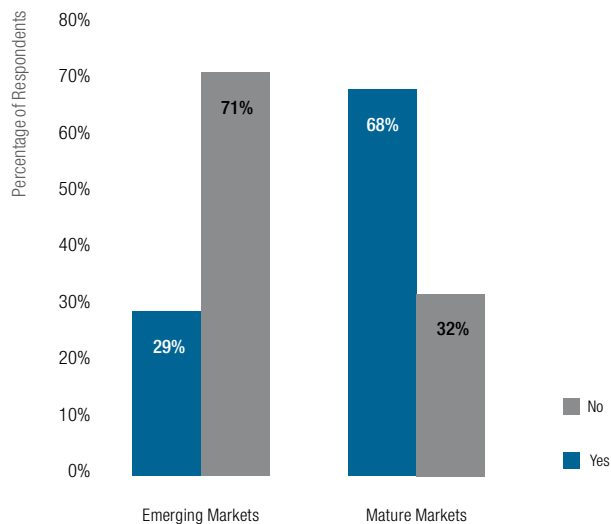
Case Study 22: ICICI Bank (India) – Competing on call centre analytics

ICICI Bank developed a data analytics engine in-house to support its new service to sales approach in the inbound call-centre. The analytics framework works by identifying the timing and content of a pitch and the technology framework helps in generating this information and in delivering it to the phone banking officer (PBO). The analytical applications use this data to arrive at the rank order of the pitch to be made to the customer and feed this information to the CRM of the PBO telling him what to pitch to a particular customer and also to record the response of the customer. The seamless flow of information between the core systems, enterprise data warehouse, CRM, analytical applications, Campaign Management Tools and the lead management system has helped ICICI Bank to create a robust infrastructure which in turn has been a huge success commercially for the bank. The application was the first of its kind to be implemented in India. The inbound call centre is being used for all the above activities using a complex set of data analytics and technology for enhancing customer value and extending their business with the bank.

When comparing IT across the region it is interesting that banks in emerging markets are much more positive about IT than banks in more mature markets (Figure 9-2). This is not surprising, given that IT systems in emerging markets are still relatively new, have not faced major barriers through bottlenecks and legacy systems and are able to scale up quickly because of their rapid growth.

Figure 9-2

Are your bank's IT systems and processes a barrier to innovation?



Source: Infosys and Asian Banker Survey Results

Mature markets, which started to invest in retail specific IT several years earlier have more problems in this regard, as often legacy systems, higher data volumes and sophisticated systems and applications have to be brought together and managed thoroughly. Not that these banks rank technology's importance as lower than do banks in emerging markets, but attitudes are more mixed after also experiencing the barriers caused by IT.

Case Study 23: ICBC (China) – Consolidating 1000 data centres

In 2002, ICBC initiated the consolidation of the bank's 1,000 legacy data centres into just two nationwide centres, while simultaneously building its network across its 23,000 branches. Ms Chen Xiaoyan, general manager and head of retail at that time acknowledged the necessity for a bank of ICBC's size and at that moment the largest bank in the world with more than 100 million customers, to overcome its scattered and hierarchical reporting system. The bank could not continue to operate in its old multi-layered, scattered, inefficient structure and thus initiated the long journey towards its data centre consolidation. In 2004 the Shanghai mainframe was updated in order to deliver more accurate and timely data, while unifying information management and risk management. Upon completion of the project, real-time data generated from any ICBC service branch, automated teller machine (ATM) and point-of-sale (POS) terminal, as well as every online banking transaction is transmitted to the data centre in Shanghai.

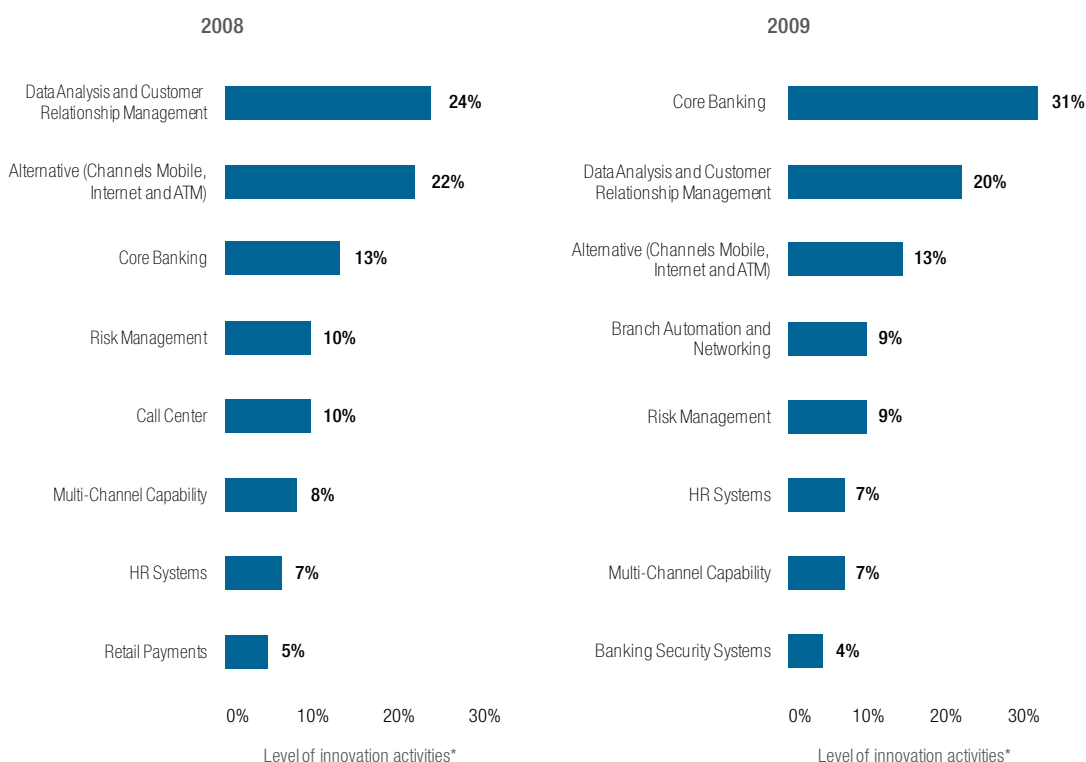
The data centre consolidation project successfully completed the physical move of the data centre's mainframe and consolidated the operation and management of the bank's information systems into one data centre in 2008. ICBC was also the first bank in China to achieve the integration, which numbers simply are impressive with more than 20,000 business outlets, over 17,000 ATMs and 116,000 POS machines. Other mega banks like Bank of China only started down a similar track in 2009 and are still in the midst of the project.

Banks in Asia agree on the point that IT is a major enabler. A Philippine bank described how some ideas that were conceptualised years ago, could not be implemented back then, as technology was simply not ready and costs were too high. Today with cheaper and more powerful technology and faster bandwidth many of these concepts are feasible for implementation. A good example for this is the first wave of mobile banking

applications after 2001, offering mobile banking services via SMS and the browser (WAP/GPRS). While SMS-banking saw a steady rise despite security concerns of the customers, the first generation of browser-based banking offering a poor version of internet banking failed, due to slow speed, display restrictions and security reasons.

Figure 9-3

Key focus areas in technology innovation



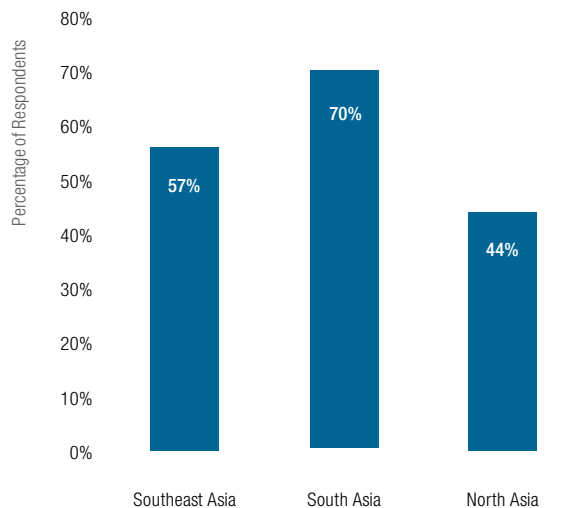
Source: Asian Banker Research
 * Note: Graphs indicate the degree of innovation activities to total activities

The core banking system in particular is seen as a major enabler for product innovation (Figure 9-3). A flexible core banking system facilitates implementation of a new product and reduces the time to market considerably. For this reason old core banking systems are seen as a major barrier to product innovation, and replacing them has been at the heart of IT upgrades in Asia in 2009. Malaysian CIMB is currently building a regional core banking platform. It is seeking to standardise, centralise and optimise processes on a regional level to achieve operational efficiencies, facilitate product development and proliferation and gain more effective product bundling and cross-selling. The project started in 2009 in Thailand, and will subsequently be rolled out in Malaysia, Indonesia, and Singapore. The bank expects cost savings of \$160 million. A senior executive in CIMB describes the challenges during the conceptualisation of the new system: “What are the new features we will require looking a few years ahead? This is very hard to tell. It is crucial to have flexibility when people need to change, upgrade, or downgrade a product.”

Not surprisingly Customer Relationship Management systems is the second top priority for banks in the region. Going back to our development graph (Figure 2-2) we can see that banks eventually come to address the issue of customer centricity and many banks in emerging markets are now moving to this stage.

Figure 9-4

Is your bank a leader in the use of IT for innovation?



Source: Infosys and Asian Banker Survey Results

Asking banks whether they see themselves as a follower or leader in terms of IT (Figure 9-4), the majority of respondents see their institutions as leaders. Particularly in South Asia, 70% of the banks claim leadership status, followed by 57% in Southeast Asia. As most of the respondents are actively involved in the innovation process in their banks it is not surprising that they regard their work and their bank as leading. The respondents take responsibility in their role of driving innovation to meet their bank's business needs. It is only logical therefore that you find people in leadership positions, who see themselves as leaders and not followers.

Case Study 24: China CITIC Bank (China) – Pioneering data management and analytics

In 2008, China CITIC Bank embarked on a major project to develop all the spectrum risk scorecards and created Basel II compliant parameters based on advanced IRB requirements. It allowed the bank to gather and analyse data from the different retail exposures of the bank such as mortgages, auto loans, personal loans and credit cards.

The bank saw increased productivity such as a five times improvement in the origination phase of their auto-financing business. From only being able to process 50-70 cases a day with their old infrastructure, China CITIC Bank is now capable of processing as many as 600 applications a day.

The capacity to retrieve, analyse and process relevant data was a key to the bank's improved retail financial services operations, ability to comply with regulatory requirements on risk management, and to provide complex three dimensional customer analytics. By successfully adapting global best practices to their unique origination, post-loan account management and collection business, China CITIC Bank was a pioneer in China in data management and analytics.

We mentioned earlier that Asians in general are very interested in technology and are much faster to adapt to new technologies than other parts of the globe. The giant leaps that retail banking has made in the last ten years and the high level of technology which banks have reached in such a short time, also explains the importance and leadership they claim when it comes to technology.

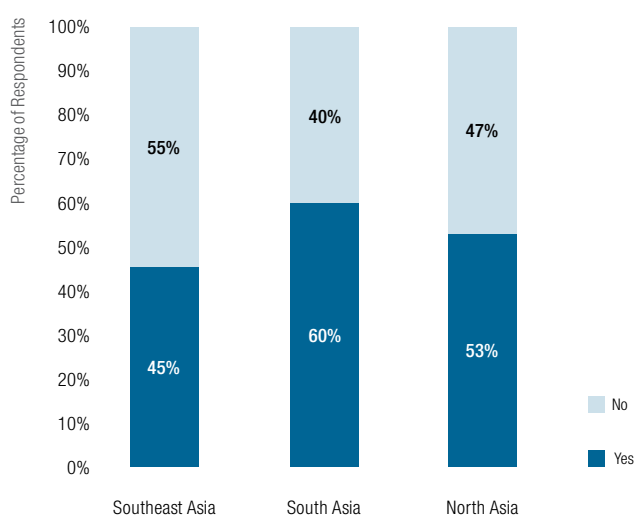
Though not the major barrier when it comes to innovation, we want to have a closer look at the question whether IT can be an obstacle to innovation (Figure 9-5). The majority of Asian banks disagree. 60% of South Asian

banks think that IT is not a barrier to innovation, which of course relates to their modern systems and solid IT management abilities and the strong belief South Asians have that IT can overcome most problems.

In North Asia slightly more than the half of respondents also do not think that it is a barrier. There is a large difference between the Chinese banks participating in the interview, which have a relatively modern infrastructure, and other places like Taiwan, where state-owned banks have outdated and inefficient infrastructures. The heavy competition in Hong Kong, Korea and the private banks in Taiwan force banks into continuous system upgrades and this is a driver not to let old and inflexible systems become a barrier. However in South-east Asia there are a number of banks which have been in the game for quite a while and which operate in markets which are less competitive than Hong Kong and Korea so due to the lack of external pressure to innovate and upgrade, inflexible systems have become a barrier.

Figure 9-5

Are your bank's IT systems and processes a barrier to innovation? (by region)



Source: Infosys and Asian Banker Survey Results

In the end, the differences across Asia are not primarily between the regions (Figure 9-5), but between the level of development of the market as shown in Figure 9-2.

We also asked those banks who stated that they see IT systems and processes as a barrier, what they do about it and whether they invest to overcome this barrier. Asking this question resulted unsurprisingly in a 99.99% feedback in favour of further investment to overcome IT and processes as a barrier to innovation.

Case Study 25: Chinatrust Commercial Bank (Taiwan) – Developing a customer level scoring

Taiwan's Chinatrust Commercial Bank came up with an interesting solution for their scorecard modelling. While most of its competitors deployed various mono-product level scorecards, such as a credit card scorecard or personal loan scorecard, Chinatrust decided that was not efficient to only rely on scorecards on a product basis, because if one customer has multiple products, he will be scored with different risk levels in different scorecards. For this reason Chinatrust introduced a "customer level scorecard", based on the borrower's stage in life and estimating when would be the worst delinquent stages. The customer segment scorecard is then prioritised over the product scorecard. This approach is the merger between the product-focused Western risk scoring model and the customer-focused Japanese model.

Conclusion

Retail executives have come to think of innovation either as process re-engineering, added on products and service applications or network distribution enhancements. In Asia Pacific, the majority of innovations, we observed, are driven by unit or product heads who drive new ideas and changes with a minimum of innovation infrastructure and resources behind them such as monetary, structural, organisational or intellectual capital.

While this survey lends some credibility to the argument that less is more, meaning that a more formalised innovation structure will add to prolonged communication and already stifling hierarchical command structures that all impede a culture and process of being innovative, the insights derived from this survey clearly indicate that the most successful innovative financial institutions in retail banking in this region have internalised innovation as a deeply embedded process, a collective ownership across unit heads, teams and departments, synthesising and leveraging on a variety of changes in IT and technology, processes and operations and marrying them successfully with the human interface both for front line staff and customers. The management of such complexity does not resonate with informal structures as a seedbed for bringing new ideas and changes to the market.

We realised that when the strong relationship between the market maturity of retail banking in a specific country and its corresponding innovations in products, operations, channels and customer relations is broken, it gives way to deep changes by institutions that are able to superimpose their own distinctive learning phases on the broader market evolution. Players such as Standard Chartered Bank, Citibank or OCBC (Singapore) do not buy and bolt-on customised solutions without actively integrating them into the ecosystem that reduces their own ability to innovate.

- The prime goal of innovation remains high quality revenue growth. The continuous impact of a global economic challenging environment presents growth challenges in particular for mature markets such as Hong Kong, Singapore, Korea and Taiwan, achieving quality growth is key in emerging markets such as China and India.
- There is no better measure of a successful innovation than above market average revenue growth and a sustainable increase in wallet and market share.
- Prototyping is an important and useful element for building institutional knowledge to manage innovation; banks often go through multiple rounds of incremental improvements before it has a more significant impact on the competitive position.
- Most banks follow a tactical innovation approach which is needs-based, reactive and considerably smaller in scope than strategic innovation. While strategic innovation is unique and exceptional, the survey found those mainly in international banks or in small niche players.
- While banks have focused in the past on innovation in network distribution and products, we expect that the most significant innovations are going to take place in payments, mobile banking and customer service delivery and service applications.
- Many of the most powerful innovative products banks have introduced in the last 10 years continue to deliver above average market growth and revenue. They have contributed significantly to customer stickiness, loyalty and wallet share.
- Since the cost of market entry is relatively high and with the exception of Korea, Malaysia and Indonesia, retail financial services markets are tightly regulated, often favouring domestic banks, domestic players do not see a threat from innovative new players
- 53% of banks in Asia Pacific indicated they do not see IT as a barrier. 29% of emerging market banks see IT as a barrier, while in mature markets this number is considerably higher with 68%. The challenges appear more in managing the interface between technology, operations and personnel.

Case studies

- Citibank (Asia Pacific) – Changing course in retail banking
- Bank Rakyat Indonesia (Indonesia) – Building world-class micro-financing business
- ANZ (Australia) – Growing regionally
- Shinhan Bank (Korea) – Successful integration of an acquisition
- Alliance Bank (Malaysia) – Using social media in credit card management
- Commonwealth Bank of Australia – Improving the mortgage process
- HSBC (Hong Kong) – Communicating with customers in the wealth management business
- Bank of China (China) – Wealth management strategy
- Taishin International Bank (Taiwan) – Combining imaging technology with workflow process optimisation
- Standard Chartered Bank (Malaysia) – Revamping the account opening process

Case Study 26: Citibank (Asia Pacific) – Changing the course in retail banking

Up until 2005, Citibank's retail financial services concentration in Asia Pacific were hardwired towards the affluent and HNWI, and its banking franchises in the region, outside the credit card business, were regarded as niche and exclusive. Then Citibank executives saw growth opportunities beyond the Citigold proposition, making a far reaching decision to expand their franchise further. In essence, it articulated an expansion strategy from high street to low street, from high profile locations in residential areas, business districts, shopping belts, arts and entertainment, aiming to take away business in retail financial services and core deposits from local players.

In 2007, it moved with its mass transit micro branches into the traffic heavy commuter areas in Singapore and Hong Kong in conjunction with introducing a credit com mass transit card. It was driven by its country head and Citi Country Officer, Mr. Jonathan Larsen, who was Country Head and Citi Country Officer for Singapore and CEO of Citibank until 2009. He was responsible for Citi's consumer banking business in Singapore, driving significantly the expansion of Citi's distribution through its partnership with Singapore Mass Rapid Transit Corporation Ltd (SMRT) and branch expansion across the island.

He directed the expansion of Citi's presence in Singapore from four branches and a few ATMs to more than 20 branches and a combined network of 850 touch points. This mass transit partnership subsequently served as a primer to other countries in Asia Pacific such as Hong Kong or India. Citibank set up the transit branch concept, a micro branch with a footprint of 40-60 square metres in high traffic areas such as train stations or subways thus taking the branch to where it was most convenient to customers, marking a shift in branch paradigm from "you come to us" to "we come to you" and "out of the way branches on to client's way" (transit and connectivity).

It was also innovative since it was the first bank leveraging transit innovation with a strategic partnership (SMRT Card for Singapore and Octopus Card in Hong Kong) for markets with weak footprints. Downsizing the branch, it also reengineered its processes and services. Another innovation was on-the-spot issuance of credit cards, which can be processed and handed out to eligible customers within 30 minutes and which also involves a mass transit ticket application. The branches are open seven days a week, 12 hours a day and are staffed with two to three people, who are multi-skilled and able to deal with everything from stock account opening to loan underwriting.

In 2010 Citibank showcased a futuristic version of the branch; it was high tech and multimedia, offering the availability of the latest interactive technology in a single 'store' and integrated paperless workflow processes, information transfers and discovery in an open workbench environment. Though issues remain on the richness and depth of service applications, its customer experience driven branch concept with a superior human interface and very high degree of automation aims to meet customer expectations of instant delivery and "always on" connectivity. The revolution is largely possible due to the incorporation of technology as seen from the state-of-the-art touch points. Citibank intends to phase this branch concept into mature markets in Asia Pacific over the next years.

Case Study 27: Bank Rakyat Indonesia (Indonesia) – Building a world-class micro-financing business

Micro-banking can be a tricky business. Out of the possibly 10,000 institutions worldwide serving this market, only a relative handful – a few dozen, perhaps – are properly equipped to make micro-financing a viable business proposition. Though banks in India, the Philippines and Indonesia have adopted micro financing, in many cases it remains restricted to limited budgets or remains as small non-scalable pilot projects, often stymied by compliance and regulations.

While Grameen Bank from Bangladesh tends to be the more popular player, the only institution today in Asia Pacific which runs a commercially viable micro-financing business as a core proposition and which consistently outperforms other banks is Bank Rakyat Indonesia (BRI). It is one of the most profitable banks in Indonesia and a pioneer and inventor in this field since 1984. The asset quality is higher than many of its peers.

Together with sound capital adequacy standards, high productivity and a reliable asset quality, BRI is today setting the global benchmark for micro-financing in capital adequacy, productivity, efficiency and profitability. And there is nothing small about BRI's micro-financing operation: such lending accounts for 26% of the bank's loan-financing business at the end of 2009 – a business that grew micro loans by 23% (CAGR) between 2004 and 2009 to \$6 billion and around 30 million micro-savings accounts. With over 96% of all branches running profitably currently, the management structure of the individual units is evidently extremely effective. Each unit – staffed between four and eleven employees – is a profit centre in its own right. Local BRI managers, who are rotated in five-year cycles, are autonomous of head office. Their effectiveness lies in the repayment mechanisms they have put in place: BRI's repayment rate hit 99 percent in 2009 resulting in low NPL ratios between 1% and 1.4% in 2008 and 2009 respectively, down from 2.1% in 2004. One incentive for customers to pay on time is a provision that allows 25 percent of the interest to be returned to the borrower if the instalment schedule is strictly adhered to for six consecutive months.

Risk has also been minimised to squeeze out the potential for bad loans. Thus, loans are always collateral-linked and, above a certain amount, require land certificates. Furthermore, loans are never issued to a single borrower: the units require a minimum of two signatories. An informal, community approach is another factor of the units' success. Hiring people from the local community leads to greater customer trust and better customer relations. Such staff can more easily assess the relevant credit rating of customers. And this ability forms an integral part of BRI's approach to micro-financing.

Credit risk is assessed through a comprehensive evaluation comprising formal and informal interviews. Identified risks are then monitored on a continuous basis through a monthly visiting programme. In 2003, BRI installed an IT platform to start linking 11% of the outlying local units to an automated formal credit scoring system. In effect, this network complements the informal process. Its main benefit has been to produce a better-structured documentation process and it allows clearer control of managers and branches. In general terms, BRI's strategy for success falls into three crucial areas. First, its 20-year history in micro-financing shows that a deep understanding of the rural low-income market is essential. Second, a simple but adequate line of products has to be developed that are demonstrably useful to this demographic. Third, appropriate savings products are required to capture the collective wealth of those in poorer communities.

Case Study 28: ANZ (Australia) – Growing regionally

In 2007 ANZ launched its innovative Asia Pacific strategy, which seeks to turn ANZ into the first regional bank in Asia Pacific. While other banks out of the region limit their international business to certain core markets, ANZ has launched a major expansion plan seeking to close the gap with the three existing international retail banks operating in Asia, which are headquartered in London and New York.

The strategy bases on three main phases: 1. Recovery, 2. Asian Expansion and 3. Transformation into the leading regional bank. In the first phase, ANZ sought to restore old strength, focusing on top line growth and cost management, while developing profits in its Asia business. The bank moved on to Phase 2, which was the regional expansion. Hitherto ANZ operated in a number of Asian markets, but only held full commercial banking licenses in Hong Kong, Vietnam, Cambodia, Laos, Korea, Japan, Taiwan, the Philippines and Indonesia. With the acquisition of Royal Bank of Scotland's (RBS) retail, wealth and commercial business in Hong Kong, Indonesia, Singapore, Taiwan and institutional operations in the Philippines, Taiwan and Vietnam, ANZ tripled its Asia Pacific customers by adding two million new customers, \$7.1 billion in customer deposits (accounting for 30% of its Asia Pacific deposits) and \$4.0 billion in net loans (17% of Asia Pacific loans).

Operationally the acquisition contributed 54 branches and 5,500 new staff to the existing 8,800, thus benefitting from the knowledge transfer of former RBS staff and valuable Asian experience. It brings the standardisation and centralisation of operations and technology platforms into hubs on its way and also builds network business hubs in Singapore and Hong Kong. The sizeable network does not only support the retail banking business but also helps ANZ to capture transaction banking and market flows. This provides a baseline to build its commercial business on a regional level. It also involves considerable cost savings through the centralisation of IT infrastructure and enhances cross-selling to the new customer base.

ANZ sought to adopt and adapt the best of both organisations and developed a clear change management plan, with accountabilities for execution, timing and cost control, which was overseen by a joint integration team. An action plan helped to achieve the main goals for a successful integration process, namely to maintain the business momentum with in ANZ as well as the acquired units, to avoid customer attrition, and to engage the new employees and turn them into productive assets for ANZ. The premium of \$50 million makes the deal a worthwhile investment, given the extensive benefits.

Apart from the RBS acquisition ANZ took an important step in its China strategy when it received the preparatory approval for the local incorporation of ANZ China, a fully owned subsidiary, in April 2010. The bank also has strategic partnerships in Shanghai Rural Commercial Bank (19.9 stake) and the Bank of Tianjin (20%).

An important milestone was achieved in October 2008, when the bank got its license for incorporation in Vietnam. ANZ now can operate fully as a local bank. ANZ also achieved a coup, announcing Ms Thuy Dam, Chief Executive Officer of its Vietnamese unit; a double first as she is the first woman and the first Vietnamese to run an international bank in Vietnam. Although international banks prefer to use local staff when establishing a new branch in a foreign country, it is still rare to see a Vietnamese executive in a foreign bank in Vietnam.

Case Study 29: Shinhan Bank (Korea) – Successfully integrating an acquisition

South Korea's credit card market is very saturated. According to the statistics of Daewoo Securities of Korea, economically active people have 3.5 credit cards per person. Therefore, the race for bigger market share is becoming tougher. In 2006, Shinhan's credit card operation had five million customers, while LG Card's boasted 10 million customers. The initial cross rate-between after the merger in 2007 of Shinhan Bank and LG Card was less than 15%. This means only 1.5 out of 10 LG card customers were also Shinhan Bank customers. The biggest challenge therefore was to bring the cross-sell rate up and acquire former LG customers for Shinhan Bank.

After the deal, Shinhan Card (SHC) became the largest credit card operator in Korea, with a market share of over 25%. SHC's strong market position is backed up by its more than 13 million customers, representing almost 50% of the economically active population in Korea. SHC keeps LG Card 's competitive edge not only in credit card but also in instalment financing, corporate leasing services and loans tailored for students, taxpayers, newlyweds, along with its flagship products such as the Lady Card (for women), 2030 Card (for men in their 20s and 30s), and the LG Oil Card (with mileage points and gas station discounts).The broad customer base and its associated data benefits SHC's marketing activities and provide a solid foundation for its risk management system. SHC enjoys good profitability supported by a low fixed cost burden. The company's ratio of annualised pre-provision operating profit to managed assets was about 6.5% in June 2009, due to its relatively low marketing and sales costs thanks to synergy with other subsidiaries under the group. In return, the group has not only intensified its focus on strengthening credit card operations but also improved cross-selling opportunities and revenue diversification for the organisation as a whole.

After the acquisition of LG Card, Shinhan Bank set forth its strategic goal to “create customer value through synergies”. They achieved this in the following ways:

- The group maintained the LG Card's IT department which set up a special database concentrating on new customers from LG Card. Its role was crucial as it analysed segments based on different attributes like lifestyle and age. The customer service team then contacted those potential customers using various channels including the call centre, e-channels and SMS.
- A “Group Integration CRM System” was established following the merger. It mainly upgraded the CRM system and enabled the analysis of customer needs and information across the group (Bank, Card, Investment and Insurance). Today Shinhan offers financial products and services based on the Group Integration CRM system, which has enhanced the cross-sale ratio within the group.
- The group has become a synergy role model in the industry. It created synergies by sharing customer information and sales channels with LG Card. SHC contributed a suite of products for LG Card and as they received sales feedback, the innovation team endeavoured to develop new and better financial products that catered to the dynamically changing needs of customers.
- The group embarked on large scale promotional and marketing campaigns to LG Card customers. For example, any new customer could get \$10 in cash immediately, if they used their Shinhan card. Furthermore, the sales channels of all subsidiaries were given full play to facilitate a cross-selling marketing program.
- The bank aligned its culture with the employees of LG Card, building on the successful experience of integrating different corporate cultures in the merger with Chohung Bank in 2003. The new SHC kept the human resources of LG Card and enhanced its design team with its original credit card operation.

Case Study 30: Alliance Bank (Malaysia) – Using social media in credit card management

A new service tax on credit card ownership by the government resulted in rampant card cancellations with card applications dropping by an alarming 80% in the industry. There were palpable fears that Cards in Force (CIF) might even contract by as much as three million cards, due to Malaysia's high level of card dormancy. Fire-sale offers flooded the market prompting a full-fledged price war and outright tax subsidies by the issuer. Moreover product innovation in credit cards was weak in Malaysia and almost all new cards introduced in the preceding two years were co-branded cards.

Alliance Bank decided to take a different route. The bank wanted to create a card that truly broke the mould by enabling customers to personalise the entire card face with an image of their choice, and pick and choose the card benefits in addition to it. The bank also placed cardholders' behaviour according to age and income into a matrix and specifically targeted people below 40 years across all income classes. This segment was underpenetrated and did not have a lead product yet. As these cardholders grew their income levels in the subsequent three to five years, the bank would be able to harvest an emergent mass affluent base via its retail banking arm. The actual innovation however was the bank's marketing approach. From the start, the bank deliberately eschewed mass advertising, as it wanted to create a trendy lifestyle product, which was cool and not mass. Thus mass media, like TV and print as well as an overloaded advertising campaign would have been counterproductive and expensive.

In order to sow a cult factor or pop identity around the You:nique brand that set it apart from the rest, Alliance Bank's branding agenda was based on four pillars. The card should be seen or connected with contemporary socio-cultural movements and be accepted or endorsed by non-traditional opinion makers. The brand proposition should be reinvented and be visually distinct and non-conformist compared to other credit cards.

You:nique was first launched to social network groups exclusively – a bold but risky move considering that bad word-of-mouth could backfire and flow freely all over the web before it was even launched to the public! A group of influential bloggers were profiled and chosen based on popularity and appeal to the target segments. They were invited to an experiential preview on 10 Dec 2008 at a nightclub themed around the whole notion of 'self expression'. A demo micro site was made available for them to experiment, upload pictures and just fumble around.

The online coverage of You:nique was overwhelming. Google now lists 30,800 pages for "You:nique" and 28,500 for "You:nique Picture Card" – driving traffic to the You:nique parent website which logged over 42,000 page views monthly and average 12 minutes per visit! Post launch viral seeding reached 109,442 members on Facebook. Currently, You:nique has amassed over 1,773 Facebook fans and its fan base is still expanding. The campaign garnered 903,000 unique visitors within a short timeframe of 6 weeks!

It also contributed to Alliance Bank's recognition as one of Malaysia's 30 Most Valuable Brands in 2009, entering the competition for the first time. Financially the new card also paid off and reached the targeted Return on Marketing Investment within nine months. A similar approach was taken for launch of the You:nique Prepaid Card.

Case Study 31: Commonwealth Bank of Australia – Improving the mortgage process

Innovation is often successful because it is based on a multitude of factors: a combination of change in processes and operations, the right identification and prioritising of challenges in the market place and improved front line execution. By combining all these factors, CBA was not only able to retain, but extend its number one position in the home lending market.

The backbone was repositioning its branch network, reengineering its mortgage processing and making significant improvements to its online banking services. This helped Commonwealth Bank of Australia (CBA) to improve its mortgage market share in Australia by 1.7% between 2005 and 2009, making it the number one mortgage issuer with 26.1% market share, according to APRA. It further extended its lead through the acquisition of Bankwest and around \$4 billion worth of prime mortgages from Wizard, a non-bank lender in Australia.

But it was CBA's ability to fulfil home loan requests faster than its competitors that led to an increase in its home loan market share. In May 2008, by simplifying the funding and documentation process, they became the first bank in Australia to offer a 60 minute home loan for customers compared to 2-3 weeks in 2007. This was enabled through frontline staff being able to print loan documents on the spot for existing and new customers. Previously all loan documents were generated by the mortgage processing centres.

A new imaging system removed the need for paper files to be maintained, as documents required to originate loans would now be faxed immediately under the new system. A dynamic checklist itemised all documents required to approve and fund loans. It also allowed front liners to work on an electronic file simultaneously and have full visibility of applications whilst they were in progress.

In this way the bank was able to improve its mortgage processing productivity by over 100 per cent, increasing efficiency while reducing error rates. Average turnaround time from application until the bank was ready to settle was previously between 20 -34 days, with significant variations. With the changes, home loans could be ready to settle within 10 days of the application.

Process improvements were supported by the bank's ongoing 'Branch Experience Program' which started in 2007, which deployed a modern retail environment and an open plan design, allowing staff to interact with customers in a more consistent and intentional way.

Case Study 32: HSBC (Hong Kong) – Communicating with customers in the wealth management business

Even if HSBC Hong Kong, played an active role to restore confidence and trust among the customers the retail financial services industry, it was hit by an unprecedented public outcry of mis-selling incidences. Though HSBC did not sell structured Lehman mini bonds, it had to re-establish investor trust by changing its concept of the customer. It now has greater execution efficiency, investor protection and education, and provides customer care with a service pledge that promotes a core investment concept and fosters change in investment behaviour.

Traditionally, Hong Kong investors tend to have a very short term investment horizon, mainly focusing on equity investments; they are less receptive to fixed income investments except for simple savings/time deposits. Based on its substantial research following the Lehman disaster, HSBC, which was not affected by the mis-selling incidents, realised that fixed income investments are more suitable products to safeguard assets under management through tough times while meeting customers' long term investment goals. HSBC rebuilt trust by educating customers about diversification, and offering core investments with diversified exposures and stable risk-adjusted returns as well as products suitable for different market cycles.

It leveraged on its global research capabilities and established an in-house "Fund Radar", which is an innovative quantitative fund selection model that evaluates funds based on relative performance, stability of performance, frequency of outperformance and average underperformance. HSBC launched the exclusive 'World Selection' as a core investment for investors with different asset allocation needs. The unique and innovative proposition offered a series of five investment portfolios providing highly diversified global exposure to a mix of asset classes and managers. 'World Selection' proposition was well received by customers and immediately become one of the most popular funds in the market, capturing the largest customer share with 38% of customers using it for bond investment - significant growth compared with 24% share in 2008.

To sustain its leadership in providing the best in town proprietary trading system, HSBC successfully rolled out an unprecedented investment order management system in 2009. This is a market leading investment platform with the capability to process multiple asset classes and related trades in different markets. Features included high resilience, with multiple server architecture to ensure reliable service; high scalability to sustain a sudden surge in transaction volume; and sub-second response time. Since its launch, the customer migration process from the old platform to the new platform was completed successfully with zero customer impact. The service level agreement of the new system availability is maintained at >99.9%.

HSBC also strengthened investor protection and education.

The trust between HK investors and most banks was shattered by the Lehman Brothers incident. HSBC worked with product suppliers to prepare regular updates, market information and FAQ and arranged weekly conference sessions for frontline staff to keep them abreast of the latest information and to help them to address customer enquiries. It also proactively worked with its treasury department to arrange half-yearly updates to customers holding credit-linked notes, providing credit ratings for the reference entities that exceeded the regulatory requirement. Regarding education, HSBC initiated an Express Goal tool to help customers identify financial shortfalls and set investment goals. To reciprocate customers' trust, HSBC was the first bank to introduce a 30-day service pledge to the market in which customers could terminate their policies within 30 days with all premiums paid returned with no penalty.

Case Study 33: Bank of China (China) - Wealth management strategy

Wealth management services from Chinese banks have shown impressive growth in recent years and have great potential. The market size for individual wealth management in China was over \$350 billion, doubling since 2000. The market is expected to reach \$700 billion before 2015. Factors that have accelerated the development of wealth management in China include the rapid growth of personal wealth, an aging population, high savings rate, development of the financial markets, the opening of overseas financial markets to China, relaxed policies on mixed operations, and improved laws and regulations for the wealth management industry. To grab more market share of the wealth management business, Chinese banks have started to enhance their products and customer service. Challenges facing the wealth management industry for Chinese banks include undifferentiated products, lack of awareness of global asset allocation, customer privacy protection, customer risk management, and a shortage of high-caliber wealth management professionals.

Bank of China has been building the most comprehensive fee based wealth management business in China to date. Their private banking business provides a comprehensive, diversified and unique onshore and offshore services to high-end customers. It actively marketed to quality customers and continuously promoted product innovation, delivering sustainable growth in its custody and fund distribution business. The bank cooperated closely with dozens of fund companies and provided more than 20 wealth management products for Collective Separately Managed Accounts, achieving the largest market share through its innovative and pioneering approach. Furthermore they increased efforts to expand the custody and fund distribution business by developing cooperative relationships with well-known fund companies, the National Council for Social Security Fund, large insurance companies, and other large institutional investors.

It also developed a distribution network geared towards wealth management which is unrivalled in the industry in terms of number of wealth management centres connected to a single investment advisory information platform covering all its branches.

Bank of China launched and marketed another two new wealth management brands, “BOC Stable” and “BOC Progress” in line with implementing a differentiated three-tier wealth management model. It introduced successfully its star products such as “Weekend Wealth Management”, “7-day Automatic Renewal Wealth Management” and “Daily Purchase & Redemption”. A portfolio of selected private placed funds was first introduced in the market.

Bank of China is also the first domestic bank offering the most extended global approach in wealth management. BOC Global Wealth Management Services represents a banking solution that allows customers across the world to manage their personal finances.

insurance companies, the National Council for Social Security Fund and enterprise annuities, with \$130 billion of total assets under custody, up more than 40% compared with the previous year.

Case Study 34: Taishin International Bank (Taiwan) – Combining imaging technology with workflow process optimisation

Taishin Bank, after having conducted extensive customer motion/flow studies in the branch, further reduced moving and waiting time by combining workflow process optimisation and imaging technology.

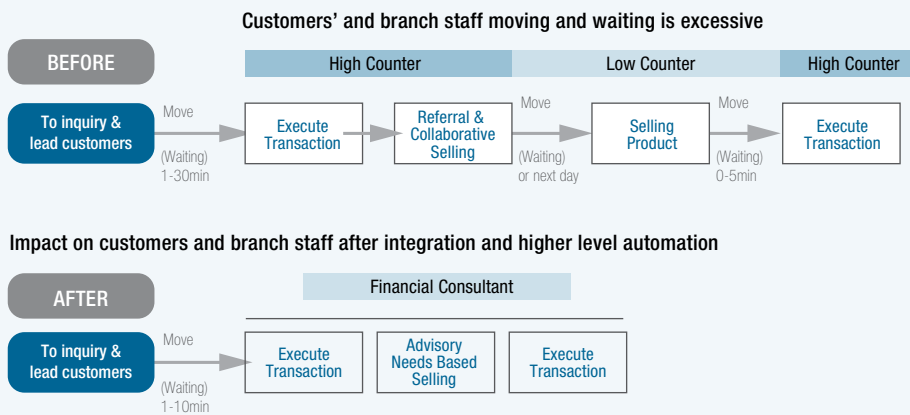
After data analysis, customer surveys and focus groups the bank identified that customers spent too much time on filling out application forms, which not only led to many errors, but also increased customer waiting time. The number of customers moving and waiting in a branch was excessive. The key touch points indicated that divisions were too rigid, the role of counters was too narrow; there was low automation and inefficient communication between the branch and the central operations centre.

The bank therefore executed two key projects: the e-form project which is an electronic and customised form in which the existing customer information is automatically filled in and reduced the number of signatures from 12 to 6 during the account opening process.

Secondly, it also changed the non-cash workflow processes service flow to provide “One-Stop Shopping” in order to decrease customers’ impatience and to introduce customers to products and familiarise them with them.

Figure 11-1

Non-cash workflow processes before and after optimisation



Source: Asian Banker Research

The new optimised workflow is based on minimal paperwork and signing, an automatic scan to the process centre, no need to fill in application forms, digital signatures and teller cash recyclers with the ability to provide this service also to non-bank customers.

The results reduced waiting times from up to 30 minutes to less than 10 minutes and the time spent serving customers by two times. Sending branch forms and documents correctly-filled and promptly to the operations centre improved operational efficiency as well as increasing levels of automation in the transfer of branch transactions to central operations. Activating the concept of full branch service regardless of the hierarchy and roles of staff, Taishin International Bank also improved customer service, blurring the line between operations and sales. While the current trend is that desk operations and sales are clearly differentiated, in Taiwan, the banks began to shift back towards multi-functional staff. A personal multi-functional banker/teller/financial agent will attend to a customer and address all his needs with the support of an efficient back-end office.

Case Study 35: Standard Chartered Bank (Malaysia) – Revamping the account opening process

Since local regulations permit only a limited number of branches for locally incorporated foreign subsidiaries, the bank has a branch network which is three to ten times smaller than local banks, proving a major disadvantage that inhibits customer growth and convenience.

The rationale and the strategic objective of this project was to drive customer growth and provide a better overall customer experience and it aimed to target the account opening process as a crucial aspect of the experience.

In a first for Malaysia, it introduced key service features in the account opening process at the beginning of 2008 - these were previously only offered to premier clients of international banks. This initiative was developed by Standard Chartered Malaysia on its own and was made available to all retail banking customers.

The bank guarantees no waiting time if a customer has previously performed a pre-account opening via other e-channels (e.g. e-kiosk, Internet banking). Its sales personnel are able to make an appointment with the customer prior to the account opening.

Standard Chartered offered to meet new customers outside the bank premises, providing doorstep banking facilities to complete the account opening process. At that point customers were given the welcome pack which enabled the account to be operated immediately.

Unlike its competitors which at that time still required customers to fill in lengthy account opening forms, there was no physical form filling in at branches. Customer's details were captured online into the system through a sales conversation and with one signature the verification was complete, with the account operational immediately. Customers are able to collect instantly their personalised ATM card, passwords and cheque book.

This all-in-one single application feature provides customers with the convenience of applying for multi-products at a single point. Standard Chartered Bank Malaysia only captures customer details once for various accounts including secure and unsecured credit applications and customers are only required to sign once.

While some of its competitors required customers to go to various counters to complete the end-to-end process of account opening and applications for different banking services, Standard Chartered re-arranged the workflow process offering a one-stop account opening process with a single sales representative that performed the full task. The bank also rents parking facilities for its customers, a crucial service element in high street locations.

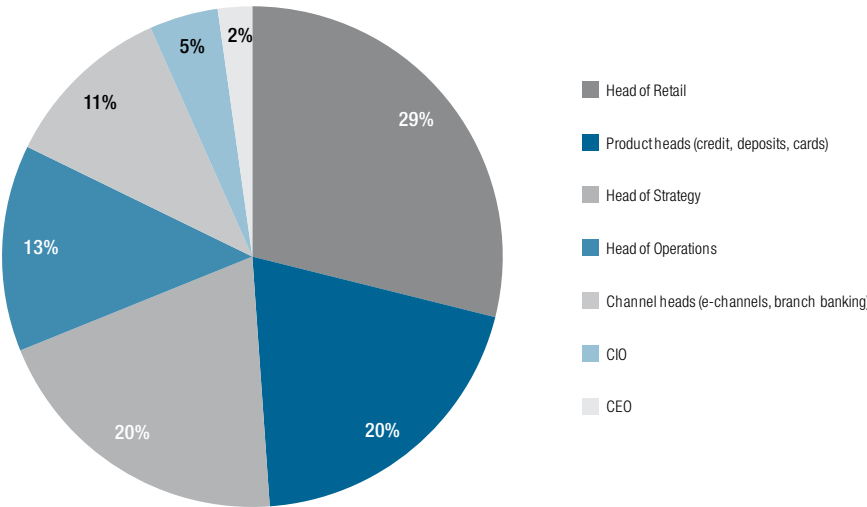
Standard Chartered Bank's aggregated growth in accounts was 72% in Q3 2008 and 50% in Q4 2008 versus the same period in 2007, and the total number of accounts opened in 2008 increased by 42% compared with the previous year.

About the research

The research was conducted in July and August 2010, and comprised of face-to-face interviews, telephone interviews and an online survey. A total of 59 banks across 14 countries were interviewed for the survey. The interviews involved senior retail bankers, head of retail, head of strategy, product heads, and channel heads. We also interviewed a few CIOs, as well as various heads of technology and operations and a CEO.

Figure 12-1

The designations of responding bankers



Source: Infosys and Asian Banker Survey Results

For ease of analysis Asia Pacific was split into three regions – South Asia, South East Asia and North Asia. North Asia includes China, Hong Kong, Korea and Taiwan; South Asia includes of Bangladesh, India and Sri Lanka; and Southeast Asia includes Australia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

We have also made a distinction between mature markets and emerging markets. Mature markets namely Australia, Hong Kong, Korea, Singapore and Taiwan accounted for 30% of the participating banks, and emerging markets, contributed to the remaining 70% of respondents. China, India and Vietnam are sometimes also classified as rapidly emerging markets.

The primary research is supported by secondary data from Asian Banker Research and material from annual awards programmes - The Asian Banker Excellence in Retail Financial Services Awards and The Asian Banker Technology Implementation Awards.

Survey questions

1. Do you think the banking industry in your market has become more or less innovative in the last two years?
2. How innovative is your bank in each of the following areas: products: Products, Operational Processes, Channels, CRM?
3. In which area do you believe your bank has built major innovation capabilities which enable it to excel in the market?
4. What were the reasons to embark on building these capabilities?
5. Does your bank have an innovation strategy (e.g. objectives, approaches)?
6. What are the main drivers and challenges which force banks to be innovative?
7. Did your bank increase or decrease the level of investment in innovation in 2010?
8. How important is innovation for: the future of your bank, for growth, for efficiency?
9. What notable innovations/initiatives has your bank introduced in the last 12 months?
10. Which products did your innovation initiatives focus on in the last two years?
11. What will be your bank's three main innovation initiatives or priorities for the next 12 months?
12. Would you say that your bank is working mainly on incremental or strategic innovations?
13. Where do you think innovation will have the most impact in the next few years: Products, Operational Processes, Channels, CRM?
14. What resources do you have to enable innovation in your bank in regard to: Processes, People, Functions, and Funding?
15. What actions do you apply to increase the level of innovation in your bank?
16. How is innovation driven internally?
17. Where has the effect of innovation been felt the most in your bank?
18. Do you see a threat to established retail banks in your market from innovative new entrants and business models?
19. What in your opinion is the most likely disruptive innovation that will impact the consumer banking industry in your market?
20. How significant are the challenges in the following areas (Management, Employees, Technology, Managing the interface between business and IT) for innovation?
21. What additional operational barriers to innovation do you see in your bank and why you think they pose a challenge?
22. How important do you believe is IT for innovation in your bank?
23. Are your bank's IT systems and processes a barrier to innovation?
24. If the answer to Q 23 is YES, is your bank investing in IT to reduce this as a barrier?'
25. What are the key metrics used for measuring innovation?

List of participants

SOUTHEAST ASIA

Australia

ANZ
Bank of Queensland
Commonwealth Bank of Australia
Westpac

Indonesia

Bank Central Asia
Bank International Indonesia
Bank Mandiri
Bank Negara Indonesia
Bank Permata

Malaysia

Alliance Bank
AMMB Holdings
CIMB
Hong Leong Bank
Maybank
RHB Bank

Philippines

Banco de Oro Unibank
Bank of The Philippine Islands
Land Bank of the Philippines
UnionBank of the Philippines

Singapore

Citibank
Maybank
OCBC
Standard Chartered
UOB

Thailand

Bank of Ayudhya
Kasikornbank
Krung Thai Bank
Siam Commercial Bank
TMB Bank

Vietnam

Asia Commercial Bank
HD Bank
Ocean Bank
Sacombank

SOUTH ASIA

Bangladesh

Janata Bank
Sonali Bank

India

Axis Bank
Bank of Baroda
HDFC Bank
ICICI Bank
Punjab National Bank
State Bank of India

Sri Lanka

Bank of Ceylon
Hatton National Bank

NORTH ASIA

China

Bank of China
China CITIC Bank
China Merchants Bank
ICBC
Shanghai Pudong Development Bank

Hong Kong

Bank of East Asia
Citibank
Hang Seng
HSBC
Standard Chartered

Korea

Shinhan Bank

Taiwan

Cathay United Bank
Chinatrust Commercial Bank
Mega International Commercial Bank
E. Sun Commercial Bank
Taishin International Bank

About us



The Asian Banker is a leading provider of strategic intelligence on the financial services industry, established since 1996. We are in the business of helping decision makers develop creative solutions around research and intelligence to achieve tangible business goals. We help organisations understand the markets they serve through B2B surveys, field research, data and forward-looking research and intelligence, benchmark their operations and competitiveness against industry best practices and create communities for the industry to respond to global trends.

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For more information, please contact:

The Asian Banker

ckapfer@theasianbanker.com

Infosys Technologies Limited

finaclemktg@infosys.com

