

Lotus knows.

Smarter software for a Smarter Planet.

Winning in the “New Normal Economy”

Gary McBride | World-Wide Leader, Banking Web Experience Software

Kuala Lumpur 25 March 2010



lotusknows.com



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Agenda

- How banks can get in shape for the battle ahead
- IBM Smarter Banking



Financial Collapse of 2008 – 2009

– #1 Reason: Poor Risk Management

Financial Risk

80% of firms don't have integrated risk processes¹

300% rise in FDIC bank closures

Financial Crimes

Millions of electronic attacks, yearly, focused on the finance sector²

Operational Risk

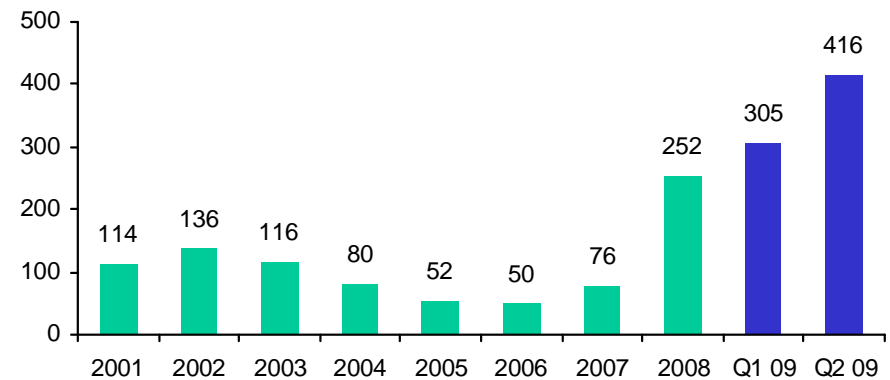
Billions of market trades each day: global trading systems are under extreme stress with limited insight into the risk assumed³

Governance, Compliance

Thousands of regulations worldwide; **Hundreds** more being added.⁴

FDIC-insured "Problem Institutions"

(Number of institutions, 2001-2009)



Toxic Assets in the System

- Governments worldwide have spent more than **\$10T** to rescue the financial sector
- IMF has estimated the global toxic assets to be **~\$3T⁵**

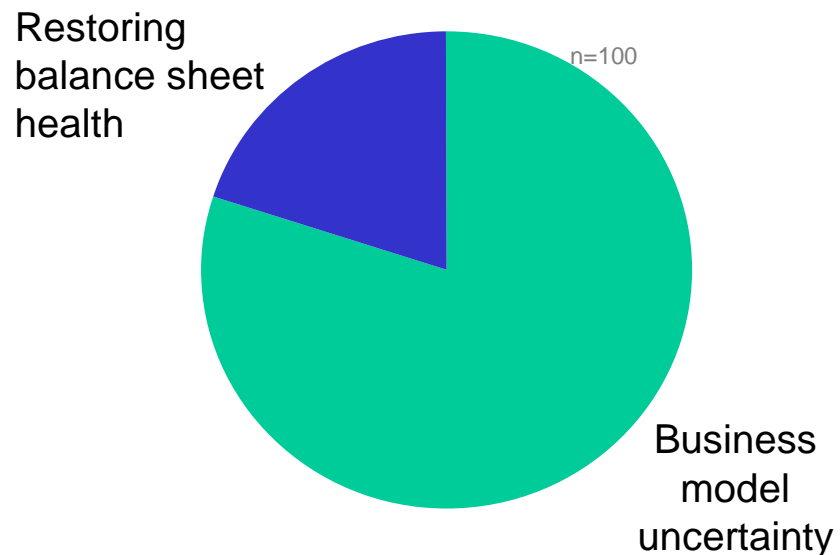
Source: : 1 Governance, risk and compliance in financial services, The Economist June 2008, IBM CRO Survey; 2 IBV analysis; 3 "The Smarter Financial Services Industry: Forging a path to smarter financial services growth, stability and resiliency", 4 IBM "Navigating the Compliance Labyrinth: The Challenge for Banks 2007" (Deloitte) , IBM Forecast; 5. IMF GFSR Sept 2009



Bankers remain uncertain of their business model

What Keeps you Awake at Night¹?

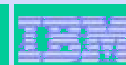
(Percentage of Executives Interviewed)



Note: Question asked: (1) What keeps you up at night?;
Source: (1) IBM / EIU survey 2008; IBM Institute for Business Value analysis

IBM Banking Study - 2009

IBM Institute for Business Value



Economist Intelligence Unit

The Economist

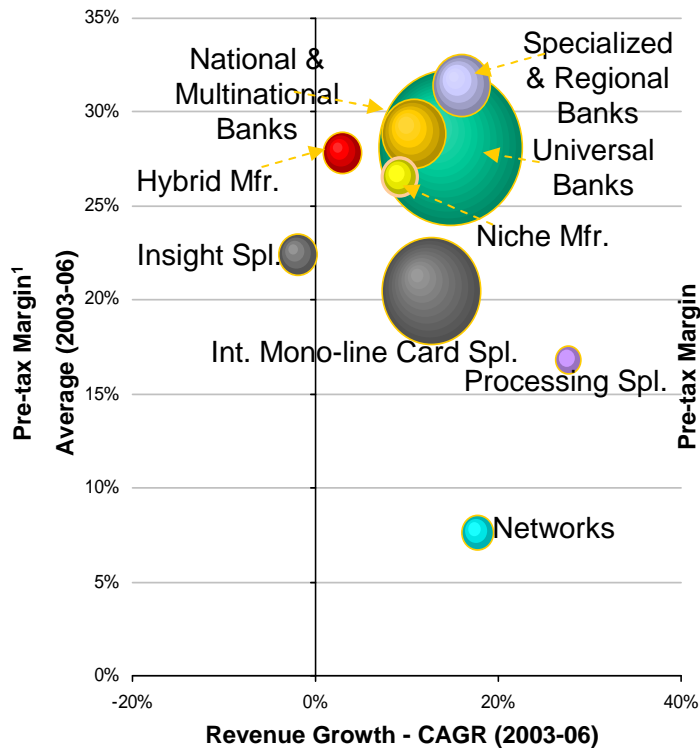


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Profit pools within the eco-system are shifting with the Universals losing most ground

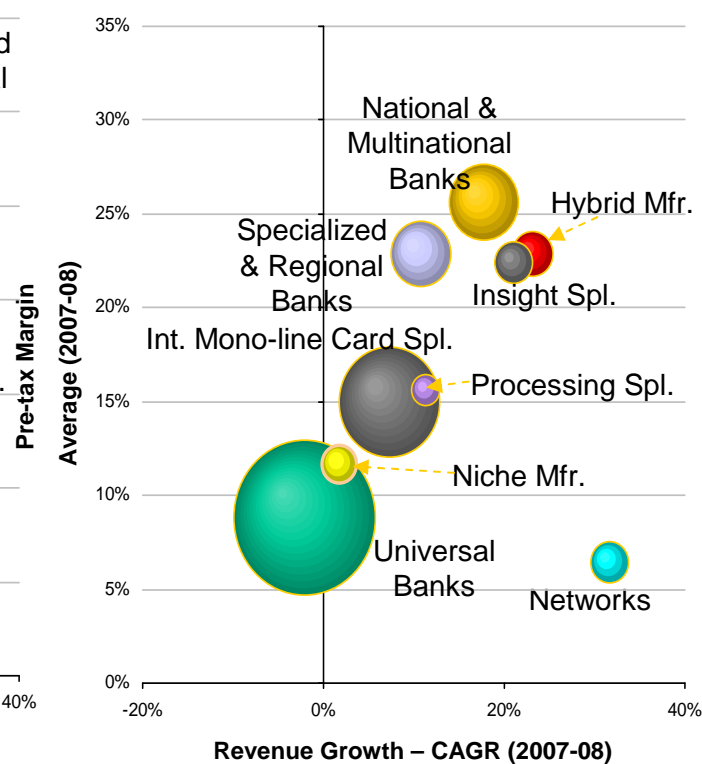
Pre-tax Margin vs. Revenue Growth

2003-6



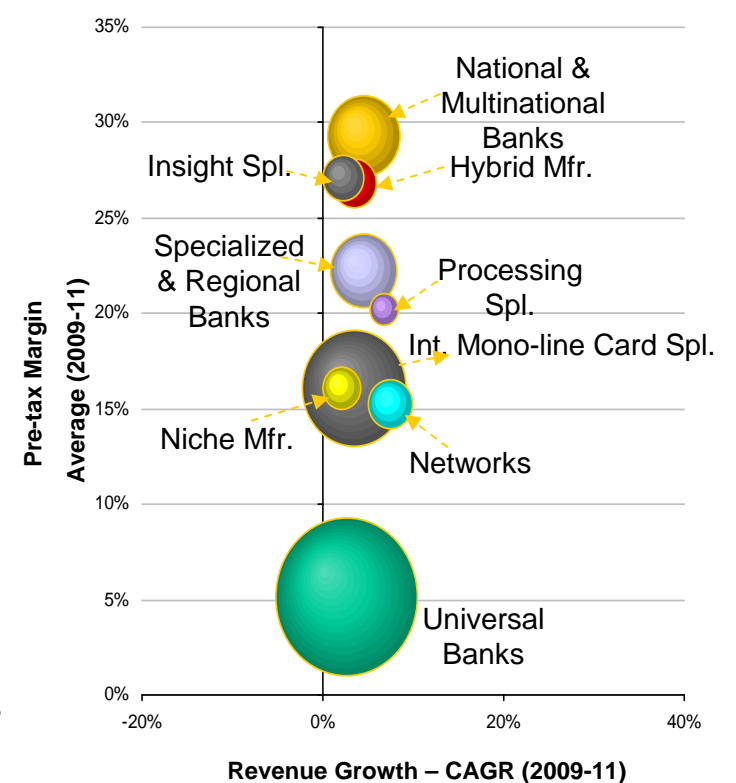
Pre-tax Margin vs. Revenue Growth

2007-8



Pre-tax Margin vs. Revenue Growth

2009-11E²



Notes Size of ball reflects revenue. 1: Pre-tax margin calculated as ((Pre-tax Profit) / (Net Interest Income + Non Interest Income)); Revenue assumed to grow at a rate of 0% for 2009, and 50% of the avg.2003-8 growth rates for 2010 and 2011 respectively, Further, 10% reduction in cost and loan loss provision is assumed between 2009 -11. Insight specialist sample includes the merged entity Thomson Reuters Corporation in 2008.; Source: IBV Analysis; See appendix for list; 3 http://www.swift.com/sibos2009/news/new_normal.page; 3 Sep 09



“Those profits from the past were not real profits³”

Franco Passacantando, M.D., Central Banking, Banca d'Italia at Sibos Sept 2009

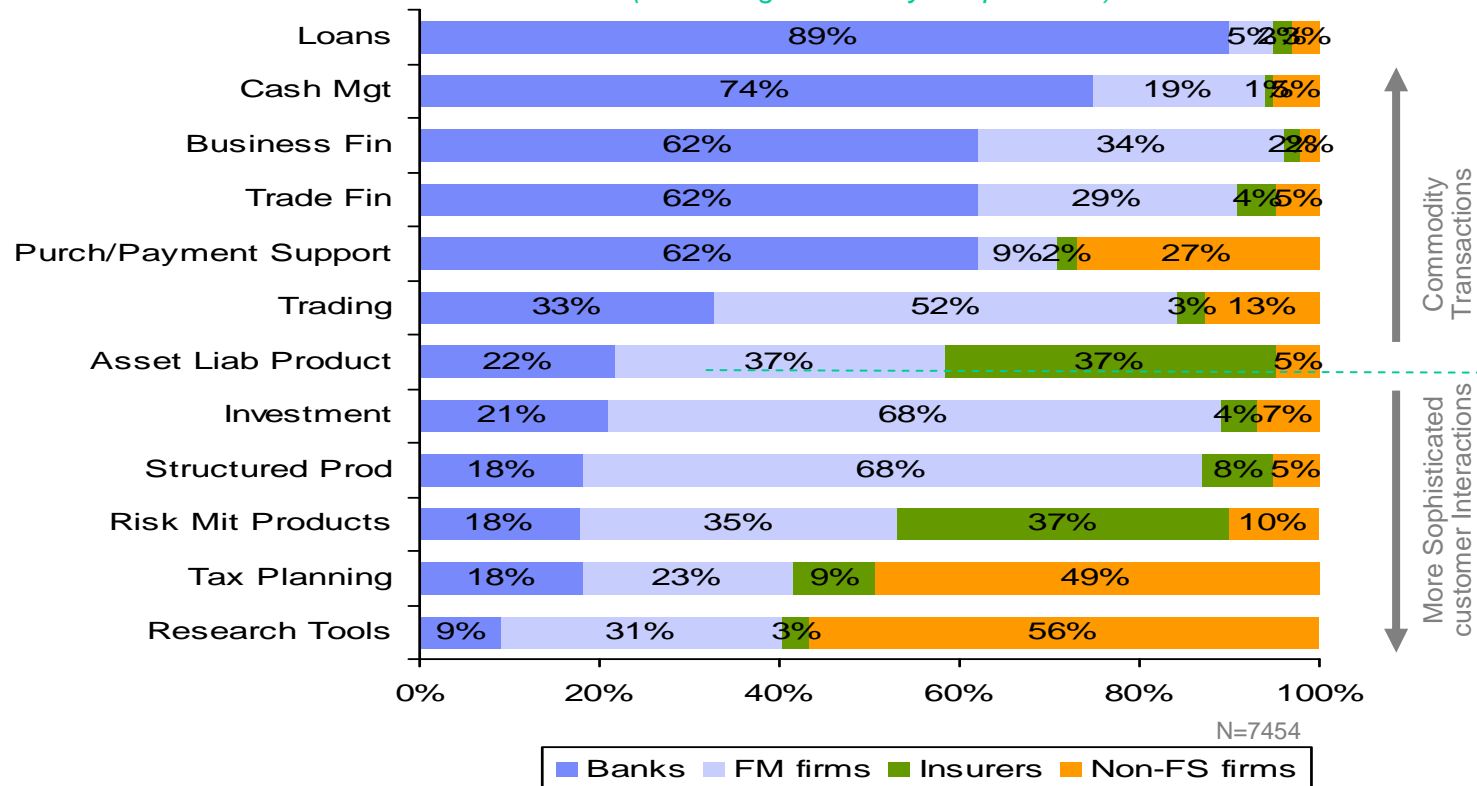


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Customers perceive bank services as commodity and are looking elsewhere for more sophisticated needs

Customers preferences for providers of financial products and services

(Percentage of Survey Respondents)



Note: Question asked: For each product, which type of firm will be best able to meet clients' needs in the future?
 Source: IBV/Economist Intelligence Unit Banking Survey 2008; IBM Institute for Business Value analysis

58% of executives believe specialists will outperform large universal banks in better meeting clients needs over the next 3-5 years

Specialization is a winning theme

Specialists are delivering increasing customer value through innovation


Service (Peer-to-Peer Lenders)

- **Approach:** Provide 24X7 community forums for making person to person, small business and real estate loans, offsetting risk and providing access to the underbanked.
- **Impact:**
 - Peer-to-peer lending sites claim over 500,000 members and \$300mm in loans
 - Growing use of Internet tools and delivery among the world's 7.000 micro lenders and 16mm micro borrowers



Delivery (Mobile Payment Providers)

- **Approach:** Enable use of available infrastructure (mobile phones) to transact payments and access banking services. Tapping informal, cash economies with limited infrastructure. Has reduced merchant fees.
- **Impact:**
 - Mobile transactions will total \$22B by 2011
 - P2P mobile payments are driving rapid adoption in the developing world
 - Contactless payments, key in mature markets, will be used by 52mm by 2011



Advice (On-line Communities of Advice)

- **Approach:** Give customers access to web sites that help them manage their finances. Enable knowledge sharing among communities of consumer investors
- **Impact:**
 - 44% of Internet users in US report getting financial advice or information online
 - Unique visitors to finance web sites are growing at about 10% per year



▪ ▪ *Specialists have been cherry-picking select customer segments – 28% of executives mentioned online and mobile players as potential threats*

Source: Company web sites; Grameen Bank; Juniper Research; Pew Trust; comScore Media Metrix; IBV interviews; IBM Institute for Business Value analysis, No Bank is an Island

ING Direct

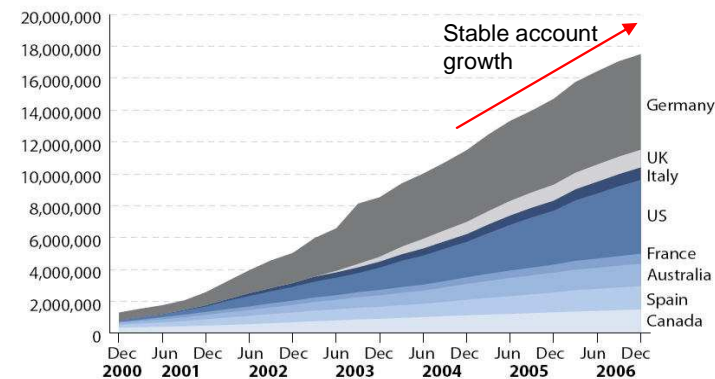
- ING Group established ING Direct in 1997 as a direct banking subsidiary targeting Europe, North America and Australia, offering:
 - A few simple financial products
 - High savings rate
 - Direct distribution exclusively
 - Major marketing spending
- Other banks had embraced direct banking previously, but the ING Direct significantly disrupted major markets by:
 - Clearly differentiating from competitors by offering a simple, compelling proposition
 - Marking locally, within a common global message
 - Providing simple design, and flexible, reusable operational architecture
- By 2008, ING Direct had 21.5 million customers globally, including 6.5 million in the US¹
- Since 2005, ING has experienced more intensive competition from HSBC, Citi and others, but remains a formidable competitor
- Late 2007, ING Direct USA acquired ShareBuilder (7th largest US online broker), with a view to expanding its offering, and disrupting further



"I'm actually surprised it took five years [for Citi and HSBC to enter the direct banking space] ... we don't worry about having a number of competitors. I think they have a real handicap – in that they are big traditional banking institutions"

Arkadi Kuhlmann, ING Direct, CEO³

ING Direct Number of Direct Accounts²

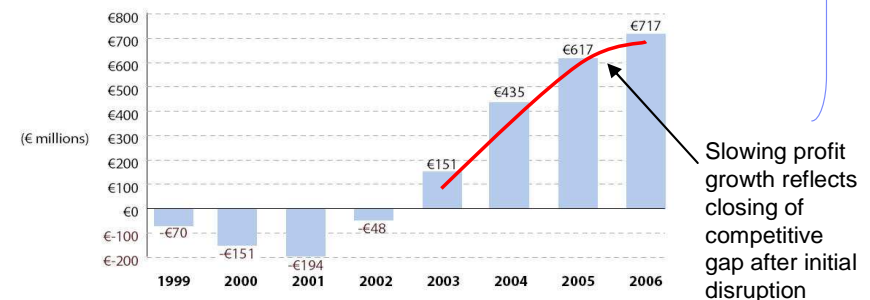


Source: ING Group

41632

Source: Forrester Research, Inc.

ING Direct Annual Pre-tax Profit²



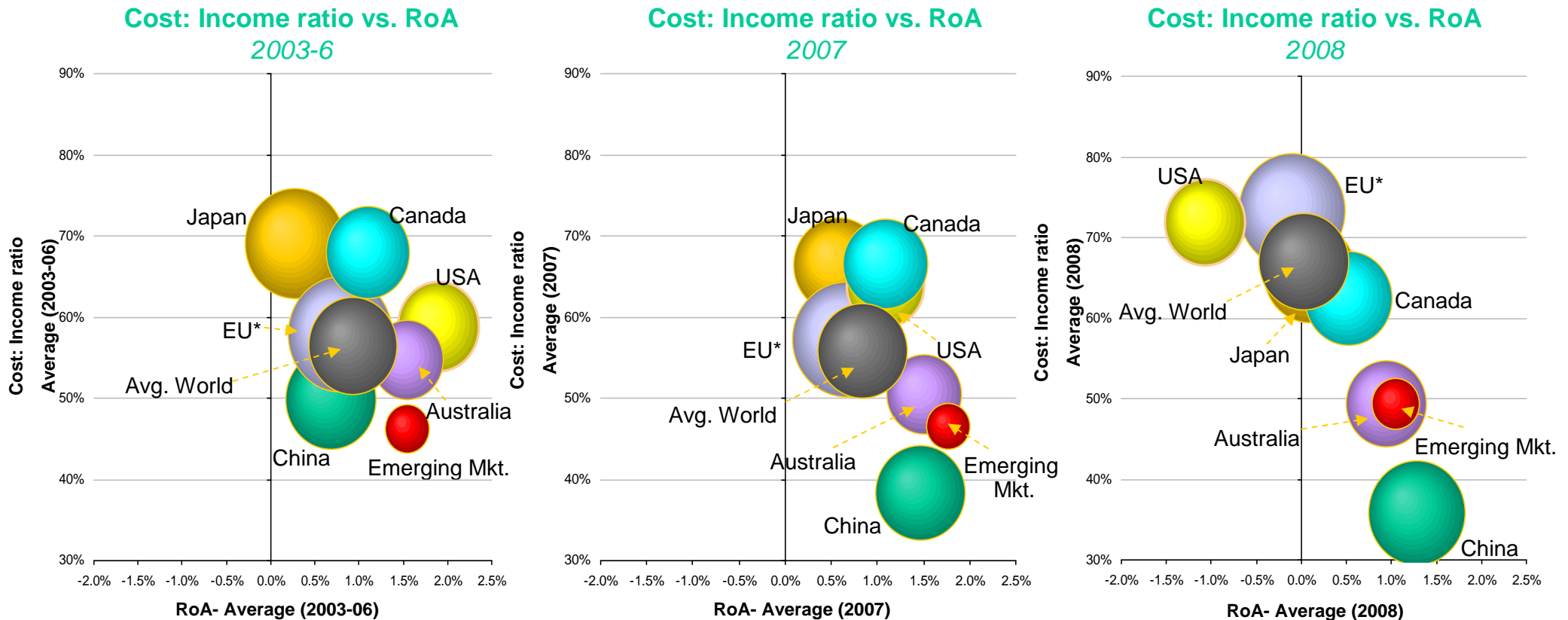
Source: ING Group

41632

Source: Forrester Research, Inc.

¹ <http://home.ingdirect.com/about/about.asp>, May 2008; ² Forrester, The Sources of ING Direct's Success (2007), ING Infiltrates the Brokerage Market with ShareBuilder (2008); IBM analysis ³ http://www.paymentsnews.com/2006/04/ing_direct_ceo_.html

Banks in emerging markets have *improved their cost structure* over the last two years



Notes: Cost is defined as operating expenses, including depreciation but without provisions; Income as the sum of net interest income and non-interest income. Return on assets is calculated as: (Pre-tax Profit) / (Total Assets). Size of bubble represents average size of assets. EU* = European Union, Norway, Switzerland and Turkey; Emerging Markets include Asia (excluding Japan & China), Brazil, Russia and South Africa. n= The Top 200 banks as ranked by thebanker.com on the basis of Tier 1 Capital.

Source: thebanker.com, IBV Analysis

Credit Suisse and “One Bank”



- In April 2005, Credit Suisse announced its One Bank initiative by merging the Credit Suisse private and retail bank, and CSFB investment bank and asset management functions¹
- Credit Suisse also decided to strategically expand its Asian operations in Singapore, HK, China and elsewhere²
- IT, HR and other functions are now managed globally, with specific activities and functions sourced from Centers of Excellence in Pune, India and elsewhere
- Despite current problems with a slowing global economy and problems sub-prime exposure experienced by some key competitors, Credit Suisse remains committed to the One Bank concept and the efficiencies and benefits it is expected to deliver^{4,5}
- Centralization of some processes also support efforts underway to normalize cultures across geographies and LOBs

“Our strategy of a globally positioned and integrated bank, combining investment banking, private banking and asset management, is working well even in difficult market conditions”

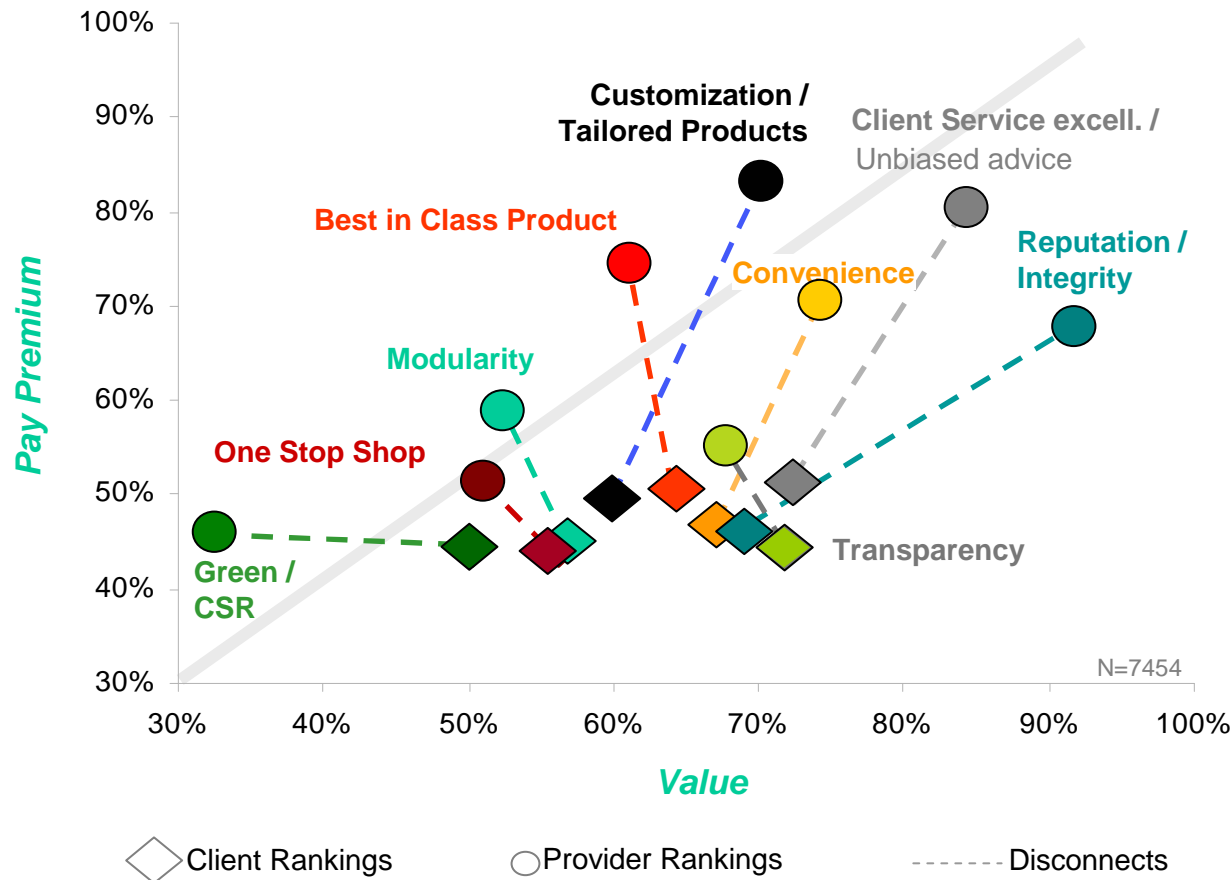
Walter Kielholz, Credit Suisse, Chairman⁶

The screenshot displays the Credit Suisse website interface. At the top, there is a navigation bar with the 'CREDIT SUISSE' logo and a 'USA' dropdown menu. Below the logo is a large banner image of a desert landscape with the text 'Welcome to Credit Suisse'. The main content area is divided into several sections: 'Search' with a search bar and 'Go' button; 'About us' with links to News & Press, Investor Relations, Careers, Governance, Corporate Citizenship, Sponsorship, and Publications; 'Individuals' with links to Private Banking in USA, Credit Suisse Private Advisors, and Credit Suisse Funds; 'Corporates & Institutions' with links to Asset Management, Alternative Investments, and Investment Banking; and 'Contact & Locations' with links to Contact us, Office Locator, and Login. A horizontal navigation bar includes 'HOME', 'INDIVIDUALS', 'CORPORATES & INSTITUTIONS', 'MARKET DATA & RESEARCH', and 'ABOUT US'. Below this, there are links for 'Who We Are', 'News & Press', 'Investor Relations', 'Citizenship', 'Governance', 'Sponsorship', and 'In Focus'. The 'Global Trends' section features a video player with a 'For Sale By Owner' sign and a 'Play Video' button. The 'Subprime Crisis' section includes a quote from Giles Keating, Head of Global Research, explaining the root of the crisis and how it led to the current economy and beyond. The 'More Articles' section lists several articles, including 'The Financial Revolution Change for Good', 'The Tide Is Turning for the Global Economy', and 'The Miniaturized Realm Is Within Reach'. The 'In Focus' section highlights the 'Global Investor 2/2008' report.

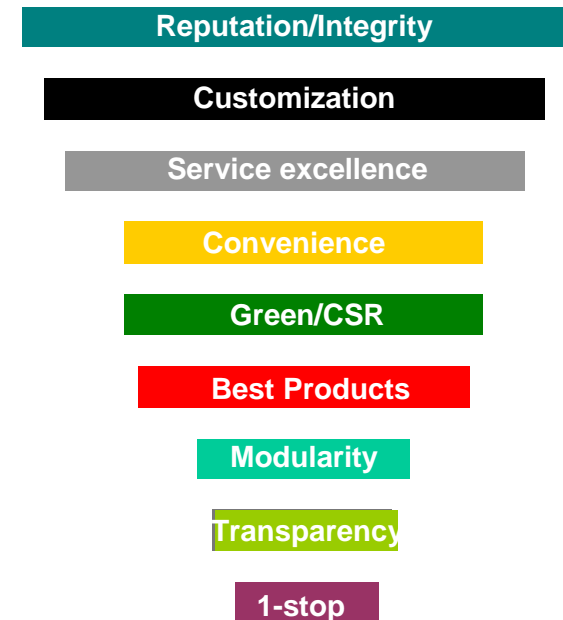
Banks & Customers Have Different Values

Disconnects: Client Vs. Provider Perceived Value and Premiums

(Percentage of Survey Respondents)



“Size” of disconnects



Note: Question asked: Which financial services capabilities become more/less important to you in the next 3-5 years? Rank 1-6. How much would your clients be willing to pay over existing rates to ensure that you deliver on specific factors, Select 0%, 5%, 10%, 15% or more, don't know. IBV/Economist Intelligence Unit Banking Survey 2008; IBM Institute for Business Value analysis

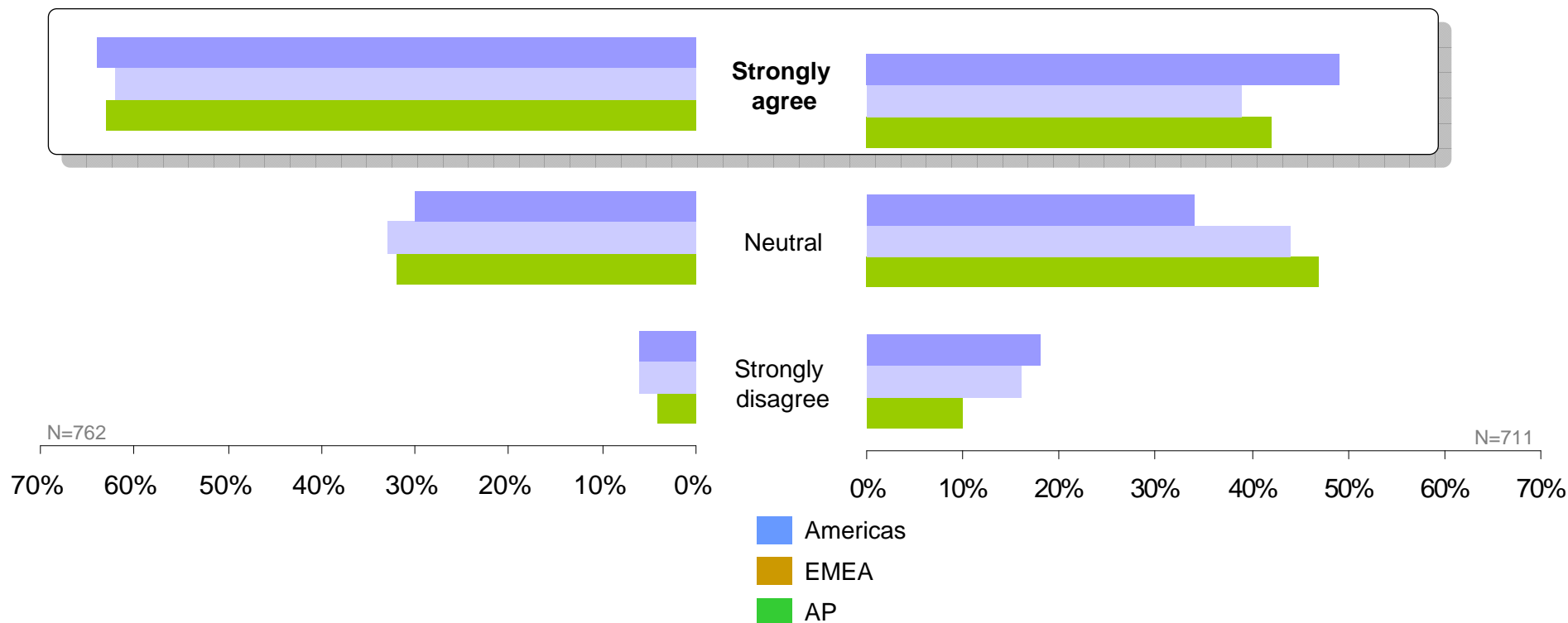


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Trust Gap

Client Opinion: Providers offer products in the firm's best interest
(Percentage of Survey Respondents¹)

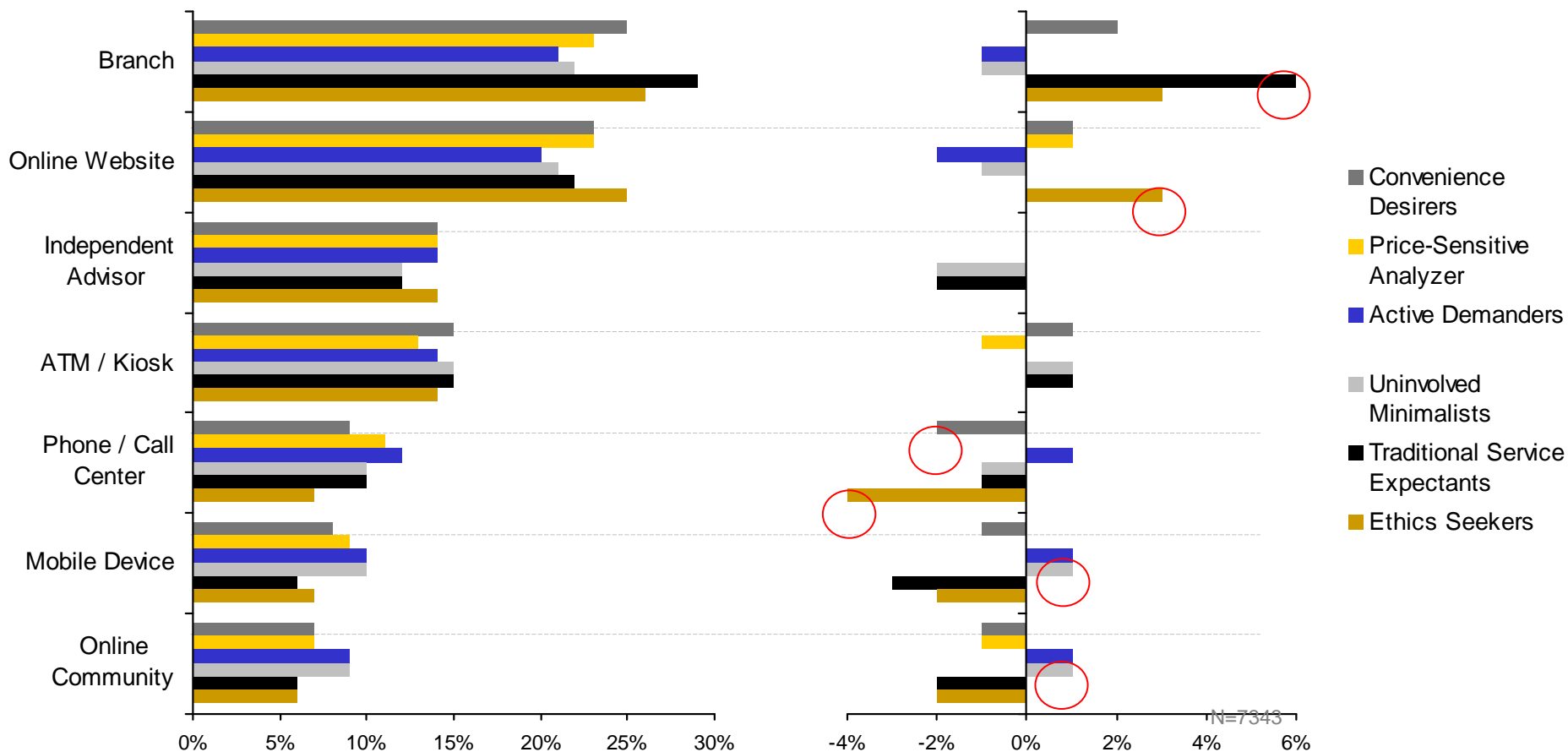
Provider Opinion: Providers offer products in the firm's best interest
(Percentage of Survey Respondents¹)



Look at *Who Values What*

Channel Usage Vs. Variance From Average

(Next 5 years, by segment. Percentage of Survey Respondents)



Note: Question asked: What will be your preferred channels for buying financial services over the next 5 years? Scale of 1-6 where 1=Not important and 6=Very important. Source: IBM Institute for Business Value Banking Survey 2008

Steps to Financial Success

- Revitalize the balance sheet / restore shareholder value
 - Simplify processes
 - Invest in higher-value services
- Understand customer values
 - Rebuild customer trust
- Manage *holistic* risk, manage governance and compliance
 - Reform culture for making risk-based decisions

Become a Smarter Bank



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Agenda

- How banks can get in shape for the battle ahead

- IBM Smarter Banking



Reasons to be optimistic There is an extraordinary opportunity !

5.8% CAGR

Growth in world GDP¹ from 2010 thru 2025 will put the current crisis in context.

2.5 billion

Half the world is unbanked. Just over half of world's adult population do not use formal financial services to save or borrow.²

\$1,264 trillion

The value of global assets³ will quadruple by 2025 – calling on a vibrant global financial system to intermediate and manage.

1 - Nominal

2 - http://financialaccess.org/sites/default/files/110109%20HalfUnbanked_0.pdf

3 - Assets = deposits, equity and fixed income



Growth requires smart institutions to think and act in new ways

Rethink the business model

Drive a simplified and streamlined agile enterprise that balances growth, efficiency and business resiliency

Develop new intelligence

Develop enterprise wide capabilities to enable informed judgment, client-centricity and profitable growth

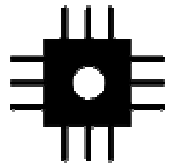
Integrate risk management

Achieve compliance objectives while mitigating operational risk, fighting crime and optimizing financial returns



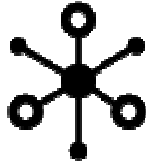
Smarter banking solutions have a common set of attributes

INSTRUMENTED



+

INTERCONNECTED



+

INTELLIGENT



=

SMARTER BANKING



Financial products are decomposed and managed at the atomic level, allowing the participants to measure, control, sense and respond quickly and precisely based on a “single source of truth.”

A smart bank is built on systems that advance processing to better automate transactions with counterparties, partners and suppliers to enable innovation across the value chain.

A smart bank enables the rapid, intelligent analysis of a vast mix of structured and unstructured data to improve insight, enable informed judgment and fight abuse.

A smart bank anticipates client needs and delivers innovative products more quickly and consistently than the competition. It can respond nimbly to changes in market conditions.





Banking Industry Imperatives - 2010



Macro

- § Changing economic conditions
- § Globalization
- § Risk management



25 billion

Global trading systems are under extreme stress, handling billions of market data messages each day.

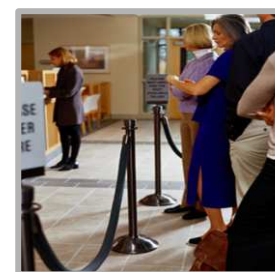
Competitive

- § Consolidation
- § New business models



Consumer

- § Empowerment
- § Changing preferences



50%

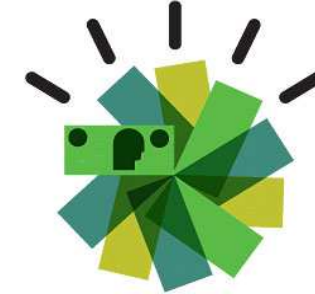
of customers who are loyal to the bank only two chances to fail before considering a change in banks.



Emerging technology

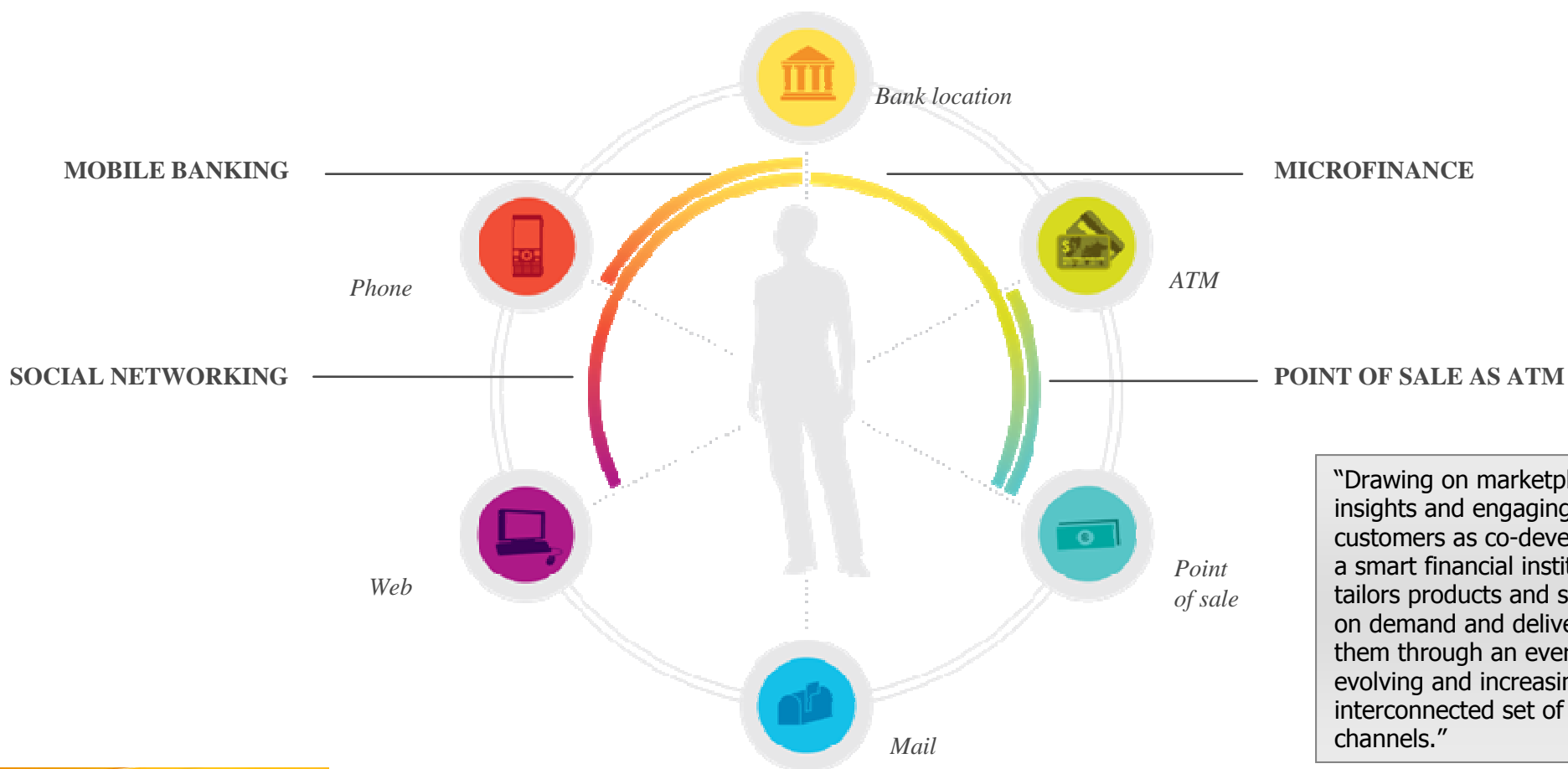
- § Technology innovation
- § Pervasive connectivity





IBM Smarter Banking Insights

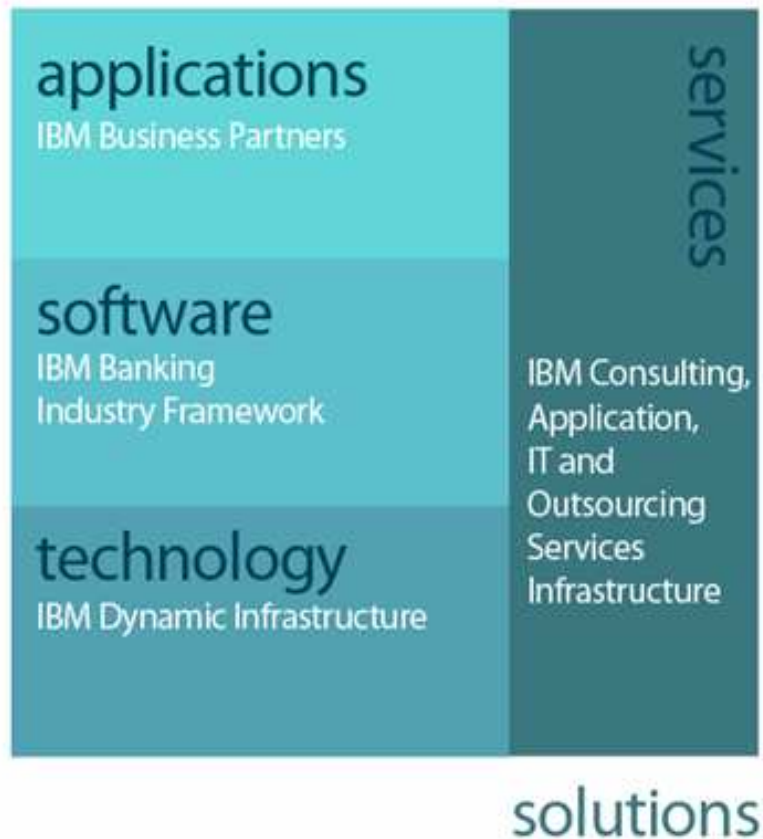
- Banks want a 360° view of their customers
- Banks want their customers to have an unified experience at every touch point



"Drawing on marketplace insights and engaging customers as co-developers, a smart financial institution tailors products and services on demand and delivers them through an ever-evolving and increasingly interconnected set of channels."

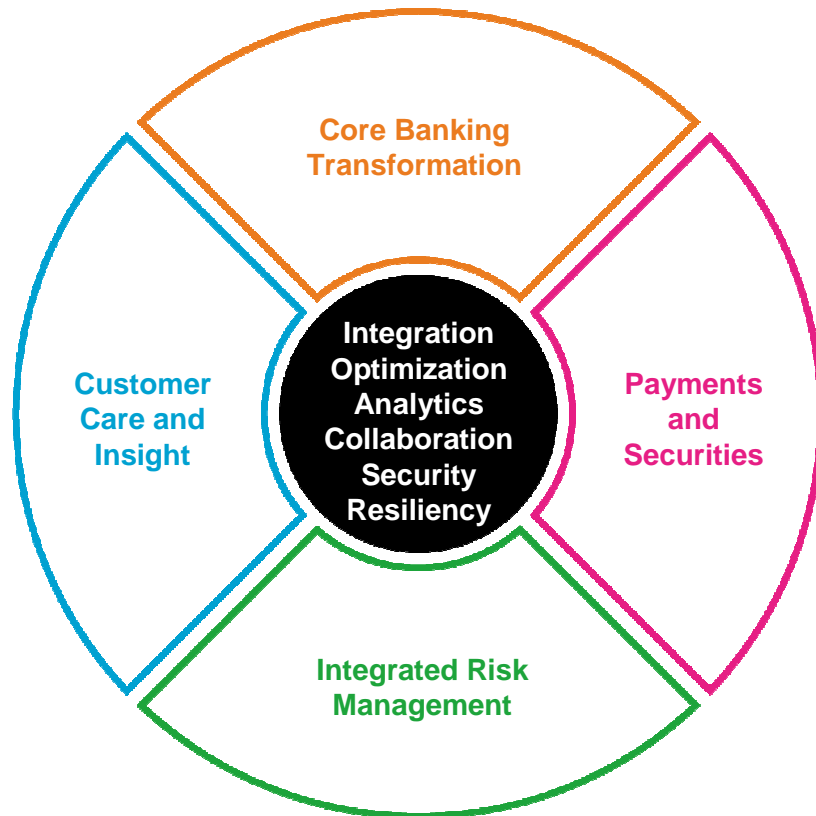


The IBM Banking Framework



- Banking solutions address the diverse business and IT needs of our clients through integrated IBM offerings
- **Applications** are provided by IBM best-in-class independent software vendor (ISV) business partners
- **Software** that supports banking solutions is delivered by the IBM Banking Industry Framework
- **Services** help clients maximize their investments, decrease costs, and realize value more quickly
- **Technology**, including hardware and storage, supports flexible and scalable solutions in a dynamic infrastructure

The IBM Banking Framework – 4 solution areas



The framework gives you speed, flexibility and choice in deploying solutions while reducing cost and risk!

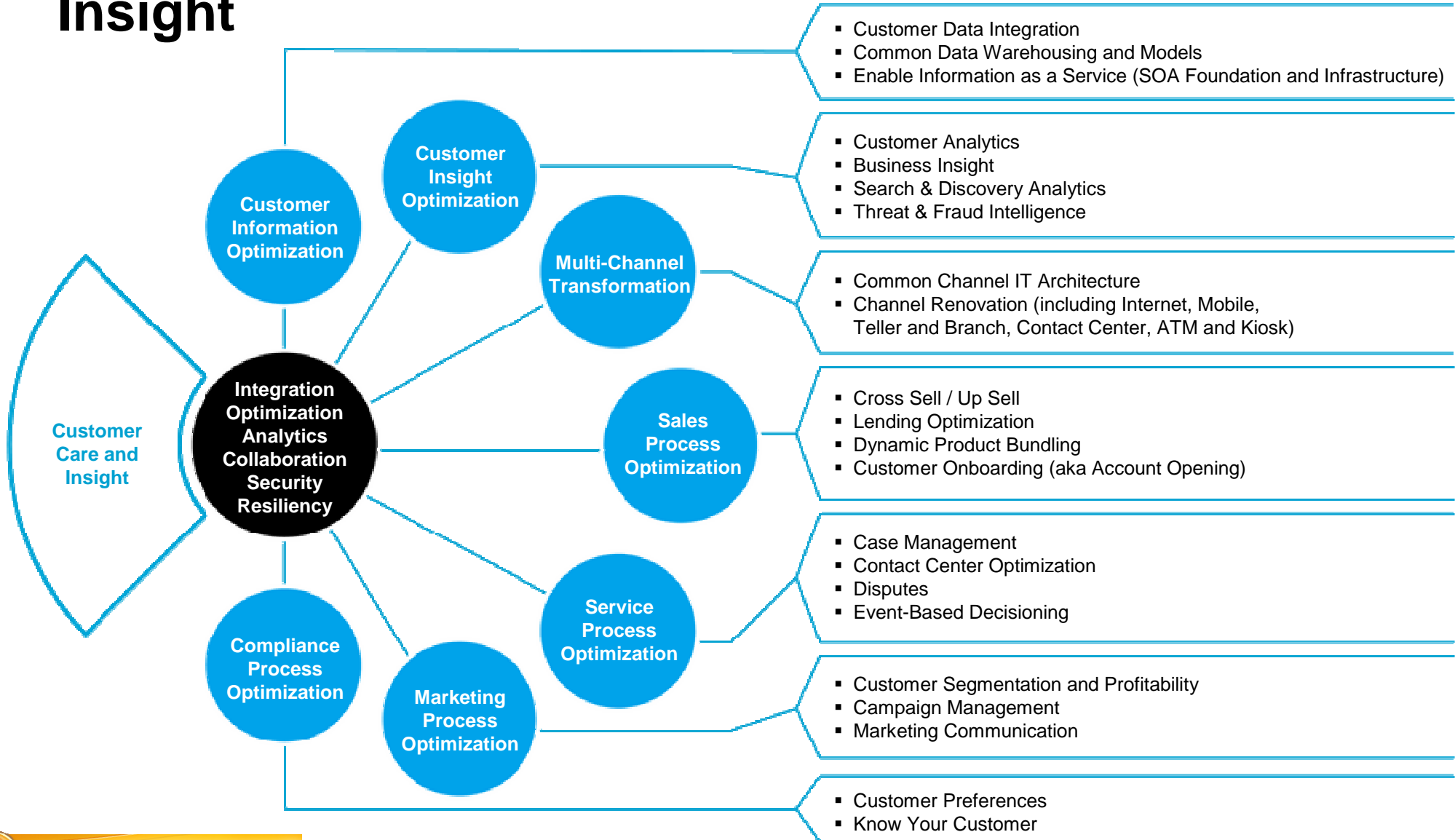
The framework provides a banking-specific software platform with...

- Banking extensions and pre-built solution accelerators to speed deployment
- Best practices and business-specific usage patterns to lower risk
- Support for adoption of open and industry standards
- A choice of business applications from IBM business partners
- An approach to align technology with business needs

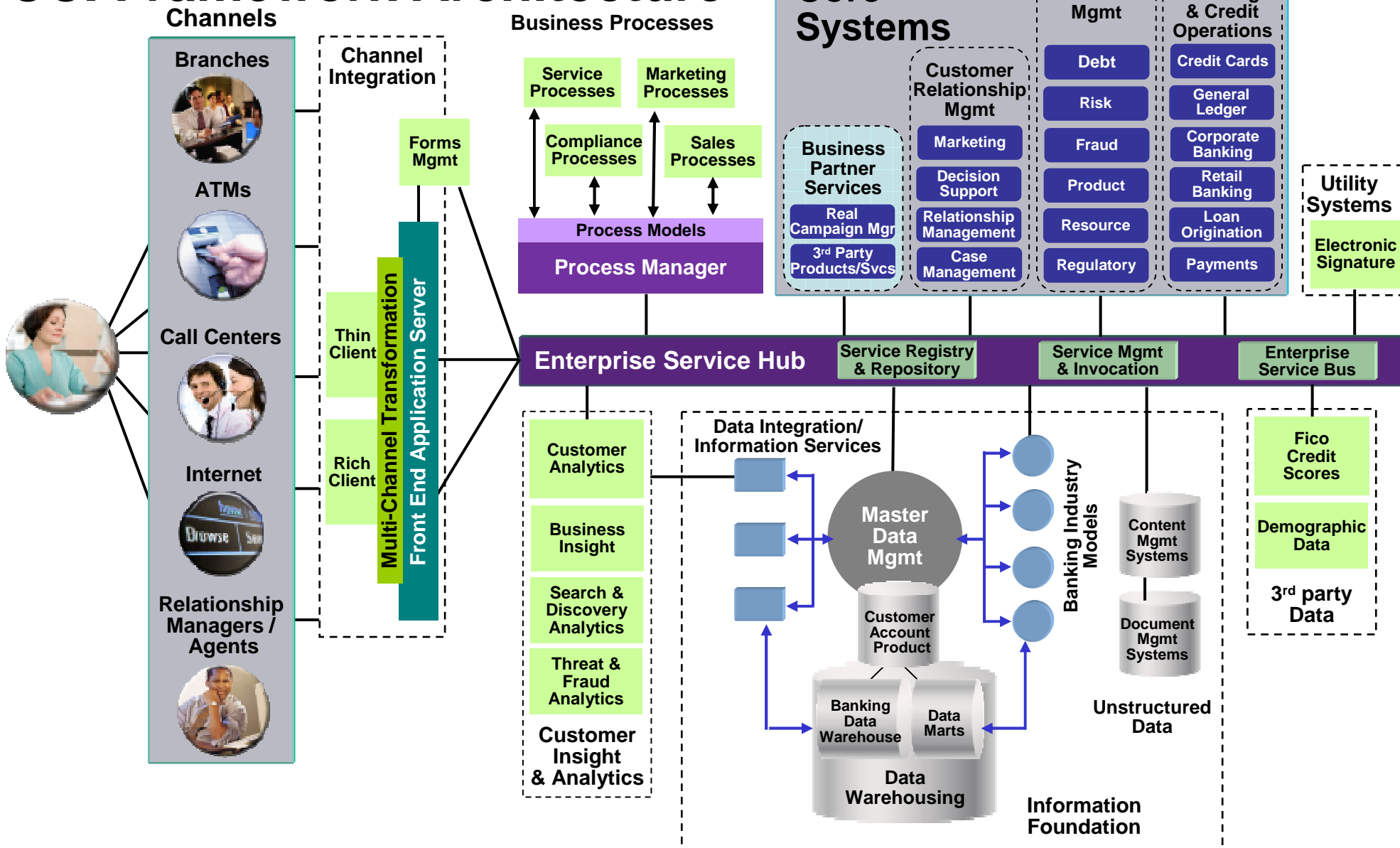




Lotus is a key enabler for Customer Care and Insight



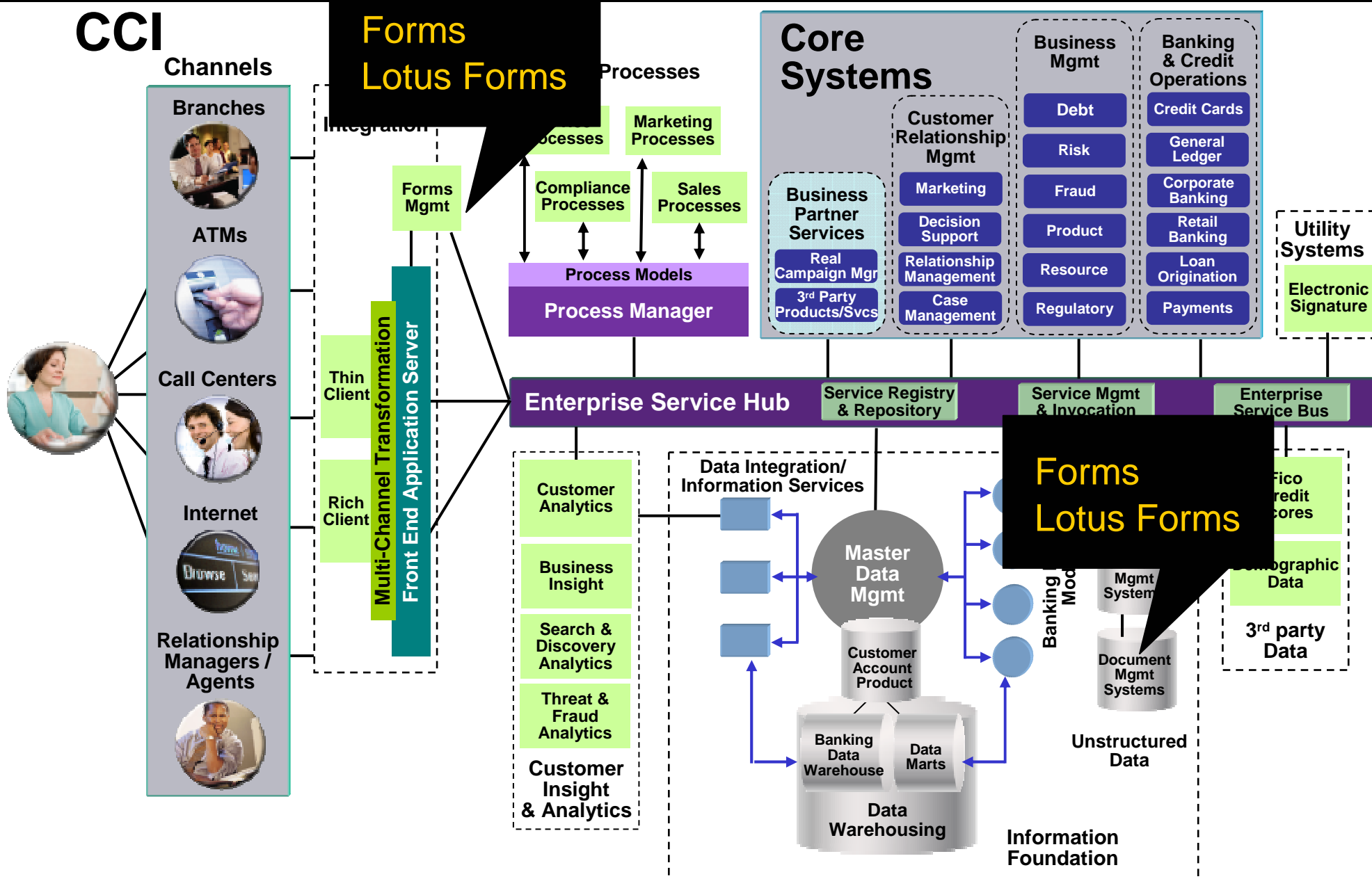
CCI Framework Architecture



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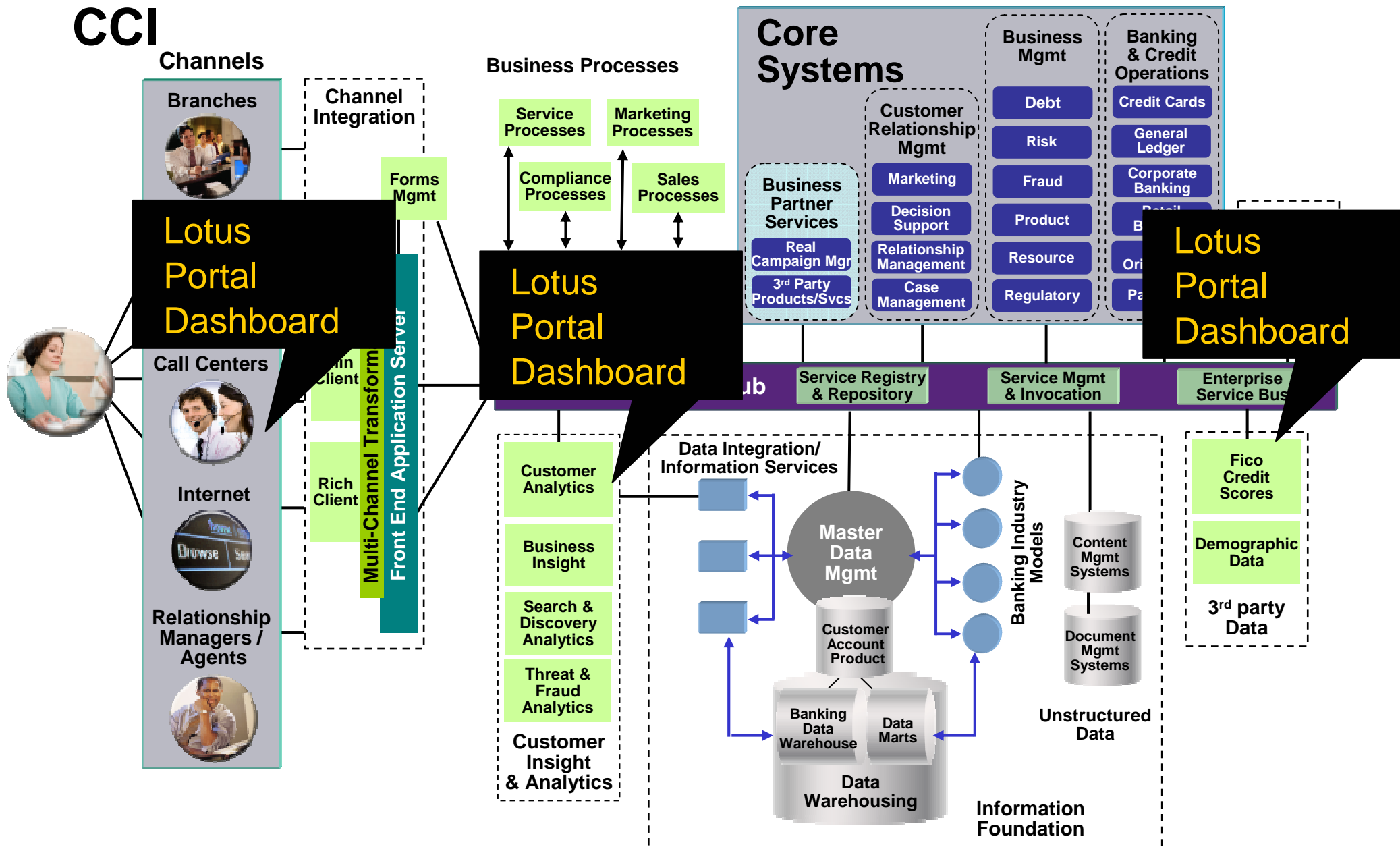
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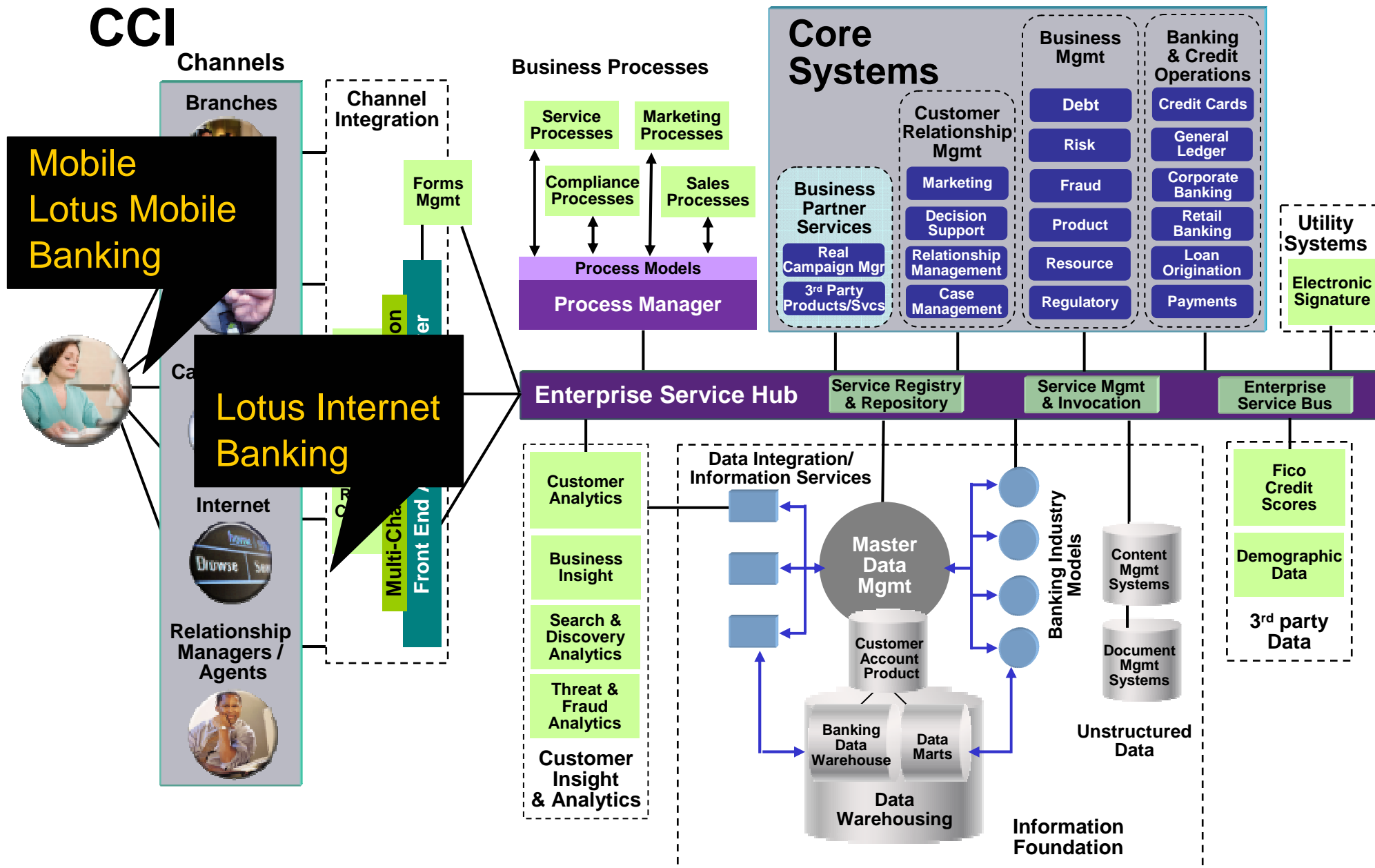
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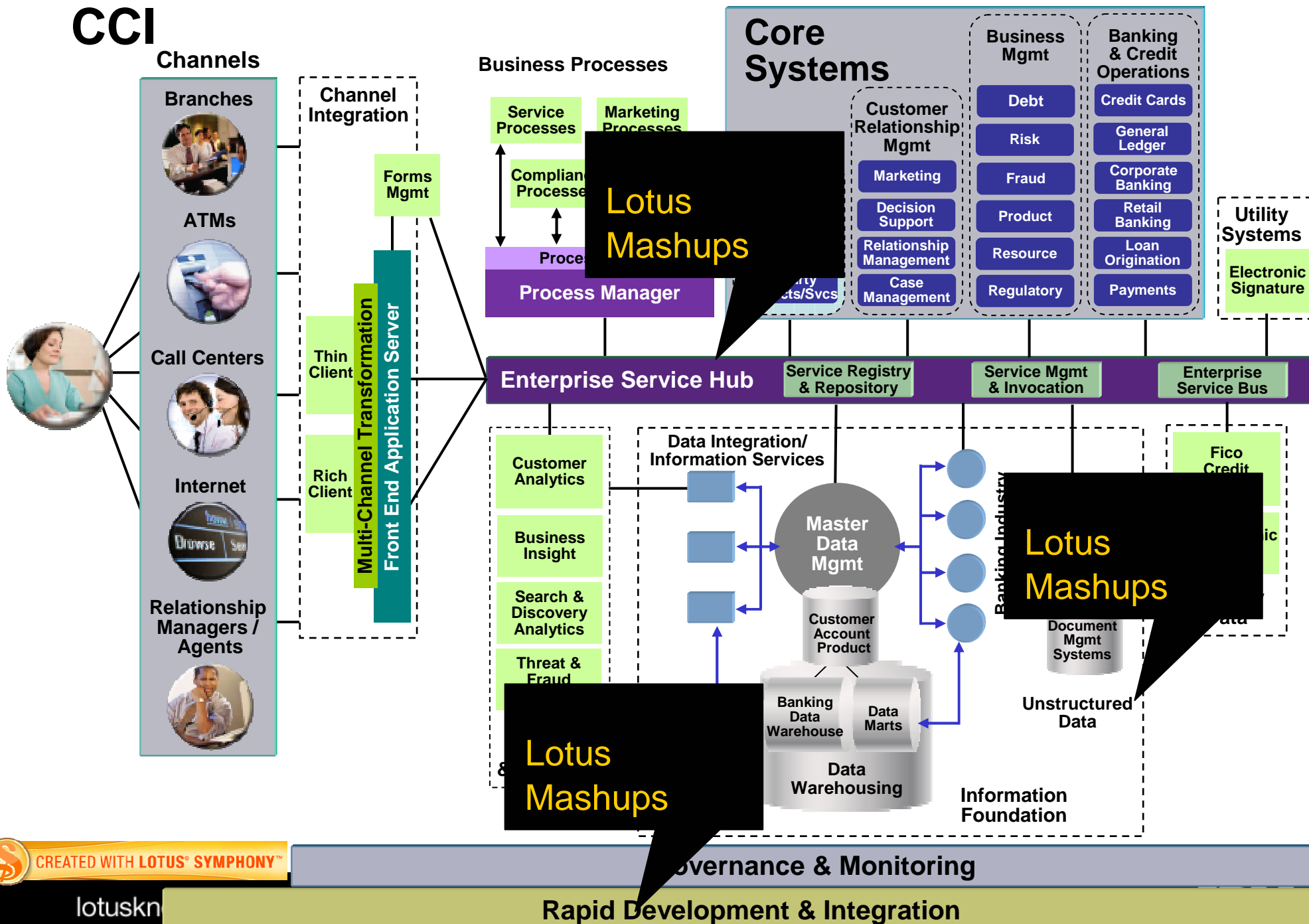
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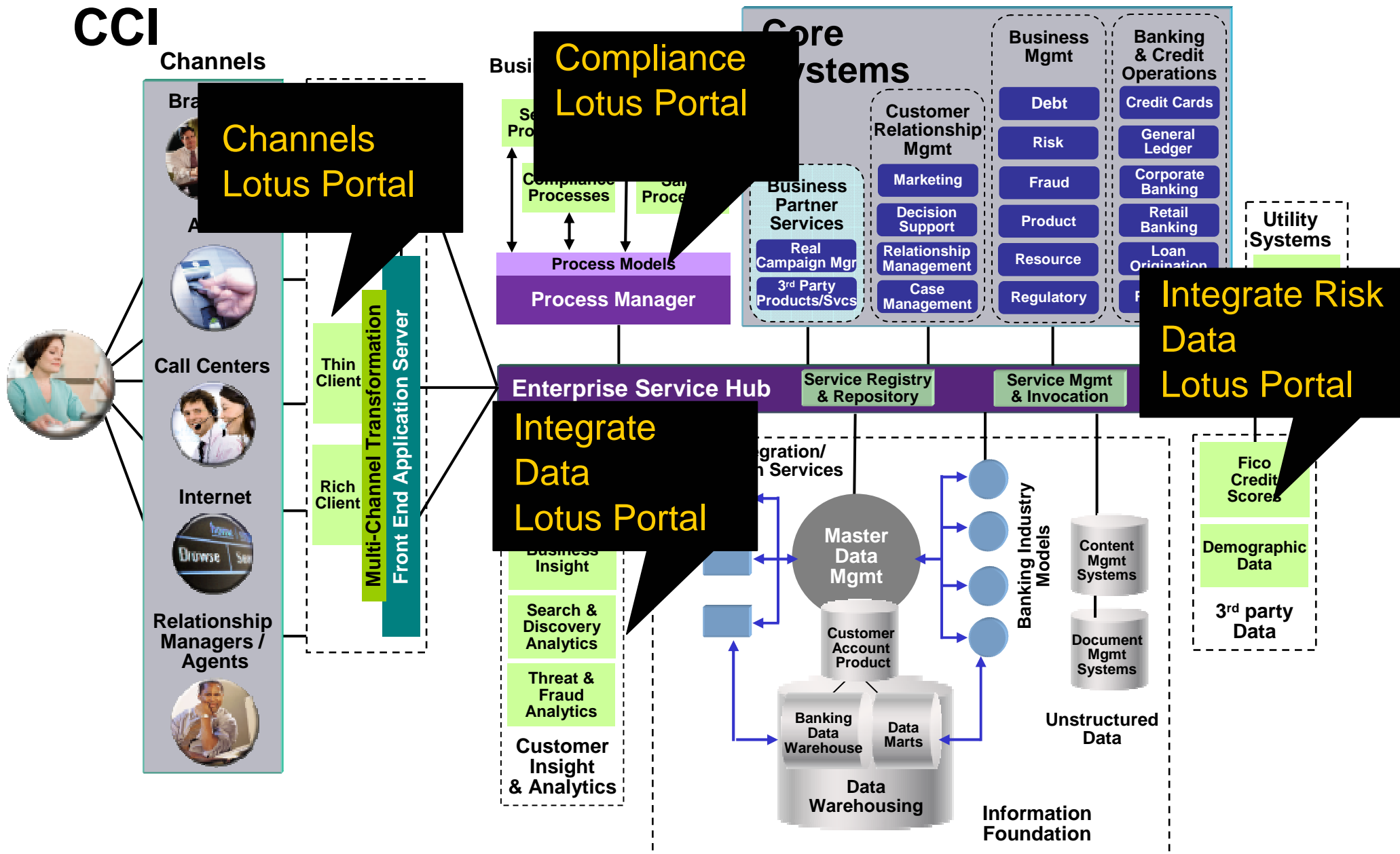
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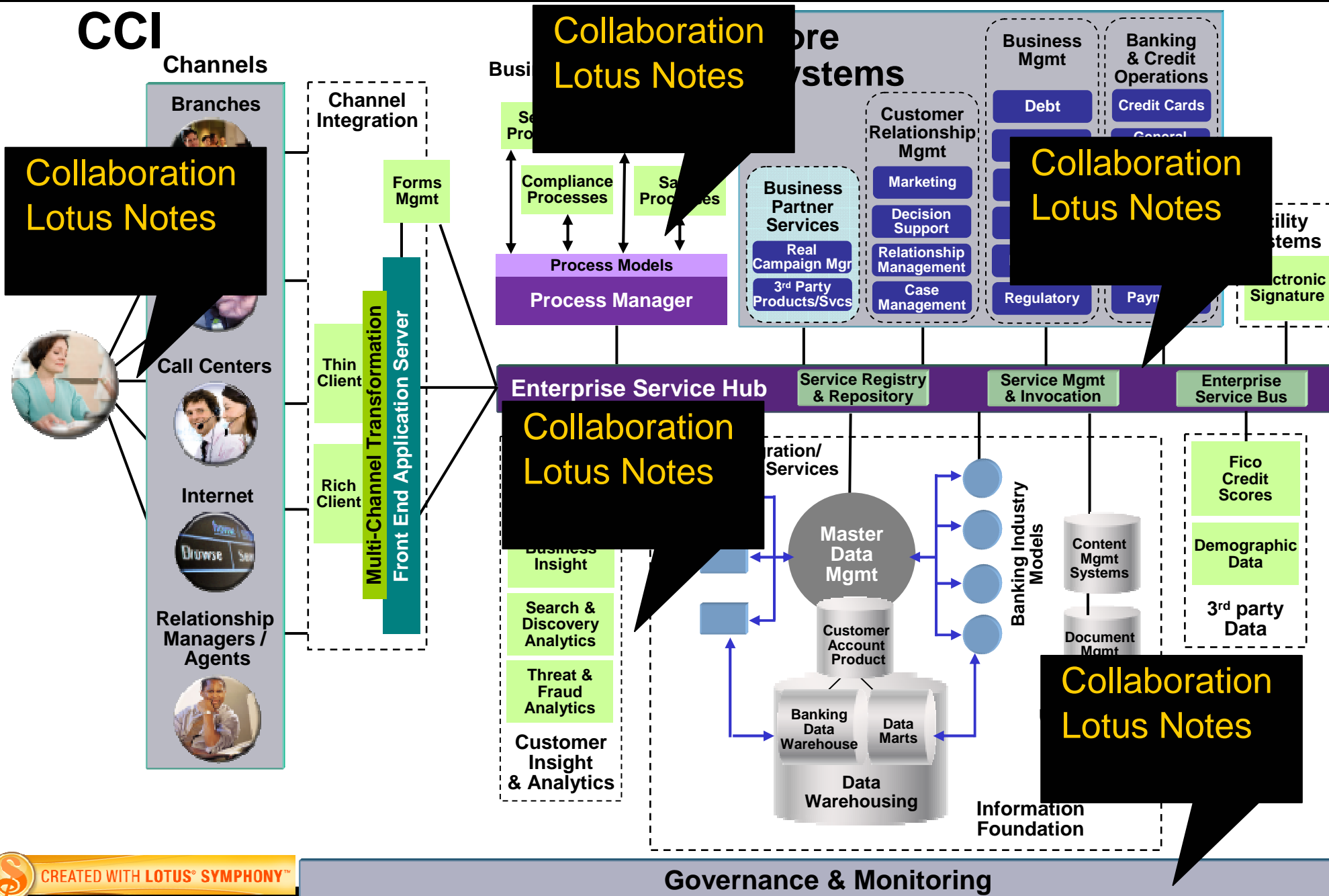
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