Schroders Private Banking – Three Perspectives On IT Centralisation

**Business Benefits Of Centralisation Project**

- Operating costs reduced significantly - by around a third.
- IT architecture greatly simplified – number of applications used cut by 63%.
- Management information improved considerably – 90 cost drivers are now used to allocate central costs.
- Marked improvement in customer service – customer statements are sent out a week earlier than before.
- Superior risk and compliance – it took just 30 minutes to establish the bank had no exposure to Lehman Brothers.
In 2006, Schroders Private Banking undertook a project to centralise its IT and support infrastructure into one central hub using Temenos’ T24 core banking system. In this case study, we measure the success of the project, which went live early in 2007, in quantitative terms against four main criteria – risk and compliance, customer service, product innovation and operational efficiency - and from three perspectives: those of the COO, CFO and CIO.

Executive Summary

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Introduction

About Schroders

Established in London in 1804, Schroders is one of the world’s oldest and most venerable financial institutions. Run for over 150 years as a private family business, and for even longer with active involvement from the founding family, Schroders has enjoyed stable ownership that, in turn, has translated into consistent returns and sustained growth. As at the end of December 2008 Schroders operated from 34 offices in 26 countries, employing more than 2,800 people and managing more than GBP110bn in assets.

Overview Of Schroders (As At 31/12/2008)

| Employees | 2,834 |
| Offices   | 34 |
| Funds under management (GBPbn) | 110.2 |
| Revenue (GBPm) | 935.8 |
| Profit before tax (GBPm) | 123.1 |
| Market cap (GBPbn)* | 2.2 |

* as at 17 March 2009

Assets Under Management - GBP 110.2bn

Source: Schroders Annual Report

About Schroders Private Banking

Schroders Private Banking as part of the Schroder group operates chiefly out of three locations – London, Zurich and the Channel Islands – although it has offices in other European cities and a growing presence in Singapore.

According to public filings, Schroders Private Banking has experienced strong growth in margins and profitability in recent years. Between 2006 and 2007, the bank’s cost/income ratio improved by 15% and its operating margin increased by 38% (from 27.3% to 37.7%), helping it to achieve a 54% rise in operating profit over the same period.

As at 31 December 2008, Schroders Private Banking managed GBP11.7bn of clients’ funds and employed more than 300 people.

Revenue And Operating Profit Growth 2007 vs. 2006 (GBPm)

Source: Schroders Annual Report

15 The current number of internal IT staff, less than 5% of the total workforce
Why Did Schroders Private Banking Choose To Centralise Its IT Systems?

The decision to centralise the group’s IT infrastructure was taken as a result of a study carried out to determine how to increase the operational efficiency and to maximise synergies within the group.

The findings highlighted the following:

• The business models varied considerably between the different banks – the London bank, for example, had a higher share of discretionary services than either the Swiss or Channel Islands banks with more advisory and custody driven activities.

• The different models had resulted in substantially different IT infrastructures and cost bases.

• There was significant scope to reduce the complexity of the IT infrastructure and improve (and automate) business processes by centralising and harmonising systems. The existing Swiss platform was characterised by a high level of automation, thanks in large part to having adapted its processes to the functionality in T24 without significant local developments.

• A Shared Service Centre (SSC) would be the best way to achieve this centralisation and would result in better profitability, improved customer service, faster product innovation and superior risk management and compliance.

Old System Architecture (London And Guernsey) Before Centralisation

![Diagram of Old System Architecture](image-url)
It was decided that the IT infrastructure and operations of the three banks would be merged into a shared service centre in Zurich, with T24 acting as the core processing application (and supported by only a few ancillary applications). Zurich was chosen because it already managed the operations for private banking in both Zurich and Geneva and part of the institutional business based in Zurich – at a competitive cost level.

It was envisaged that all accounting, security and payments services for clients – including custody operations, maintenance of client data and IT (infrastructure, development and maintenance) – would be handled from Zurich, while all front office services and client activities as well as compliance/legal services and treasury would remain under the control of the local entities. The anticipated split of the different business services according to location of provision is given below.

### Target Business Model

- **Relationship Management**
- **Asset Allocation**
- **Order Entry**
- **Portfolio Management**
- **Product Management**
- **HR**
- **Internal Services**
- **Cashier Operations**
- **Compliance**
- **Opening Client Documents / Compliance Check**
- **FX / MM Dealing Desk**
- **Risk Management / Risk Reporting**
- **Securities Dealing Desk**
- **Regulatory Reporting**
- **Corporate Action QI Reporting**
- **Securities Operations**
- **FX / MM Operations**
- **Accounting / Controlling / MIS**
- **Valuation / Performance Reporting**
- **Risk Management / Risk Reporting**
- **Securities Dealing Desk**
- **Regulatory Reporting**
- **Corporate Action QI Reporting**
- **Securities Operations**
- **FX / MM Operations**

Source: Schroders Private Banking

The initial management projection was that, by using the SSC in Zurich, total operating costs could be cut by one third versus the cost of maintaining the three standalone IT and support centres.

### Areas Of Schroders Private Banking To Be Supported By The SSC

- **Schroders Private Bank London**
- **Schroders Private Bank Guernsey**
- **Schroders & Co Bank AG Zurich**
- **Schroders & Co Banque SA Geneva**
- **SIM Zurich Institution, Retail and Fund Management**

Source: Schroders Private Banking
The Project

The project took 18 months and the SSC in Zurich went live in April 2007. From the outset, it was agreed that a “big bang” approach would be preferable, since the complexity and interdependency of the existing processes and platforms would have made a phased (but less risky) approach almost impossible. Effectively, a phased approach would have meant that, after go-live, certain functionality would not have been available and workarounds would have had to be developed.

The project was split into five phases, as shown in the diagram below, and adding to the complexity of the project, an upgrade from T24 R4 to R6 was run in parallel. The upgrade was deemed necessary in order to take advantage of the functional enhancements – particularly in regard to the different market practices – and the full multi-thread capability of the Close of Business processing in R6 providing high scalability.

In terms of the technical implementation, the major tasks were the building of T24 for London and the Channel Islands, the data migration from several sources and the redesign and development of business processes. The data migration, in particular, proved to be very challenging since the lack of integration in the past had resulted in silos of redundant and inconsistent data and often no unique relationship across the applications. To automate the data migration, Schroders developed a migration hub that used 200 mapping routines to transform the data. Manual data take-on was only necessary in a handful of cases and a complete integrity check was run on the hub before loading any data into T24.

However, like in most projects, there were also human challenges. The two issues that Schroders faced and successfully overcame both related to staff being made redundant as a result of the centralisation: specifically, how to ensure their continued cooperation with the project and how to ensure a smooth and complete knowledge transfer. Various initiatives were used to address the issue of motivation and, to assist the knowledge transfer (especially regarding the locally different legal, tax and client reporting requirements), Schroders used a mix of computer-based training, leaflets, intranet information and classroom teaching. There was excellent cooperation throughout the project between the London- and Channel Islands-based staff and the staff in the service centre in Zurich.

The project went live within the planned timeline and the costs of the implementation were in line with the plan. The benefits, however, which are discussed below, have comfortably exceeded expectations.

Project Phases
The Outcomes

Below, we summarise the discussions held in January 2009 with the COO, CFO and CIO to review the project and its outcomes.

COO Perspective

“For me, the transition to the shared service centre has brought a more focused approach to private banking, reflected in improved efficiency and the realised cost synergies, but also in much better levels of service for our clients.”

Heinz Scheiwiller - COO - Schroders Private Banking

Operational Efficiency

The move to the shared service centre has allowed Schroders to run the bank’s operations much more tightly. Much of this operational improvement is clearly reflected in the lower cost base per transaction. However, moving to the SSC has also enabled management to obtain better quality information that, in turn, allows it to make better-informed decisions about the business and how to allocate resources between competing priorities.

As Heinz Scheiwiller points out, information has improved in three key ways:

1. **Profitability measurement**: using consolidated data from all three banks and applying the same level of analysis to all three entities has enabled Schroders to compare financial data more easily and more accurately across the different banks, but also at the individual customer level.

2. **Cost allocation**: more granular and consolidated data has afforded a move away from arbitrary cost allocation between the different banks and profit centres. Instead, costs are now allocated on the basis of 90 different cost drivers, which reinforce the accuracy of profit measurement.

3. **Timeliness**: as a result of moving to the SSC, the quality of information has improved, but so has its timeliness. Higher levels of automation coupled with the absence of reconciliation between different data sources means that Schroders can now perform the monthly consolidation for the entire bank within a few days after month end.

Customer Service

In general terms, the move to the SSC has improved customer service in a number of ways. It has permitted customer relationship managers to spend more time with customers (since it has freed-up time by reducing the IT-related time burden); it has allowed Schroders to increase the proportion of relationship managers to customers; it has given relationship managers real-time desktop client information; and, it has empowered customers by giving them reports with more detailed and more timely performance information.

In terms of more specific Key Performance Indicators (KPIs), these vary according to the kind of service, but Schroders has achieved marked improvements in most. For example, the most important KPI is cost of transaction and since going live at the SSC, Schroders has substantially reduced this.

Product Innovation

Customers of all of the banks have benefited as the move to the SSC has resulted in Schroders taking the best products and practices from the three constituent banks and rolling them into one standard, but more extensive, offering. And, because the range of products is now standardised, there are greater efficiencies at the operational level.

Client reporting is another area that has improved significantly since operations were centralised and an area where he feels Schroders has been able to differentiate itself from competitors.
Since moving to the SSC, Schroders is able to send out client statements about a week earlier than before. Furthermore, while all statements have a similar format (that allows the bank to leverage its branding more strongly than before), the flexibility of the integrated system allows the content of the client reports to be tailored to individual client specifications.

As general options for all reports, clients can choose:

- Frequency of reports.
- Base currency.
- Whether periods are shown with rolling horizon or year-to-date performance.
- Whether performance is calculated using time-weighted or money-weighted method.
- Whether benchmarks are shown.

### Reporting Overview (General Options For Customer Reports)

<table>
<thead>
<tr>
<th>General Options for all Reports</th>
<th>Rolling Horizon</th>
<th>Year-to-Date</th>
<th>Frequency</th>
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<tr>
<td>Periods Shown With</td>
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<td>Quarterly (Standard)</td>
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<td>Performance Calculation Method Applied</td>
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<td>Money-Weighted</td>
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<td>Cost Value or Accrued Interest Shown</td>
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<td>Accrued Interest</td>
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<tr>
<td>Benchmark Shown</td>
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<td>Yearly</td>
</tr>
</tbody>
</table>

### Asset By Class And By Currency (Extract From Customer Report)

**Assets By Class**
- 23.1% Equities
- 27.8% Bonds
- 18.9% Alternatives
- 30.3% Cash

**Assets By Currency**
- 68.5% GBP
- 18.8% EUR
- 5.7% USD
- 7.0% Other

Source: Schroders Private Banking
Operational Efficiency

Efficiency gains were mainly driven by a reduction in staff numbers. Of the total cost reduction, approximately 60% came from reduced staff numbers. The remaining 40% of cost savings stemmed from non-staff related costs, principally lower software maintenance costs and reduced hardware spending. IT now accounts for less than 10% of total costs and 5% of the total workforce.

Schroders Private Banking now operates with one back-office, one securities master, one client static data administration team and one dealing desk (as opposed to three or more in each case before the IT centralisation project).

“Our view is that IT and support costs, as percentage of total costs, should decrease over time. Our competitive advantage comes from excellent customer service and innovative products. We aim to direct as many resources as possible to the customer-facing parts of the business.”

In terms of the revenue synergies that have arisen from centralisation (indirectly from better client information, better pricing, etc), these are harder to quantify, although Schroders reports a significant improvement in the level of assets under management per employee, a key measure of productivity.

Risk And Compliance

“The improvement in aggregated management information [since moving to the service centre] has been a huge advantage during the subprime crisis. For example, when we wanted to understand our exposure on the client and nostro side to Lehman Brothers, it took us half an hour to understand that we had no exposure. In contrast, at the time of the Barings collapse, we spent significantly more time retrieving this information.”

After moving to the SSC, the cost of monitoring activities like compliance is decreasing. Only having one processing location means that Schroders is in a position to deliver any requested information in these areas in a short timeframe as many of the underlying data delivery processes have been simplified.

Conversely, having one consolidated back office centre reduces operational risks (and the risks of non-compliance) in that there is more management oversight, but more importantly, because management has access to much better information (more aggregated, fewer errors), received much more quickly than before. It can therefore make better informed decisions about the business, helping to mitigate risks.

CFO Perspective

“Undoubtedly, the best aspect of centralisation has been the elimination of the big discrepancy that existed in the operating costs of the different platforms. We now run an extremely lean infrastructure with infrastructure costs lower by approximately one third, and with IT support in the service centre representing about 5% of the total workforce.”

Pierre-Louis Favre - CFO - Schroder & Co Bank AG

Sources Of Cost Reduction (%)

- Lower IT Spending: 40%
- Fewer Staff: 60%

Source: Schroders Private Banking

Reduction In Number Of Data Centres

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<thead>
<tr>
<th>Before Centralisation</th>
<th>After Centralisation</th>
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<tbody>
<tr>
<td>6</td>
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Source: Schroders Private Banking

Two-Thirds

Reduction in the number of data centres (from 6 to 2) following the move to the SSC
Operational Efficiency

Moving to a single platform to support operations across three locations resulted in a significant reduction in the complexity of the overall architecture, making it possible to manage the environment with a smaller team (now just 15 people) and to keep that team focused on activities that help differentiate the business. Further, the reduction in the amount of time spent reconciling information has also freed up time for the customer-facing staff.

Moreover, simplification of the IT infrastructure has also reduced the need for complex interfaces and cut significantly the number of different technical and platform skills the team has to accommodate. Since the move to the SSC, the number of different systems has been reduced by more than 60% and the number of different programming languages used has been cut to just three.

End-to-end processing has been achieved across many processes, such as securities dealing, FX and funds transfer cutting the amount of errors, improving compliance and the cost of compliance, and reducing the cost of transactions. Information errors and late processing have been reduced significantly and the costs per transactions have decreased sharply.

Customer Service

The availability of a processing platform that has capabilities beyond private banking has enabled Schroders to be very sensitive to the requirements of the various customer segments.

For example, it has been possible to extend the offering to business owners to include all services offered by Schroders to all locations and to do so without incurring significant additional IT development or operational costs.

To ensure a good level of customer service and to remain close to the local markets, it was decided that, contrary to the centralised securities dealing, the treasury desks should remain distributed. A flexible order routing mechanism was put in place to make this configuration possible. The implementation of this specific requirement was easily achieved, thanks to the open architecture of T24.

CIO Perspective

The move to T24 as one core platform with only a few ancillary systems has brought large advantages regarding the daily delivery of IT-services. The reduced complexity has generally increased the availability of our systems, has strongly decreased the reconciliations issues and has allowed our resources to focus on fewer technologies. These advantages gain importance with the servicing of additional locations in various time zones.

Rolf Fischer - CIO - Schroder & Co Bank AG

New System Architecture (Following Centralisation)

Source: Schroders Private Banking
Schroders Private Banking embarked on a transformational IT project at the end of 2005 to centralise into one platform all of its IT and operational infrastructure using T24 as the core banking software. The motivation for undertaking this complex project was multifold: to reduce operational costs, enhance customer service, increase product innovation and improve risk management and compliance.

The project was delivered on time and on budget, but the project outcomes have exceeded expectations. The complexity of the system has been reduced substantially (the number of disparate systems has been cut from 32 to 12) and the level of process automation has been increased significantly, with straight through processing achieved in a number of areas like FX and funds transfer.

As a result of the move to the SSC, the infrastructure costs per transaction have been cut substantially, which, in turn, has had a highly positive impact on the bank’s financial metrics. Furthermore, the move to the SSC has enabled the bank to redirect more staff and resources to the customer-facing parts of the business. This redeployment of resources, coupled with the more flexible system architecture, has afforded an improvement in customer service, as reflected in lower costs, greater product choice and better customer reporting. Moreover, this improvement in customer service has begun to be translated into better productivity, with Schroders experiencing a marked increase in assets under management per employee.

Lastly, the move to the SSC has greatly enhanced the quality and timeliness of management information, allowing management to take better-informed decisions about the business and improve the effectiveness of risk and compliance procedures.

Conclusion