

## Harnessing the forces of change Has the time for global core banking arrived?



# Agenda

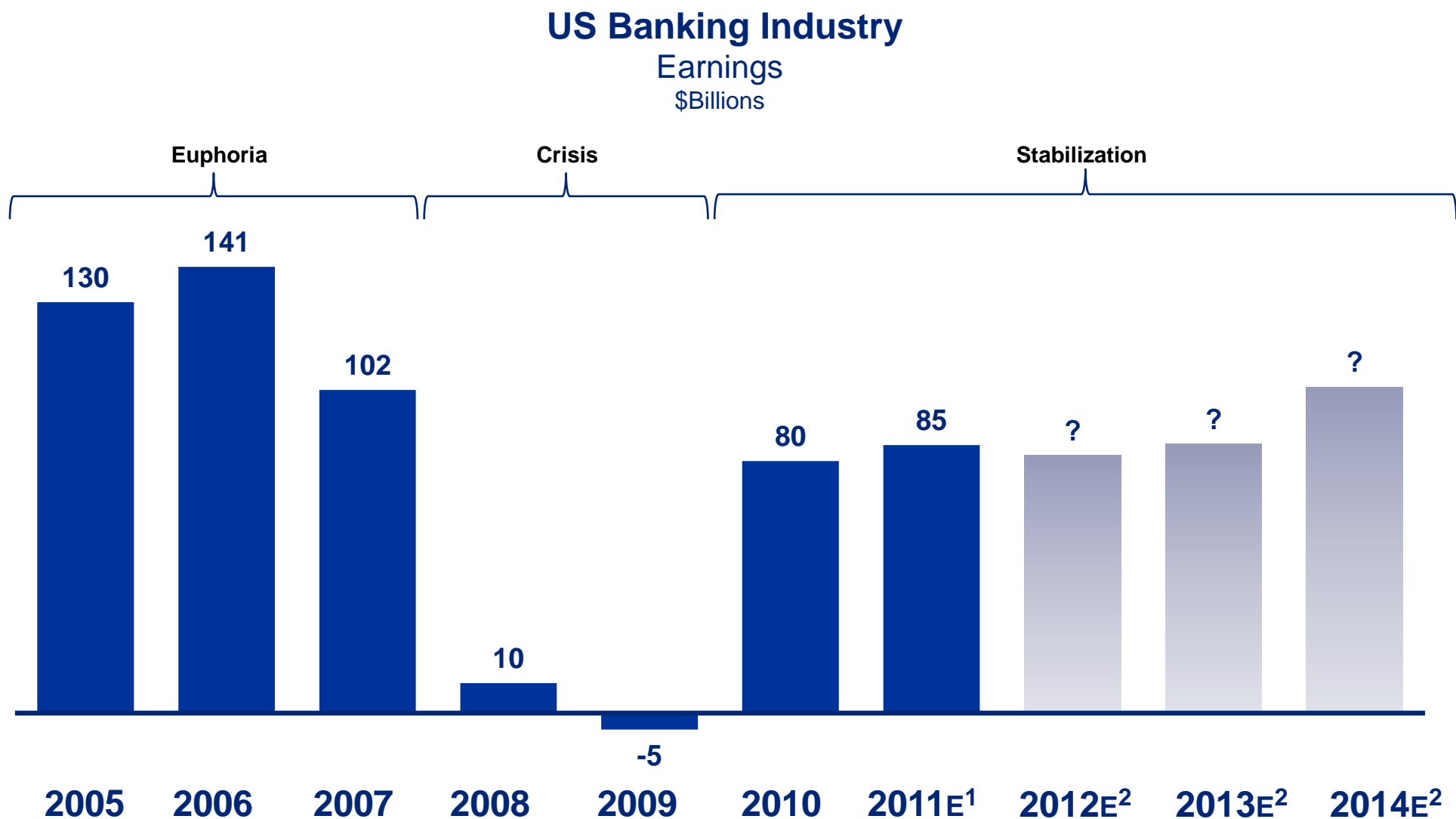
The banking market and the forces of change

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# Banking has yet to return to 2006 earning levels

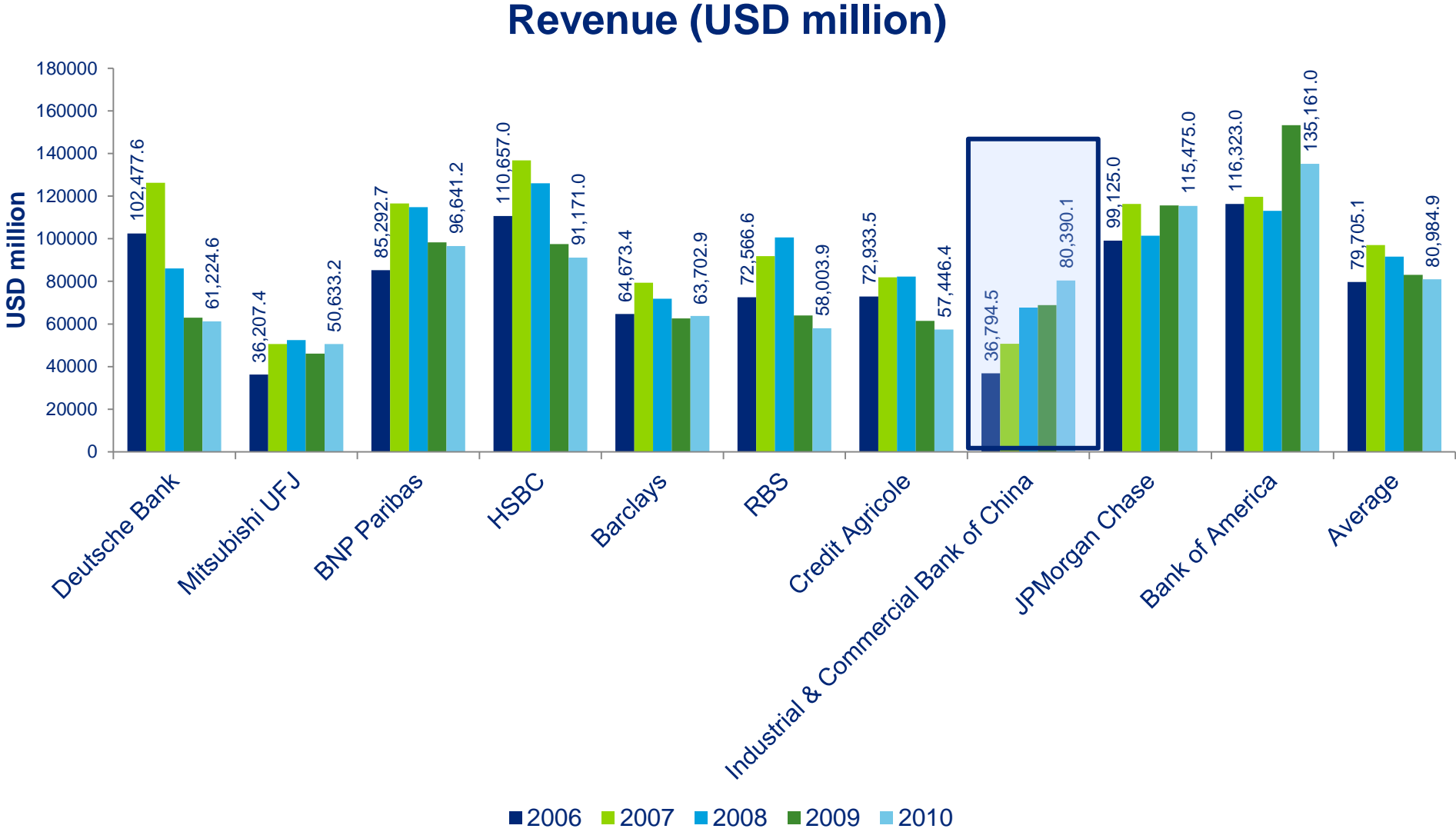


<sup>1</sup> 2011 earnings based on average industry growth of 6.4%. Industry average based on average growth estimate of top 4 banks (Bank of America, Wells Fargo, JPMorgan Chase, & Citigroup)

<sup>2</sup> 2012-2014 earnings based on projection of trend growth from 1937-1943

Source: FDIC

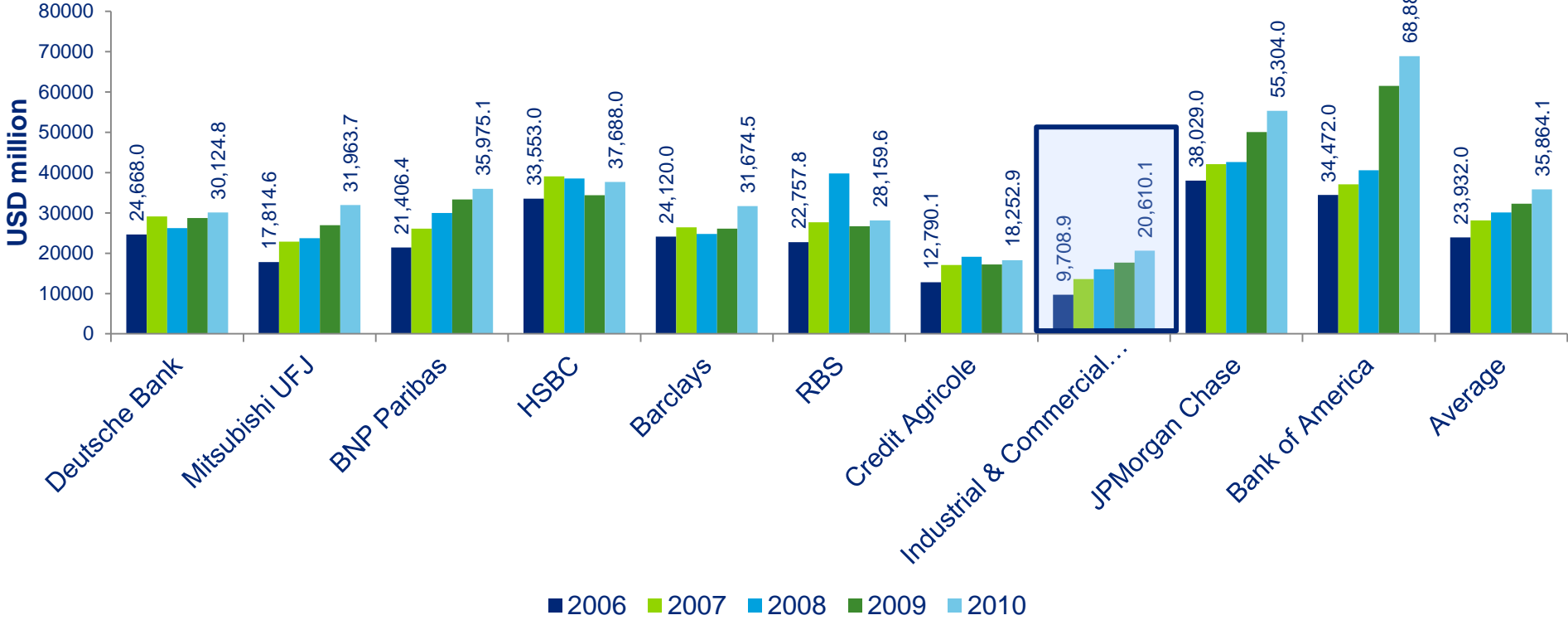
# Top global banks have witnessed a decline in revenues



Source: Bloomberg, BRC Analysis

# Operating expenses for most of the banks have increased during the last five years

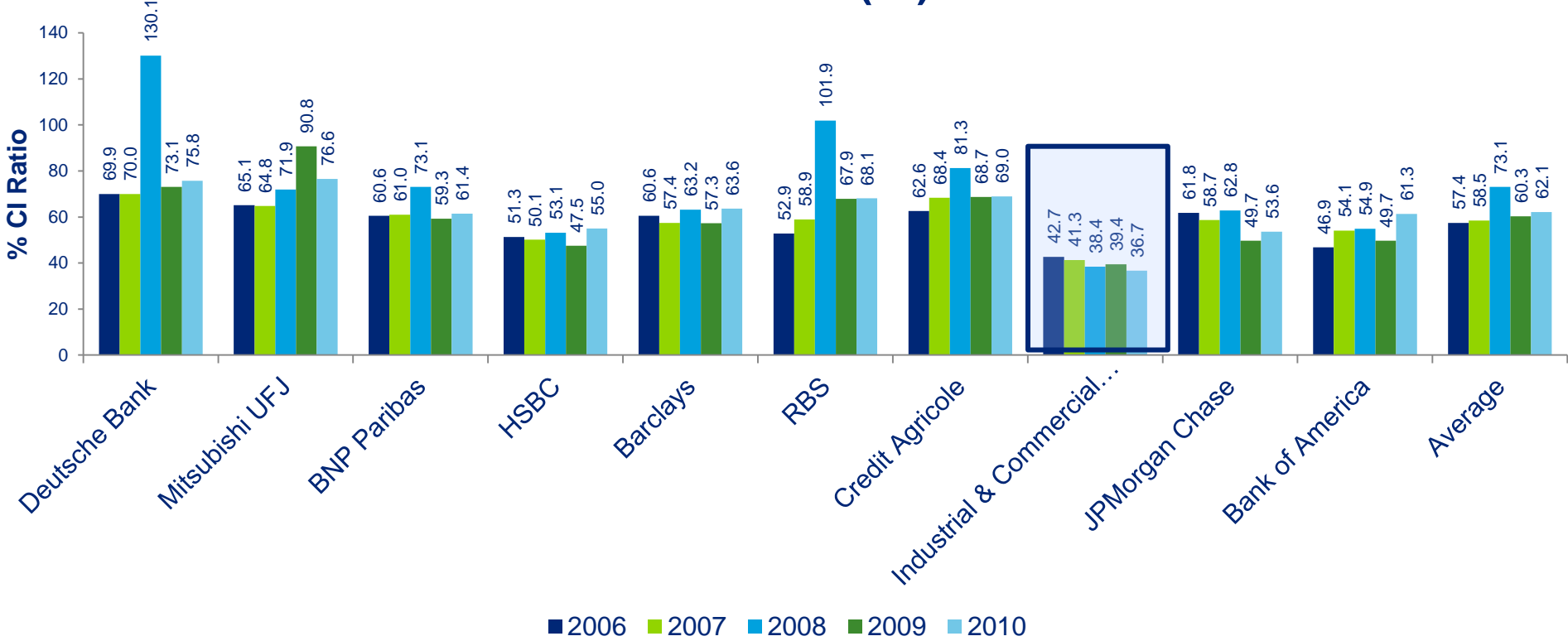
## Operating Expenses (USD million)



Source: Bloomberg, BRC Analysis

# Increasing operating expenses and decreasing revenues are resulting in a rise in cost/income ratio for top banks

## Cost to Income (CI) ratio



Note: Cost to Income ratio = Operating Expenses / (Total Revenue - Interest Expense - Commissions & Fees Paid)

Source: Bloomberg, BRC Analysis

# Major trends affecting FSIs

## Changing Demographics

- Ageing population, retirement length set to increase
- High migration flows (US, UK, Germany, Russia)

## Globalisation

- By 2015, 60% of global GDP will come from the BRIC
- 34% of CFOs see emerging markets as revenue growth generators (Deloitte survey)

## Reputation & Ethics

- The reputation of major global banks has been significantly damaged
- Ethical investment is becoming a popular area in FSI

## Global Economic Slowdown

- Deloitte's Global Economic Outlook Q4 2011 predicts a gloomy future for all the major economies worldwide

## Eurozone sovereign debt crisis

- The Eurozone debt crisis is predicted to have severe repercussions on global economy
- US and emerging economies highly tied to Eurozone risks

## Regulation / risk management

- Significant increase in regulation in the past years and yet to come
- Cost of compliance expected to increase

## People Management

- Focus on reducing labour costs
- 60,000 jobs cut on major 50 banks (Bloomberg Aug'11)
- Restraint on compensation

## Technology and Innovation

- Online vs. branch
- Mobile banking, 700 million smart phones in 2014 (Deloitte study)
- Social media
- Platform sharing

## Customer centricity

- Service seen as differentiator
- Customers are more concerned about the safety of their banks compared to a year ago

## 5 out of the 10 biggest global banks (2010) are from developing countries

Ranking of Top 10 banks (by market capitalization)			
Rank	Bank	Country	Market cap (USD)
1	ICBC – Industrial and Commercial Bank of China	China	219 bn
2	HSBC	UK	178 bn
3	China Construction Bank	China	168 bn
4	JP Morgan Chase	US	167 bn
5	Wells Fargo	US	163 bn
6	Citigroup	US	137 bn
7	Bank of America	US	134 bn
8	Agricultural Bank of China	China	132 bn
9	Bank of China	China	129 bn
10	Itau Unibanco	Brazil	108 bn

Rank based on 2010 market capitalization, includes FX effects. Total market cap divided by common equity

Source: Thomson Reuters

- Sberbank (Russia) – Rank 19 (1up), State Bank of India (India) – Rank 39 (6up)
- Only 13 European banks in Top 50 Banks
- 13 emerging market banks in Top 50 Banks



# Returning to historical revenues will be challenging...

## Economic recovery uncertainty

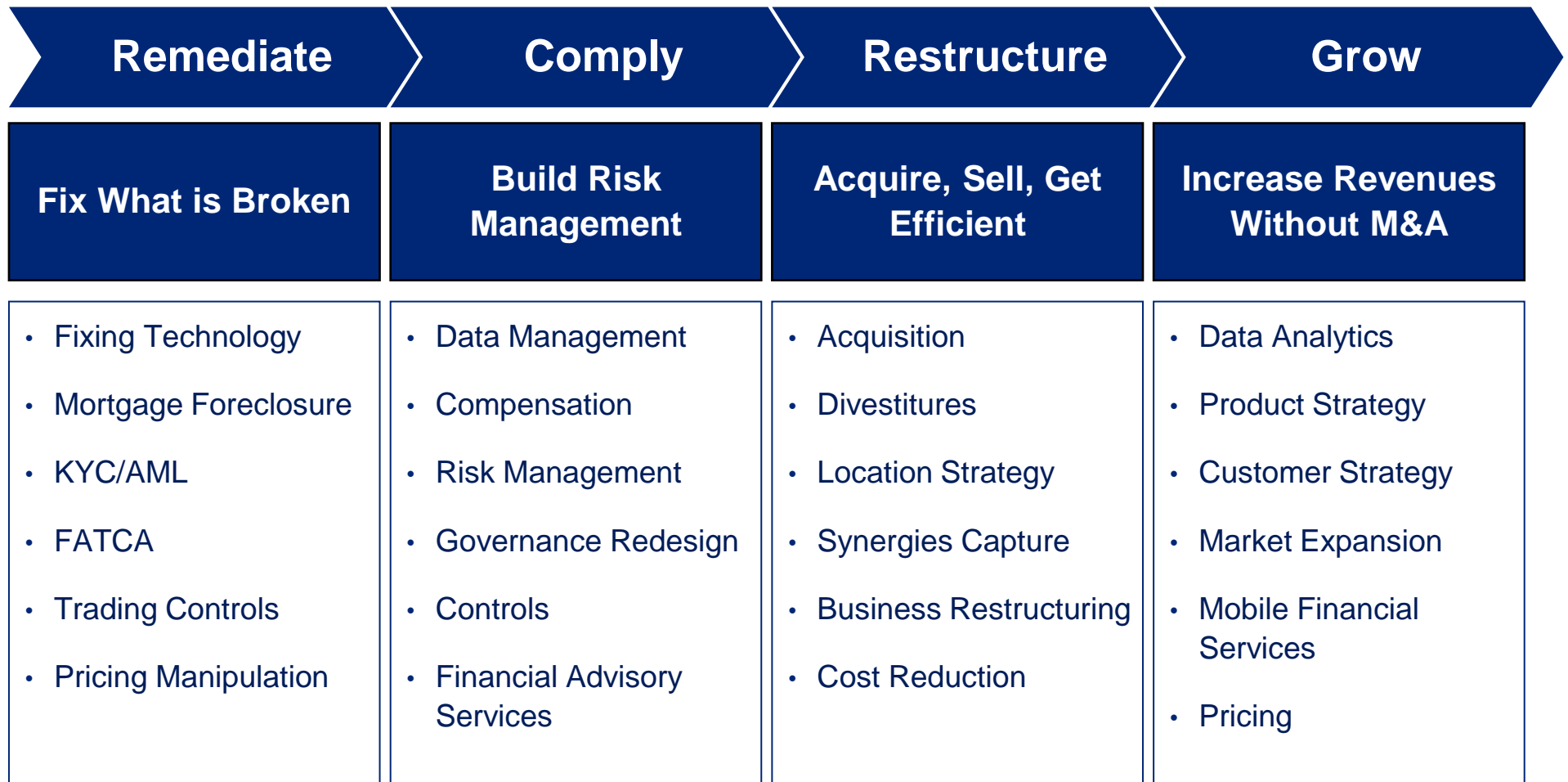
Return to economic growth, double dip, or new normal?



Capital	Compliance	Competition	Customers
<ul style="list-style-type: none"><li>• Capital is no longer a 'commodity'</li><li>• New increased capital standards introduced (e.g. Basel III, ICB)</li><li>• Definitions of capital have changed (stricter Tier 1)</li></ul>	<ul style="list-style-type: none"><li>• Still uncertain regulatory environment</li><li>• Sovereign states pursuing tax revenue</li><li>• Lack of trust between governments and financial institutions</li></ul>	<ul style="list-style-type: none"><li>• New entrants (Tesco, MetroBank)</li><li>• Consolidation (e.g. bargain driven)</li><li>• Emerging market players</li></ul>	<ul style="list-style-type: none"><li>• Economically damaged</li><li>• More educated about risk</li><li>• Loss of trust with institutions</li></ul>

...given current economical uncertainty, known challenges and future market trends and landscape. And less leverage.

# Addressing these issues implies focus and resilience



In order to sustain solid growth and achieve targets, banks need to fundamentally challenge their status quo and truly execute the change required to succeed

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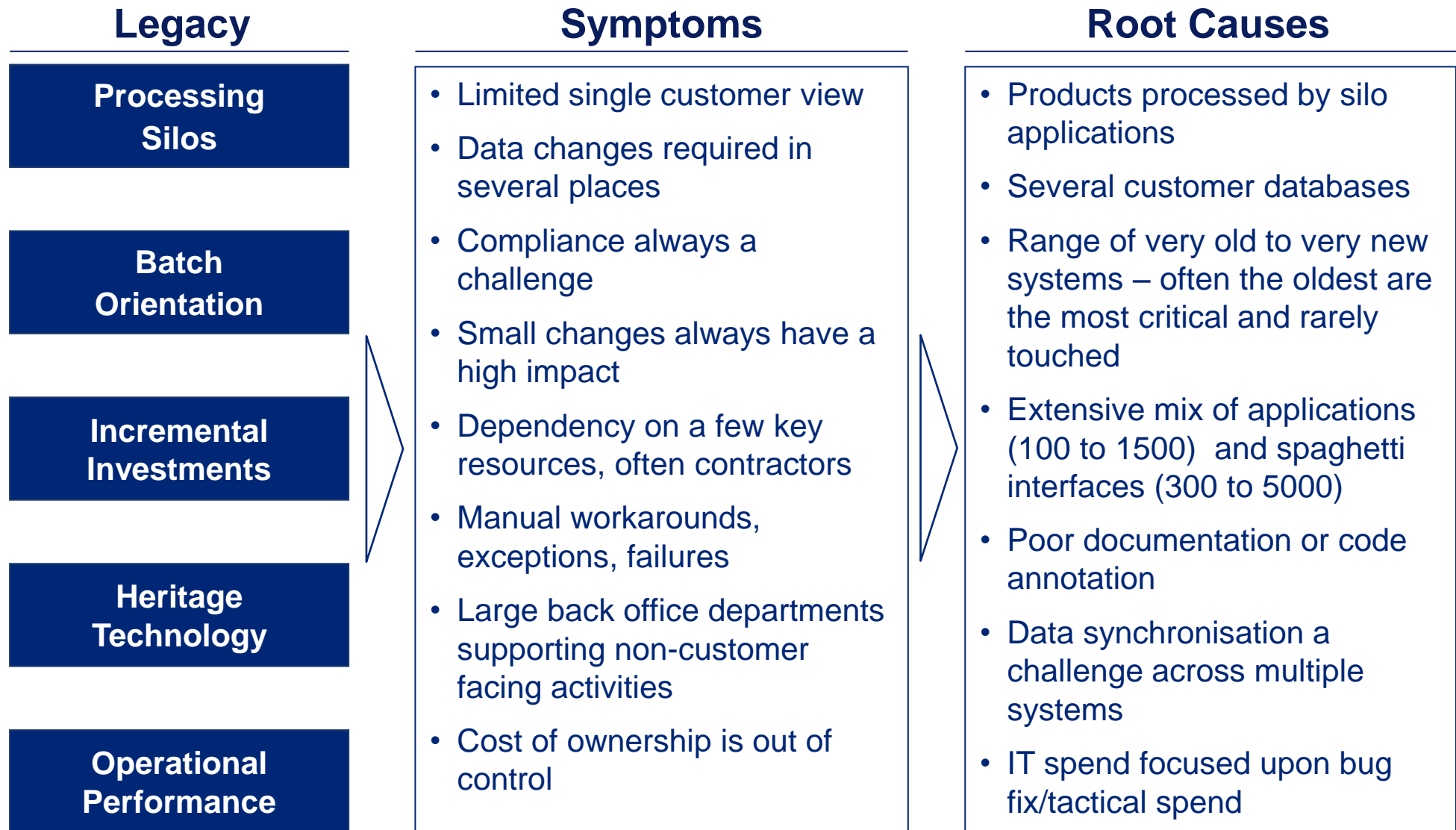
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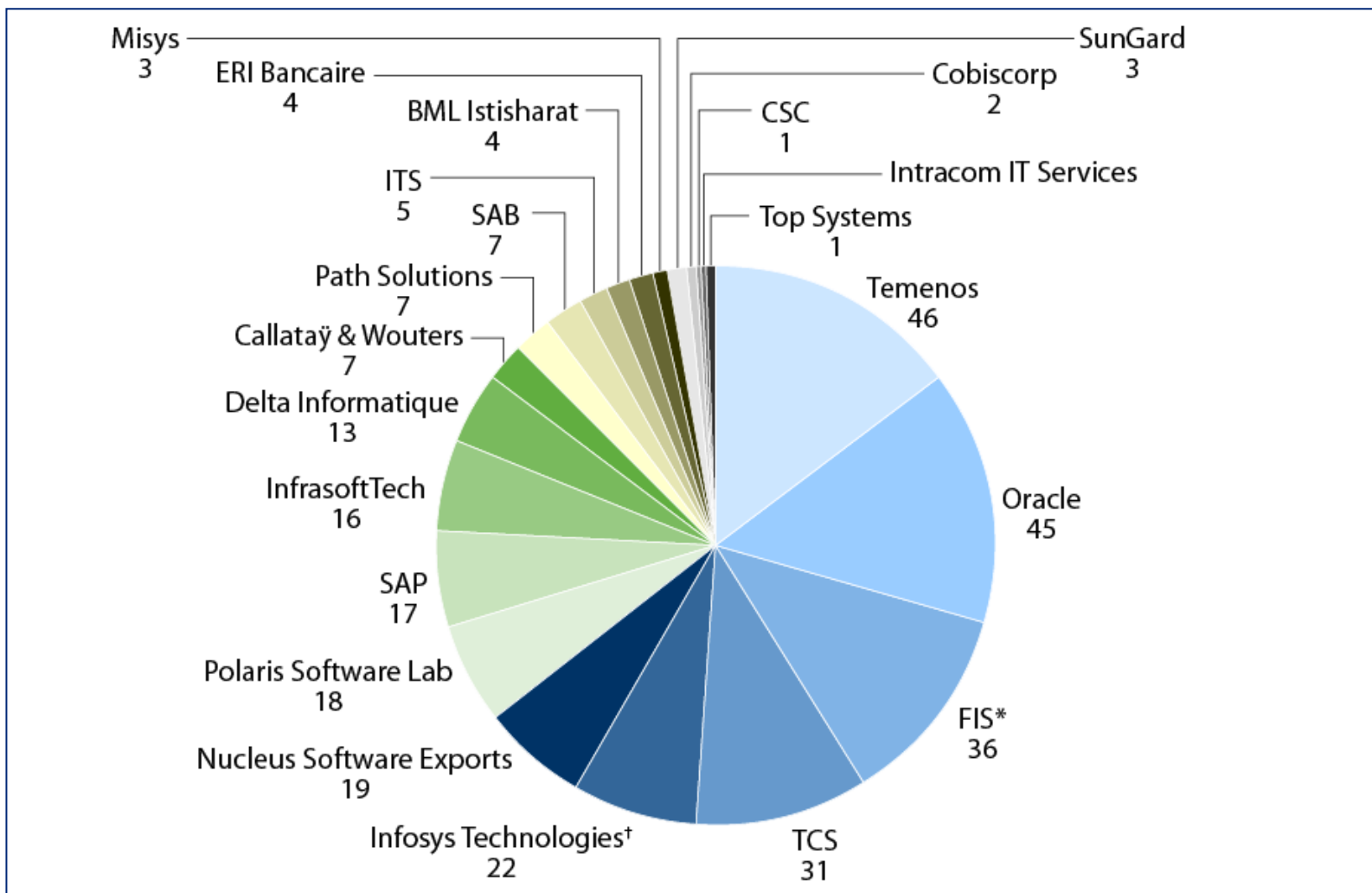
# Legacy Systems. Not enough?



Large banks have grown, in most cases, to gigantic IT behemoths

# Core banking opportunity for standard packages

## Vendors' counted 2010 global banking platform deals



Source: Forrester research

\* With a total of eight solutions, including 18 Horizon new named deals

**Total Deals: 308 Deals**

In one year, only c.1.5% of banks adopted leading standard packages...

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# Deloitte and Core Systems Transformation

Deloitte has a Global Core Systems Transformation proposition, focusing on all sectors of FSI – Banking, Insurance, Capital Markets and Wealth Management

## Our hypothesis

Past incremental investment in IT is the industry's greatest competitive weakness, locking in cost, creating complexity and inhibiting responsiveness to the market.

Only through Core Systems Transformation can new organisations enter or existing organisations achieve the necessary break through transition to operate efficiently and compete effectively.

### Proposition

Deep industry knowledge applied to package-centric implementations with rigorous execution processes, using the full set of services offered by Deloitte to deliver business transformation at our clients

From advisory roles to implementation responsibility

### Rationale




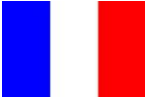




- Legacy environment opportunity
- Regulatory changes
- Changing customer demands
- Operational effectiveness
- Increased competition
- Macro economic forces

### Sector alignment

Our capabilities, positioning and approach is consistent across all segments in FS, although there are vast differences between the sectors in terms of vendors/packages and functionality. Usually our teams focus by sector

# Deloitte experience with Temenos

Deloitte has entered into a global agreement with Temenos, supported also by local country agreements, targeted at delivering projects, joint collaboration in selected markets and opportunities, methodology alignment and training

Activities	Description
Engagements	
Joint Collaboration	<ul style="list-style-type: none"> <li>Currently joint pursuits in several countries:</li> </ul> <div style="display: flex; justify-content: space-around; align-items: flex-start;"> <div style="text-align: center;"> <p>Poland</p>  </div> <div style="text-align: center;"> <p>Lebanon</p>  </div> <div style="text-align: center;"> <p>France</p>  </div> <div style="text-align: center;"> <p>UK</p>  </div> <div style="text-align: center;"> <p>Angola</p>  </div> <div style="text-align: center;"> <p>Saudi</p>  </div> <div style="text-align: center;"> <p>Canada</p>  </div> </div>
Methodology Alignment	<ul style="list-style-type: none"> <li>Combined implementation methodology between Deloitte and Temenos, incorporating previous project experience and best practice;</li> <li>Development of valuable sales collateral that will be included in joint Temenos/Deloitte proposals and bids.</li> <li>A T24 'sandbox' with Deloitte specific content is under development.</li> </ul>
Training	<ul style="list-style-type: none"> <li>Certified Practitioners in Temenos T24 Architecture and Services;</li> <li>Temenos T24 functional training.</li> </ul>



**Deloitte.**