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

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2 December 2011
Agenda

The banking market and the forces of change

The core banking opportunity

Deloitte in the core banking arena
Banking has yet to return to 2006 earning levels

US Banking Industry
Earnings
$Billions

Euphoria
Crisis
Stabilization

2005 2006 2007 2008 2009 2010 2011E\(^1\) 2012E\(^2\) 2013E\(^2\) 2014E\(^2\)

130 141 102 10 80 85 ? ? ?

1 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)
2 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.

Source: Bloomberg, BRC Analysis
Increasing operating expenses and decreasing revenues are resulting in a rise in cost/income ratio for top banks.

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

<table>
<thead>
<tr>
<th>Rank</th>
<th>Bank</th>
<th>Country</th>
<th>Market cap (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ICBC – Industrial and Commercial Bank of China</td>
<td>China</td>
<td>219 bn</td>
</tr>
<tr>
<td>2</td>
<td>HSBC</td>
<td>UK</td>
<td>178 bn</td>
</tr>
<tr>
<td>3</td>
<td>China Construction Bank</td>
<td>China</td>
<td>168 bn</td>
</tr>
<tr>
<td>4</td>
<td>JP Morgan Chase</td>
<td>US</td>
<td>167 bn</td>
</tr>
<tr>
<td>5</td>
<td>Wells Fargo</td>
<td>US</td>
<td>163 bn</td>
</tr>
<tr>
<td>6</td>
<td>Citigroup</td>
<td>US</td>
<td>137 bn</td>
</tr>
<tr>
<td>7</td>
<td>Bank of America</td>
<td>US</td>
<td>134 bn</td>
</tr>
<tr>
<td>8</td>
<td>Agricultural Bank of China</td>
<td>China</td>
<td>132 bn</td>
</tr>
<tr>
<td>9</td>
<td>Bank of China</td>
<td>China</td>
<td>129 bn</td>
</tr>
<tr>
<td>10</td>
<td>Itau Unibanco</td>
<td>Brazil</td>
<td>108 bn</td>
</tr>
</tbody>
</table>

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
• Capital is no longer a ‘commodity’
• New increased capital standards introduced (e.g. Basel III, ICB)
• Definitions of capital have changed (stricter Tier 1)

Compliance
• Still uncertain regulatory environment
• Sovereign states pursuing tax revenue
• Lack of trust between governments and financial institutions

Competition
• New entrants (Tesco, MetroBank)
• Consolidation (e.g. bargain driven)
• Emerging market players

Customers
• Economically damaged
• More educated about risk
• Loss of trust with institutions

...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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Legacy Systems. Not enough?

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<th>Legacy</th>
<th>Symptoms</th>
<th>Root Causes</th>
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</table>
| Processing Silos | • Limited single customer view  
• Data changes required in several places  
• Compliance always a challenge  
• Small changes always have a high impact  
• Dependency on a few key resources, often contractors  
• Manual workarounds, exceptions, failures  
• Large back office departments supporting non-customer facing activities  
• Cost of ownership is out of control | • Products processed by silo applications  
• Several customer databases  
• Range of very old to very new systems – often the oldest are the most critical and rarely touched  
• Extensive mix of applications (100 to 1500) and spaghetti interfaces (300 to 5000)  
• Poor documentation or code annotation  
• Data synchronisation a challenge across multiple systems  
• IT spend focused upon bug fix/tactical spend |
| Batch Orientation | | |
| Incremental Investments | | |
| Heritage Technology | | |
| Operational Performance | | |

Large banks have grown, in most cases, to gigantic IT behemoths
Core banking opportunity for standard packages

Vendors’ counted 2010 global banking platform deals

Total Deals: 308 Deals

- Temenos: 46
- Oracle: 45
- FIS*: 36
- TCS: 31
- Infosys Technologies*: 22
- Nucleus Software Exports: 19
- Polaris Software Lab: 18
- SAP: 17
- Delta Informatique: 13
- InfrasoftTech: 16
- Callataÿ & Wouters: 7
- ITS: 5
- BML Istisharat: 4
- ERI Bancaire: 4
- Misys: 3
- Cobiscorp: 3
- Intracom IT Services: 1
- Top Systems: 1

Source: Forrester research
* With a total of eight solutions, including 18 Horizon new named deals

In one year, only c.1.5% of banks adopted leading standard packages...
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Deloitte in the core banking arena
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.

<table>
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<th>Proposition</th>
<th>Rationale</th>
<th>Sector alignment</th>
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| 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 | • Legacy environment opportunity  
• Regulatory changes  
• Changing customer demands  
• Operational effectiveness  
• Increased competition  
• Macro economic forces | 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 |

From advisory roles to implementation responsibility
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.

<table>
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<tr>
<th>Activities</th>
<th>Description</th>
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<tbody>
<tr>
<td>Engagements</td>
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</table>
| Joint Collaboration         | • Currently joint pursuits in several countries:  
                                • Poland  
                                • Lebanon  
                                • France  
                                • UK  
                                • Angola  
                                • Saudi  
                                • Canada                                                                                                                                 |
| Methodology Alignment       | • Combined implementation methodology between Deloitte and Temenos, incorporating previous project experience and best practice;  
                                • Development of valuable sales collateral that will be included in joint Temenos/Deloitte proposals and bids.  
                                • A T24 ‘sandbox’ with Deloitte specific content is under development.                                                                 |
| Training                    | • Certified Practitioners in Temenos T24 Architecture and Services;  
                                • Temenos T24 functional training.                                                                                                           |