

IBM Institute for Business Value

No bank is an island

Get global before
globalization gets you

Banking



IBM Institute for Business Value

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior executives around critical public and private sector issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to iibv@us.ibm.com for more information.



No bank is an island

Get global before globalization gets you

By Wendy Feller, Cormac Petit and John White

“No man is an island, entire of itself; every man is a piece of the continent, a part of the main.”

– John Donne, Meditation XVII, 1624.

There’s no denying the reverberations of the credit crisis that began in 2007. Even if the crescendo finally has occurred, retail banks face flattening performance, market turmoil and a mounting global shift in assets. Yet, the worldwide financial system is expected to quadruple by 2025 to nearly US\$1,300 trillion.¹ Executives agree globalization will open new windows of opportunity and unleash potential new threats, pushing banks beyond today’s boundaries. And, while many feel unprepared, the reality is that no bank – big or small – can opt out of globalization.

Today’s performance woes, combined with the quest for sustainable growth, are pushing banks beyond geographic and product-centric boundaries. In our most recent survey, conducted in cooperation with Economist Intelligence Unit, we examined the effects of globalization on the retail banking industry. Bankers agree: globalization is the single greatest opportunity – and yet also the greatest threat – facing the industry today.

Over 40 percent of 644 bankers around the world cite *expansion to global markets* as their single biggest growth opportunity. Shifts in customer trends and new collaboration strate-

gies will spell new prospects, particularly for those with a clear strategy to act promptly and decisively. However, this path is not without its challenges. With global interdependencies on the rise, many banks are struggling to deal with a credit crisis gone global and with aggressive new competitors.

“The competitive environment continues to be brutal; global competitors are entering the marketplace in record numbers. We have got to get bigger or someone will be bigger for us.”

– Division Head, Regional bank, North America

Together, these threats and opportunities truly mean that when it comes to the far-reaching effects of globalization, no bank is an island. Even smaller banks with purely local strategies will be compelled to react to growing cross-border M&A and the entry of niche players with a potent combination of capital, lower cost structures, more convenient delivery models and more global options to meet customer needs.

Firms will need to determine the degree to which they will capitalize on new revenue, cost and talent opportunities. Specialization and achieving better integration will be essential for retail bankers – regardless of size – to achieve profitable growth and manage the associated risks.

Market advantage will lie with banks that rethink their strategy, structure and culture to reflect a changed reality. Our study led to some unexpected discoveries, including concrete actions banks can take to move beyond the status quo:

- *Winners will break away from the herd* – Bank executives recognize the need to measure the risk and reward trade-offs of globalization, and fear worldwide windows of opportunity may be closing. Understanding their own strengths against the changing nature of systemic risk as well as financial sector sophistication in different parts of the world will allow them to choose the right strategy – enabling them to break away from the herd – putting the science behind the art and determining their own paths.

- *Specialists may have the advantage* – Specialist banks with their targeted strategies and focused expertise, seem to own the advantage in understanding customer needs. New entrants appear to be targeting and empowering key customer segments at the base of the “innovation S-curve” and are using their strengths to win the hearts and minds of their customers.²
- *Banks feel unprepared* – Not surprisingly, banks are struggling to operate in a more agile and global fashion. What is unexpected is that a whopping 51 percent of universal banks (those that seek to provide a broad, complete range of products and services to all segments of the population in their markets) rank their global integration capabilities as moderate to poor – and the figure rises to 69 percent across all respondents. A shift toward more fluid, globally integrated enterprises will enable banks to capture opportunities whenever and wherever they exist – on the revenue and cost sides.
- *A key enabler of global success is winning minds* – While executives realize that organizational culture is the top enabler of global integration, they also recognize it can be a formidable barrier. Banks must actively win minds and address cultural requirements – both with their customers and internally – that will bolster their ability to manage for success.

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Get global before globalization gets you

Growing pressures mean no bank can opt out

Without question, banking is becoming more global. However, banks have a choice in how they attain greater growth, efficiency and effectiveness – all banks must consider at least some aspects of becoming a globally integrated enterprise. For some, it will also mean expanding the bank’s global reach in a more targeted fashion.

Our study identified differences between the benefits that veteran market bankers are seeking and those that motivate prospect market bankers (see Figure 2). The biggest disparity in benefit relates to firms’ growth objectives, where prospect market firms are after new product innovation, while veteran market firms are in search of a broader customer base.

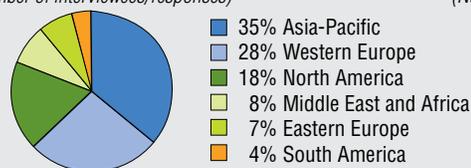
Research methodology

The IBM Institute for Business Value and the Economist Intelligence Unit obtained input from 644 executives from around the world. We conducted qualitative interviews with 177 executives and surveyed another 460 executives in cooperation with the EIU. Respondents represented 89 countries and 320 firms, and included a wide range of industry participants (see Figure 1).

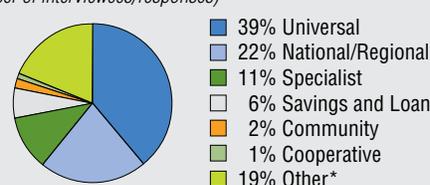
Together, we developed a forecast of the future size and distribution of the banking industry over 35 countries. We divided these 35 countries into “prospect” and “veteran” markets. Prospect markets are those countries which are expected to show the greatest development in growth and sophistication. Veteran markets are the larger markets with more sophisticated products and services – traditionally thought of as being “developed markets.” Our forecasts are based on real gross domestic product (GDP), and factors of risk and relative sophistication across the countries.

FIGURE 1.
Participating banks.

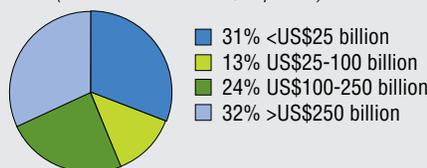
Participating banks by region
(Number of interviewees/responses)



Participating banks by type
(Number of interviewees/responses)



Participating banks by asset size
(Number of interviewees/responses)

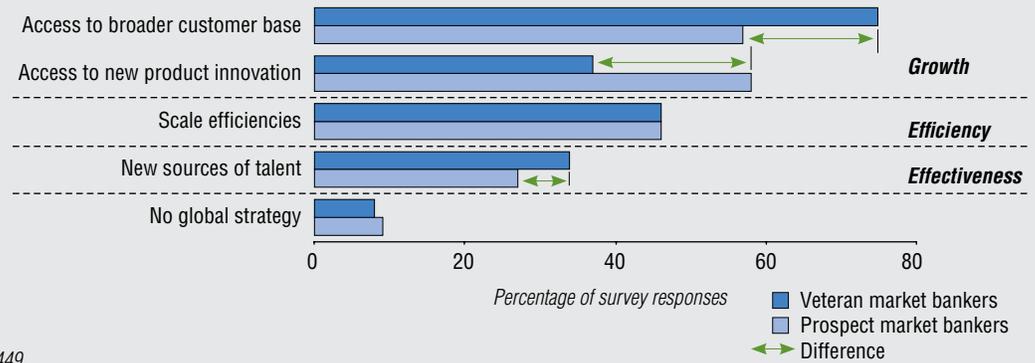


n=644

Note: *Other bank type includes advisors, asset managers, central banks, development banks and academics.

Source: IBM/EIU Survey; IBM Institute for Business Value analysis.

FIGURE 2.
Benefits sought from a global strategy.



n=449

Note: What are the main benefits your organization seeks from being a globally integrated financial services provider, or from expanding its global reach? Select up to three.

Source: IBM / EIU Survey; IBM Institute for Business Value analysis.

Regardless of the desired benefits, and regardless of whether a strategy is in place to address the impacts of globalization, our study demonstrates that globalization will affect ALL banks – even those with purely local or regional strategies. Economic development in emerging markets, increased cross-border flows and new forms of global alliances have all made banks, and risks, more interdependent. The sub-prime mortgage crisis serves

as a powerful example (see sidebar, “Ripple effects of the U.S. sub-prime mortgage crisis”).

So, in light of this undeniable interconnectedness, what are the growing pressures that are having an impact – in one way or another – on virtually every bank around the world? Bankers in the global environment need explicitly to factor “three Cs” into their strategies: customers, competition and collaboration.

Ripple effects of the U.S. sub-prime mortgage crisis

It was the search for new avenues of growth that led banks to take on sub-prime mortgage loans. By structuring and securitizing these loans on the secondary market, banks thought they had mitigated associated risks.

New entities and instruments that offered the ability to disperse risk – Structured Investment Vehicles (SIV) and Collateralized Debt Obligations (CDO) – collapsed, with write-downs by the end of January 2008 exceeding US\$130 billion, mostly by U.S. and European banks.³

Sub-prime losses are expected to reach US\$200 billion to US\$400 billion, as around two million households default on their loans.⁴ At the same time, defaults on other forms of consumer debt (credit cards, commercial property loans) are rising and total bad loans could be up to US\$800 billion – which may be as much as 25 percent of the total tier one capital of U.S. and European banks.⁵

But the astounding reach of the crisis is demonstrated by the plight of four remote municipalities in the Arctic Circle in Norway, which have lost US\$64 million from investments in CDOs that fell to less than 55 percent of their original value – money which was destined for employee salaries.⁶

Globalization is affecting banks large and small – understanding what customers want is only half the battle, as banks must then reach customers in ways that meet their unique needs.

Customers: Rising worldwide wealth, unique local demands

The ongoing changes in customer demands outlined in “The paradox of Banking 2015: Achieving more while doing less,” are being amplified and accelerated by globalization. Customers are taking charge of their relationships with financial services providers, they have greater access to information, and demographic and cultural shifts are making the drivers of buying behavior harder for banks to identify.⁷

As globalization increases the flow of people, money and technology across borders, customers have more banking options to choose from, increasingly fragmented demands and are less constrained by traditional views of who their financial service providers should be. The task before banks is not only to figure out what these customers want, but to find ways to reach them that fit their unique needs.

Seeking wealth management: Prospect and veteran market customers

The demand for wealth management, advice and international banking services is rapidly expanding among the growing ranks of mass affluent consumers in prospect markets, as well as the Baby Boomer generation in veteran markets. In China, the number of customers with annual incomes over US\$50,000 is growing at 15 percent per year.⁸ In the U.S., almost 30 percent of the population is between 43 and 64 years old, has a median net worth of US\$98,000, and is facing imminent retirement.⁹

As these examples show, greater numbers of bank customers in prospect and veteran markets alike need assistance with wealth accumulation and distribution. Customers are also increasingly traveling and conducting business around the world, and want a financial services provider that can meet their complex needs.

“Some of my most profitable customers live in Malaysia, have family in India, support children at university in the U.S. and conduct business in Europe. We need to be able to serve them.”

– CIO, Major Regional Bank, Asia Pacific

Reaching the underbanked: Prospect and veteran market customers

The effects of globalization are just as apparent in the demands of less wealthy consumers.

In prospect markets, economic development is rapidly increasing the percentage of the population seeking banking services. In India alone, an estimated 41 percent of the adult population remains unbanked.¹⁰

These consumers are increasingly seeking access to basic banking services, such as savings, consumer and housing loans, and small business microfinance. However, the lessons learned in other markets may not readily translate to such markets as India. With over 780 million people living in rural

areas, financial services interactions in India can often be characterized by high transaction costs, limited formal documentation and a reliance on informal lenders (an estimated one-third of borrowing is done via informal lending)¹¹

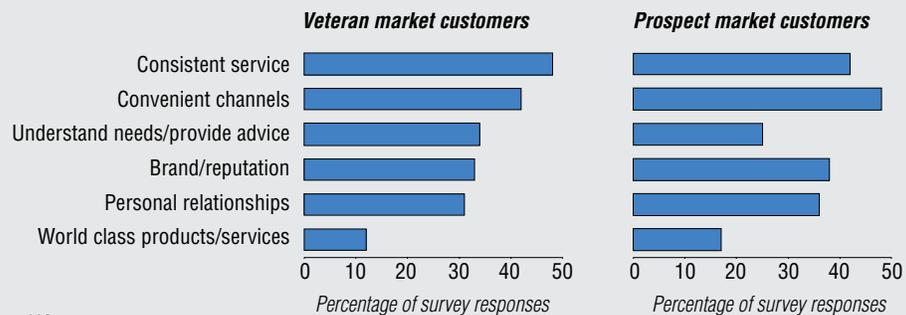
Veteran market populations are, in general, becoming increasingly diverse, but large segments of those countries also remain unbanked or underbanked. In the U.S., for instance, an estimated 32 percent of the immigrant population is unbanked.¹² These consumers, like their counterparts in Europe and across the prospect markets, are responsible for a large share of the US\$260 billion in remittances transferred to their countries of origin in 2006. However they remain largely outside the formal banking system and rely on costly check-cashing and money services outlets to meet their financial needs. Before they can win, banks in various countries need to understand what customers need, and what they will pay for (see Figure 3).

Our survey shows that across all markets, customers value consistent service, but customers in prospect markets, with limited banking infrastructure, especially prize convenient channels. In veteran markets, customers are less inclined to pay a premium for brand and reputation, while prospect customers still rely on brand to help them select a bank. Similarly, banks' understanding of their holistic needs is more important to veteran market customers with complex needs, but personal relationships are more highly prized in prospect markets where customers are less accustomed to interacting with banks.

Competition on the rise from unexpected sources

Bankers we surveyed unequivocally proclaim their top threats to be *foreign universal banks* (cited by 57 percent of respondents) closely followed by *specialists* and *niche providers* (46 percent). And yet, executives expect these same competitors to have only a *moderate to limited impact* on their organizations. We

FIGURE 3.
Customer priorities by market type.



n=418

Note: What will customers pay a premium for? Select all that apply.

Source: IBM / EIU Survey; IBM Institute for Business Value analysis.

Bankers fear competition may be increasingly driven by organizations that are not banks at all (such as telecom providers) – and that are likely to gain a stronghold in segments where banks are unable to compete.

believe this contradiction means that banks do not fully appreciate the extent to which their organizations will need to embrace change to fend off new threats.

Over the last decade, cross-border M&A deals have been on the rise, accounting for nearly 40 percent of total banking activity; 25 percent alone have involved institutions from emerging markets.¹³ This has resulted in a considerable boost in foreign ownership (see Figure 4).

Surveyed executives expect most expansion opportunities to be in neighboring countries, but threats from foreign entrants may increasingly come from unexpected markets. A growing number of prospect market banks will seek growth in other prospect markets – and even in veteran markets. Chinese banks, for example – looking to obtain new skills,

taking advantage of the weakened dollar, and wishing to secure vital trade and resources – are pursuing strategic investments in western markets.

In the globalized banking industry, which bank type is more likely to prevail? Specialists seem to have the advantage over universals when it comes to providing what customers value most (see Figure 5).

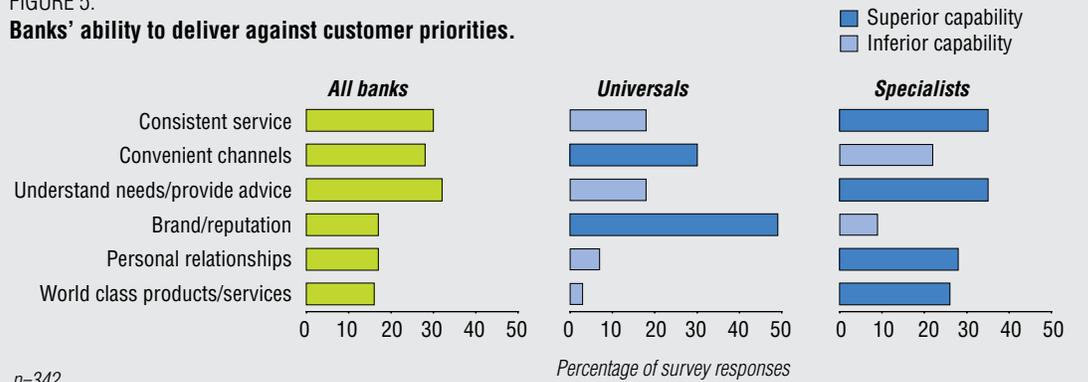
Time and again, executives tell us that specialists – both banks and non-banks – may be better able to serve customers, particularly in countries with limited banking infrastructure. Twenty-eight percent of respondents cite mobile or online specialists as growing threats to their organizations. In fact, bankers fear competition may be increasingly driven by organizations that are not banks at all (such as

FIGURE 4.
Foreign bank-controlled asset share versus domestic bank-controlled asset share, by region.



Source: International Monetary Fund; IBM Institute for Business Value analysis.

FIGURE 5.
Banks' ability to deliver against customer priorities.



n=342

Note: Which attributes will be most critical to creating shareholder value in a more global banking market? Which type of bank will have an advantage? Selected customer-facing attributes displayed.

Source: IBM / EIU Survey; IBM Institute for Business Value analysis.

telecom providers) and that are likely to gain a stronghold in segments where banks are unable to compete.

“The large universals will face ‘death by a thousand paper cuts’ from competitors across the globe. These banks are huge, but not ‘best’ at anything; they need to do everything well.”

– Division Head, Universal Bank, Europe

A number of new players are launching innovative business models using available infrastructures, tapping informal cash economies or even embracing the power of social networking. As these new competitors cherry-pick key customer segments and offer disruptive innovations that start to deliver on unrealized needs, one thing is certain: banks will need to respond, and in new ways.

Collaboration is becoming “a given”

Globalization is not only enabling easier and more cost-effective collaboration across borders; it has made collaboration an imperative. Bankers increasingly realize that their institutions cannot be all things to all people, yet trying to build or buy world-class capabilities is often beyond their reach. Their ability to succeed in a global industry depends on tapping into the lower-cost capabilities and expertise of other institutions.

Besides, they know that if they don't realize the cost reduction and growth benefits of collaboration, their competitors surely will. And, this goes much further than pure outsourcing and wage arbitrage. While outsourcing and wage arbitrage for such things as IT and call centers will continue (IBM estimates that outsourcing spend will climb from US\$97 billion in 2007 to US\$153 billion by 2011), our survey reveals that the extent and nature of banks' partnerships are set to go through profound changes.

Banks have an imperative to collaborate in the global industry – and they know their competitors are already learning to tap into the lower-cost capabilities and expertise of other institutions.

Eighty-two percent of our bank respondents expect to increase their use of strategic partnerships to help them compete in a more globally networked economy. Almost 65 percent expect to expand their relationships with non-bank specialist providers, such as technology companies, Internet portals and mobile telecommunications firms, while over half will collaborate with non-bank financial services institutions, including financial markets and insurance firms. But, surprisingly for an industry that has long seen strategic advantage in proprietary operations and exclusivity, about 40 percent of respondents also expect greater collaboration with other banks.

“We will partner with our competitors much more than we do today – and we will be successful at it – whether this is to enter new markets or save money through a shared service.”

— Senior Executive, Universal Bank, Europe

Survey respondents indicate a desire to partner for critical, strategic capabilities, such as risk management, strategy and planning, and product management (see Figure 6). Bankers even speculate in interviews that they may be open to future partnerships with other, competitor banks in their home markets for product manufacturing and distribution.

While wage arbitrage will certainly continue to drive offshore alliances, there is strong evidence that this will begin to diminish in importance. Of all the capabilities necessary

FIGURE 6.
Key capabilities sought from global alliances, 2012.



n=414
Source: IBM/EIU Survey; IBM Institute for Business Value analysis.

in a globally operating bank, only 13 percent of respondents consider wage arbitrage of high significance. Compare that to the 50 percent citing the need for talent development programs and 35 percent for new skills sets, and it becomes clear that expertise is growing in importance.

In fact, the war for talent is top of mind for bankers the world over: 73 percent of our respondents expect to have to compete much more intensely for specialized skills across the globe in the next five years and 60 percent say they will optimize those skills globally by establishing centers of excellence and shared service centers.

The interconnected industry requires banks to understand the potential financial impact of risk exposures across the enterprise, as well as the perils and prospects of entering or sourcing capabilities in new markets.

Take action: Push beyond geographic and product-centric boundaries

Based on bankers' responses, we conclude that market advantage will lie with those banks that rethink their strategy, structure and culture to reflect a changed reality. The following recommendations can help retail banks manage both the opportunities and threats of the globalized industry:

- Calibrate your global risk/reward strategy
- Specialize to leapfrog the innovation S-curve
- Globally integrate capabilities on revenue and cost sides
- Win minds to address cultural requirements, internally and with customers.

Calibrate your global risk/reward strategy

Bankers clearly understand the role of risk in a global industry: 42 percent of executives view *superior risk management* as the top driver of shareholder value. The pursuit of sustainable growth at home and abroad will require banks to more rigorously weigh the potential risks and rewards of operating in an interconnected industry.

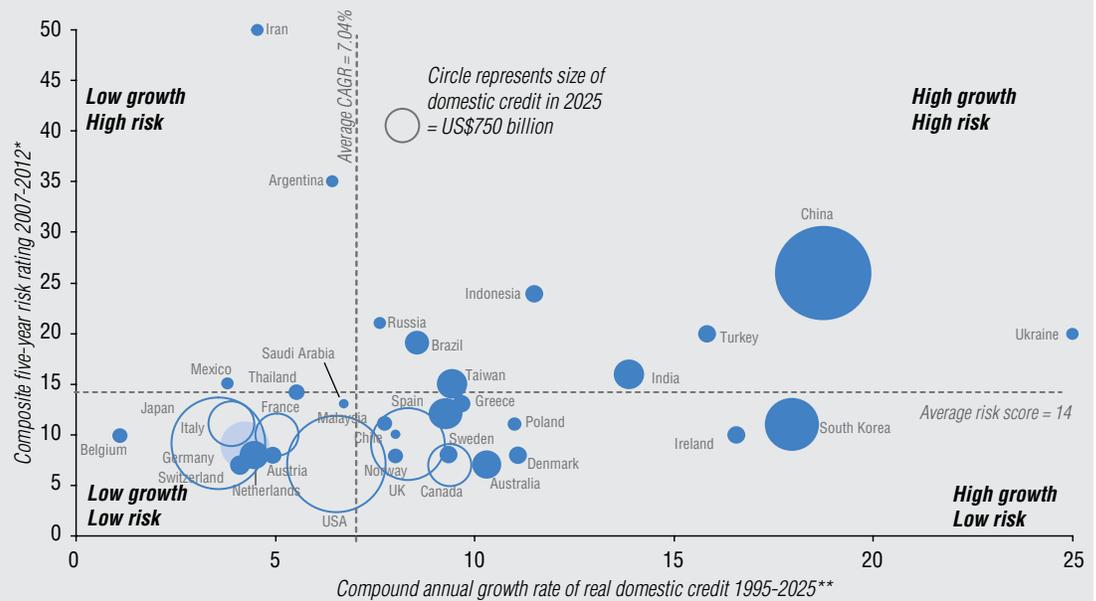
First, this means getting the basics right: obtaining a comprehensive view of all risk exposures across the enterprise and translating this into an understanding of potential financial impact. This is, admittedly, not an easy thing to do, especially for highly complex products. In light of recent events, banks large and small need to revisit their risk management capabilities to account for unexpected or rogue events stemming from heightened global interdependence.

The ability of banks to offset losses from the sub-prime market, for instance, depends on excellent risk governance, raising senior business leaders' focus on joint management of risks. Chief risk officers need to be armed with the analysis needed to spur action and get senior management's and boards' attention. Simply stated, banks will need to go back to the basics of monitoring market credit and operational risk across the enterprise, and progress beyond tick box compliance.

Second, banks must gain a clear grasp of the perils and prospects of entering or sourcing capabilities in new markets. This will require consideration of a range of factors, including market sophistication, country risk, and expected demand for products and services. Increases in market sophistication (which includes regulatory quality, monetary stability and banking system openness), coupled with rapid growth in GDP, will increase the attractiveness of countries like India, China, Russia and Malaysia for both incumbent banks and foreign entrants.

As market sophistication increases, we expect banking in prospect markets to more closely resemble that of veteran markets. But traditional ways of doing business, varying cultural aspects and differences in infrastructure and product adoption will demand – in both veteran and prospect markets – robust, flexible business and risk management capabilities (see Figure 7). Banks should weigh these requirements against their capabilities and growth strategies to determine opportunity fit.

FIGURE 7.
Growth in domestic credit versus risk.



Notes: Color and fill variations of the circles are used only to enhance readability. *Risk is a five-year composite risk scoring based on a number of political, financial and business risks. **Domestic credit – a broad measure of credit extended to companies, households and government – has been used as a proxy for banking assets by country. In each country a projection was made based on the relationship between GDP and domestic credit. Sources: Risk data: “Global Risk Service: Executive Overview.” Global Insight. Fourth-Quarter 2006. Domestic credit and GDP projections: Economist Intelligence Unit, 2007; IBM Institute for Business Value Analysis.

Above all, bankers will have to balance “thinking global” – realizing an optimal organization and delivery structure across many markets, with “acting local” – meeting specific customer needs and providing a personal interface with the customer.

“Most global institutions will succeed by targeting niche markets outside their traditional footprint to avoid diseconomies of scale.”

– Head of Strategy, National Bank, North America

Specialize to leapfrog the innovation S-curve

In both prospect and veteran markets, a new breed of non-bank specialists has entered the fray, forcing banks to rethink how they approach customer delivery and innovation. New entrants and high-profile specialists are using mobile telephones and the Internet, for example, to empower customers and meet customer demands for new forms of service, delivery and advice – all in ways that don’t involve banks.

Peer-to-peer lenders, such as Prosper and Zopa, are reaching banked and unbanked populations with online community forums that enable customers to lend and borrow

The game-changing offerings of non-bank specialists mean banks must rethink both customer delivery and innovation – the increasingly diverse customer base requires offerings that are tailored to life-stage patterns, geography and culture, not just wealth and income.

personal, small business, real estate loans and microloans that meet customers' own risk/return parameters. Mobile payments providers, such as M-Pesa and PayPal, transcend limited infrastructure in prospect markets and add a new channel in veteran markets by facilitating electronic funds transfers for bank customers and the unbanked. Online communities of advice, such as Wesabe.com and Bullpoo.com, serve as objective brokers of peer advice on financial topics, and provide rich tools and calculators to let customers plan and manage their finances.

These new players are still relatively small and most have yet to turn a profit, but banks are taking notice. The threat is not posed by the numbers of customers being lured away from traditional banks (at this point, that total is still very small), nor by the specific entrants now in the market, but by the potential they have to change the way in which customers borrow and manage money, and pay for goods and services.

“The killer app that will let customers manage money in a friendly, easy and safe way isn't quite here yet – it's more likely to come from a specialized technology provider than it is from a bank.”

– Executive Vice President, Regional Bank, North America

Banks have begun to respond with pilot initiatives offering online tools, blogs, finance-focused communities of interest, and mobile banking and payments. The potential low or slow return on these types of investments

means that banks often ignore disruptive innovations. However, the competitive dynamics of a global industry mean that banks need to begin to target the base of the S-curve, and fend off threats from new players or risk being left behind.

One way banks can approach this is to use customer microsegmentation to better anticipate and address changes in customer demands before their business is lost to other providers. Bankers clearly understand the importance of microsegmentation: 42 percent of survey respondents are already using microsegmentation and 58 percent plan to increase its use in the future.

But, when asked which customer attributes will be most important in the future, 72 percent of executives selected the traditional measures of wealth and income. As banks seek to develop and maintain profitable relationships among an increasingly diverse customer base, they will need to increase their focus on such factors as life-stage patterns, geography and culture, and tailor their offerings accordingly.

Globally integrate capabilities on revenue and cost sides

In order to take full advantage of global revenue, cost and effectiveness opportunities, all banks – even regional banks focused on a single market – must learn to integrate their capabilities. Being able to quickly mobilize to seize new opportunities, and to partner for and locate cost-effective or specialized capabilities, will require flexible, integrated operations. However, 69 percent of respondents acknowledge that their organizations are not currently operating in a globally integrated fashion.

To be able to quickly seize new opportunities, even banks operating in a single market must recognize the importance of flexible, integrated operations in order to partner for and locate cost-effective or specialized capabilities.

“The fact that we fail to integrate our capabilities across regions truly stifles our ability to profit from globalization. For most banks, entering a new market means duplicating front-to-back activities. And managing global talent and governance will be critical.”

– Division Head, Universal Bank, Europe

A majority of bank respondents agree that to compete in a globalized industry, it will be critical to leverage assets across borders, assemble capabilities in a more agile fashion and collaborate more openly across the industry. In fact, many banks have begun to make the shift away from rigid organizational structures toward more fluid, integrated enterprises that take advantage of the arbitrage and expertise offered by operating in multiple locations.

The Indian bank ICICI, for example, is leveraging its low-cost back-office in India to support rapid growth of its front-office operations in prospect and veteran markets, including Malaysia, the UK and Canada, with a staggering 51 percent growth in profits from 2006 to 2007.¹⁴ Similarly, HSBC has used its “build once, deploy many” strategy to efficiently develop businesses in multiple markets based on single platforms. The results include a single global platform supporting 75 percent of its credit cards business and an international banking platform used in 72 countries.¹⁵

Even smaller banks will not be immune to these pressures. Banks with a local or single country strategy will need to respond to competitors that make their global skills available in local markets. The answer for these smaller banks lies in a careful evaluation of where they can differentiate themselves – and honing these strengths across markets in a targeted fashion – while seeking partnerships in areas that are undifferentiated.

For example, the bank may focus on its unique and intimate knowledge of its customers’ needs and its understanding of the risks associated with these customers – something the global competitor will find harder to do. At the same time, the bank builds a flexible architecture enabling it to cost-effectively deliver standard – often commodity – products and services from a number of suppliers.

Bankers also cited as critical their ability to attract and retain skilled professionals. Seventy-three percent of respondents expect to compete more intensely for specialized skills in the near future. Indeed, bankers recognize the importance of developing and growing talent: globalization will enable them to mesh the right skills in a globally collaborative organization. This will include the extensive use of global shared service centers and centers of excellence as banks seek to get the most out of what talent they have.

Win minds to address cultural requirements

In the globally networked economy, banks will need to cultivate an organizational culture that enables delivery and fosters collaboration on at least two levels: externally (with customers, suppliers, and business partners) and internally (with valued employees).

Winning customer minds is crucial. The business capability with the single greatest ability to differentiate a bank over the coming years is customer knowledge and service. But building this capability requires an alignment of the bank's culture with that of its customers. Banks will have to facilitate customers' preferred banking behaviors, listen to their requests and even educate them about more effective ways of meeting their needs.

“Our customers expect us to deliver consistent service across different cultures.”

– Head of Private Banking, Universal Bank, Asia Pacific

Equally important is building the internal organizational culture – overcoming the organizational silos that fragment organizations and prevent open collaboration. The lack of an integrated management team, cited by 64 percent of our respondents, was one of the most frequently mentioned success factors in driving cultural integration.

Ultimately, organizational and cultural flexibility will be critical to achieving firms' goals and responding to changing market conditions. To achieve this flexibility, banks must excel at instilling shared values, building processes and tools to encourage and facilitate greater collaboration, and build governance frameworks that promote internal and external knowledge sharing networks, as well as manage the inherent risks.

Pinpointing global capabilities

It's true that many retail banks feel unprepared to deal with the changes that globalization brings. Even though the risks are accompanied by new windows of opportunity, you'll want to take stock of the current state before determining which global capabilities deserve high priority in your situation. Answering the following questions can help you begin this self-assessment.

Calibrating your global risk/reward strategy

- Which markets will drive the greatest shareholder value and where does your relative advantage lie?
- How will you manage the risks of entry into new markets? Of operating in a more globally interconnected market?
- How will you improve the ROI on customer acquisition in new markets, and how will this affect decisions to open new branches or build out banking infrastructure? And what changes are needed in existing markets?
- Are there other strategic reasons to pursue expansion, such as key customer demand, expertise that can be leveraged outside the home market or a need for talent?

Reaching the next innovation S-curve

- How extensive is the available infrastructure in target markets?
- Which bank and non-bank providers are – or could soon be – making headway with banking and payments, microfinance or related products/services?

- Where are your current and potential new customers looking for advice – banks, non-bank financial services firms, independent financial advisers, social networks, virtual communities?
- What concrete actions can your bank take to better understand customer needs?

Globally integrating capabilities

- What is your plan to leverage resources and assets globally in a manner that can drive revenue increases and cost decreases?
- How will you establish and manage a dynamic network of internal and external capabilities that allows you to respond quickly to new market needs?
- Is your bank able to collaborate internally and externally for efficient and effective global delivery?

Winning minds

- How can you balance global management and expertise with a local touch?
- How will you drive shared values across your workforce and strategic partners?
- Is your bank able to embed a culture of strong risk governance?

Executives agree: globalization will yield new windows of opportunity, pushing banks beyond today's boundaries. And, while many banks feel unprepared, the reality is no bank – big or small – can opt out.

To learn more about this IBM Institute for Business Value study, please contact us at ibv@us.ibm.com. For a full catalog of our research, visit:

ibm.com/iibv

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