

IT cost survey for Swiss banks 2011

Evaluation report (based on 2010 and 2011 budget data)

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Introduction

- itopia
- Small independent Swiss consulting company with 10 professionals
 - Specialized in IT governance, project services, risk management and information governance
- IT cost survey
- Performed on a yearly basis since 2000
 - Participants are small to medium-sized retail and private banks
 - Pragmatic approach: questionnaire with seven raw data and profile for bank complexity
- participants
2010/2011
- 36 banks (19 retail banks, 3 universal banks and 14 private banks)
 - High constancy and comparability: $\frac{3}{4}$ of year 2000 participants are still participating today
- iR = itopia Ratio
- Main coefficient used in the IT cost survey
 - Based on IT costs, balance assets and assets under management
 - We consider this coefficient to be better than volatile earning-based ratios (e.g. cost-income-ratio)

iR_{raw}

$$iR_{\text{raw}} = \frac{\text{IT costs}_{\text{excl. data feed}}}{1.1 \times (\text{balance_assets}) + 0.3 \times (\text{assets_under_management})}$$

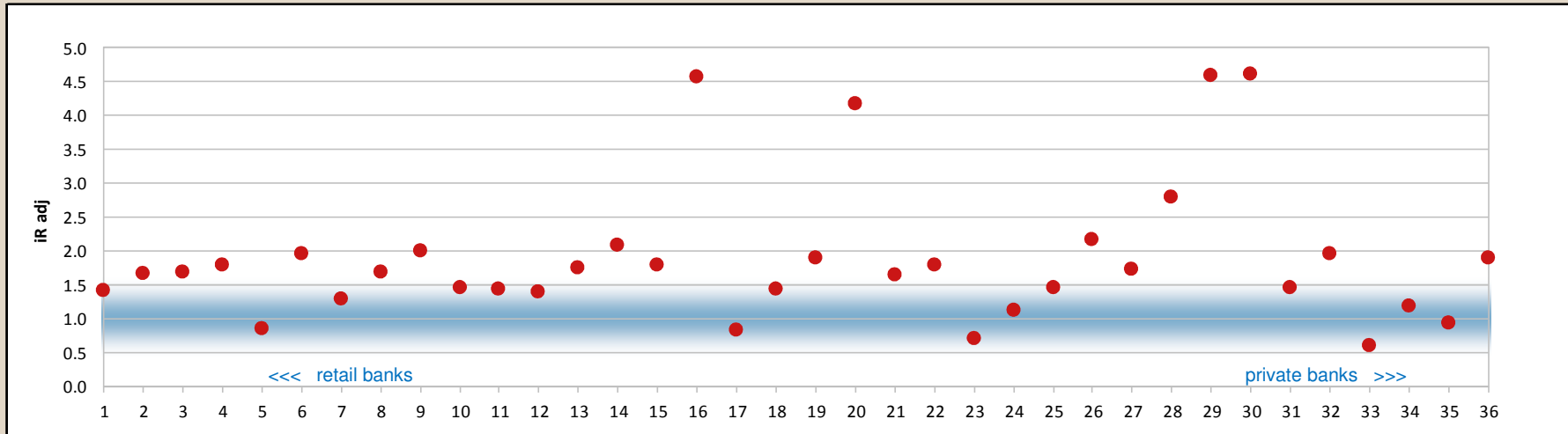
iR_{adj}

- To allow comparability of banks, the bank complexity (f_{Bank}) has to be considered in the formula
- Bank complexity is derived from a profile assessed by the bank itself

$$iR_{\text{adj}} = \frac{\text{IT costs}_{\text{excl. data feed}}}{1.1 \times (\text{balance_assets}) + 0.3 \times (\text{assets_under_management})} \times \frac{1}{f_{\text{Bank}}}$$

Year 2010

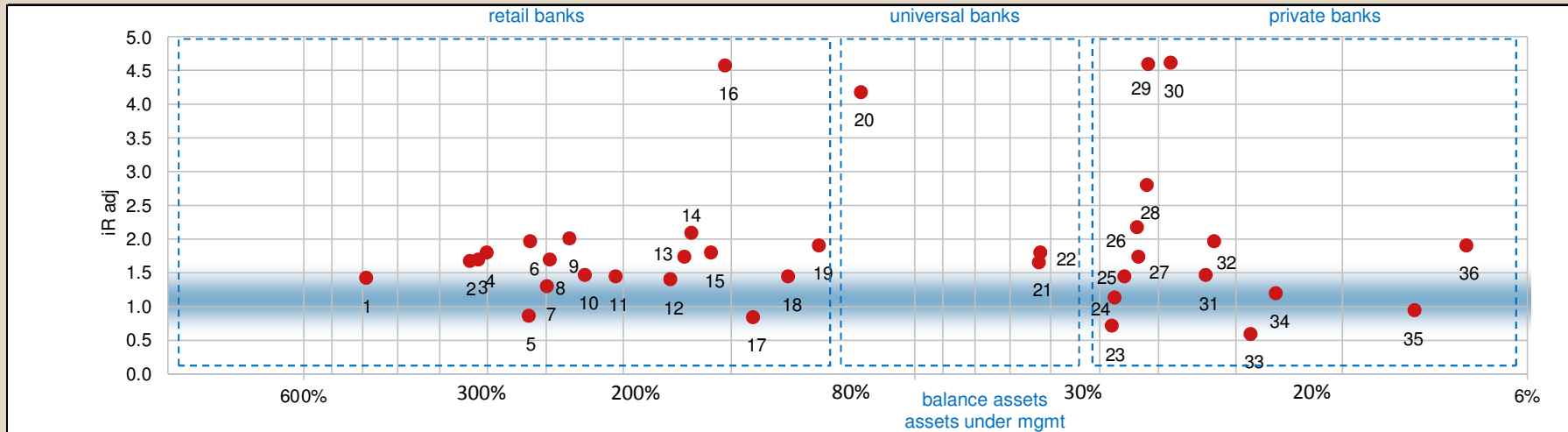
IT cost coefficient iR adj (view 1)



- Each dot represents one bank (the anonymous bank id is listed on the horizontal axis). The sorting criteria is balance assets / assets under management. Thus you find retail banks at the left and private banks at the right side of the diagram
- The red dots represent the adjusted IT cost coefficient (iR adj) excl. costs for data feed
- The blue band represents the target zone for iR adj: an ideal-typical bank (iR adj = 1.0)
- A bank with an iR adj of 2.0 spends +100% more in IT costs than an ideal-typical bank (iR adj = 1.0)

Year 2010

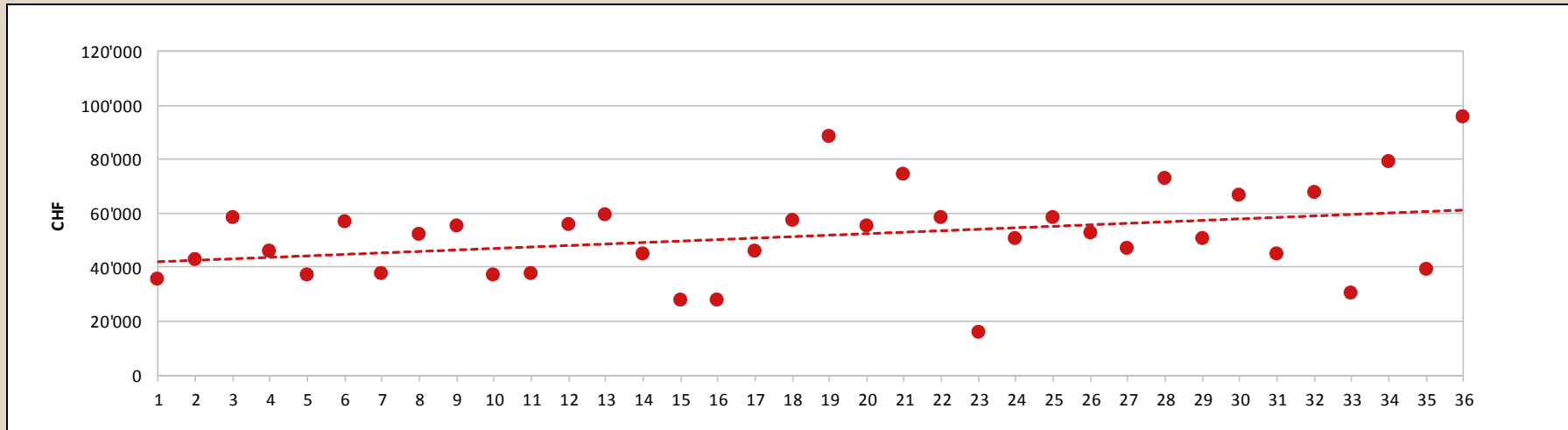
IT cost coefficient iR adj (view 2)



- This diagram gives a different view on iR adj: Again, the banks are sorted according to their balance assets / assets under management. The horizontal distance is measured in percentages. Thus the closer two banks are, the similar is their ratio of balance assets / assets under management
- Three types of banks are identified:
 - retail banks: $\geq 80\%$ (banks with id's 1 to 19)
 - universal banks: $< 80\%$ and $> 30\%$ (banks with id's 20 to 22)
 - private banks: $\leq 30\%$ (banks with id's 23 to 36)

Year 2010

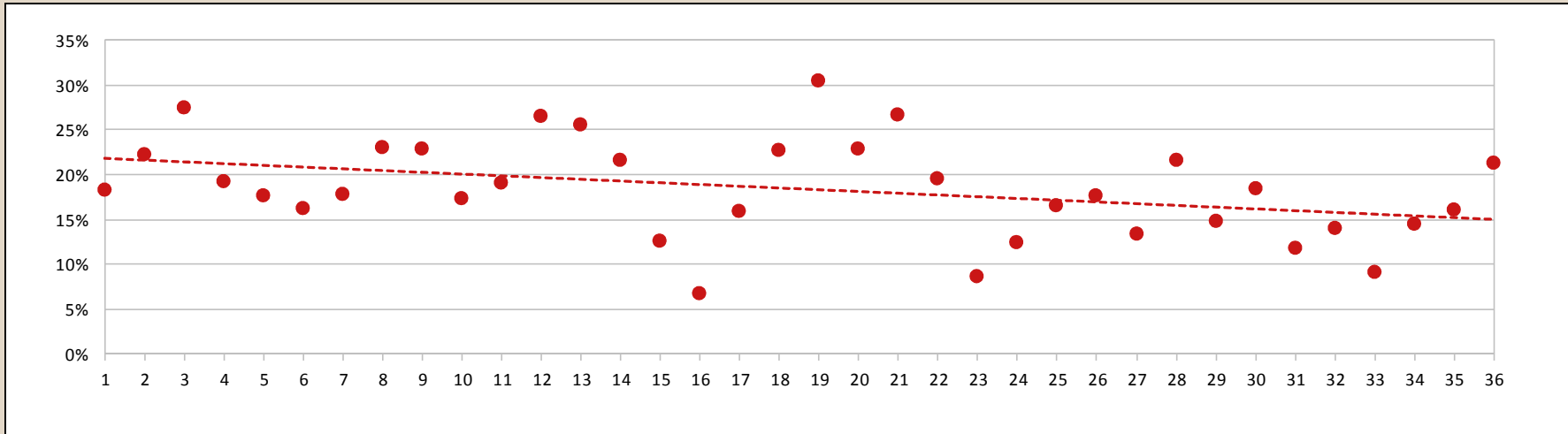
IT costs per bank employee (excl. IT staff)



- Red dots: IT costs per bank employee (excl. IT staff, excl. costs for data feed)
- The IT cost spending has a large variance from under CHF 20'000 up to almost CHF 100'000
- It seems that private banks spend more CHF per bank employee than retail banks (see red dotted trend line)

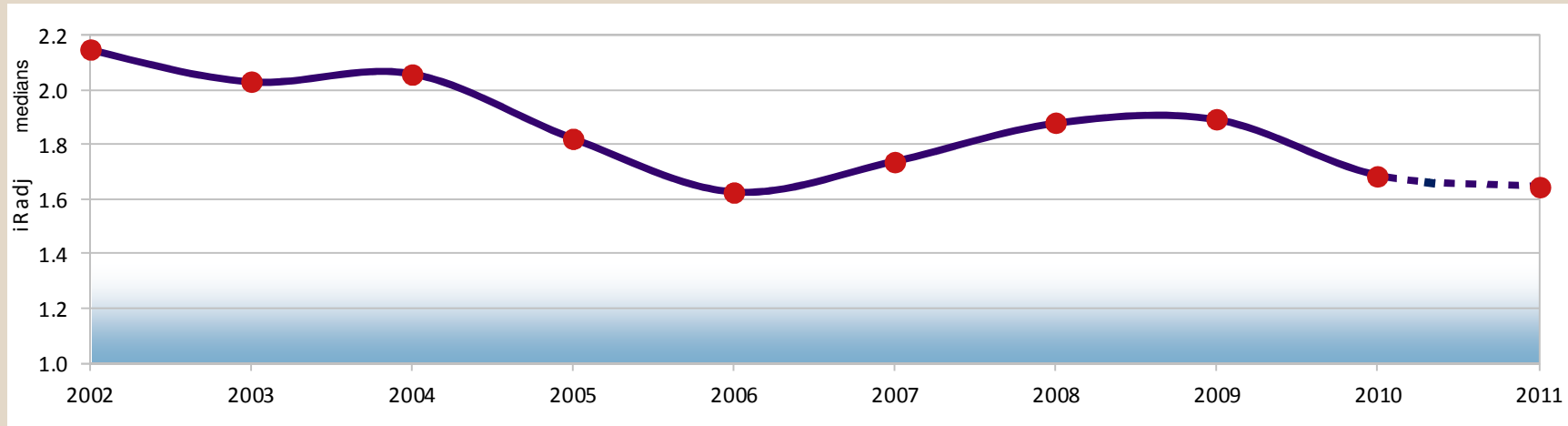
Year 2010

IT costs in percentage of operational expenses



- Red dots: IT costs in percentage of operational expenses (excl. costs for data feed)
- The percentage for retail banks is significantly higher than for private banks (see red dotted trend line). One reason for this observation may result from higher personnel expenses in private banks compared to retail banks
- Out of this diagram no conclusions can be drawn regarding
 - business benefits from IT spending or
 - the degree of IT automation and its influence on IT spending

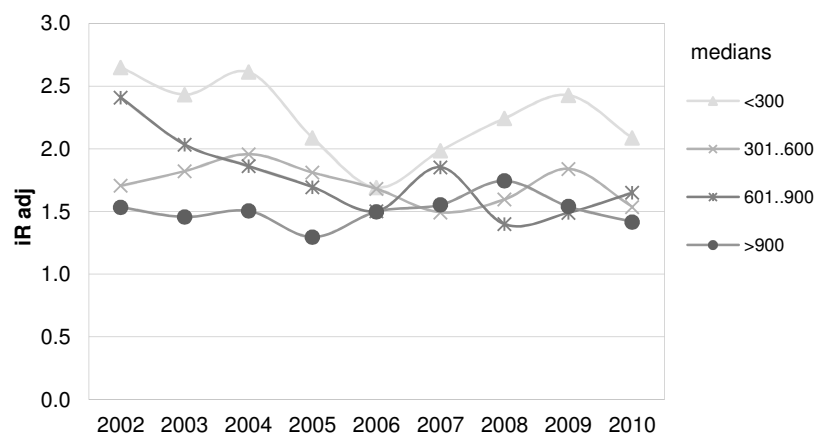
Time series IT cost coefficient iR adj



- Red dots: adjusted IT cost coefficient (iR adj) calculated as medians of all participating banks
- During the period 2002 to 2006 the iR improved at an average of 5.5% p.a.
- Between 2007 and 2009 the downward trend is broken: the IT cost efficiency in terms of iR adj deteriorates (increases). In 2009 the iR adj is even on a higher level than in the year 2005
- Good news is that in 2010 the upward trend could be stopped and even noticeably broken; a preview into 2011 proves this finding as a newly established trend – based on available budget 2011 figures
- The main reasons for the deterioration are
 - the IT spending for the on-going core banking system migrations slowly comes to an end, and
 - the diminution of assets under management due to the financial crisis has mainly stopped or even reversed

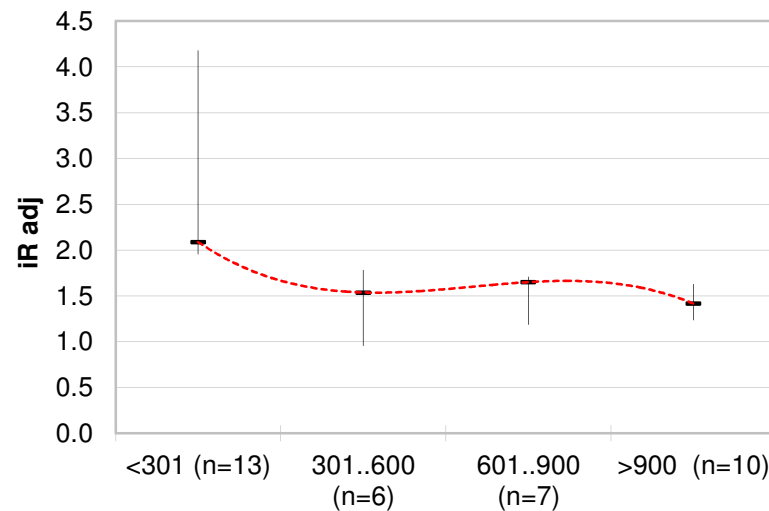
Time series

IT cost coefficient iR adj in relation to bank size



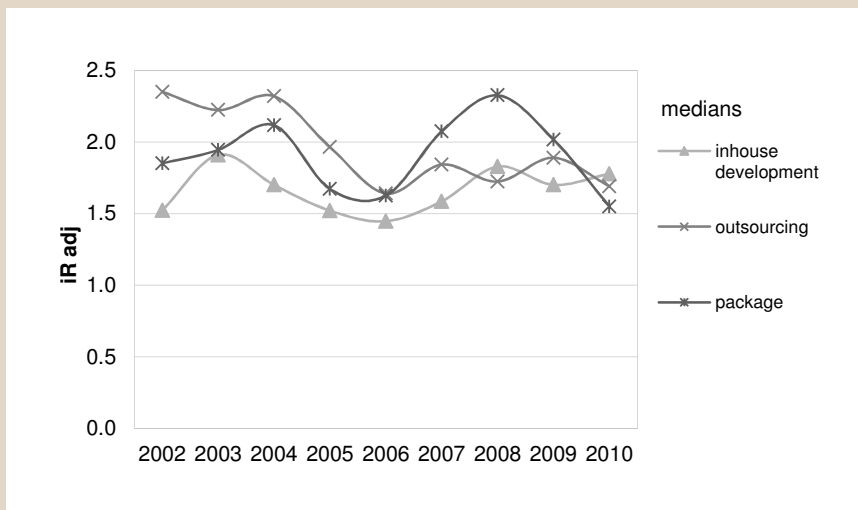
- Small banks (<300 bank employees/FTE) are less IT cost efficient than larger banks. Large banks can realize economies of scale
- In 2010 all but the class `601-900` could improve their IT cost efficiency
- Comparing all classes for year 2010 the typical bathtub graph of recent years has changed: the most IT cost efficient banks are now those in category >900. Larger banks seem to be better able to manage their more complex structures and processes

year	sample size			
	<300	301..600	601..900	>900
2000	7	4	4	6
2001	10	4	5	6
2002	17	10	3	5
2003	19	10	5	4
2004	19	9	7	4
2005	16	9	8	3
2006	17	10	7	4
2007	14	6	3	5
2008	15	7	4	6
2009	13	6	6	6
2010	13	6	7	10



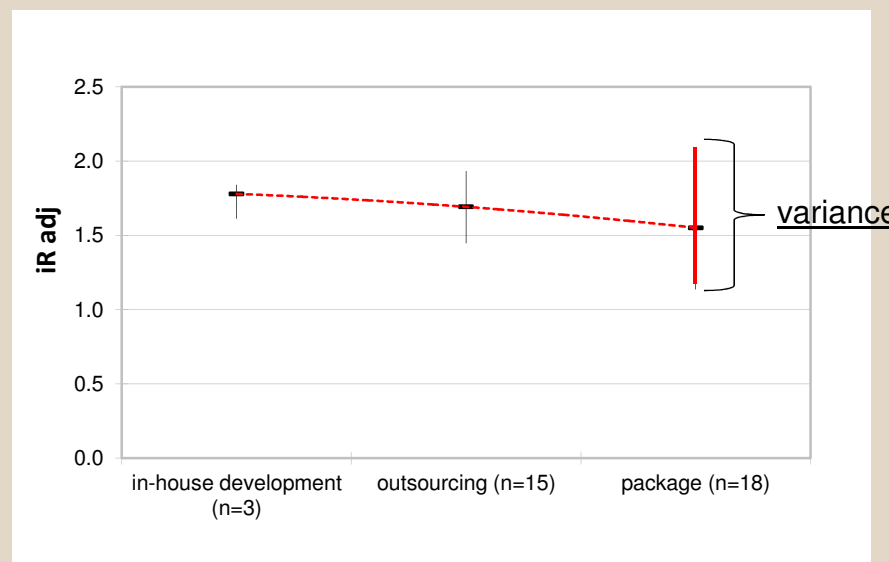
Time series

IT cost coefficient iR adj in relation to IT policy



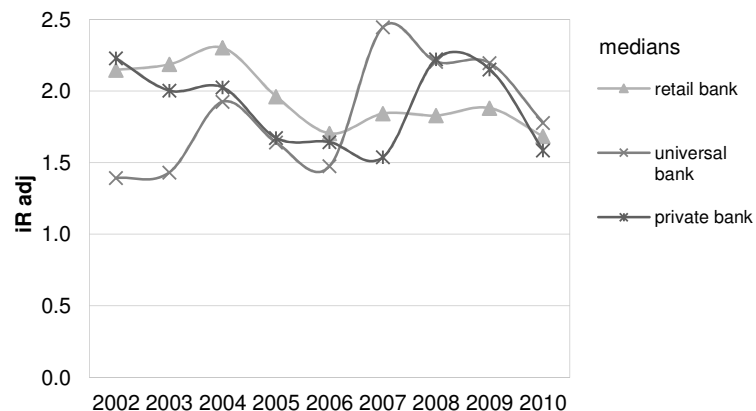
- In 2010 ,in-house development' as the most efficient IT policy in 2009, has been replaced by both, ,outsourcing' and ,package'.
- 50% of the 2010 participants have established the policy ,outsourcing', and its growing efficiency is remarkable.
- However, the variance of efficiency is huge!
This suggests that the management of a heterogeneous IT landscape and its complexity is the silver bullet (the so called best-of-breed approach implies that the ,best' peripheral systems are chosen within a ,package' policy which leads to a heterogeneous IT landscape).

year	sample size		
	in-house development	outsourcing	package
2000	5	12	3
2001	6	14	5
2002	8	16	11
2003	9	17	12
2004	9	18	12
2005	8	17	11
2006	6	18	14
2007	4	15	9
2008	7	13	12
2009	4	14	13
2010	3	15	18



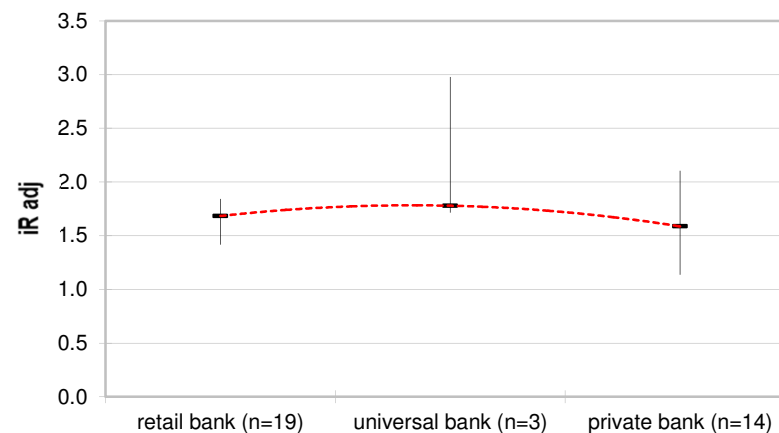
Time series

IT cost coefficient iR adj in relation to bank type



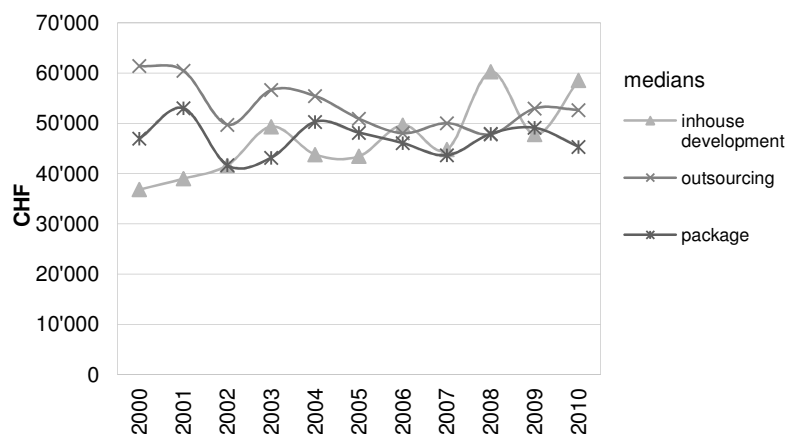
- The iR adj values for the bank type classes have improved downwards compared to 2009 (from an average of 2.14 to 2.07).
- In average private banks have made slightly more improvements in terms of IT costs.
- The iR adj values for universal banks have a rather large variance from 1.71 up to 2.98; this is not representative since the sample is too small.
- The iR adj values for private banks have a much narrower variance from 1.14 to 2.1 as in 2009.

year	sample size		
	retail bank	universal bank	private bank
2000	13	1	7
2001	15	2	8
2002	17	6	12
2003	18	7	13
2004	19	6	14
2005	18	5	13
2006	16	7	15
2007	15	4	9
2008	15	9	8
2009	17	4	10
2010	19	3	14



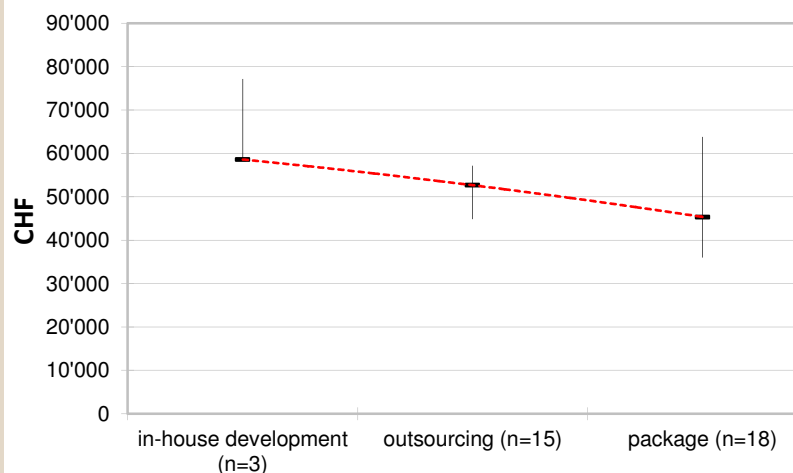
Time series

IT costs per bank employee in relation to IT policy



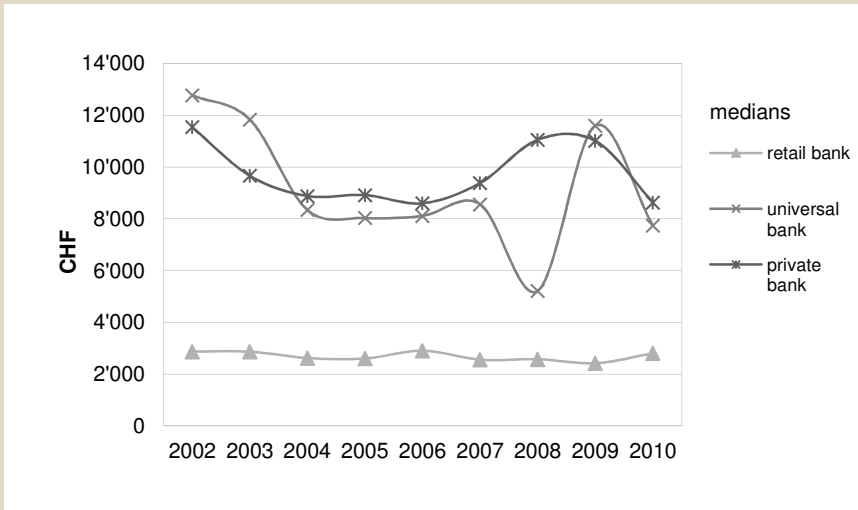
- IT costs per bank employee have developed differently among the IT policies. Whereas for 'package' IT costs per bank employee were sinking considerably, for 'outsourcing' they stayed unchanged, and for 'in-house development' a remarkable boost could be observed.
- The median IT costs per bank employee for all three IT policies were between CHF 45'000 and CHF 59'000. Compared to prior years the variance has become much wider.
- For all IT policy types the overall variance has become even wider: CHF 36'000 to CHF 77'000, compared to CHF 44'000 to CHF 74'000 in 2009.

year	sample size		
	in-house development	outsourcing	package
2000	5	12	3
2001	6	14	5
2002	8	16	11
2003	9	17	12
2004	9	18	12
2005	8	17	11
2006	6	18	14
2007	4	15	9
2008	7	13	12
2009	4	14	13
2010	3	15	18



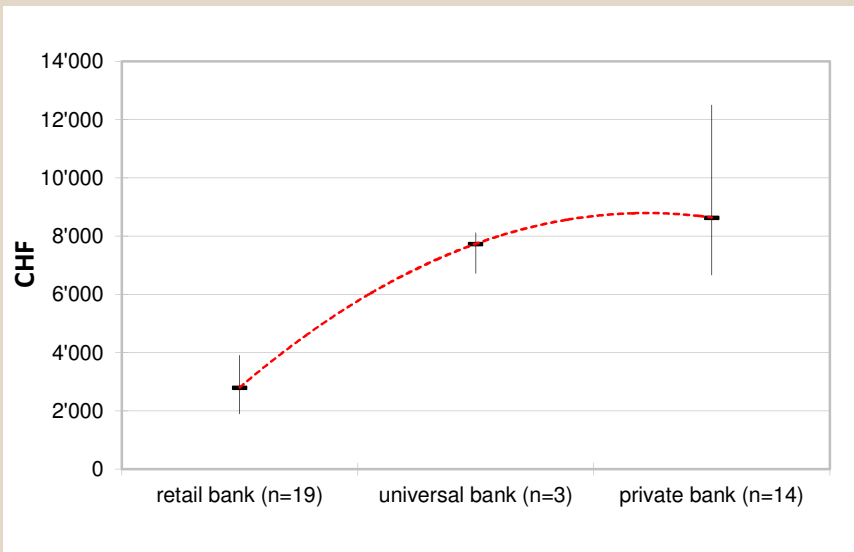
Time series

Costs for data feed in relation to bank type



- Retail banks spend approx. CHF 3'000 (up from CHF 2'000 in 2009) per bank employee for data feed, whereas private banks spend CHF 9'000 (down from 11'000 in 2009) and universal banks CHF 8'000 (down from CHF 12'000 in 2009)
- Due to the broad variety of universal banks the trend for cost of data feed is rather unsteady and therefore not reliable
- The data feed costs for private banks are still on a high level. However, it seems that our prediction from 2009 "the consolidation cycle for data feed terminals is expected soon" has already begun.

year	sample size		
	retail bank	universal bank	private bank
2000	13	1	7
2001	15	2	8
2002	17	6	12
2003	18	7	13
2004	19	6	14
2005	18	5	13
2006	16	7	15
2007	15	4	9
2008	15	9	8
2009	17	4	10
2010	19	3	14



Thank you

