

# IT cost survey for Swiss banks 2015

**Evaluation report (based on 2014 effective data and 2015 budget data)**

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## Introduction

- itopia
- Small independent Swiss consulting company with 15 professionals
  - Specialized in IT governance, project services and risk management
- IT cost survey
- Performed on a yearly basis since 2000 with more than 12'000 data points
  - Participants are small to medium-sized retail and private banks
  - Pragmatic approach: questionnaire with eight raw data and profile for bank complexity
- participants  
2014/2015
- 36 banks: 21 (rather) retail banks, 15 (rather) 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<sub>raw</sub>

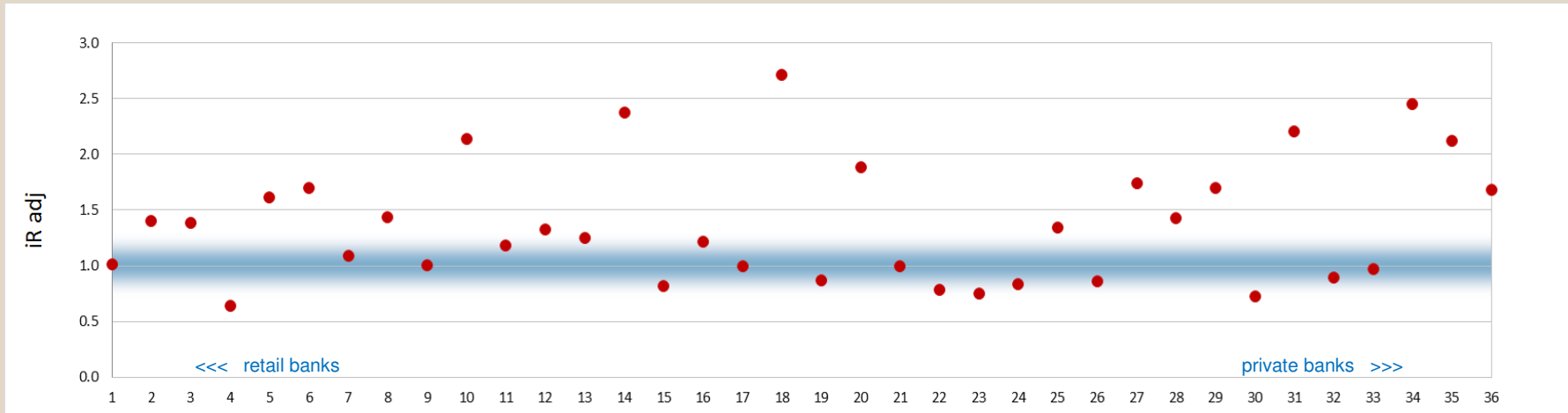
$$iR_{raw} = \frac{\text{IT costs}_{\text{excl. data feed}}}{1.1 \times (\text{balance\_assets}) + 0.3 \times (\text{assets\_under\_management})}$$

- iR<sub>adj</sub>
- To allow comparability of banks, the bank complexity ( $f_{\text{Bank}}$ ) has to be considered in the formula
  - Bank complexity is derived from a profile assessed by the bank itself

$$iR_{adj} = \frac{\text{IT costs}_{\text{excl. data feed}}}{1.1 \times (\text{balance\_assets}) + 0.3 \times (\text{assets\_under\_management})} \times \frac{1}{f_{\text{Bank}}}$$

# Year 2014

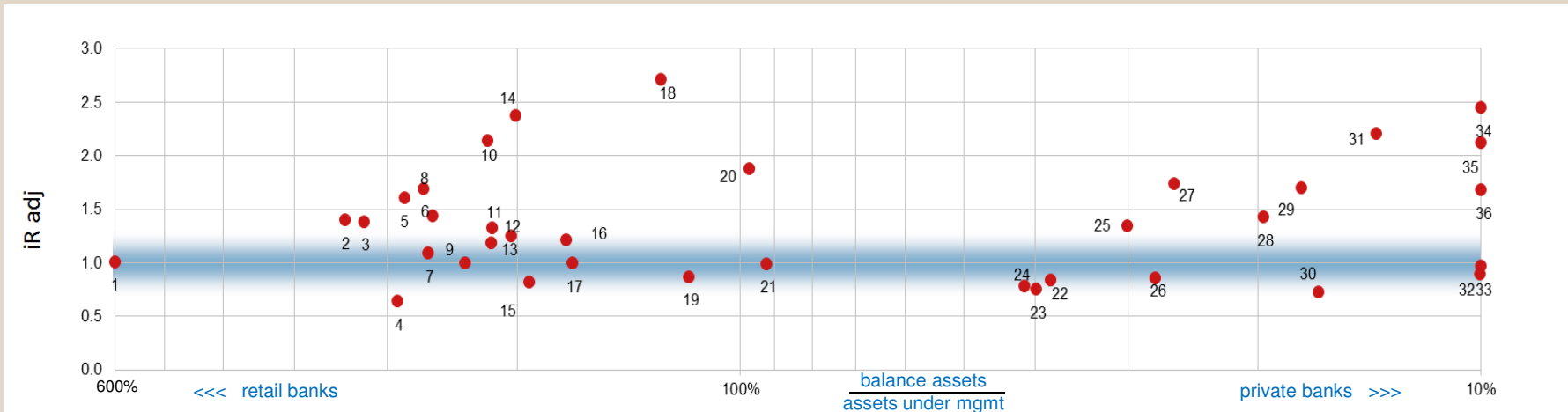
## IT cost coefficient iR adj (view 1)



- Each dot represents one bank (the anonymous bank id is listed on the horizontal axis). The sorting criteria is balance assets / assets under management. Therefore, retail banks are on the left, private banks on the right side of the chart
- 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 would have an iR adj = 1.0
- A bank with an iR adj of 2.0 spends +100% more in IT costs than an ideal-typical bank with iR adj = 1.0
- 14 banks have an iR adj of at or below 1 (7 retail, 7 private banks), and 6 banks have an iR adj of at or above 2 (3 retail, 3 private banks)
- Comparing with last years' results, a dramatic growth in number of banks with an iR adj at/below 1 can be observed: last year we had only 3 retail, 5 private banks; the picture presented at the high values end is rather similar to last year 2013: 2 retail, 3 private banks

# Year 2014

## IT cost coefficient iR adj (view 2)

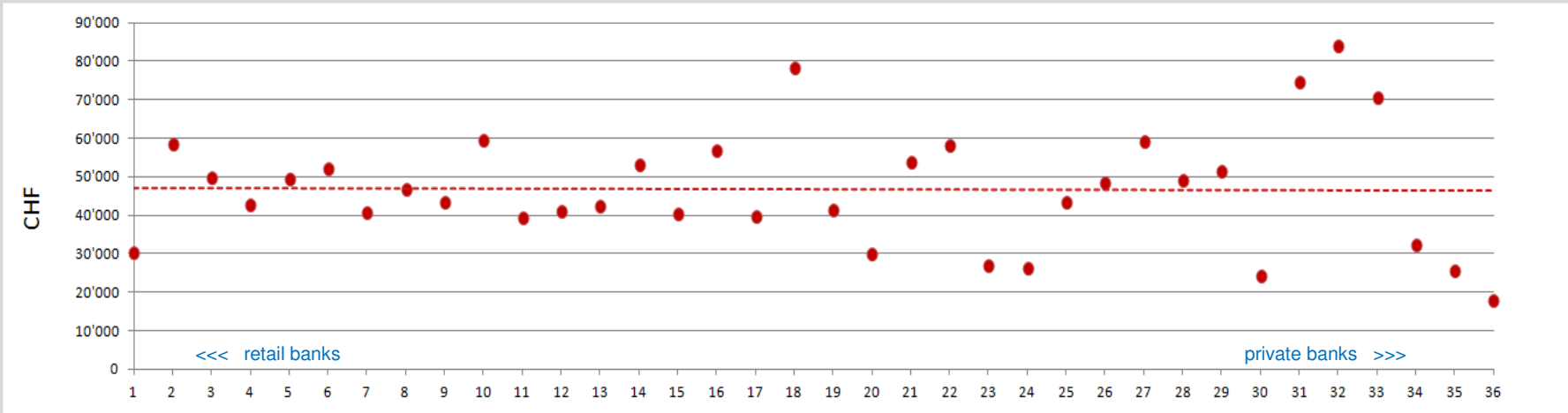


Banks 33-36 have a Balanced Assets/AuM Ratio of under 9% (set to 10% for better readability of the chart).

- 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 more similar is their ratio of balance assets / assets under management, and consequently their business model
- Two types of banks are identified:
  - (rather) retail banks: > approx. 60% (banks with id's 1 to 21)
  - (rather) private banks: < approx. 40% (banks with id's 22 to 36)
- Comparing with last years' results, the ratio to identify (rather) retail banks stayed at around 90% (bank number 21)

# Year 2014

## IT costs per bank employee (excl. IT staff)



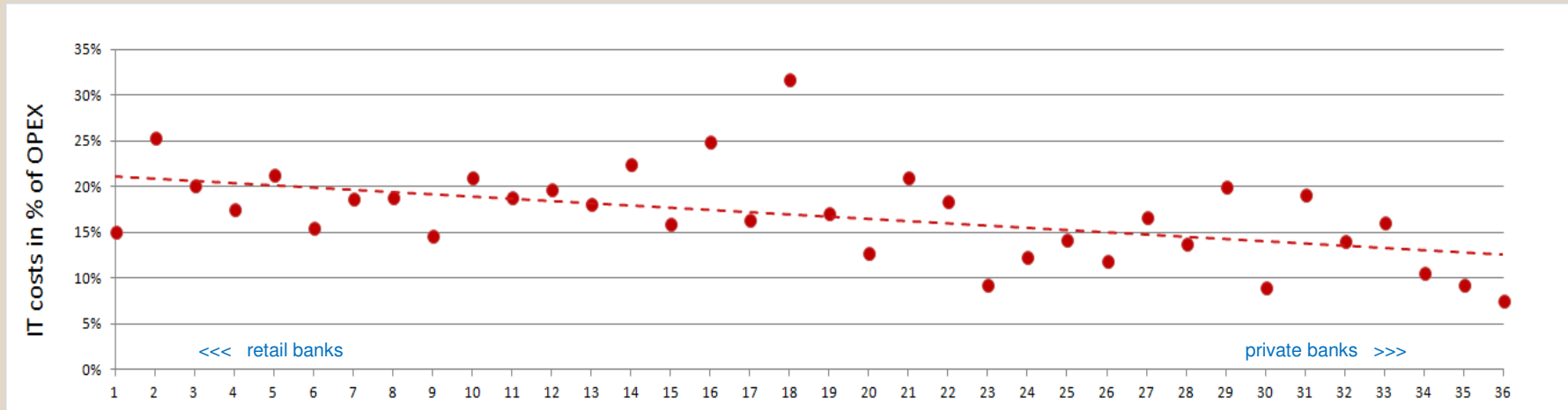
Red dots: IT costs per bank employee (excl. IT staff, excl. costs for data feed)

- The IT cost spending continues to have a high variance from the lowest value of CHF 18'000 (down from 22'000 in 2013) to the highest value of CHF 83'000 (same as in 2013).
- It seems as if the observation of recent years that private banks spend more CHF per bank employee than retail banks is no longer true (see red dotted trend line, which is no longer ascending, but horizontal this year).

For a detailed analysis per bank type, please refer to slide 12 (IT costs per bank employee – retail banks vs. private banks).

# Year 2014

## IT costs in percentage of operational expenses

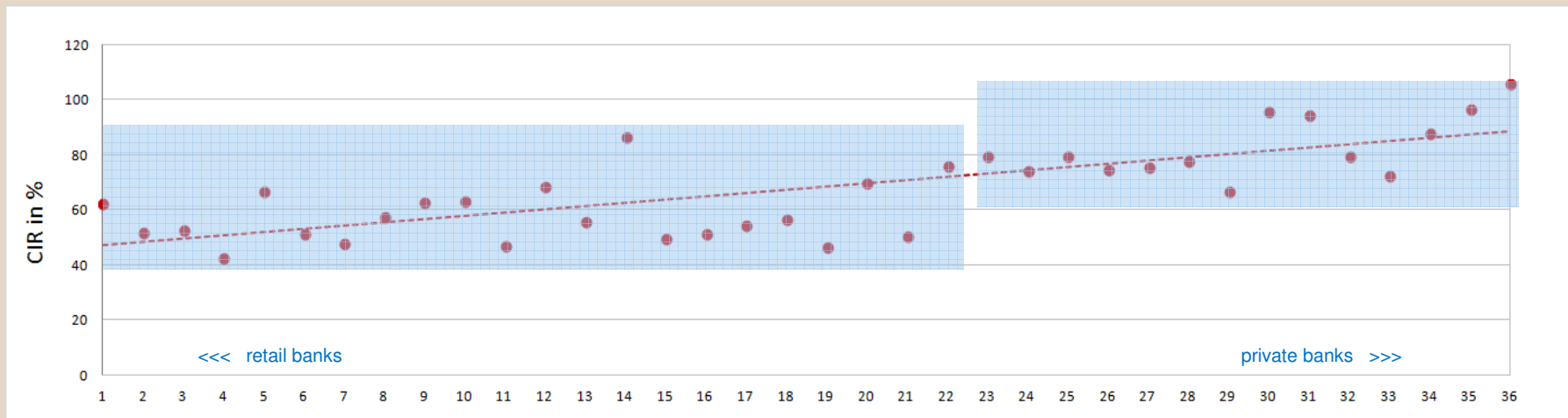


Red dots: IT costs in percentage of operational expenses (excl. costs for data feed)

- The percentage for retail banks is significantly higher than for private banks (see red dotted trend line: the difference between the left and right end values is around 9%, with the right end value going down to 12% from previous year's 14%)
- We can observe continued downward trend in IT cost share within the overall operational expenses for retail banks with 18.7% in 2014, after 18.9% in 2013.
- However, this decline seems to have stopped since last year for private banks, as we can observe an increase in 2014 to 13.6% from 13.2% in 2013.

# Year 2014

## Cost income ratio in relation to bank type



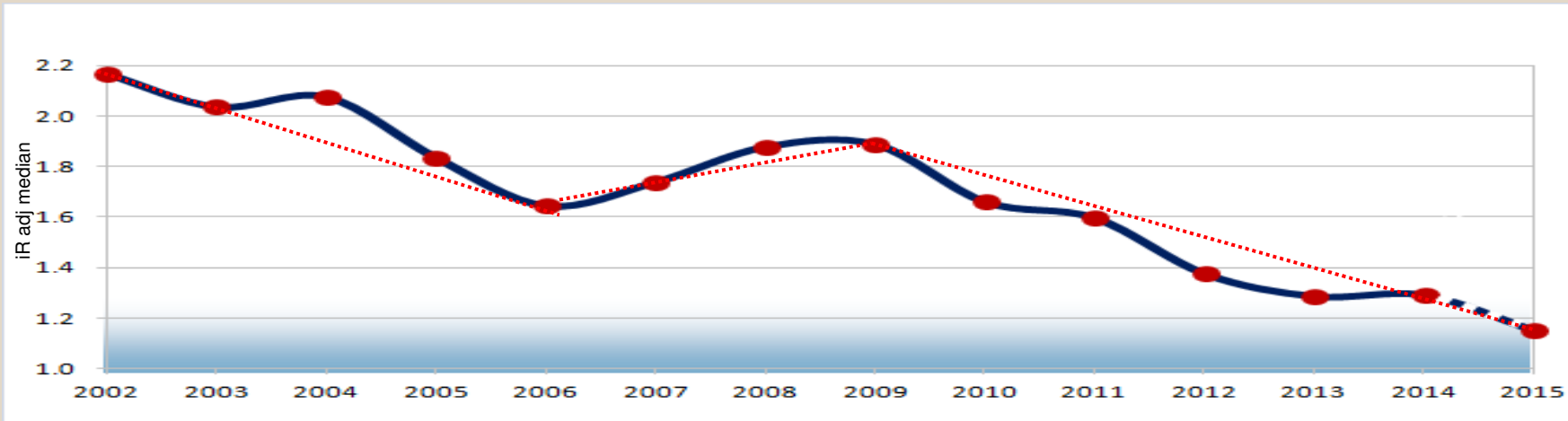
Red dots: Cost income ratio (CIR) incl. depreciations/provisions; CIR of bank 2 and bank 6 is without provisions

- The variance in cost income ratios between bank types as well as between peers is quite high:
  - Retail banks between 42.90% and 87.00% \*) (from a 42.30% - 96.00% range in 2013)
  - Private banks between 66.94% and 106.00% \*) (from a 64.50% - 109% range in 2013)
- The trend line (red dotted) of the cost income ratio for retail banks starts at significantly at lower levels than for private banks. But compared to last year the trend line is considerably steeper, going from 47% to 89% (in 2013: 51% to 82%).

\*) median range = between 1. and 3. quartile



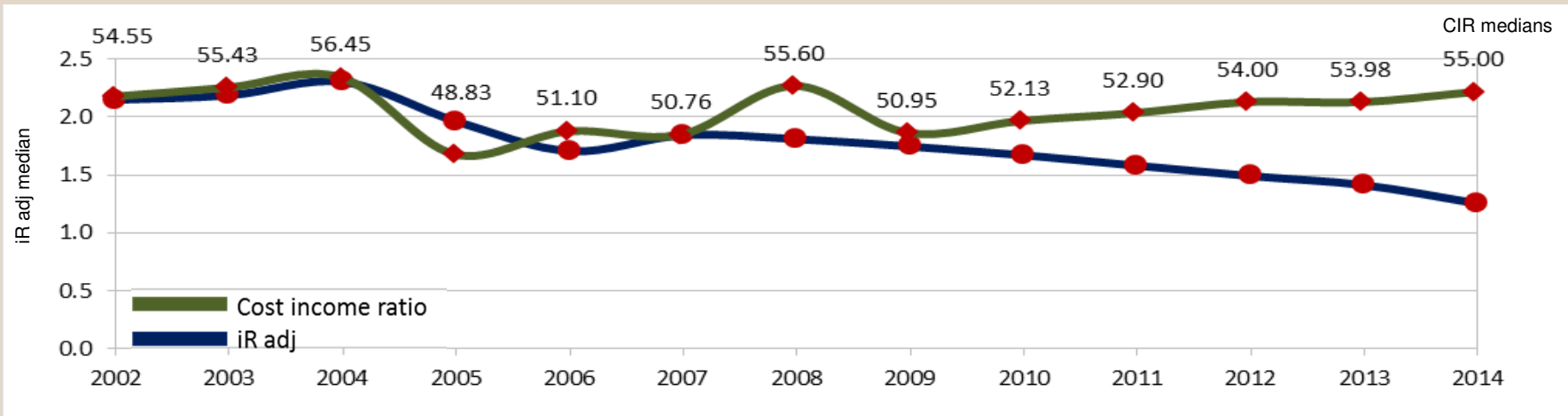
## Time series IT cost coefficient iR adj



- Red dots: adjusted IT cost coefficient (iR adj) calculated as medians for all participating banks, with an outlook into 2015 based on available budget figures
- 2002 to 2006 and 2009 to 2014 were time periods with accelerated improvement of the iR adj at an average of approx. 6% p.a. and 6.4% respectively.  
Between 2007 and 2009 the downward trend was interrupted, and the IT cost efficiency (iR adj) increased.
- Even though the iR adj value for 2014 stayed at 1.29, the same as in 2013, the trend for 2015 is decreasing to an iR adj of 1.15 - based on available budget 2015 figures.
- Only 6 out of 21 retail banks, and 3 out of 15 private banks have a rising iR adj value compared to 2013. The majority of the participating banks have managed to lower again their iR adj in 2014.

## Time series

### IT cost coefficient & cost income ratio – retail banks

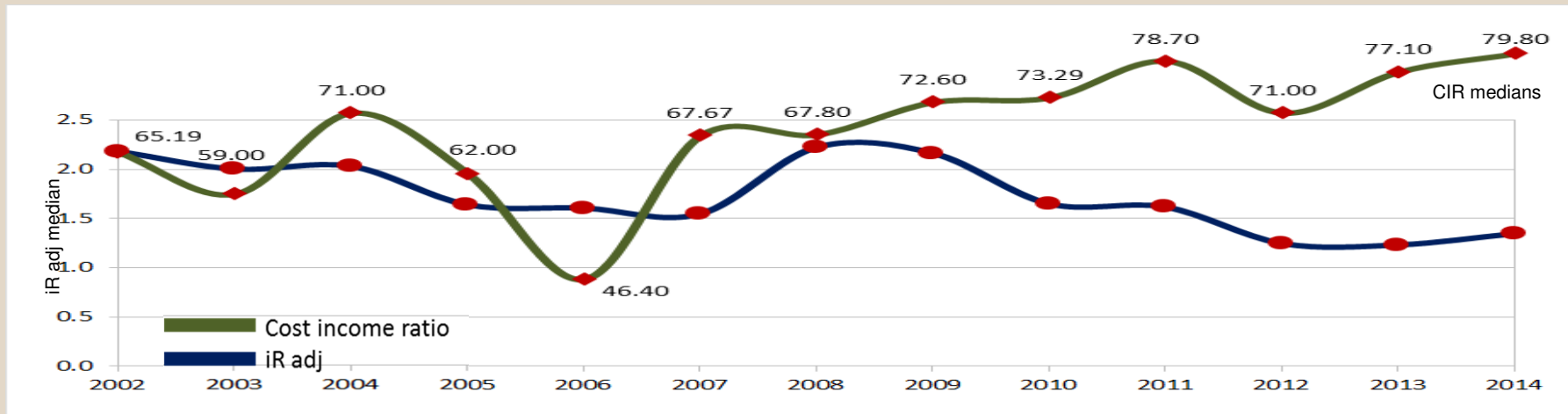


- For retail banks the IT cost coefficient iR adj and the cost income ratio were positively correlated until 2009. That suggests: “well managed IT costs”) implies well managed overall operational costs and positively influences the bottom line of the bank’s financial results”
- After 2009 until 2013 the median of the cost income ratio of retail banks rose to 54%. In 2014 this trend could be confirmed with a strong increase of +1.9%, similar to private banks (see next slide)
- As the cost income ratio (CIR) is also about income, the deteriorating margins in almost all banking products and services seem to have a more dominant impact than the efforts for effective IT governance.
- This seems to be continuously true for retail banks, even though they managed again to decrease their IT cost coefficient iR adj to 1.25 (11.3%); once again after 2013, in contrast to private banks.

\*) an IT governance is implemented that satisfies business demand in an economical way

## Time series

### IT cost coefficient & cost income ratio – private banks



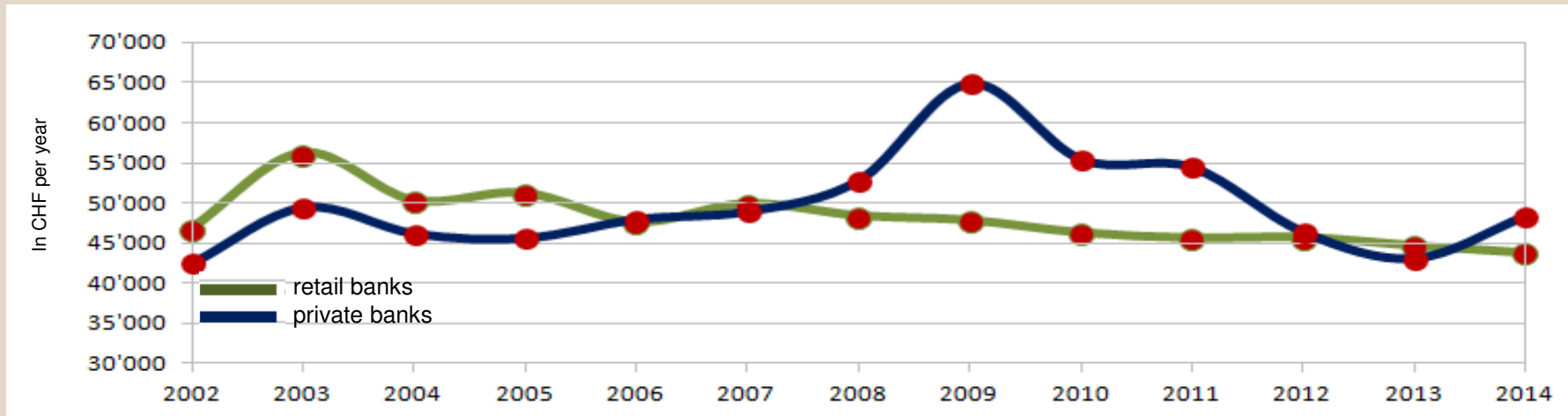
- For private banks the IT cost coefficient iR adj and the cost income ratio were loosely correlated until 2008
- From 2008 to 2013 the correlation was strongly negative. This can be explained with the phase of deteriorating margins in almost all banking products as well as decreasing assets under management, that drained off to mainly retail banks
- We thought, private banks seem to have done their home work as in 2012 their cost income ratio decreased to 71% (-9.8%), and with an even faster pace their IT cost coefficient iR adj decreased to 1.25 (-22.9%).

However, this might have been a one time observation, as in 2013 the previous trend of increasing cost income ratio continues to 77.10 %. In contrast the median iR adj ratio decreased to 1.23 from 1.25, a minimal 1.2%.

2014 figures show a considerable rise of the cost income ratio from 77.10% to 79.8%, and a dramatic rise in IT cost coefficient iR adj from 1.23 to 1.35 (9.3%).

## Time series

### IT costs per bank employee – retail banks vs. private banks

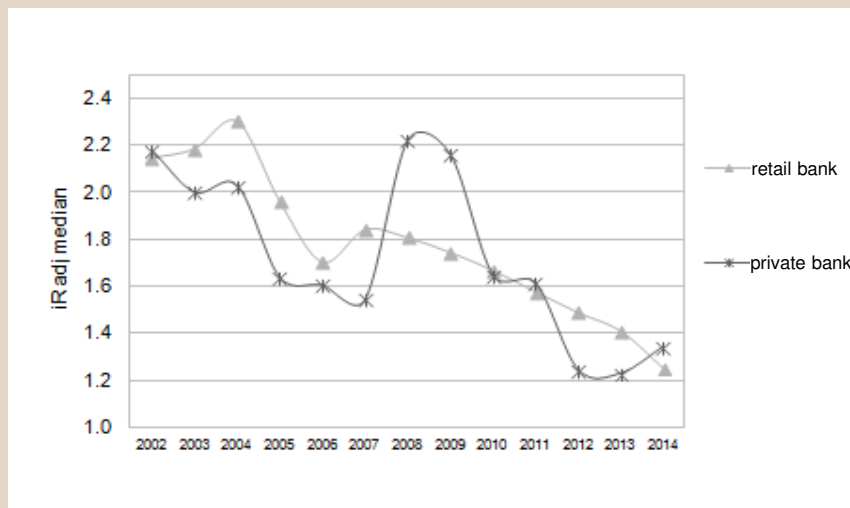


We consider cost for data feed as “business costs” and therefore these costs are not included in the time series presented above (see slide 14 “Costs for data feed in relation to bank type”).

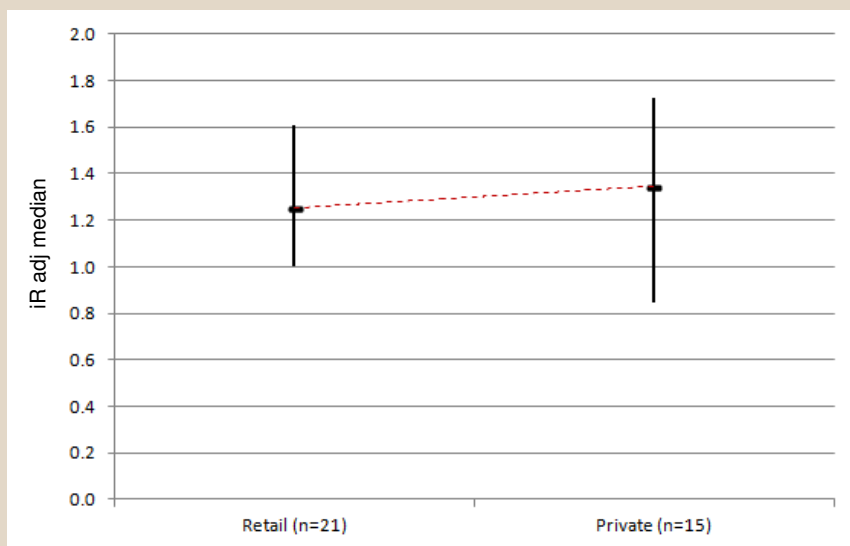
- Until 2006 IT costs per bank employee were considerably higher at retail banks than at private banks (up to 10%).
- After 2007 this trend reversed dramatically, when private banks spent 30+% more for IT per bank employee than retail banks.
- In 2012 both bank types were again on same levels of IT costs per bank employee levels, but almost 10% lower than in 2007.
- 2014 figures show an increase for private banks (after a steady decline over years), whereas at retail banks IT costs per bank employee declined slightly as in previous years.

# Time series

## IT cost coefficient iR adj in relation to bank type



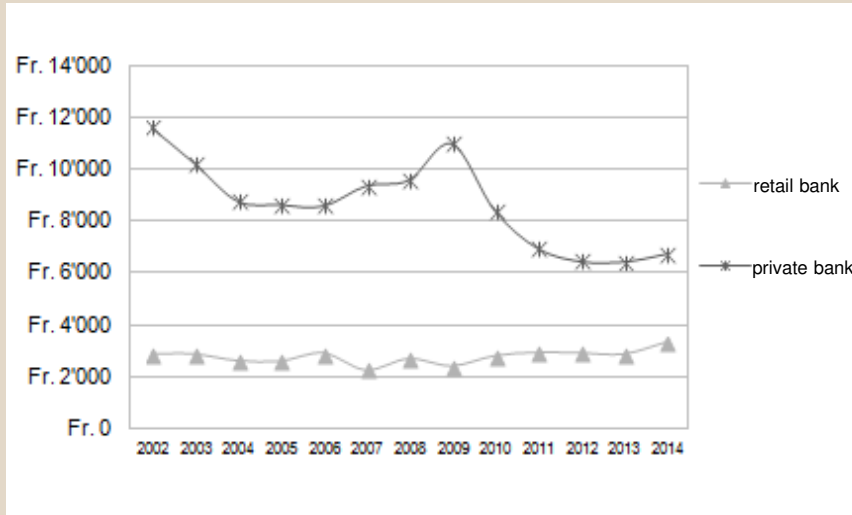
- The iR adj values for the bank type class "private bank" reversed the downward trend to rise to 1.35 in 2014, after 1.23 in 2013
- Retail banks have continued to improve their iR adj downwards, coming down from 1.41 in 2013 to 1.25 in 2014



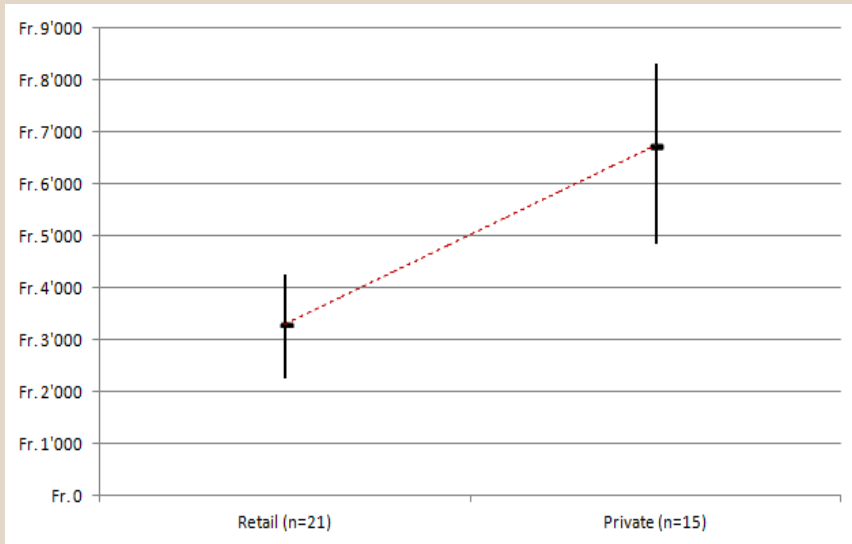
- The iR adj values for private banks have a slightly wider variance from 0.85 to 1.72 than retail banks with 1.00 to 1.61

# Time series

## Costs for data feed in relation to bank type

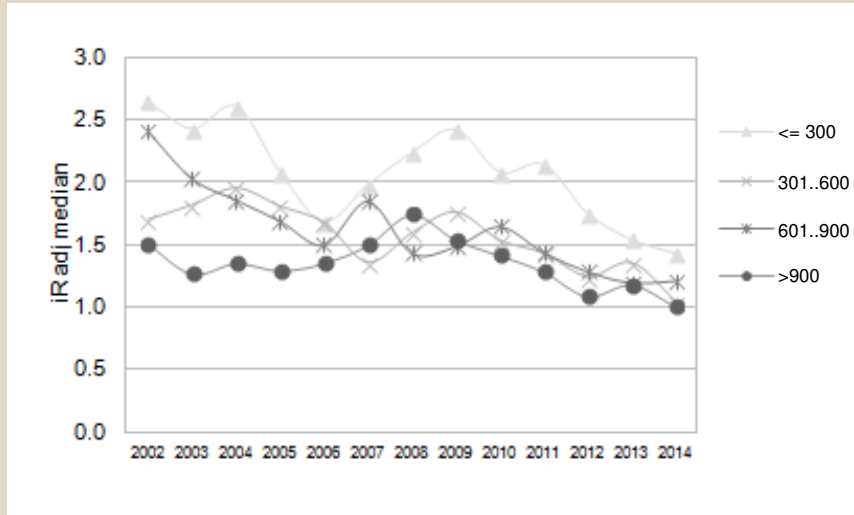


- Retail banks spend approx. CHF 3'300 in 2014 (+10% versus 2013) per bank employee for data feed, whereas private banks spend approx. CHF 6'750 (increasing as well, but only slightly compared to 2013)
- The data feed costs for private banks have reached a level where a continuation of the consolidation since 2009 seems to have come to an end at below CHF 7'000

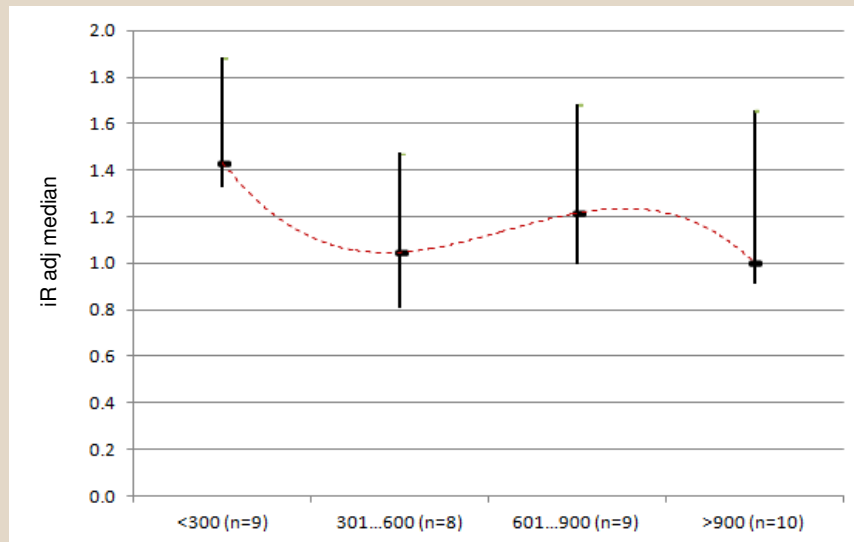


# Time series

## IT cost coefficient iR adj in relation to bank size



- In 2014 the improvement of the IT cost efficiency is unanimous for all bank sizes except for the class of 601-900 FTEs
- Small banks (<300 bank employees/FTE) managed to improve their iR adj from 1.55 in 2013 to 1.43 in 2014, the 301-600 class from 1.36 in 2013 to 1.05 in 2014 and big banks (>900 bank employees/FTE) from 1.18 in 2013 to 1.01 in 2014
- Banks with employees between 601 and 900 employees/FTE could not improve their iR adj: a minor increase can be observed from 1.20 in 2013 to 1.22 in 2014



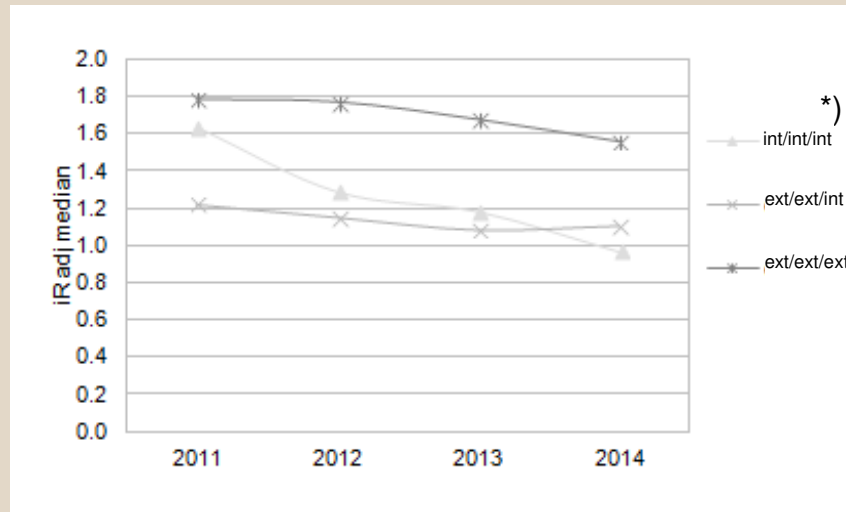
- Comparing all classes for the year 2014, the potential of the economies of scale seem to level off at iR adj = 1.00
- The most IT cost efficient banks are still those in category >900, with an iR adj of 1.01

Larger banks seem to be better able to manage their more complex structures and processes

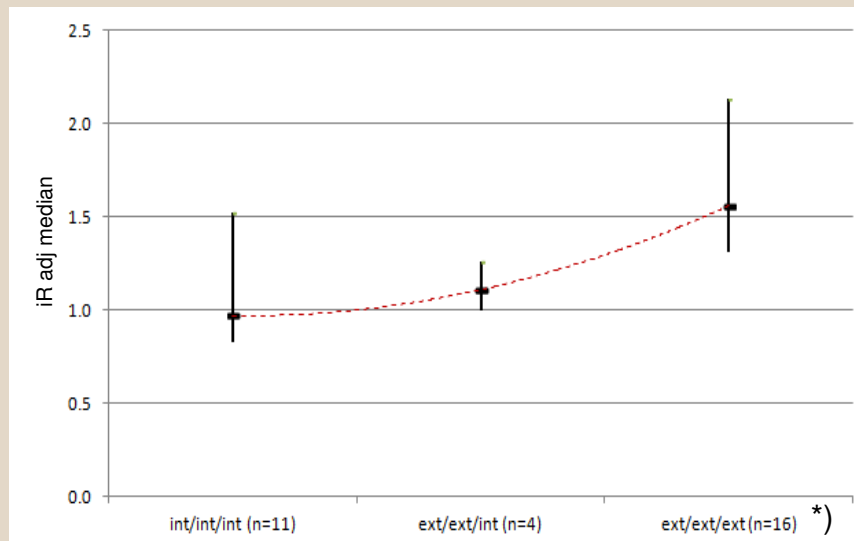
However, the variance reaching from 0.91 – 1.66 is large and exceeds on the upper end the median iR adj values of almost all other bank types

# Time series

## IT cost coefficient iR adj in relation to IT policy



- Compared to 2013, in 2014 all\*\*) classes managed to lower their iR adj or stayed at same levels, as follows:
  - “int/int/int” class: from 1.18 in 2013 to 0.97 in 2014
  - “ext/ext/int” class: from 1.09 in 2013 to 1.11 in 2014
  - “ext/ext/ext” class: from 1.68 in 2013 to 1.56 in 2014



- For the first time “ext/ext/int“ is not leading in terms of lowest iR adj anymore and has been replaced by “int/int/int”
- However, both ends of the “int/int/int”’s variance is exceeding the variance end values of “ext/ext/int”
- It is remarkable that a “fully-fledged” outsourcing as IT operation sourcing policy seems not to be a favourable option, if a low iR adj is targeted

\*)

- 1st sourcing object: Infrastructure operations (ITO)
- 2nd sourcing object: Application operations (AO)
- 3rd sourcing object: Application management (AM)
- classes: int: internally managed, ext: outsourced

\*\*) 5 banks have **other** IT policies with occurrences of 1 to 2, and are not included



Thank you

