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Winner determined by “Information”

Age of Financial IT (Part 1)

Now that financial institutions have adopted an “aggressive” policy after the peaking of bad debt disposal, their IT power is now in question. The essence of financial business, ranging from deposit administration to credit analysis of loan, lies in “information,” and thus, the key to competitiveness is how to utilize IT, which changes day by day. A new competition for survival by restructuring IT power has begun among financial institutions which use to be satisfied by all following the former “convoy” administration system.

Shinsei Bank: Strength in “Intellectual Factory”

Pursuing “optimal production”

Shinsei Bank offers unique services, such as free charges on using ATMs at other banks, free charges on remittances via Internet settlement, issue of cards simultaneously with opening of accounts, etc., and maintained a top-ranking position for 2 years in a row in terms of customer satisfaction in the survey this year on financial institutions conducted by Nihon Keizai Shimbun Inc. This position is being supported by its Meguro Production Center (Shinagawa-ku, Tokyo) which plays a core role in IT development. Shinsei Bank has hired four to five hundred system engineers with various nationalities, such as Indians, Chinese, etc. Unlike mega-banks’ systems, the Shinsei Bank system, restructured 5 years ago when the Bank was opened, consists of a combination of parts with different functions, so that if new functions are to be added, only that part will have to be replaced. The secret of how the Bank can offer new services in a timely way lies with this system.

“This is the only financial institution in the world where individual customers can have access to such a highly sophisticated system,” boasted Mr. Dhananjaya Dvivedi in charge of IT at Shinsei Bank, who once worked on computer system development at Citibank.

In that respect, the Production Center has the same position as a factory for a manufacturing industry. The internal locations are to be changed from time to time according to tasks and busyness. By “location which made reference to a factory production line” (Mr. Yoshikazu Sato, General Manager of the Information Technology Division), the Bank always pursues an optimal “production system.”

E-Bank sells its computer system to outside customers

“The outside sale of the computer system will be one pillar of profits and settlement by Internet will be free of charge in the future,” disclosed President Taiichi Matsuo of E-Bank, specializing in Internet banking.

In addition to services of an Internet bank, such as remittance via e-mail, etc., the strength of the Bank is being supported by the “no sleeping system.” Several system centers are simultaneously operated to enable 365-day 24-hour basis operations, free from system stoppages caused by repairs.

Some financial institutions have already approached the Bank about the purchase of the system. The Bank expects the demand for outside sale of the computer system to expand when and if non-financial corporations enter into the financial market in a large scale.

Stagnant move by mega-banks

Newly emerging banks are trying to remake the existing financial order by IT. Mega-banks being threatened by such challenge appear to be slow to respond because of their sheer size.

“The Bank of Tokyo-Mitsubishi UFJ, Ltd.” will start operations in January 2006 as a result of the merger of the Bank of Tokyo-Mitsubishi (“BOTM”) and UFJ Bank. In order to be fully prepared for computer system integration, the computer systems as is of both banks are to be connected on “Day 1” when the new bank is born, and to be fully integrated by “Day 2” at the end of 2007.

One of the great advantages of bank integration is to rationalize computer system development requiring a huge amount of investment, but at least in the coming 2 years, the former two banks are to improve the systems independently. Day 1 was postponed from October 2005 to January 2006 by the instructions of the Financial Services Agency, and thus, Day 2 may be postponed.

There are other problems as well. Respecting accounting system processing deposits and loans, BOTM has adopted a computer system developed by IBM Japan, Ltd., and UFJ a system developed by Hitachi, Ltd. Disregarding an indication that UFJ’s system enabling 24-hour ATM operations, etc. is superior to BOTM’s, the new bank has decided on integration into BOTM’s.

Although UFJ’s own system functions are to be added to BOTM’s system by Day 2, it remains to be seen whether the new computer system will work without failure. It is said that the new bank emphasized its “honor” rather than the “reality” of IT.

Fretting regional financial institutions

Regional banks, etc. have an increased sense of crisis as the development cost of computer system soars. In order to break this situation, the Hachijuni Bank, Ltd. in Nagano Prefecture started up an organization where eight banks can participate in a jointly owned computer system developed by the said bank. The Awa Bank, Ltd. and the Yamagata Bank, Ltd. have already started utilizing the system. While the Hachijuni Bank can recover its development cost for the basic system from common use of the system, other member banks can appropriate money to the system development of new financial products.

According to Gartner, a US research firm, IT investments by the domestic financial industry, including securities companies, insurance companies, etc., amounted to 1,878 billion yen in 2004. The issue is how to make huge investments and to make them profitable. The new age of survival by “Information Standard” has begun.

(Mr. Shigehisa Furutani and Mr. Yohsuke Suzuki)

**Japanese banks have delayed developing IT due to the convoy system.
The key for survival is how to secure staff for IT development.**

The financial industry was the first among many Japanese industries to utilize IT (information technology).

Computers were first introduced into the Tokyo Stock Exchange and Nomura Securities Co. in Japan 50 years ago in 1955. Mitsui Bank (now Sumitomo Mitsui Banking Corp.) first operated in 1965 the online system to connect its offices by network and handle data in real time. The reason why the financial industry first utilized IT was because money as “digital information” was handled by the industry.

The IT peak came in 1980s when “the 3rd online system” was established. As a result of simultaneous entry by financial institutions into a computer system and connection of each system by network, it became possible to instantly process domestic remittances, deposit withdrawals, fund transfers, etc. with any financial institutions. In view of technology and quality, Japanese financial IT become state-of-the-art at this stage.

The rationalization of operations could be achieved in the financial industry as a whole because each financial institution established a highly sophisticated system at the same time, but not much success was witnessed in making use of IT as a tool to gain an advantage over peers. There was no specific corporate strategy of any banks at that time, because the financial industry moved in the convoy system under the guidance of the former Ministry of Finance.

Entering the 21st century, banks have finally begun to adopt a policy of publicizing their own management/financial products strategy and utilization of IT. This is “IT utilization directly connected to corporate strategy,” including various transactions via the Internet, highly sophisticated business for screening loan, profitability control for each customer, and so forth.

The key to survival in the IT competition age is management ability to utilize IT comprehensively. Nevertheless, since the bursting of the bubble, financial institutions have tried instead to decrease the number of their own IT staff. Major financial institutions in the U.S. have three to four thousand IT staff while Japanese counterparts have one-tenth these numbers.

Japanese financial institutions will have to decide whether to increase their own staff once again or replenish them by a strategic tie-up with others. Only financial institutions which succeed in securing personnel who understand finance and IT will be survivors.

(Mr. Yoshiyuki Tanishima, the editor of The Nikkei Biztech)