

IT report

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BRENDA NIEHAUS, chief information officer

Overview

The digital revolution in financial services offers increasing opportunities to improve our engagement with customers, develop customised products and services and enable more cost-effective distribution platforms and faster, more reliable back-end processes. The group’s response to these developments has been to make significant investments in establishing and maintaining cost-effective, efficient and relevant IT infrastructure. The role of IT within the group has shifted fundamentally from being a support function to becoming a critical enabler of our strategy. It lies at the heart of our ability to constantly adapt to a changing world and create sustainable value for our stakeholders.

Underlying our ability to execute our strategy in a digitally enabled financial services environment is the transformation of our core banking platforms. Major projects are underway to replace decades-old legacy systems, designed for traditional branch-based banking processes, with systems able to meet customer demands for more agility, higher levels of flexibility and increased availability. Given the speed with which customer demands are changing, we have taken a dynamic approach by which we are enhancing our front-end customer engagement interfaces while simultaneously proceeding with the longer-term upgrading of our back-end systems.

A maturity assessment conducted by KPMG in 2014 confirmed that the group’s IT governance structures had been strengthened during the year, with adequate oversight and support for IT. A group IT committee was established as a subcommittee of the board and is chaired by a non-executive director. The IT operating model and structure was reviewed and consolidated to allow for clearer executive accountability. At management level, a group IT steering committee, with supporting subcommittees, was established to provide an effective IT governance framework and to manage the overall architecture and risk of IT projects. Technology investment committees in the business units are responsible for prioritising

investments within budget to ensure alignment of IT programmes to business strategy, as well as to monitor time, scope and cost of these projects.

A group CIO was appointed and is represented on the group manco. The business unit CIOs report to their chief executives, as well as to the group CIO to ensure that IT strategy is aligned and integrated with the business unit strategies. The group CIO and IT executives are suitably qualified, have access to the board and executive management, and serve as a bridge between IT and the group. As a business within the group, IT adheres to the relevant group governance frameworks, standards and policies.

Strategy

Standard Bank Group’s IT strategy is founded on two closely aligned imperatives: to remain competitive in a challenging business environment (change the bank) and to provide stability, resilience and appropriate risk management disciplines (run the bank). These imperatives are now more closely aligned than ever before.

The strategy is executed through many projects that aim to achieve four clearly articulated milestones, which are set out below.



The group manco reviewed and approved a roadmap that includes the completion of the SAP core banking implementation in South Africa and Finacle core banking in the rest of Africa. There are significant opportunities to simplify and rationalise our IT environments to reduce complexity and risk and enable innovation, and we have developed clear principles to accommodate the duality of a fast-moving competitive environment and the need for

a standardised, stable core. Key to this is remodelling our IT to accommodate social, mobile, data analytics and cloud technologies.

Performance

We have made considerable progress in delivering on our plans for large-scale project implementation and productivity improvements by consolidating, standardising and improving the efficiency of IT infrastructure across our customer-facing business units and group functions.

Within PBB SA the first phase of a new customer relationship management solution was rolled out nationally and is being used as a single point to capture all customer-related service requests. The completion of this 'customer first' journey is expected in 2015. The replacement of our core banking system is a key enabler of the PBB SA vision and allows us to be agile and responsive to meet the needs of our customers. Tangible progress was made during 2014 in rolling out innovative digital channels and making use of the mobile platform.

In the rest of Africa, the Finacle core banking system has been implemented in Namibia, Nigeria, Uganda, Botswana, Tanzania and most recently, Ghana. In 2014, system upgrades were made in Botswana, Namibia, Nigeria, Tanzania and Uganda to stabilise and optimise existing installations and enable the introduction of digital platforms.

Within ClB, one of our main priorities in 2014 was to enhance our online capabilities across our markets and product lines and we have made good progress in this regard.

By providing integrated, automated, mobile and usable systems to our staff in our human capital, finance, risk and compliance functions, we are rationalising and simplifying our internal processes and fundamentally transforming the way people work within the organisation.

Expenditure

The costs of transforming our core banking systems are an investment in the significant long-term competitive advantage, value creation ability and sustainability that the new systems will afford the group. A large contributor to the costs is the dual operation of legacy systems and new systems as we migrate customers to the new platform. Following a benchmark of IT performance and costs conducted by McKinsey considerable focus is being placed on improving efficiencies in 'run the bank' costs and delivering more for less in 'change the bank' costs over the next four years, to bring these costs within benchmarks by 2017.

Our new IT infrastructure represents a significant capitalised software asset on the group's balance sheet. This asset is amortised on a straight-line basis at rates appropriate to the expected useful life of the asset. The amortisation impact is expected to peak in 2017.

Mitigating risk

Our main IT risks include the failure or interruption of critical systems, cybercrime, unauthorised access to systems and the inability to serve our customers' needs in a timely manner. These risks are mitigated through various controls which are implemented and closely

monitored by management. We continuously review and invest in our security systems and processes to ensure our customers are well protected. Actions to reduce the likelihood of risks materialising are identified and accountabilities for remediation are allocated to management.

Service delivery

With the introduction of the new mobile banking channels, transactional banking is now a 24/7 service with high customer expectations. Although we met all major service level agreements in 2014, there were some service interruptions, which resulted in media attention and regulatory scrutiny. It is a reality that a certain amount of instability is unavoidable during periods of significant change to IT systems. The total number of critical incidents that occurred across the group in 2014 increased by 3% compared to 2013. The most severe of these incidents was in September 2014, when a mainframe and network outage was experienced which had a significant impact on our customers' ability to transact. Our response to this interruption confirmed that our business continuity measures are sound and that we have the resilience to recover from major system failures. The group sets recovery and business resumption priorities, and contingency procedures are tested and rehearsed so that interruptions are minimised.

Regulatory environment

As enablers of business, IT systems are impacted by, and facilitate compliance with, regulatory changes. We have made good progress in implementing IT controls in preparation for the Protection of Personal Information Act (PoPI) and have established an internal programme to assist in meeting the requirements of the TCF regulatory regime. In particular, we are considering the impact on customers of changes in technology, system failures and security incidents.

Looking ahead

We continue to make significant progress in implementing the group's IT programmes, notwithstanding their significant scale and complexity. The new developments that are being enabled by our investment in transforming our core banking platforms are already delivering substantial value. Besides strengthening our ability to adapt to rapid change, they are underpinning continuous improvement in the quality of service to our customers.

Although these projects will continue to place upward pressure on costs and the risk of operational instability will remain through to the end of 2017, our sound plan and effective governance processes will help to mitigate these realities. The profound long-term benefits of the overhaul in the group's systems will continue to strengthen our competitiveness, resilience and agility in support of the group's strategy.