



Commonwealth Bank

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“Strategic Considerations for IT outsourcing”

Salomon Smith Barney

The 2002 Australian Banking Conference

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Disclaimer

The material that follows is a presentation of general background information about the Bank's activities current at the date of the presentation, 6 March 2002. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.



Agenda

- ☒ The environment for IT outsourcing
- ☒ The strategic decision
- ☒ Execution and review



Criteria for Outsourcing

- ☒ For any possible outsourcing (eg. IT, cheque processing, mortgage processing, mailrooms etc.)
- ☒ The organisation must understand whether this function is
 - ☒ Strategic
 - ☒ Core
 - ☒ Customer Impacting
- ☒ And have a vision for the future



Making predictions is very
difficult...
especially when
it involves the future

Casey Stengle



The Future IT World

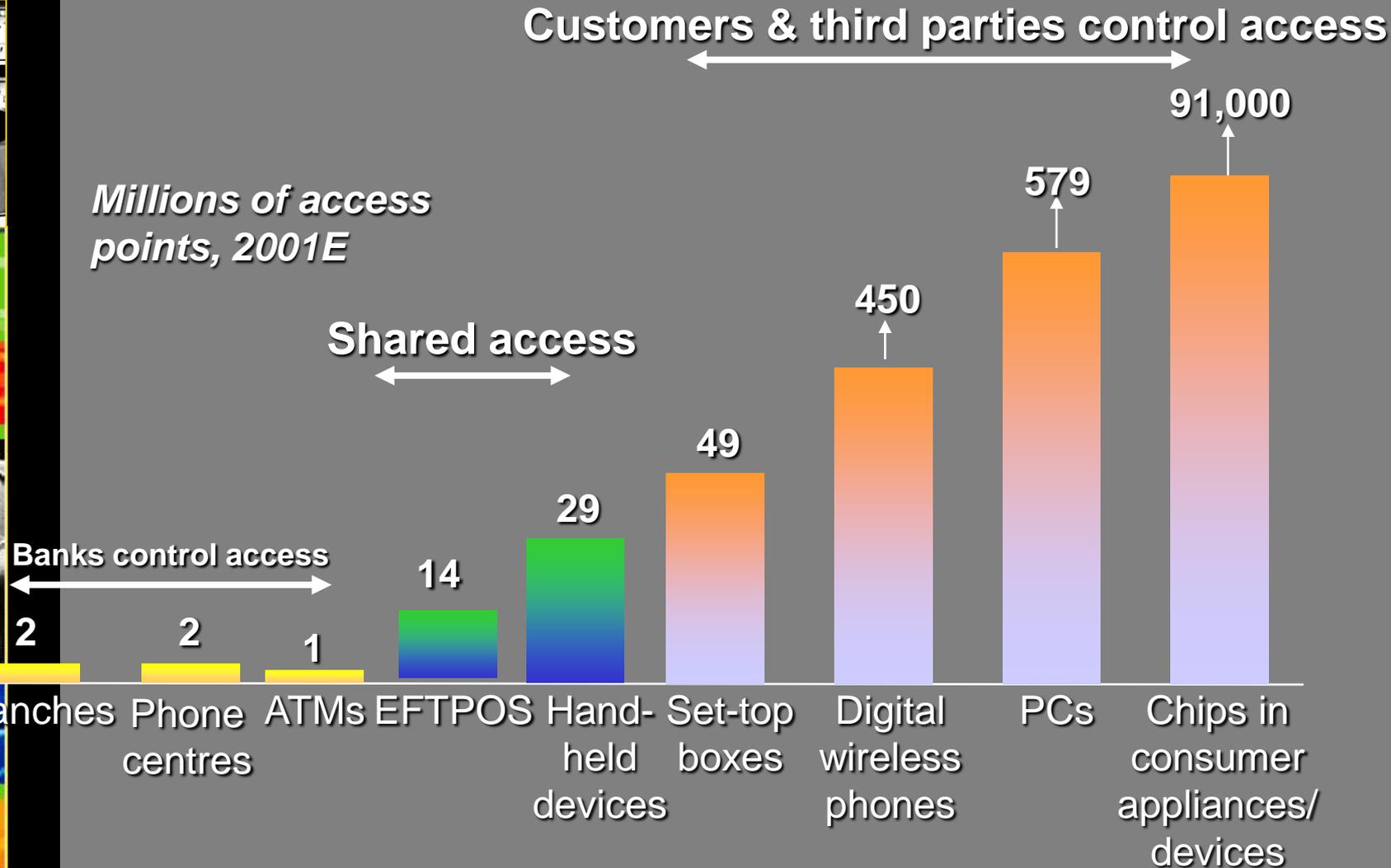
- ☑ The Net is the ecosystem
- ☑ Every electronic device web-connected
- ☑ Most devices wireless connected
- ☑ Most paper forms, documents are electronic
- ☑ The net is 'where I work'
- ☑ The net is 'where I go to be informed'



Technology and Channel Access



Millions of access points, 2001E



Source: McKinsey & Company, Turmoil & Transformation in Financial Services, 1998





Significant vision always
precedes
significant success

Fred Polack
'The image of the future nations'



Refocusing Technology for Advantage

- ☒ Finance is a global industry
- ☒ Unlikely to create competitive advantage with in-house IT&T. Costs were escalating and service deteriorating
- ☒ Customer service and productivity advantage from IT&T is a precursor to business success

Conclusion:

- ☒ Global IT&T partners needed



CBA IT&T Outsourcing History

- ☑ Sets outsourcing objective Feb 1996
- ☑ Shortlist of two Aug 1996
- ☑ Bank issues RFP to both vendors Nov 1996
- ☑ Vendors respond to RFP Feb 1997
- ☑ Bank selects EDS Aug 1997
- ☑ Contract signed Sep 1997
- ☑ Fully operational IT Outsourcing Oct 1997
- ☑ RFP for Telecoms Outsourcing Jan 2000
- ☑ Contract let to TCNZA Sep 2000



Numerics of CBA IT Outsourcing

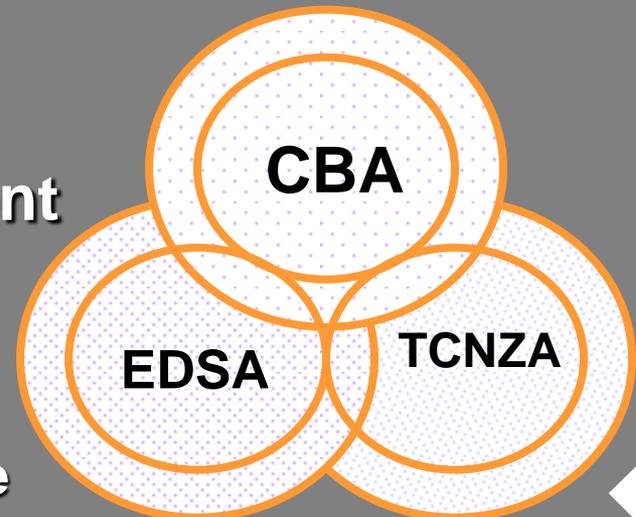
- ☒ 10 year A\$5 billion + contract
- ☒ All technology transferred to EDSA
- ☒ Approximately 1500 people transferred
- ☒ Bought 35% of EDSA



Objectives of IT&T Outsourcing

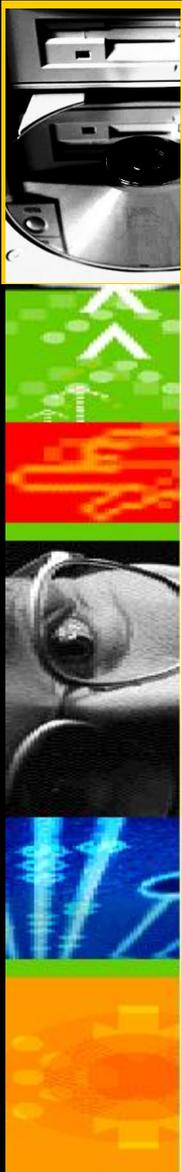
- ☒ Global industry requires a global technology perspective
- ☒ Single point of responsibility
- ☒ Best practice unit pricing and service levels
- ☒ Increased leverage from Value Add Partnering and R&D
- ☒ Reduction in risk
- ☒ Variable cost environment

Result: Competitive advantage



Management obligations following outsourcing

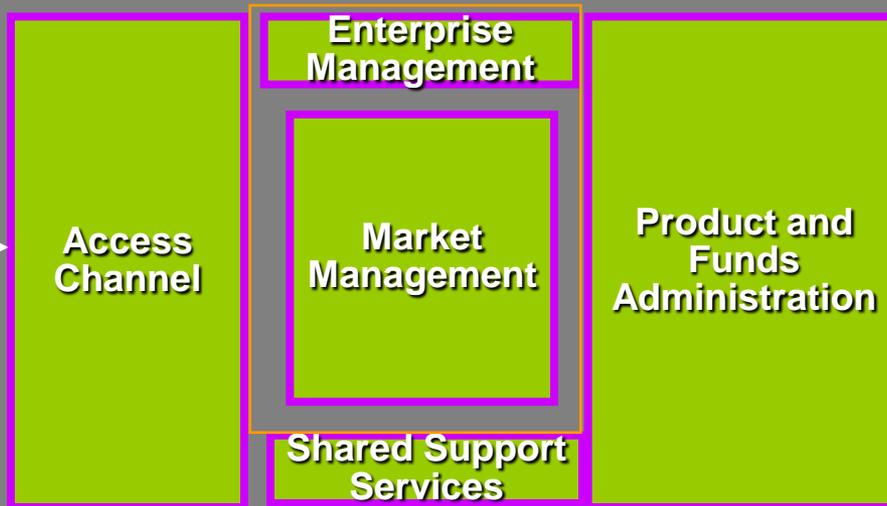
- ☒ Leadership creates culture of innovation
- ☒ Revamp standards, policies, procedures for Webspeed
- ☒ Redesign key processes and products end to end
- ☒ The packaged application resets the process
- ☒ Rethink supplier and partner strategy



Partners must be as one with key technology priorities

- Data/information management
- Customer relationship management

- Common on-line platform
- 3rd party distribution on-line
- Web-enabled sales and service platforms
- Internet enabled ATM/EFTPOS



- Rationalise and simplify:
 - Protection and funds management systems
 - Retail banking systems
 - Institutional banking systems

- Document management and imaging
- Middleware / workflow
- Finance
- HR





Execution and Review



The Group's ongoing technology obligations

- ❑ Ownership of the technology strategy
- ❑ Implement Governance model
- ❑ Manage outsourcing contract expertly
- ❑ Set and monitor service levels
- ❑ Develop architecture, intellectual property and policies
- ❑ Benchmark pricing and redefine services
- ❑ Oversee EDS relationships with CBA users
- ❑ Agree process to resolve issues
- ❑ Business units define their requirements and take ownership of projects



Contract Post Implementation Review

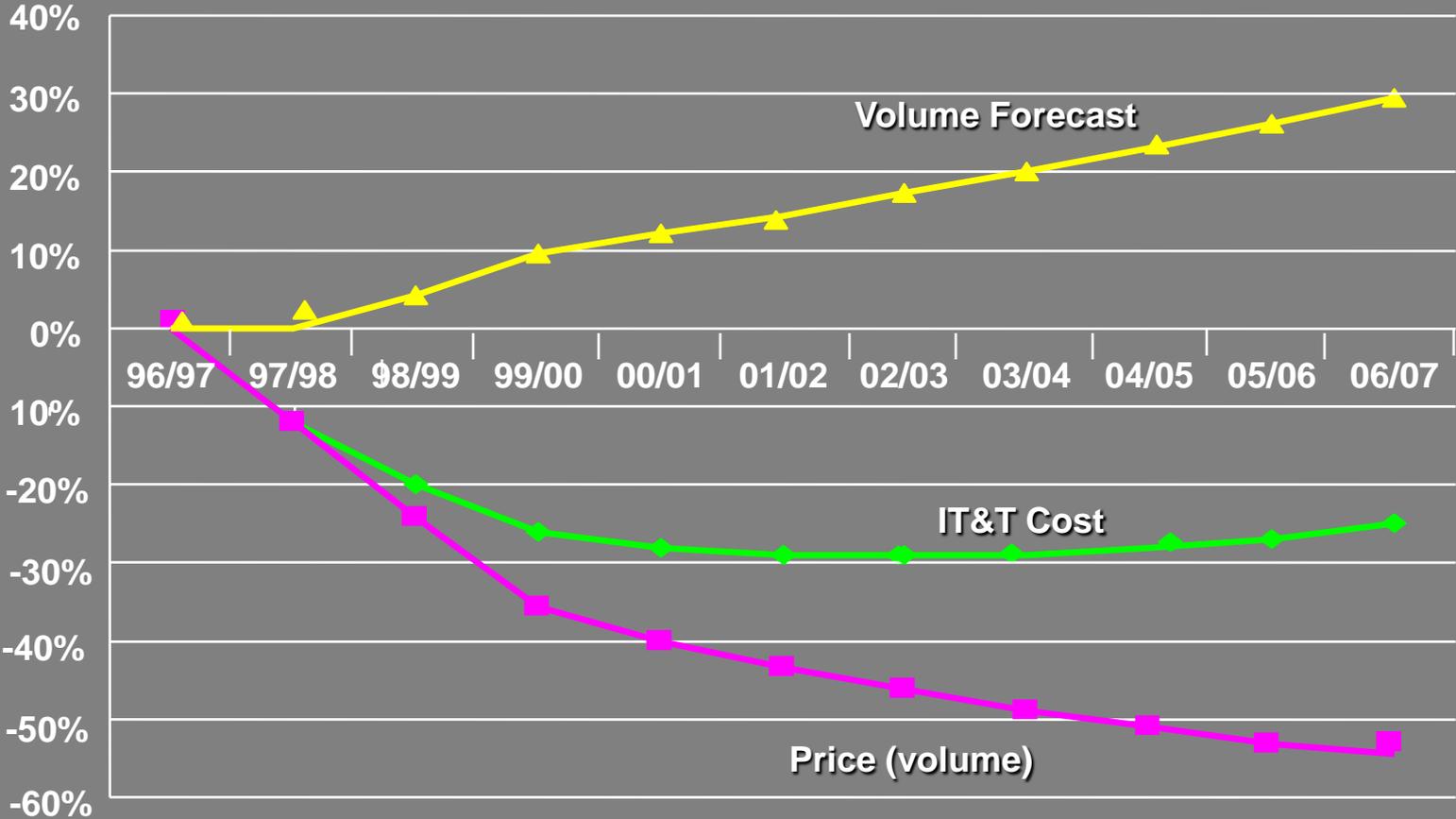
- ☒ Conducted annually
- ☒ Maintains focus on achieving the benefits
- ☒ Identifies areas for review



Has IT outsourcing worked?



EDS contract pricing



IT & T Costs

Since outsourcing IT+T costs increased by CAGR 3%



Note

- Excludes Integration and Colonial IT costs.

Since Outsourcing IT+T Transaction volumes projected increase by CAGR 11%

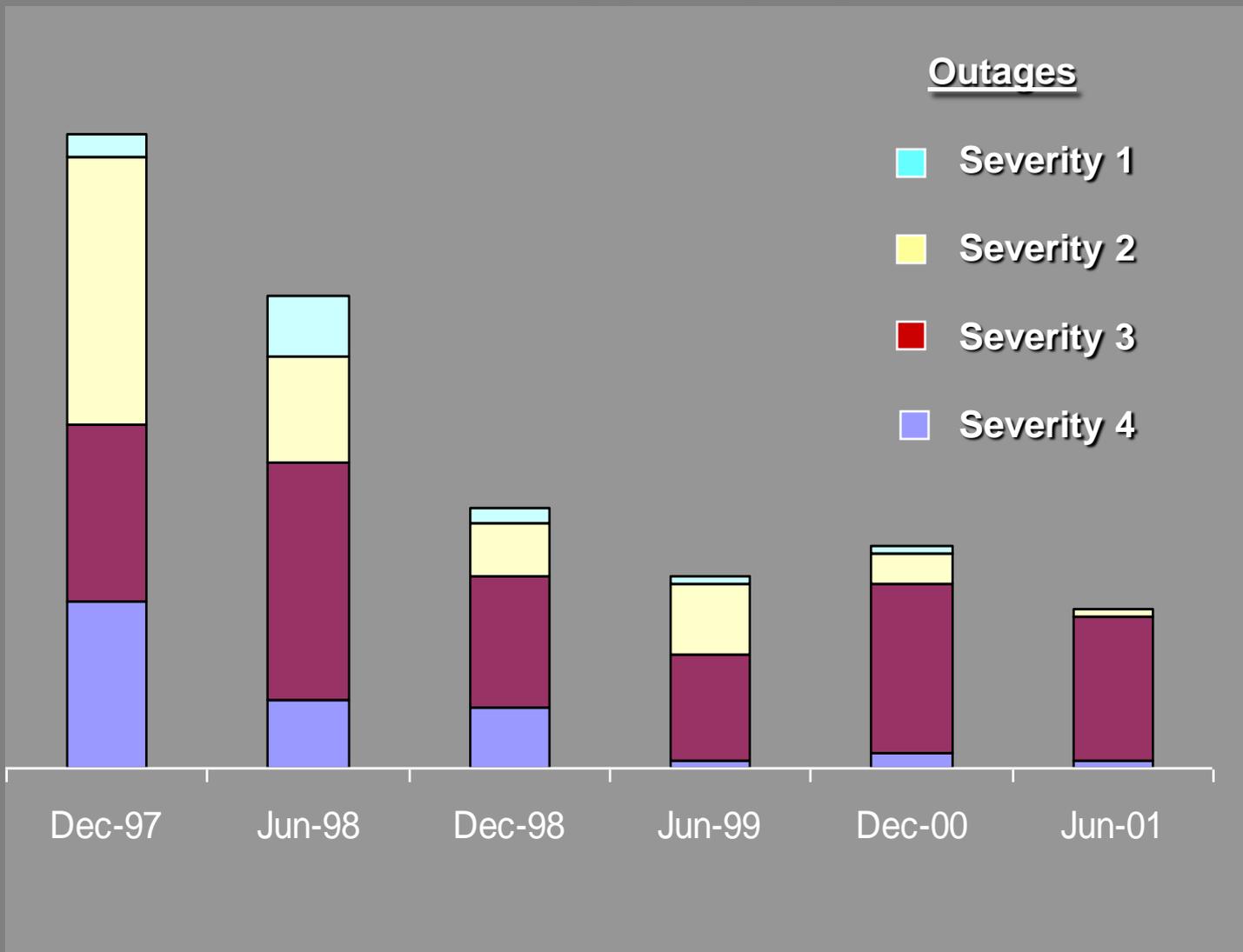
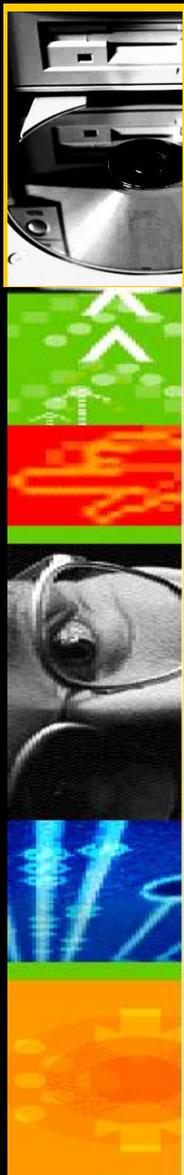


- IT&T rates competitive
- Volumes driven by business need

•Excludes GST for 00/01 A.



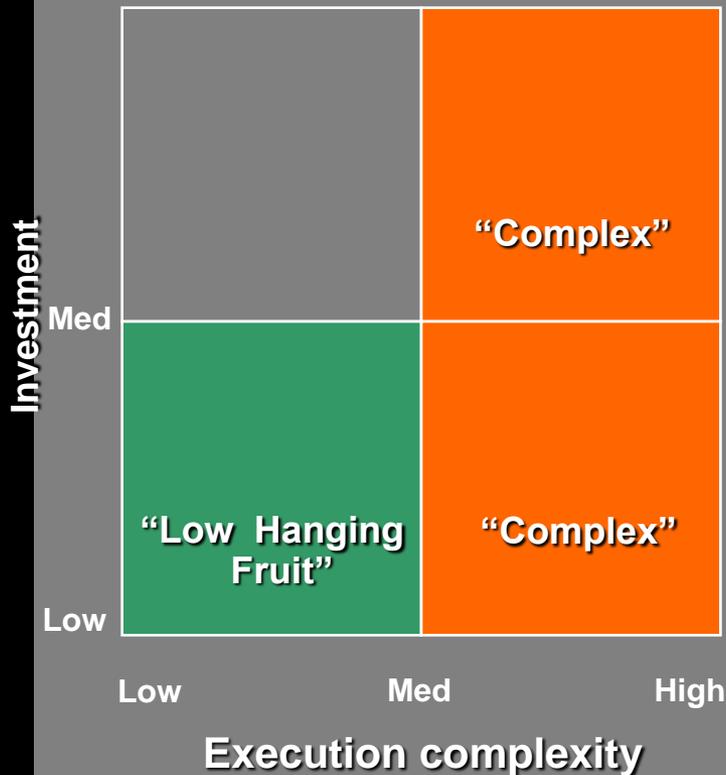
Total Service Outages - Dec 97 to current



Business Governance and Compliance Model is Critical

The Challenge

Governance approach



Steering Group

- Single Governance Body across the Group (Executive Committee)

Program Management

- Single Senior Executive driving collaborative involvement and delivery across major stakeholders
- Single Program Office managing progress to master plan, and delivery of cost/benefits
- Single prioritised list of projects

Project Teams

Outsourcing Advantages

For shareholder:

- ☑ Best in class prices
- ☑ Fixed to variable costs
- ☑ Budget savings of 15% - 30% per annum

For customer:

- ☑ Service level improvements
- ☑ Time to market improvements

For our IT staff:

- ☑ Broader career opportunities
- ☑ Currency with skills
- ☑ More energised culture



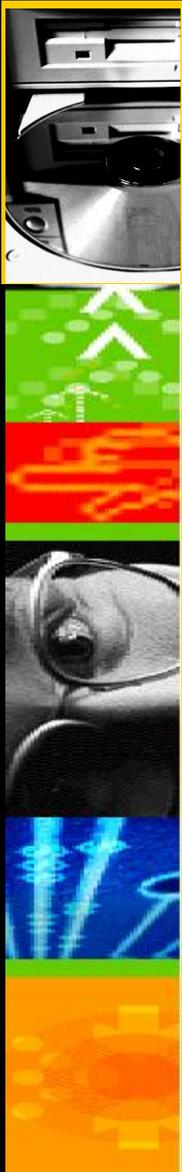
Other Benefits

☑ Pricing certainty

☑ Value discovery

☑ A global view

☑ Access to partners' partners



Risks

- ☒ Must have clear contract including clear responsibilities
- ☒ A good agreement reduces risk
- ☒ There will be issues - an issue management process is critical
- ☒ A buyer/seller relationship does not build enough trust
- ☒ Control does not require ownership
- ☒ You cannot outsource accountability



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AND TECHNOLOGY
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