

Information technology and innovation at shinsei bank

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9-607-010 REV: OCTOBER 4, 2007 DAVID M. UPTON VIRGINIA A. FULLER

Information Technology and Innovation at Shinsei Bank Jay Dvivedi looked once more at the proposal in his email inbox, sighed and closed his laptop for the night. He owed his boss, Shinsei CEO Thierry Porte, a response and he knew that he would need to send it in morning. One of the heads of Shinsei's business units had approached Porte directly with a proposal for a new, off-the-shelf customer relationship management (CRM) system for his business. He wanted to fund it and implement with his own personnel, but he needed approval from Porte. Before Porte responded he had requested input from Dvivedi. When Dvivedi discussed the idea with his team the opinion was divided. The information technology organization had played an integral role in the revitalization of Shinsei Bank from the ashes of Japan's failed Long-Term Credit Bank (LCTB). In March 2000, Dvivedi had been charged with the task of developing a revolutionary technology infrastructure for the newly formed Shinsei Bank.

When he asked then CEO Masamoto Yashiro for some guidelines he was told to do it "Fast" and "Cheap". Drawing on his wealth of experience in technology and operations in the banking industry he and his team were able to come up with a quick, robust, and inexpensive approach through which the reborn bank could deliver its newer products and services. Shinsei, which literally meant "new birth" in Japanese, was committed to providing an improved, customer-focused model with such conveniences as Internet banking, 24-hour cost-free ATMs, and fast service based on real-time database reconciliation¹.

Developing and organizing the technology required to enable this was a monumental task, but one that Dvivedi and his team were able to execute within one year (one quarter of the time that would be needed to implement a traditional system), and at only 10% of the forecasted cost of a traditional system. By 2005, the bank had 1.4 million customers, and was acquiring new business at a rate of 35,000 customers per month. When Dvivedi discussed the proposal with his team some said that the business understood its own objectives best.

If a business unit felt that it should add a new system at its own cost then that was its right. Alternatively, other team members felt that this was against all of the principles that had been used to resurrect Shinsei's IT systems and represented a dangerous step backwards. ¹ In many other banks in Japan, deposits and withdrawals did not appear until the next day in order to reconcile the transaction and primary databases. Shinsei wanted to immediately update and make visible the data for its customers.

_____ Professor David M. Upton and Research Associate Virginia A. Fuller prepared this case with the assistance of Masako Egawa, Executive Director of the HBS Japan Research Office, and Akiko Kanno, Research Associate at the HBS Japan Research Office. Portions of this case draw upon "Shinsei Bank (A)," HBS No. 302-036, "Shinsei Bank (B)," HBS No. 302-037, "Shinsei Bank (C)," HBS No. 302-038, and "Shinsei Bank (D)," HBS No. 02-039 by Professor Michael Y. Yoshino and Senior Research Associate Perry L. Fagan. HBS cases are developed solely as the basis for

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No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School. 607-010 Information Technology and Innovation at Shinsei Bank Dvivedi needed to draft a thoughtful, well-reasoned reply to Porte and he would have to do it first thing in the morning. Shinsei's Predecessor: LTCB LTCB, was established by the government in 1952 to provide long-term funding to rebuild Japan's basic industries after World War II.

This strategy proved successful until the 1980s when financial deregulation diminished the demand for loans by traditional borrowers and LTCB aggressively expanded in the real estate and construction markets. Because of Japan's booming economy, land prices were skyrocketing and many loans were provided based on land collateral rather than an appropriate analysis of risk or future cash flow of the borrower. When the asset bubble burst and land prices plummeted in the early 1990s, banks were left with an enormous amount of bad debt.

In spite of the increase in non-performing loans, Japanese banks were slow to take action. At the time, many still believed that the fall in land prices was temporary and that they could wait out the crisis. Furthermore, Japanese banks placed great importance on long-term relationships with their borrowers and were reluctant to raise lending rates in what seemed like a temporary business slowdown. LTCB desperately explored ways to save itself. Conditions continued to deteriorate, however, and its stock price continued to fall.

On October 23, 1998, LTCB finally collapsed with nearly \$40 billion of non-performing loans and was nationalized. The failure of LTCB marked the largest banking failure in post-war Japan. Acquisition by Ripplewood The events that followed were unprecedented; a Japanese landmark was bankrupt, and was subsequently purchased by a U. S. private equity fund, Ripplewood Holdings, with Goldman Sachs representing the Japanese government. Masamoto Yashiro, former president of Exxon Japan who had just retired after heading Citicorp Japan, was persuaded to join the American investors in acquiring the bank.

The government initially favored selling the bank to a Japanese financial institution or an industrial company, but Ripplewood eventually won the bid. On March 1, 2000, LTCB became the first Japanese bank with foreign ownership. “ New Birth” The name of the bank was changed to “ Shinsei,” and Yashiro became CEO. In the first few months, Yashiro moved quickly to establish a new organization and build the bank’s business in three main areas: commercial banking, retail banking², and investment banking.

LTCB had previously generated most of its revenues from corporate loans, but Yashiro was eager to move out of this low-margin business. “ The asset quality [of our loans] was extremely poor, the number of corporate and individual accounts had shrunk by 40%, the traditional business – corporate lending – was very unprofitable, and the bank’s IT infrastructure and operational capability were significantly inferior even relative to our local competition,” said Yashiro. Fortunately, the bank had received JPY 240 billion in public funds, and was able to start business with a strong capital ratio³ of 12. %.

² Banking services for individual customers ³ The capital ratio is the ratio of a bank’s equity to a risk-weighted sum of the bank’s assets.

Information Technology and Innovation at Shinsei Bank 607-010 LTCB did not have much presence in retail banking, with only two dozen branches throughout Japan, while major commercial banks had several hundred branches. The bank sold debentures (instead of receiving deposits) to high net worth individuals, but those individuals conducted their banking transactions at other banks which had a broader branch network.

Shinsei bank needed an entirely new business strategy, and that, decided Yashiro, would be to serve retail customers. To create a retail banking business from the ground up, Yashiro needed the help of a visionary and technologist. Dhananjaya “ Jay” Dvivedi looked like the right man for the job. An experienced manager of technology and operations with whom Yashiro had worked at Citibank Japan during the 1990s, ⁴ Dvivedi had an engineering background and sought to apply manufacturing principles to the development of the new IT infrastructure. Retail Banking Business

The traditional methods of retail banking in Japan were anything but convenient. Business hours ended at three o'clock in the afternoon (to allow time to reconcile computer system information with the databases), no ATM usage outside of business hours, fees for ATMs, no Internet banking, long lead times for new account openings, separate accounts for each type of financial product, and other inconveniences had been an unavoidable, bitter pill for people managing their money in Japan. Yashiro and Dvivedi, therefore, endeavored to offer an alternative.

Shinsei would have to “wow” potential customers into switching over from other banks. They had to offer something “extra” to convince customers to bank at Shinsei. The way to do this, they felt, was through outstanding customer service. Customer Service Model Yashiro believed it was better standards of service, and innovation in services, that would ultimately attract customers to the bank. “We were new. If we didn't have something new to offer, there would be no reason for customers to come to us,” said Sajeeve Thomas, head of Shinsei's retail group.

The goal of developing new and closer relationships with customers through unique products and services became central to Shinsei's transformation. The shift to meeting the competitive requirements of a retail bank, however, proved to be a significant undertaking for an institution specializing in corporate financial work. For the transformation to be effective, speed, flexibility, and cost control were paramount. A complete overhaul of the IT system would be required in order to enable this. The new customer-service-

based business strategy required a scalable and robust operational and technological infrastructure.

Such an infrastructure would help the new business segments grow by supporting enhanced, high quality, 24×7 customer service, product innovation and volume growth. This process involved nothing short of a revolutionary approach to information technology. “ Indeed,” said Yashiro, rather wistfully, “ the real challenge of transformation was not in painting the end state but in choosing the means to reach it effectively. ” 4 Their work at Citibank included a major turnaround of that company’s IT system in Japan during the 1990s. 3 607-010

Information Technology and Innovation at Shinsei Bank Thinking about Technology at Shinsei “ We quickly came to the conclusion that the systems that were used at the old LCTB were of almost no use to us,” recalled Yashiro, lamenting the realization that the extant mainframe infrastructure was actually an impediment to building new business at Shinsei. Its mainframes were overloaded, with no spare capacity, and they relied on separate and disparate networks which were tied closely to the old business model. Maintenance costs were unacceptably high due to locked-in contracts with vendors.

The network capacity was inadequate and too expensive. At the same time, the operational processes were inefficient and full of multi-layered, repetitive paper trails. Mainframes were large room-sized computers based on models developed in the 1960s by computing giants like IBM and Fujitsu. For banks,

with their enormous amounts of customer data, daily transactions involved collecting information from millions of accounts, transferring it to the mainframe computer at midnight, then refreshing the data by batch processing for the following day.

Dvivedi believed that mainframes imposed great risks onto businesses; since they held the total data in the organization and this meant that if anything happened to that one computer, the business would be temporarily disabled while the system was transferred to backup machines. It was safer to distribute risks by designing systems that linked several smaller computers, such as servers, together. Servers were much smaller computers, often as small as a pizza box, based on cheaper microprocessors and standard UNIX or Windows operating systems.

Such smaller servers were often combined into clusters of many hundreds of devices and were thus not only cheaper, but also more scalable than mainframes as capacity could be added to the system in much smaller increments. In the past, almost all banks had run on mainframe-based computer systems, but “ removing the mainframes created granularity within the system,” said Dvivedi. This drastically reduced hardware maintenance costs and allowed flexibility such that services and new products could easily be added to the system. Building a New System

Once he had a skilled team in place, Dvivedi focused on centralizing the operations and creating a functional organization. Investigation into traditional methods of large-scale systems implementation exposed the

significant risks and difficulties in adapting a traditional, monolithic, mainframe-based system to the dynamism of Shinsei's freshly rekindled businesses. Indeed, new technology requirements were being developed even as the new business plans took shape, and they would need a scalable IT system that could grow with and even more importantly, adapt to the business. Technology delivers the product to the customer," affirmed Dvivedi. Information technology had to be used as a driver of business, and a source of new business, rather than as a support function. Dvivedi also believed that Shinsei should forge its own IT strategy, rather than follow the examples set by other banks, so that competitors might one day turn to Shinsei for advice. Dvivedi could have chosen a gradual approach to creating a new infrastructure by improving the existing technology and processes over time, replacing one system and process after another.

This would have minimized disruption but would have taken too long. Alternatively, he could have attempted a "big-bang" approach, replacing the existing infrastructure with a completely new set of systems and processes in one fell swoop. This approach, however, was deemed too risky, too disruptive, and too expensive. As part of building the new infrastructure Dvivedi focused on parsimony in selecting standards. There would be one network protocol, one operating system, and one hardware platform. Dvivedi 4 Information Technology and Innovation at Shinsei Bank 607-010 did not wait for consensus before moving to new standards.

Choosing one set of standards, rather than allowing a patchwork of multiple standards to build up, helped keep the complexity low, which, in turn, made

the system easier to manage. The skills needed to run and maintain this infrastructure were standard and people trained in them were easy to find. Instead of looking at the whole system, Dvivedi preferred to break it down into pieces. “ How can we modularize pieces so they can be used again and again? ” he asked. He believed that the key to success was to keep creating new elements and to introduce them into the system without stopping the enterprise.

A caveat of this, however, was the challenge of keeping things safe and secure, yet not so locked-down that they became unchangeable. The approach that Yashiro and Dvivedi decided on was at once radical and accelerated, driven by the evolution of their new business strategy. It involved implementing, as needed, a new, modular operating infrastructure that operated initially in parallel with, but ultimately superseded, the existing infrastructure. Dvivedi’s Vision Dvivedi made choices not simply based on available technologies; rather, he focused first on the business problem that had to be solved.

Once the problem was clearly identified, it was broken down into as many logical parts as possible. “ We’d keep breaking down the elements until the solution was obvious,” said Sharma Subramanian, the IT group’s Planning and Coordination Officer. In addressing each element, the team looked to its toolkit of standard modules and components, and determined whether or not any appropriate solutions existed. If not, they went to the market and sought the missing piece of technology, looking specifically for its availability as a standard component.

If it was not already available as a standard component, they would ask one of their partners to build the component. They would build it so that it was reusable. For a component to be reusable, it had to have a clear specification of the function(s) it performed, as well as a standard interface into which other components or modules could connect. The various components were assembled and reused in order to build products and services for Shinsei's customers, and 90% of the technology components were used by more than one product. To meet Yashiro's mandate, Divedi devised five basic guidelines that were to govern all work going forward. His approach addressed waste and unnecessary work, and the elimination thereof, to make processes more efficient. Every job done was evaluated on the basis of these five criteria:

- Speed – How fast can the work be done? The goal was to build a new IT system within 18 months of conception. Changes were made in small, frequent, and predictable steps. The use and re-use of standard components enabled the team to roll out new capabilities quickly and with minimal testing (since the components already had been tested in their previous context).

Cost – How low can we keep costs? For example, Shinsei understood that they did not have to build everything from scratch. By combining a number of software packages, they were able to construct the new system in a very short time. For example, Shinsei used Intel-based, Windows servers and Oracle database servers on the back-end and off-the-shelf solutions on the front-end. They used standard Dell PCs running Windows. In the process,

Shinsei became the largest bank running its back-end systems on a Windows platform.

Capability - What new capabilities will IT enable? For example, to support multiple currencies and financial products for retail customers the old technology platform that handled deposits, loans and other services had to be changed. • • 5 607-010 Information Technology and Innovation at Shinsei Bank • Flexibility - How easily can the system be changed to respond to business needs? Dvivedi assumed that the business needs of the company would change over time and that the IT systems had to respond to this rather than prevent necessary change as the mainframe system had done. The infrastructure needed to be expandable and robust enough to support the operation as volumes grew. Re-usable component-based architecture would enable flexibility. To make its services flexible, Shinsei used alerts, not reports, to manage workflow. Machinedriven prompts notified employees when work went unattended, demanding attention and action when required. Similarly, when making infrastructure decisions Yashiro made a point of focusing on the business objective, not the ' as-is' environment.

Designing an infrastructure to support a new business objective had to begin with that objective in mind and not with Shinsei's current capabilities. If the objective could be met without changing existing infrastructure then they would not change it. If elements of the existing infrastructure were made redundant by the new approach, then they would become irrelevant and be superseded over time. Flexibility meant not being inhibited by previous

decisions. • Safety – How secure is our system? Safety was built into the process by breaking down the problems into very small parts.

Smaller elements meant a smaller piece of the project that went wrong if something were to fail. Furthermore, a number of small parts meant that each part could be tackled simultaneously to fix the problem more quickly. The approach to safety could be seen clearly in Dvivedi's decision to leverage the public Internet. Back in 2000, Dvivedi met tremendous incredulity at the notion of using the Internet for internal banking transactions. Nevertheless, the Bank went with public Internet lines as opposed to leased lines.

Public Internet technology allowed Shinsei to move work to any location, including lower-cost locations, such as India. ATMs, telephones, call centers, video, and data were also connected through public lines, at a fraction of the cost of leased lines. " We use the Internet in two ways, for transport both within and outside the company and we use it to run different elements of our processes. The key is to ensure that each activity or session is performed in a secure manner. We assume that everything will fail. The key task is to ensure there are no single points of failure.

When components fail, we assume that staff will not notice or will be busy on something else. The safety must be passive, that is to say if one component fails, the work must seamlessly move to another component all without any intervention," said Nobuyuki Ohkawa. Ohkawa had decades of experience working on these problems and was the person Dvivedi assigned the task of

designing and deploying the networks and machines on which Shinsei ran its business. To ensure that the data sent over the public Internet was kept secure, Shinsei encrypted all the data it transmitted.

In addition, its networks were secured by deploying the latest in network technology and by a process of continuous monitoring for unauthorized intrusions and denial of service type attacks. Should there be any indication that an attack was attempted, the source of the attack was identified and actions taken to disable or block it. Most of all, however, Dvivedi relied simply on the fundamentals of the internet itself: “ The Internet is anonymous. Your messages and our data travel over the same network in a random fashion. The anonymity is our first level of security”.

Given these parameters and the scope of the undertaking, Yashiro and Dvivedi did not believe they could entrust the project to one hardware vendor. Also, the fluidity of the envisioned end-state made it difficult to engage an outside vendor economically. Yashiro and Dvivedi needed to reach out to external partners to get the resources and know-how that they envisioned, as applied to their projects. Partner companies in Dvivedi’s native India proved to be a tremendous boon. 6 Information Technology and Innovation at Shinsei Bank 607-010 Outsourced Work

Dvivedi engaged multiple Indian firms to handle different parts of Shinsei’s information technology. This outsourced work focused on areas where internal development skills were lacking and where Dvivedi felt that they were not necessary for the bank to acquire. Thus, Dvivedi was free to pull

together work groups of specialists without regard to their physical location. This was a major departure from existing practices in Japan, and proved to be a culture shock for the staff. In fact, Shinsei was the only company in Japan to use solely Indian software services.

Nucleus Software, in Delhi, and Polaris Software Engineering, in Chennai, were two collaborators, as well as the larger Wipro and Tata Consultancy Services companies, in developing pieces of Shinsei's financial software. By employing translators, Shinsei acquired best-of-breed engineers, and did not bother trying to teach them Japanese. They could remain in their respective silos, working on a portion of the Shinsei technology, without assimilation into Shinsei headquarters. In order to outsource work, Dvivedi and his team had to divide the work up into modular parts.

Removing interdependencies was key as they believed that dependency slowed down the work; without dependency, people could work at their own speeds and avoid bottlenecks. For this reason, old systems maintenance was kept separate from new systems development. If unnecessary stress was placed on old systems, the entire system would become unstable and the speed at which new ones were developed would also be at risk. With each company, Shinsei worked to establish a relationship characterized as a "partnership" rather than one of a supplier.

The bank worked with its partners without requiring competitive bids, avoiding traditional requirement documents such as RFPs (request for proposal) or RFIs (request for information). Dvivedi believed that these were

superfluous process steps that added unnecessary time and overhead work to the engagement. Furthermore, Shinsei did not enter into fixed-price contracts; on the contrary, engagements were quantified on a time-and-material basis. Implementation Shinsei moved from mainframes to a Windows-based platform, supported by a high-speed, lowcost, packet based network operated as an internal utility.

They centralized the decentralized, but made sure that everything was modular and highly flexible. Organizational silos were broken down in order to integrate processes. “ We have learned to deliver precision where needed rather than trying to be precise in all things,” said Yashiro. Despite the carefully constructed approach to assembling the guiding principles for the company’s IT strategy both Yashiro and Dvivedi knew that just as many, if not more, IT transformation projects failed during implementation.

As such, they spent a substantial amount of time creating principles to guide the implementation process. • Parity – Parity allowed the old and new systems to coexist in parallel. Dvivedi believed that employees should choose to use the new system if it were placed in front of them. He did not want to appear as though he was convincing people to use the new technology. He told employees: “ We will not change – but we will change the technology. ” He believed the new systems should function much the same as their predecessors, and possess the same look and feel even if this mimicry resulted in extra cost.

At the same time the new system should provide new capabilities so that employees would be excited about using them. As comfort with the new systems increased, the old systems were removed. Dvivedi mused: " Nothing must change for change to happen. " 7 607-010 Information Technology and Innovation at Shinsei Bank • Incremental steps - The smaller the changes, the lower the degree of disruption in the bank. The work was done on multiple parallel paths; development occurred in rapid, short cycles, with progressive delivery of requirements.

As components were tested, they were implemented and reused if they fulfilled their objectives or they were promptly discarded if they did not work. Incremental steps also kept the system accessible as changes could be made on an almost continuous basis. Inclusiveness - Yashiro believed that the business strategy must always drive infrastructure change, and it was therefore imperative that senior managers be closely involved in the technology transformation. Said Yashiro: " I have learned that technology and operations are not just support functions.

They also offer capabilities that can open up new strategic opportunities and businesses for us. " Transparency - Dvivedi tried to keep the technology transparent to the customer, such that the customer would not notice anything different when the technology changed. This would allow Shinsei to remain flexible in its technology choices at no inconvenience or disruption to the customer. Ironically, this required great discipline. Dvivedi had to resist advertising the new technology because, as he said, " the moment you say ' this is going to improve things for you,' you create a dependency. Dvivedi

felt this was important so that the bank would be free to pick and choose its technology as systems changed, while the customer would experience only consistent service. Paperless – Any paper generated had to be checked, filed, and secured while the absence of paper made work distribution easier. Paper intensive, manual processes were replaced with a nearly paperless environment. A room dedicated to scanning services received all incoming paper correspondence and invoices. Such paper documents were scanned and then filed electronically.

The paper documents did not move any further into the office than that initial receiving room. After that, everything was accessible online. • • • All of these efforts supported Yashiro's principle of minimizing the change required of people. Making new systems look as similar to old ones as possible, and allowing the two to co-exist in parallel, were necessary to minimize the disruption of Shinsei's employees. Furthermore, they did not set formal replacement dates for any of the new systems they implemented.

Instead, they performed parallel runs with reconciliation to ensure proper functioning of the new system. They repeated this process for as long as was necessary until they were sure that the employees were comfortable with the new systems. Only then did they turn off the old system. Getting Results Shinsei's key success was in assembling the building blocks of its new infrastructure. The entire retail bank system was implemented faster than planned and well below budget. In the end, Shinsei achieved rejuvenation in one year (instead of the projected three years) and at 90% less than the original cost estimate. The cost of the overhaul totaled \$50 million, while

other banks in Japan had paid ten times this amount for similar initiatives. The success of the system transformation enabled 24×7 multiple channel access to customers rather than a single channel service that was only available from 9am to 3pm. In addition, they were able to obtain real-time balances from these channels, and roll out new products quickly by leveraging standard building blocks that were already in place. Management controls were also significantly improved through the new system.

The old 6-day reporting cycle – characterized by chronically late financial ledger data – was replaced with a daily one, with the added ability to provide customer and product profitability tracking data on demand. 8 Information Technology and Innovation at Shinsei Bank 607-010 They were also able to perform continuous reconciliation on all accounts and standardized what were non-standard, non-documented procedures. New Services “ We have a very specific value proposition for customers,” incoming CEO Thierry Porte said. It’s based on convenience, ease of use, empowering customers, offering things on a low-cost basis, so our ATM system is free and we also offer free Internet transfers. At the same time, we offer high-quality products and services. ” One of these new services was an innovative branch operation featuring “ cashless tellers. ” Dvivedi believed that a key tenet of the customer service model was the interaction between staff and customers. To enhance this interaction both paper and cash had to be eliminated from the hands of the branch staff.

Paper and cash, Dvivedi felt, were “ avoidable distractions” that merely got in the way of superior customer service. In eliminating paper and cash, the

staff was absolved of the traditional duties of cash-counting and receipt-printing, and could solely service the customer. Indeed, the bank's branch services were entirely self-completed; the staff was present only to provide assistance as needed. All transactions took place online, at Internet portals in the branch. The transaction could take place anywhere, however, that the customer was connected to the Internet.

Online-only transactions effectively eliminated paper from the system, and also allowed the customer to be responsible for his own transactions. The customer was asked to double-check each transaction before authorizing it. This greatly reduced the frequency of errors. Cash was available from the branch's ATM machines; staff guided the customers to use the ATMs for both withdrawing and depositing cash. If a customer did not have his ATM card, a staff member would electronically transfer the desired sum from the customer's account into a teller's account, and then retrieve the cash for the customer from the ATM.

ATMs Most Japanese banks charged fees of 100 to 300 yen, when ATMs were used in the evenings or on weekends, or when customers withdrew money from other banks. Shinsei, to make up for its limited branch network, allowed customers to use ATMs any time free of charge. This distinguished Shinsei from other Japanese banks. Shinsei saw this as a way to attract customers to the bank at very low cost, for they did not have to expand their branch network in order to connect with their customers; they could do it through ATMs. The operating cost of the ATMs was relatively low.

In 2001, Shinsei offered a new service enabling customers to withdraw cash free of charge from ATMs outside of Japan – 650, 000, to be exact, in 120 different countries, through the PLUS system offered by Visa International. Citibank also offered no-fee use of international ATMs, but was part of the CIRRUS MasterCard network, which had only 530, 000 ATMs in about 100 countries. Hours Shinsei kept its branches open on weekends and holidays in order to offer services such as same-day account openings, targeting customers who might be too busy to visit the bank during the week.

Shinsei used its computer system – operated nonstop – to enable the processing of new accounts and other applications in the same day. Other financial institutions followed suit and began staying open on Saturday and Sunday, but services were limited to mortgages and asset management consulting. Anything that required the computer system could only take place during the week as their systems shut down on the weekends.

Shinsei's branch hours of 10am to 8pm every single day of the year (except New Year's Day) enabled customers to do any type of banking, including sale of mutual funds and insurance policies, at their own convenience. 9 607-010

Information Technology and Innovation at Shinsei Bank Looking Back

Yoshikazu Sato, a senior member of the Technology team at Shinsei, who worked closely with Dvivedi, revealed the apparent simplicity of Shinsei's model: " If you stand back and examine what we have done, there is nothing unique about it. The principles we follow have been around for years.

Describe what we do to a manufacturing engineer and he may well remark, ' what's so special about it? ' Anybody can buy what we buy.

Deconstructing a problem until a standard component can be used, or using low-cost, easily available materials (in our case Dell PCs and Windows software) has been practiced for decades,” he said. “ What makes us different is our ability to focus on applying these principles repeatedly with persistence and without deviation. The manufacturing industry has been moving its operations to the lowest cost and most effective locations for decades. We have replicated it in our use of virtual organizations; people with skills needed for our work are connected in from wherever they are located.

Not having to move people around saved us time, money and gave us an extremely scalable capability,” said Pieter Franken, the architect and designer of Shinsei’s core systems. “ My key task is to ensure that as we do all of this, we are also institutionalizing the work we have done and to continuously expand the technical team to take up all this work,” said Dvivedi. Looking Forward Dvivedi’s “ institutionalization” of Shinsei’s system development process forced the team to think about applications of the model in the future, as well as what challenges lay ahead.

Shinsei was focused on growing by acquisition and, for those acquired businesses, the objective was to change the technology and process platform to enable rapid new product roll-outs and to build better quality services. The ability to do this at lower cost would create a significant competitive advantage. “ Our focus is to be able to support all the Shinsei businesses for their Information Technology needs and help them achieve the same level of technology now being employed by Shinsei Bank,” said

Dvivedi. “ We can add value to our businesses with our strength and know-how. In 2006, Thierry Porte succeeded Yashiro as President and CEO of Shinsei. “ Thierry has a clear vision of where he is guiding Shinsei,” noted Dvivedi. “ He has outlined a growth plan for our key businesses that will require us to scale up for much higher volumes, and support a whole range of new functions and features to facilitate the launch of new products and services. ” As CEO, Porte was well-aware of how Shinsei’s technology would enable his plans for the bank. “ Our technology is a door-opener for new business opportunities.

If we can get our customers in other industries interested in the approach we take to technology design and deployment, to look at the kind of capabilities and services we can help them build, it will be a unique way to position ourselves and grow our core business of banking. If we can do this it will expand our franchise and be a source of additional revenues,” said Porte. Dvivedi’s Response After a night of reflection the time had come to respond to Porte’s request. Dvivedi opened an email and began typing... 10