

Bank of Ningbo Improves Risk Management with Financial Performance Appraisal System



Bank of Ningbo
Ningbo, China
www.nbc.com.cn

Industry:
Financial Services

Annual Revenue:
US\$493 million

Employees:
2,781

Oracle Products & Services:

Oracle Transfer Pricing
Oracle Profitability Manager
Oracle Risk Manager

Oracle Partner:

Global Info Tech
www.git.com.cn

“Oracle’s Financial Services applications have enabled us to evaluate institutional performance and identify high-value customers and products. We now have a performance management system that meets our long-term needs and will support our efforts to become a world-class commercial bank.”
– Sun Hongbo, Director, Financial and Accounting Department, Bank of Ningbo

The Bank of Ningbo is a joint-stock commercial bank with 78 branches in Ningbo and Shanghai. After attracting Singapore’s OCBC Bank as a strategic investor in 2006, Bank of Ningbo listed on the Shenzhen Stock Exchange the following year. In 2008, the bank reported a net profit of US\$195.2 million (RMB 1.3 billion) and achieved a 15.12% profit rate on net assets. It is one of a handful of banks on the Chinese mainland with a healthy asset base, stable profitability, abundant capital, and a small number of low-performing loans.

In recent years, Bank of Ningbo has promoted management and technology innovation and restructured its business into five ‘profit centers’ (corporate banking, retail banking, personal banking, credit cards, and financial services). To support its development strategy and bring the organization in line with international standards, Bank of Ningbo implemented an internal performance appraisal system based on Oracle’s Financial Services applications, which includes Oracle Transfer Pricing, Oracle Profitability Manager, and Oracle Risk Manager.

The Oracle system enabled Bank of Ningbo to undertake multidimensional cost accounting and profitability analysis by department, product, customer, branch, and business area. The analysis has strengthened the bank’s decision-making abilities around product pricing, management and business process improvement, and information disclosure. As a result, Bank of Ningbo has enhanced its profit and risk control abilities and reduced management and operational costs, laying a solid foundation for the organization’s sustainable development.

Key Benefits:

- Gained the ability to undertake accurate and multidimensional appraisals of each account's value and risk factors
- Enabled the bank to measure the performance of individual business units
- Gave managers insights into day-to-day operations, enabling them to see the impact of decisions on the business
- Improved risk management as the bank can now monitor capital costs

Deregulation Inspires Bank Restructure

The deregulation of China's financial market has seen the entry of several foreign banks into the country. This has forced local institutions to review and restructure their businesses to compete with the new entrants.

As one of the first Chinese commercial banks to achieve a public listing, Bank of Ningbo was aware of the need to maximize shareholder value and retain a loyal customer base. To facilitate this, the bank realized it had to adopt new management practices and information systems.

After evaluating a range of solutions, Bank of Ningbo engaged Oracle Certified Partner Global Info Tech to develop and implement a performance appraisal system based on Oracle's Financial Services applications.

Delivering Richer Management Information

Bank of Ningbo has incorporated Oracle's internal fund transfer pricing, cost allocation, and profitability analysis tools in the performance appraisal system. The system enables the bank to calculate the capital, risk, and fund costs of each account held at the bank, and then aggregate these accounts by customer, product, channel, and business unit. This provides the bank with an accurate and multidimensional appraisal of each account's economic value and risk adjustment return on capital.

By providing business units with product- and customer-based performance reports, staff can develop strategies to improve the contribution of each segment to the business, optimize product structures and customer groupings, and raise asset quality and profitability. The system also enables the bank to measure the outcomes of each business unit, thus improving the performance of the organization as a whole.

The Oracle system also provides more detailed information than can be produced by a conventional financial and accounting application. Basic performance appraisal indicators include net interest value, net non-interest value, overhead expense, net profit, economic value add, and risk adjustment return on capital. Key performance appraisal indicators include profit growth rate, return on capital, rate of return on cost, net interest income of financial product, and economic value add.

The richer details provided by the Oracle system provides senior bank managers with valuable insights into the bank's day-to-day operations, so they understand the impact of their decisions on the business.

Improving Risk Management

Bank of Ningbo has constructed an administrative accounting system that segments cost and profit centers. Cost centers are defined as the bank's headquarters and internal service departments, while profit centers are the bank's five key business areas. The administrative accounting system uses the internal transfer pricing tool within OFSA to allocate the expenses incurred by the cost centers to the profit centers. The aim is to measure the income produced by each profit center and ensure it covers the expenses incurred by cost centers.

The bank also included the capital cost of profit centers into the performance appraisal system. This is to improve capital risk management, as the interest on capital is a source of after-tax profit. By monitoring capital costs, Bank of Ningbo can increase after-tax profits.

Why Oracle?

According to Sun Hongbo, director of financial and accounting department, Bank of Ningbo, the bank selected Oracle's Financial Services applications for the software's advanced functionality and flexible, modular structure.

"Oracle's Financial Services applications accommodate the latest banking management practices and features advanced financial analysis tools," said Hongbo. "The software's modular framework also suited our needs, as the combination of modules allowed us to build an accounting system that enabled staff to analyze returns, and provided an asset liability system to review market and structural risks. In addition, we can use the Oracle solution to evaluate and manage credit risks."

Why Global Info Tech?

Bank of Ningbo chose Oracle Certified Partner Global Info Tech to complete the implementation based on the company's ability to marry new technologies with the latest management practices.

"Global Info Tech provided a fresh approach to the project—the consultants kept us informed on best practice processes and management concepts to ensure our performance appraisal system

conformed to global standards,” said Hongbo. “This will help enhance our international competitiveness.”

Implementation Process

Bank of Ningbo began implementing the Oracle performance appraisal system in January 2007, completing the project in September 2007. The bank consulted with OCBC Bank throughout the deployment to leverage the Singaporean bank’s experience in the Oracle software.

During 2008, the bank’s financial department collected feedback from users and adjustments were made to the system based on their comments. The Oracle system was put into production in 2009 and is now used to measure the performance of branch offices.

Advice from Bank of Ningbo

- Define the milestones expected at certain stages in the implementation to ensure the project does not run over time.
- Provide training on performance management theory to ensure staff understand the logic behind the system and adhere to set processes.
- Make performance management an integral part of the organization’s corporate culture.

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