



Internet-based Business Information Service Provider

China Small and Medium Banks' Informationization Trend and Market Opportunities 2005



Please visit our website
<http://english.analysys.com.cn>

Copyright 2005 Analysys International Ltd.

All contents of this report (including but not limited to text, data, graphs, icons, study models, logos, originality, etc.) are property of Analysys International Ltd. (hereafter referred to as Analysys International) and protected by Chinese, as well as international copyright laws. Analysys International reserves the right to deny copies of any contents within the report (includes collecting, combining and recombining), under protection of Chinese and international copyright laws. Any other usage of the contents mentioned above, including revising, publicizing, transmitting, republishing, dealing, demonstrating, etc., is forbidden.

This report shall not be reproduced, copied, plagiarized, sold, or used for any commercial purposes, in whole or in part, without the expressed consent of Analysys International Ltd. If original report subscribers wish to use the contents for commercial, profit, and/or advertising purposes, special written authorization from Analysys International is required and the source "Analysys International Ltd." should be marked. Also, copyright license fees should be paid to Analysys International according to the rules of Chinese and international copyright laws. If original report subscribers use the report submitted by Analysys International for non-commercial, non-profit, and non-advertising purposes, it shall be solely for the client's internal use and shall not be transmitted to any third organization, corporation or person in any way. If a clients' behavior is confirmed to have broken the law or has done harm to Analysys International' rights, Analysys International reserves, but is not limited to, the right to refuse service, freeze a member's exclusive account and press criminal charges.

Analysys International is responsible for protecting intellectual property rights of other people in the report. If one confirms that his work has been plagiarized in any way and has broken Chinese and international copyright laws, he can appeal to Analysys International for property rights.

Subscribers of Analysys International's original reports can take advantage of the following valuable services, as a member of Analysys International (these value-added services vary with membership).

- Analysys International Workshop
- Data updates
- Event Alerts
- Analysys International's Intelligence Product Standard Suite
- Question and Answer Sessions
- Analysys International Con-call seminars
- Analysys International Quarterly Press Releases
- Analysys International Insight
- Special Discount on Report Products

The law of the People's Republic of China governs property rights of this report. Analysys International reserves the right to explain or amend any clause stated above at any time.

Executive Summary

Analysys International's Findings

● Chinese Small and Medium Banks' (SMB's) Informationization

- Hardware
 - ✓ Overseas hardware manufacturers are leading the market in terms of servers, notebook PCs, memorizers, printers, ATMs and network products such as routers, switches and firewalls.
 - ✓ Domestic hardware manufacturers only hold relatively high market shares in a few fields, such as the PC market and certain network products market.
- Platforms and Supportive Software
 - ✓ Highly concentrated: database, middleware, network inbreak testing products, and network management software.
 - ✓ Domestic manufacturers' dominant fields: anti-virus software.
- Industrial Application Software
 - ✓ Domestic core banking and information management system products are holding apparent superiorities in the SMB market.
 - ✓ Despite some problems, the overseas manufacturers that entered the Chinese market on a large scale have caused comprehensive impact to the construction of the Chinese banking information system. They have also brought considerable pressure to their Chinese counterparts. An increasing number of foreign banking system providers are seeking opportunities to enter the Chinese market.
 - ✓ Chinese SMBs hesitate to purchase the overseas banking core and information management system products due to their high prices.
 - ✓ Chinese software companies may maintain what superiorities they have by improving their software products and services to meet certain SMBs' demands. However their leading positions will inevitably become weakened.

● IT Strategy and CIO System

- All the banks interviewed by Analysys International have started building up their information management systems. 96% of them, however, have not yet framed related plans. All of the banking experts interviewed believed this mainly to be due to a lack of overall banking IT strategies, caused in turn by a lack of overall SMB business development strategies.
- Among all the investigated banks, Shanghai Rural Commercial Bank is the only one that has launched an overall development strategy with a uniquely competitive core. It still lacks, however, the strategy necessary for IT banking. Nanjing Commercial Bank is the only investigated bank that invited a third-party consultant company to constitute an information

management system strategy, which has been approved by the directorate.

- In this investigation, Analysys International found that 95% of banking CIOs believe that IT strategy cannot be put into effect right now. 80% of banking CIOs believe that IT strategy cannot be implemented into the overall banking strategy at all.
- Almost all of the investigated experts regard the vice-president or president's assistant, who is in charge of banking technology, as the CIO. Among the interviewed experts, 20% believe that the CIO should obtain two qualifications: he must be a member of the operational decision-making group, who can attend the directorate conference and has the right to manage the resources of the entire bank; he is also required to comprehensively understand banking services and have a long-term outlook on banking service development.
- Analysys International's investigation shows that although there is no CIO in BNP Paribas, it has a specific system to coordinate the disparities between its IT section and sections of service. This is quotable to the Chinese commercial banks.

- **From Core System Reconstruction to Banking Reform**

- It is currently disputed whether the core banking system is going to Westernization wholesale. Since overseas products entered the Chinese large banking software market in 2003, the Chinese banking industry began to realize the challenge posed by international competitors.
- Since 2001, an increasing number of SMBs started to update their core banking systems. As Chinese banks begin to import overseas core systems, two waves are emerging throughout the Chinese banking industry: a rebuilding of core banking systems, and a reconfiguration of the entire banking structure. Analysys International believes that in the initial ten years of Chinese SMB reform, an important issue is the rebuilding of core systems rather than merely system improvement.

- **Background-only Core System Reform is not Enough**

- When SMBs came into the period of building integrated operational systems, the background production system update did not increase the profit to the foreground.
- Consequently, two urgent tasks face all SMBs: channel consolidation, and the construction of information management systems.
- SMBs are worried that Chinese core system products may not be developed enough to allow the information management systems to profit as expected.

- **Starting Stage of Information Management System Construction - Credit Flow Management System Construction**

- Most SMBs construct their information management systems in the following order: focusing on building their credit management systems first, then constructing their finance management systems. Among the investigated SMBs, 64.5% have applied credit management systems, 27.1% have applied finance management systems, and only 5% have

applied the CRM system, of which 15% are conducting research into possible technical schemes.

- SMBs' venture management systems are currently faulty; Chinese venture management system products cannot meet banking demands. Chinese SMBs tend to purchase overseas products, including modules, while famous overseas manufacturers are reluctant to undertake the small orders of SMB's or even module orders.

- **Consolidate Channels & There is to Combat a Lack of Channels**

- There is an urgent need to consolidate channels in order to enhance the competence and service levels of banking. Chinese SMBs, however, especially those in small towns, lack the necessary channels. They have few service centers and are constructing self-banking systems at a slow pace. Most SMBs as a result put expectation in electronic banking.
- Most city commercial banks that have been interviewed are not enthusiastic about their own retail bank plans. This is because they are not ascending in terms of channeling and branding, which are the key points of retail banking. More than 50% of the interviewed banks have started cutting costs in addition to the closing of some service centers. They are beginning to position themselves as small to medium enterprise banks.

- **SMBs' Attitude towards Chinese Banking Software Operators.**
 - All the interviewed SMBs regard the following two problems as the main issues confronting Chinese IT companies:
 - ✓ IT companies are short on strength and strategy to operate large banking software over a long term. As a result, the Chinese banking industry, which is entangled by domestic IT manufacturers, cannot succeed in breaking out to succeed in amending its strategy.
 - ✓ IT companies lack foresight and determination in developing ace banking software. All banks interviewed believe this to be why domestic IT manufacturers are hard pressed to be the long-term strategic partners of banks that wish to be successful and renowned for an extended period of time.
 - It is a welcome sign that some small banking software operators formed their own ace products in recent years, and quickly increased their market shares at a higher pace than their competitors. Changliang Technology is behaving very well in the core system field, as is Anshuo Technology in the field of information management systems.

Analysys International's Suggestions

Suggestions to IT Manufacturers

- In the next 2 to 3 years, SMB investment in hardware systems and IT services will reach a new pinnacle. IT manufacturers should pay attention to the SMB project of updating core systems.
- In the rural credit cooperative field, IT manufacturers should pay attention to the projects of provincial credit cooperative data centralization, and data/network center building. There will be a large market in 2 to 3 years.
- Focus on professional research, especially with regard to comprehensive and forward looking insights into banking requirements. Even small or medium banks do not need IT partners that are only able to realize present demands.
- Focus on expert products, and building up a long-term strategic partnership with banks. SMB's are deeply concerned with strategic positioning, and continuity in the product development of manufacturers. A good plan for carrying out a product can bring about a linkage effect.
- Some high-level manufacturers need to attend to SMBs' demands with an eye to long-term market strategy.

Suggestions to SMBs

- Regard IT strategic projects and ask a consultant company to make a project if the conditions permit.
 - Step One : Confirm the person selected as CIO
 - Stem Two : Set up a BPR section functioned as a CIO
- When reaching a critical decision concerning IT investment, such as updating core systems or buying new ones to rebuild, care should be given to distinguishing between the target and the actuality. Do not choose the impractical way.
- For the building up of SMB management information systems, it is suggested that thought be given to the possibility of building up the operative management system first, followed by the analytical management system.
- For small banks that are in the same zone, it is recommended that consideration be given to collecting money to build up a computer center, which will diminish scale problems and increase ROI (return on investment).
- Promote the IT outsourcing market, and focus on banking operational reform and re-creation.

Research Methodology

Analysys International arrives at corresponding conclusions mainly through analyzing primary and secondary market information.

- The primary information mainly comes from sampling the major manufactures or agents of channels and end users conducted by Analysys International.
 - In-depth Interviews with major manufacturers
 - In-depth interviews with major agents of channels, distributors and retailers
 - Sampling of end users
- The secondary information is mainly public information that comes from the following sources:
 - Information in the industry's public domains.
 - Opinions vended by senior industry experts
 - Data and information provided by relevant government departments
 - Related economic data
 - Annual and quarterly reports of enterprises
 - Interviews with product users
 - Financial analysis and reports by financial analysts
 - Information from the Internet
 - Analysys International database

Due to the fact that Analysys International depends on the information obtained through interviews with manufacturers and or channels to reach its conclusion on market scale, the data provided by manufacturers on the types of products they offer, their operating revenues and marketing activities shall have a considerable impact on the final analysis of the reports.

The data reported by Analysys International is obtained after repeated crosschecks. Analysys International is confident that the reported data is accurate and meaningful.

Table of Contents

1 SMB Informationization Research

- 1.1 Informationization Self-evaluation
 - 1.1.1 IT system
 - 1.1.2 Weather SMB' IT System Can Satisfy Service Demand
 - 1.1.3 The Reason Current IT System Can Not Satisfy Service Demand
- 1.2 Hardware
 - 1.2.1 Server
 - 1.2.2 PC/Notebook
 - 1.2.3 Memorizer
 - 1.2.4 Printer
 - 1.2.5 ATM
 - 1.2.6 Network Equipment
- 1.3 Software
 - 1.3.1 System Software
 - 1.3.2 Support Software
 - 1.3.3 Application Software
- 1.4 IT Service
 - 1.4.1 IT Outsourcing
 - 1.4.2 Service Flow Rebuilding

2 SMB Informationization Demand Hotspots

- 2.1 SMB IT System Demand Hotspots
 - 2.1.1 Demand Hotspots Analyses
 - 2.1.2 Reasons Why IT System Can not Satisfy Service Demand in Line
- 2.2 Overseas Banking Core Systems' Influence on SMB
 - 2.2.1 Small and Medium Bank Core System from Improvement to Rebuilding ——40% of SMB will Adopt Notable Actions in 2 or 3 years
 - 2.2.2 Banking Core System Rebuilding Causes Bank Reform——The Third Generation's Fate Links to the Bank Reform
 - 2.2.3 Overseas Core Systems' influence on SMB——The Leaders Changed
 - 2.2.4 Challenges
- 2.3 SMB Management Information System Analyses
 - 2.3.1 SMB Management Information System Demand Background
 - 2.3.2 SMB Management Information System Programming
 - 2.3.3 SMB Management Information System Building

3 Form Informationization Project suit for SMB' Service Development

- 3.1 SMB IT Project
 - 3.1.1 Half-baked Bank Service Project Disturbs the IT Project
 - 3.1.2 SMB Try to Break Through the Project Field
- 3.2 Confirm CIO System
 - 3.2.1 Step One: Confirm the person selected as CIO
 - 3.2.2 Step Two: Set up a BPR Section Functioned as A CIO

3.3 Information Consolidation Demand is the Inside Reason for Set down the Informationization Project

3.4 The Framework of SMB' Informationization Project

4 SMB' Market Opportunity

4.1 SMB IT Investment Scale and Structure in 2005

4.2 SMB IT Budgets Structure in 2 years (2006-2007)

4.2.1 Hardware

4.2.2 Software

4.2.3 Expert Service

4.3 SMB IT Investment Scale and Structure Forecast in 2005-2009

5 IT Manufacturers Faced to SMB Analyses

5.1 SMB' preference on the IT Manufacturers Selection

5.2 Mail IT Solution Providers and Successful Cases

5.3 SMB' Opinion and Expectation on IT Manufacturers

6 Analysys International Finds and Suggestions

6.1 Analysys International Finds

6.2 Analysys International Suggestions

6.2.1 Suggestions to IT Manufacturers

6.2.2 Suggestions to SMB

7 SMB Development, Service and Policy Reference

7.1 City Commercial Bank

7.1.1 Development Course

7.1.2 Service Development Project **错误！未定义书签。**

7.1.3 Correlative Development Policy

7.2 Rural Credit Cooperation

7.2.1 Development Course

7.2.2 Service Development Project

7.2.3 Correlative Development Policy

7.3 City Credit Cooperation

Appendix: Analysys International Data Acquisition Process and Methodology

1 General Introduction

2 Research Method for Consumer Market

3 Research Method for Different Types of Enterprise Markets

4 Data Analysis Process and Method

Graph Index

- Graph 1-2 SMBs' Self-evaluation on IT systems **错误！未定义书签。**
- Graph 1-3 Reasons that SMBs' IT Systems Cannot Meet Demands
- Graph 1-4 SMBs' Non-x86 Server Manufacturers Distribution
- Graph 1-5 SMBs' x86 Server Manufacturers Distribution
- Graph 1-6 SMBs' PC Manufacturers Distribution
- Graph 1-7 SMBs' Notebook PC Manufacturers Distribution
- Graph 1-8 SMBs' Memorizer Manufacturers Distribution
- Graph 1-9 SMBs' Printer Manufacturers Distribution
- Graph 1-10 SMBs' ATM Manufacturers Distribution
- Graph 1-11 SMBs' Router Manufacturers Distribution
- Graph 1-12 SMBs' Switch Manufacturers Distribution
- Graph 1-13 SMBs' Firewall Manufacturers Distribution
- Graph 1-14 SMBs' Database Distribution Usage Status
- Graph 1-15 SMBs' Core System Database Usage Status
- Graph 1-16 SMBs' Middleware Manufacturers Distribution
- Graph 1-17 SMBs' Net Inbreak Testing Software Manufacturers Distribution
- Graph 1-18 SMBs' Network Management Manufacturers Distribution
- Graph 1-19 SMBs' Anti-virus Software Manufacturers Distribution
- Graph 1-20 SMBs' Core System Version Distribution
- Graph 1-21 SMBs' Core System Launch Time
- Graph 1-22 SMBs' Loan Administration System Launch Time
- Graph 1-23 SMBs' Venture Management System Launch Time
- Graph 1-24 SMBs' OA System Launch Time
- Graph 1-25 SMBs' Intermediate Business System Platform Launch Time
- Graph 1-26 SMBs' Finance Management System Launch Time
- Graph 1-27 SMBs' Bank Cards Application Status
- Graph 1-28 SMBs' Online Banking Application Status
- Graph 1-29 SMB with IT Outsourcing Experience Distribution
- Graph 1-30 SMB Outsourcing IT System Construction Proportion in 2005
- Graph 1-31 SMBs' IT System Correlative with Outsourcing
- Graph 1-32 Reasons that SMBs do not Outsource IT System Construction
- Graph 1-33 SMB Service Flow Rebuilding Actualizing Status
- Graph 2-1 SMB IT System Building Hotspots in 2 years
- Graph 2-2 Reasons that IT Systems do not Meet Demands
- Graph 2-3 SMB Core System Launch Time
- Graph 2-4 SMB Core System Version Distribution
- Graph 2-5 Overseas and Domestic Banking Core System Module Sketch Map
- Graph 2-6 SMBs' Loan Administration System Launch Time
- Graph 2-7 SMBs' Venture Management System Launch Time
- Graph 2-8 SMBs' Finance Management System Launch Time
- Graph 3-1 SMB Application System Frame Structure Sketch Map
- Graph 4-1 SMB IT Investment Structure Forecast in 2005
- Analysys International**

Graph 4-2 SMB IT Budget Distribution Forecast in 2 years

Graph 4-3 SMB PC/Server/Network Equipment/Network Correlative Hardware Budget Scale Distribution Forecast in 2 years

Graph 4-4 SMB ATM/ Retail Terminal Correlative Hardware Budget Scale Distribution Forecast in 2 years

Graph 4-5 SMB Software Budget Scale Distribution Forecast in 2 years

Graph 4-6 SMB High-level Software Budget Scale Distribution Forecast in 2 years

Graph 4-7 SMB IT Service Budget Scale Distribution Forecast in 2 years

Graph 4-8 SMB IT Budget Scale Distribution Forecast From 2005 to 2009

Graph 5-1 SMB IT Manufacturers Selecting Factors Analyses

Graph 7-1 City Commercial Banks' Capital Scale Distribution in Late 2003

Graph 7-2 City Commercial Banks' Problem Loan Rate in 2003

Graph 7-3 China City Commercial Banks Development Trend Map

Graph 7-4 Commercial Banks' Capital Proportion Comparison in 2003Q4-2005Q1

Graph 7-5 Countrywide Rural Credit Cooperations' Problem Loans in July 2005

Table Index

Table 5-1 SMB Solution Providers and Main Successful Cases

Table 7-1 Main City Commercial Bank Capital Scales

Table 7-2 Countrywide Rural Credit Cooperations' Total Asset, Loan and Profit in June 2005 (Unit: RMB 100 million)

Table 7-3 Countrywide Rural Credit Cooperatives' Saving Statistic in July 2005 (unit: RMB 100 million)

Table 7-4 Countrywide Rural Credit Cooperatives' loan Statistic in July 2005 (unit: RMB 100 million)