BT's leap to foreign shores

Companies such as BT Financial Group can't afford to miss out on externally developed software applications, writes **Emma Connors**.

BT Financial Group is moving away from home-grown software and increasing its offshore operations in a major rethink of its corporate computing strategy.

Each year BT, Westpac's wealth management arm, spends at least $5 million updating its superannuation systems to accommodate legislative change.

That could rise as high as $10 million this year, given the sweeping changes introduced by the Howard administration in its last budget, says BT chief information officer Tony Forward.

"The initiatives are great for investors but we have to write the same damn changes in four systems. You could argue that while one legacy system is inefficient, four such systems are four times as inefficient," Forward says.

But not for long. BT is in the final throes of contract negotiations with a Wollongong-based software developer, Infocomp, that sells a wealth management platform called Composer. To begin with, Composer will replace BT's corporate superannuation application. Eventually all of BT's superannuation products will run over Composer.

BT is also in the market for packaged software to run its margin lending business and a new insurance underwriting system. Together with superannuation, these activities account for more than half of the BT business.

The imperative is a fairly simply one, says Forward, who, with 16 years at BT in its various guises, can remember the glory days of wealth management, when the company could post a $300 million net profit with just 900 staff.

"This is now a viciously competitive market with quite thin and contracting margins. That translates into cost pressures. We can't afford duplicated systems like we now have for superannuation. It's simply not sustainable. That's why we need to make these significant changes," Forward says.

In the early 1990s, the then Bankers Trust had no choice but to write its own funds management program; there were simply no packages that could do the job.

Times have changed. In many areas of financial services, institutions will fall behind if they don't make the leap to externally developed software applications.

"If your competitors are buying packaged software, their business gives scale to a software developer. Internal developments have just one customer. Even when you factor in the fact that external developers overlay a profit margin, in-house software developers are still significantly disadvantaged," Forward says.

The shift away from the legacy applications will have substantial knock-on effects on BT's information technology group, which currently employs 380 people.

"It will displace quite a few staff over the next few years because if someone else is writing the software for you, you need fewer developers in-house," Forward says.

In the next 12 months, BT's IT team will shrink by 10 per cent. More than 100 jobs are likely to go in the next three to four years. BT hopes to avoid a large amount of redundancies by transferring some people to new jobs in BT and Westpac and retraining others.

The new approach to core applications will also enable BT to increase the amount of technology work done offshore. For the past eight years, Indian-based HCL has provided system testing and support. In coming years, HCL will do this and more.

"It will displace quite a few staff because we will need fewer developers."

"We were probably one of the first to go offshore and that's been a really good business for us," Forward says.

The company's contract with HCL sets pricing terms rather than committing the buyer to a particular amount of work. This means BT can vary the amount of work done by HCL according to demand.

"Cutting back a workforce in that way doesn't present the same problems as reducing staff numbers in Australia. It's an advantage of offshoring that is not well understood," Forward says.

Meanwhile, back in Westpac's brand new headquarters in Sydney's CBD, BT's remaining information technology staff will focus on integration and adding value.

Up to 80 per cent of software costs can be traced back to integration, says Forward, so developing these skills is a major goal.

A lower software maintenance bill, meanwhile, means more of the $100 million that BT spends on technology each year can be channelled into advancing the business, rather than just keeping it ticking over.

"There are half a dozen systems here that are vital to the company. If they stop, so does the business. So the value of IT to a company like BT is obvious, but you also need to be able to understand how further investments in technology will help to grow the business. It's about innovations and product, about processing efficiencies, about improving customer service, and about giving customers more options," Foward says.

"We are mindful we have to decide what intellectual property we want to retain. The real risk with any outsourcing is throwing the baby out with the bathwater, particularly when companies try to outsource what they don't understand. That results in a mess with a profit margin on top – a shambles."