

Troubled Asset Relief Program (TARP)

CGI provides advice on how the federal government and financial industry can manage the enormous challenges ahead of them.

ABOUT THIS DOCUMENT

This is a transcript of a CGI Viewpoint podcast on the TARP program.

Lorne Gorber, Vice-President of Global Communications and Investor Relations, moderates the discussion with the following CGI experts:

- **George D. Schindler**, President, CGI Federal
- **Jame Cofran**, Senior Vice-President, Global Banking and Financial Markets Practice

For more information and to listen to the podcast, visit www.cgi.com/economy.

Given your past experience and many recent conversations with clients, how do you foresee the Troubled Asset Relief Program or TARP affecting agencies and the financial institutions they regulate?

Let's start with you George.

Lorne, the events of the past six months will fundamentally change the financial services industry through increased, ongoing and proactive government oversight. This oversight requires a commensurate increase in transparency to gain absolute trust in the stewardship of the taxpayer dollars being invested in the TARP program. The TARP program is taking government into traditionally non-governmental investments and this new mandate requires a new form of financial management that blends proven practices in banking asset and portfolio management with federal financial management.

The second major impact is the increased reliance on the HUD Federal Housing Administration mortgage insurance programs. Since the meltdown of the sub-prime market, these programs have seen unprecedented increases in volume. It's putting a real strain on the systems and operations that support these programs.

Agencies that are not involved in the TARP program will also see impact. They'll see leaner budgets, which requires them to re-evaluate how best to meet their programmatic goals. They need to identify ways to save money by trimming any redundancies and improving their management practices.

Jame, what do you think?

This meltdown of the financial markets certainly intensifies the set of challenges that banks have been facing for some time now. In the face of increasing competition for business and higher yields, what the banks created were newer, riskier products to attract and retain customers – like subprime mortgages for banks and collateralized debt obligations for the investment banks. We expect financial institutions to return to more basic lending practices; to tighten up their credit controls; to eliminate the risky products that contributed to the current problems; and to significantly increase the transparency throughout the entire financial lifecycle.

Our message, however, is don't stop innovating while you retrench. While that may sound like an oxymoron, banks still need to transform their legacy systems and their operations over the next decade to respond to the growing demand from customers for more flexibility and better customer service.

They also have to prepare for the new regulatory regime. Currently financial institutions answer to different regulators based on their legal organization, where they are licensed and the types of products they offer, for example. This regulatory framework was put in place back in the 1930s and 1940s; and current economic conditions provide the motivation that Congress needs to modernize the financial services regulatory framework.

Let's go back and talk about the oversight and transparency comment. What perspectives and approaches are beneficial to consider for all organizations involved in the TARP program? George?

I believe strong governance is the key. The TARP Program is investing significant taxpayer dollars in financial assets. Having a solid framework that manages the structure, relationships and reporting processes of large, complex initiatives is fundamental to success. We've heard a lot about the need for standardization and governance helps provide for this.

In my view, there are several key components to strong governance. These components include maintaining regular and open communications with all key stakeholders, such as Congress, citizens, agencies, banks, small business owners and the like. [It also includes] the establishment of clear roles and responsibilities amongst all of the Treasury's partners; and finally, clearly defining the metrics of success and then monitoring, managing and reporting on those metrics.

Do you agree Jame?

I do. Having this type of governance structure is critical to rebuilding the public trust, which will help stabilize the markets and the economy. We've seen how this type of framework can help manage complex initiatives. For instance, as part of our own outsourcing relationships with major financial institutions, we've helped manage massive mergers and consolidations over the years, which require complete transparency to all parties in order to be successful. By having a strong governance process in place, all the parties can improve the way that the people, the process and the technology are managed to work together toward a successful outcome.

As a result of our own IT governance framework, we've helped many clients squeeze a lot of unnecessary time and costs out of major transformation efforts. That's key to allowing a client or a market to rapidly return to focusing on growth.

You mention the reuse of existing systems and solutions. Can one of you elaborate on that point?

[George Schindler] The new law grants Treasury flexibility under procurement rules to execute new contracts quickly, as we have seen with the award of the custodian contract to Bank of New York Mellon. However, to facilitate these contracts and the actions needed, Treasury should look to existing federal and commercial systems that can also be leveraged for loan and property management as well as financial management.

For example, by entering into an MOU with an existing agency that is a federal financial management shared services provider, [banks can] immediately stand up a financial management system that is already compliant with the numerous federal accountability rules and processes. This will help the custodian and asset managers selected for the TARP program comply with Treasury financial reporting requirements.

Likewise, there are systems used by the financial industry that can support the acquisition, management and/or modification of the financial assets involved in the TARP program.

By reusing processes and technology that are compliant with federal financial management mandates, the new department will operate with the highest fiscal integrity. Additionally, this approach supports rapid stand up, but also in compliance with long-standing procurement regulations.

Jame, let's talk about corporations for a second. They have to tighten their spending too. Do you have any ideas on how they can effectively manage and grow in light of these tough times?

I do, Lorne. As you might imagine this is a frequent topic of conversation at financial institutions these days. In looking at the set of challenges that financial institutions face, the leading institutions will consolidate their operations onto fewer core banking platforms and will look to implement enterprise-wide credit and risk management capabilities. [This will allow them to] look at the stand of their exposure across their entire enterprise.

Increasingly we see organizations consolidating to a common loan originations platform down from, in some cases, over 10 or 12 different platforms that they are using today. We usually see them consolidate down to 2 or 3 loan servicing platforms and down to a single collections platform for the entire organization, even if it is used on a global basis. These master platforms support both the product variety required by today's customers and the risk management processes to protect the banks' assets.

As an example, we recently worked with a bank to consolidate their business processes and technologies that, when implemented, created a benefit stream of over \$15 million dollars in reduced charge-offs for that single institution. Those are exactly the kind of savings that these organizations are looking for and need to be looking for.

Also the leading institutions will look for the best mix of partners to help successfully address the new regulatory environment. For instance, let's consider the additional reporting requirements that will likely be required by the new regulatory regime. Financial institutions should partner with technology companies to tackle the complexity of the reporting requirements on their behalf. There's no need for the bankers to become absolute experts in the technology required to implement this.

Having a partner do this, allows institutions to focus on its core business. There is no need for each financial institution to have to custom develop additional reporting capabilities that will be required. The smart ones will look for their partners to help out.

A related question for you, George. What ideas do you have for agencies not involved in the economic stabilization initiatives? Clearly they are affected by having to achieve their missions in light of even tighter budget constraints and greater accountability.

Yes, that's certainly true Lorne. I want to augment some of the points that Jame just made. To make the most of budget dollars in tough times, we help government clients focus on efficiency plus innovation.

For efficiency, agencies need to focus on core functions. Identify which services are most important to fulfilling their mission and then find partners for the non-core functions. The federal financial management partnerships we discussed before are a great example of this. It allows staff to do what they do best, while specialists assist with other areas, such as the back-end technology and business processes that help agencies better fulfill their missions.

For innovation, reusing and leveraging solutions as we've discussed is important, as is identifying new sources of funding. If funding for IT architecture, infrastructure, systems and training is necessary, then I urge agencies to explore alternative investment strategies. Consider and identify third-party partners that are able to invest while governments and banks are constrained by budget limitations.

ABOUT CGI

At CGI, we're in the business of satisfying clients. For more than 30 years, we've operated upon the principles of sharing in clients' challenges and delivering quality services to address them.

A leading IT and business process services provider, CGI has approximately 25,500 professionals operating in 100+ offices worldwide, giving us close proximity to our clients. Through these offices, we offer local partnerships and a balanced blend of global delivery options to ensure clients receive the combination of value and expertise they require.

CGI defines success by exceeding clients' expectations and helping them achieve superior performance.

ABOUT THE EXPERTS



George D. Schindler
President, CGI Federal

In 2006, George D. Schindler was appointed President of CGI Federal, a wholly owned subsidiary of CGI. As President of CGI Federal, Mr. Schindler has operational responsibility for CGI's business with the civilian, defense and intelligence sectors of the U.S. Federal Government. In 2007, Mr. Schindler became a member of the CGI Management Committee. Prior to his appointment to lead CGI Federal, Mr. Schindler was the U.S. Lead of the Banking and Investments Industry Group and had overall responsibility for managing CGI's operations in the Greater New York Region.

With more than 25 years of experience in working with government and commercial clients, Mr. Schindler is currently a board member of the Federal Division of the Information Technology Association of America (ITAA) and of the Professional Services Council (PSC). He holds a Bachelor of Science degree in Computer Science from Purdue University.



Jame Cofran
**Senior Vice-President, CGI Global Banking and Financial
Markets Practice**

Jame Cofran leads CGI's Global Banking and Financial Markets Practice supporting CGI regional business units around the world to improve their clients' banking operations. He is a leading inventor at CGI with multiple patents and patent applications pending in the areas of credit, risk and fraud management.

Mr. Cofran has more than 25 years of experience in technology and business consulting. He has innovated and implemented best practices in customer and credit management for many of the largest companies in the finance, telecommunications, energy and healthcare markets worldwide. Mr. Cofran holds a Bachelor of Science degree in Computer Science from the University of Kansas.