

Trends in Outsourcing & Offshoring in the Financial Services Industry 2008-2011

November 2011

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Introduction

This analysis takes the form of:

- An overview of the trends in outsourcing and offshoring by major financial institutions in the last 3 years, covering the following dimensions
 - **Why** - drivers for outsourcing and sourcing evolution in Financial Services (FS)
 - **What** - functions outsourced/offshored
 - **How** - forms of offshoring and outsourcing
 - **Where** - popular and emerging locations for delivery
 - **Who** - summary of major outsourcing transactions by key FS players and service providers
- Supporting data for the current outsourcing landscape for the FS industry

Glossary of key abbreviations:

- | | |
|---|---|
| ▪ ITO . IT Outsourcing | ▪ FS – Financial Services |
| ▪ BPO . Business Process Outsourcing | ▪ TCV . Total Contract Value Outsourcing |
| ▪ KPO . Knowledge Process Outsourcing | ▪ ACV . Average Contract Value |
| ▪ HRO . HR Outsourcing | ▪ CAGR . Compound Annual Growth Rate |
| ▪ FAO . Finance & Accounting Outsourcing | |

What's New in our 2011 Report?

The following highlights new key sections and insights to this 2011 report, which had not previously been included in our 2010 Outsourcing Trends in the Financial Services report

Sourcing Evolution

- Introduction to the Sourcing Evolution and Sourcing Value Levers in the Financial Services industry

FS Companies Leveraging on their Experience with Service Providers

- This section details how FS companies are building on their experience from working with outsourcers to define their back-office operating models
- Additionally, the report shows how FS firms are increasingly leveraging their vendors' capabilities beyond labour cost arbitrage to deliver process optimisation and innovation

Focus on Outsourcing and Offshoring in Africa

- This section presents the upcoming African destinations for BPOs and Shared Service Centre hubs
- Detailed examples of banks who have set up Shared Service Centres in Africa
- Outlines the regional strategy for many FS companies and BPO vendors who have implemented or are planning to implement a hub and spoke strategy in Africa
- Elix-IRR's own African location assessment, which identifies four regional destination leaders
- Country Profiles for the four identified leaders . South Africa, Egypt, Ghana and Kenya

Top Ten FS Outsourcing Deals by Region

- This section presents the top ten FS outsourcing deals for each of these regions: EMEA, North America and Asia Pacific
- Information on deal rank, company name, service provider, total contract value, outsourcing domain and key descriptions of activities
- Analysis on the value of top ten FS deals by region
- From the above, we are able to produce an overview of top 15 global FS deals and trends

Executive Summary:

FS Outsourcing Trends & Events

WHY: Reasons for Outsourcing and Offshoring

Outsourcing models maturing beyond basic arbitrage and service management

- While labour cost-arbitrage was the principle motivation behind the first outsourcing efforts, companies are now reaching the limits of what they can easily offshore and are met by **inflationary pressures in low-cost centres**
- **Companies are increasingly acting as service managers and integrators** themselves to remain competitive
- Innovative companies will look to **commercialise their assets**, partnering up with service providers or industry competitors to **create industry utilities**

Leveraging vendor skills to provide process optimisation and alternative cost models

- Vendors have become the leaders in process optimisation techniques such as **Lean, 6Sigma and Kaizen** and FS companies are increasingly looking to vendors to bring these skills to bear as a way of driving costs down in an environment where further offshoring is limited or undesirable to political / social pressures
- Emerging models in outsourcing can increasingly help companies avoid the need for large capital investments - **pay per use models, cloud computing, technology platforms as part of BPO service offerings**

Leveraging marketplace skills to bring Innovation and capability enhancement

- By using vendor skills in delivery FS companies can increasingly **access required skill** and also **benefit from process and technology innovation**
- By transforming their own back office functions into **synthetic service provider models**, companies are able to **transform back office to a profit centre** . engendering a culture of continuous improvement and potentially providing opportunities to commercialise the assets they have invested in over previous years

EXECUTIVE SUMMARY: FS Outsourcing Trends & Events



WHAT: Trends in Functions Outsourced/ Offshored

Overall outsourcing market growth has slowed though Financial Services remains the largest customer sector

- The global economic recession means that while outsourcing has continued to grow as a means of cost saving, **the rate of growth has slowed**
- Overall, there is a **trend towards lower value, tactical outsourcing** rather than large scale deals
- **Financial Services (FS)** still accounts for almost a third of all offshore services, outsourced and captive
- As the outsourcing models of the multi-national banks matures, much of the **'new' activity will be among regional and 'mid-tier'** banking and insurance institutions

HOW: Operating Models for Outsourcing and Offshoring

Operating model diversification continues, focusing on optimisation and service integration

- Most FS companies now maintain a **'multi-sourcing'** approach to ITO and BPO
- **Move upstream in value chain** including FS industry specific processes
- **FS companies are starting to think like outsourcers**, working to standardise and simplify their shared service delivery models internally, while utilising sourcing as the major component to deliver on their operating strategies
- Continued conservatism means **captive model has actually increased in last 2 years**

WHERE: Popular and Emerging Destinations for Delivery

Increased location diversification, especially to onshore

- For FS, **India is still the dominant destination**, particularly for ITO services
- **Increased activity in companies in emerging markets** (Asia, South America, Africa) looking to leverage outsourcing and offshoring, particularly in areas experiencing high inflationary pressure (e.g. China, India, Australia)
- As the economic downturn deepens, **social and political pressures in the US and Europe** are increasingly pushing companies to look at **onshore delivery of outsourcing** rather than straightforward offshore arbitrage solutions

WHO: Major Outsourcing Deals and Key Service Providers

Continued consolidation in the service provider space

- Despite the economic slowdown, **leading service providers continued to achieve increase in revenue, operating margin and headcount**
- The service provider landscape witnessed **significant M&A activity in 2010**, which in the near to medium term is likely to focus on Tier-2 IT and pure-play BPO service providers

Largest service provider in 2010 was IBM

- In the last 12 months, **IBM has been the clear winner in terms of high-value contracts** in EMEA, North America and Asia Pacific
 - In EMEA, 6 of the top 10 deals went to IBM, with a total value of US\$ 5.4bn
 - In North America, 6 of the top 10 deals went to IBM, with a total value of US\$ 3.0bn
 - In Asia Pacific, 4 of the top 10 deals went to IBM, with a total value of US\$ 2.1bn (Source: IDC)
- In 2010, with 39% by value of all active contracts, **IBM was the largest supplier of outsourcing services to the FS industry**, compared to HP-EDS at 23%, Accenture at 15% and HCL at 15% (Source: TPI)

Indian providers pursuing global status

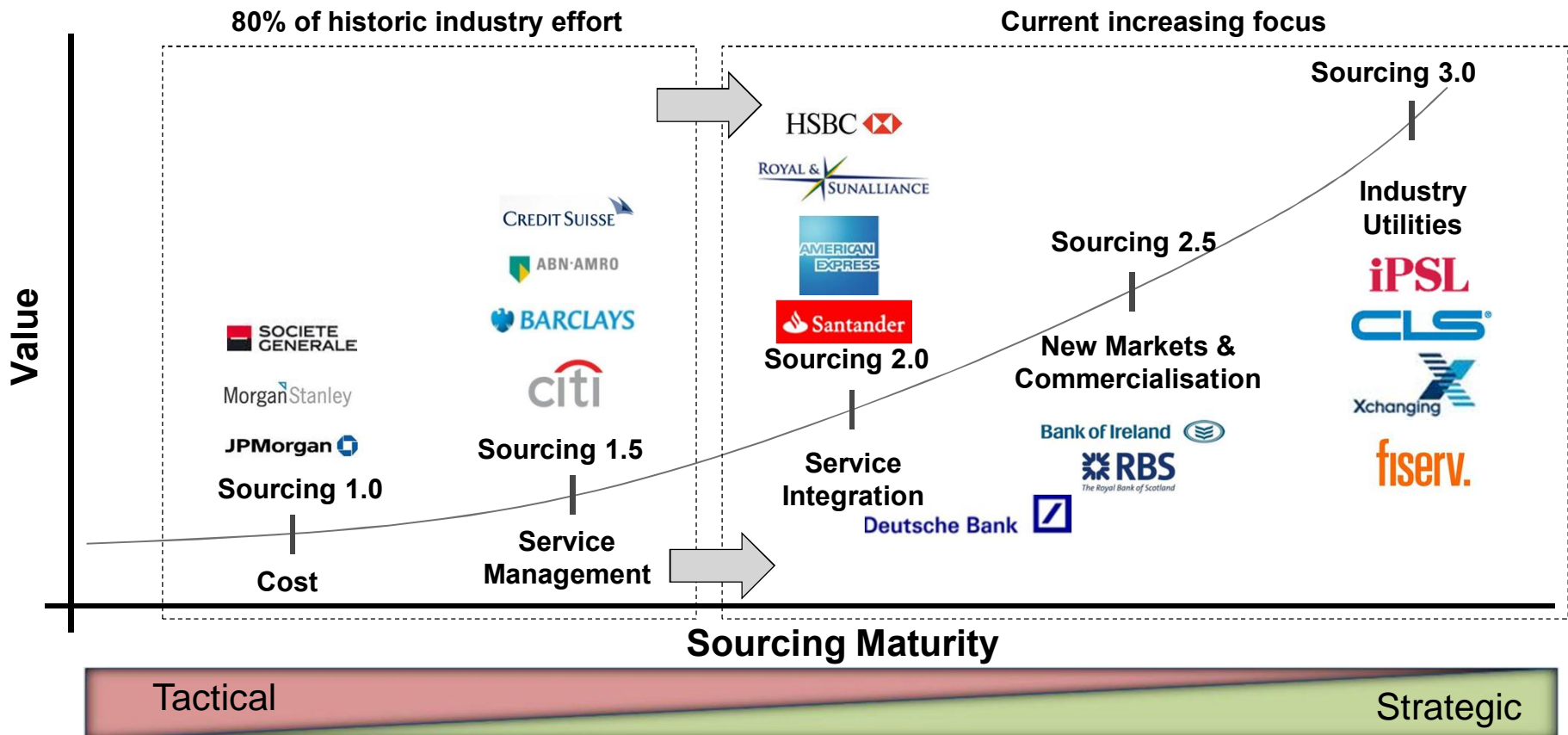
- The large Indian players (TCS, Infosys, Wipro) continue to try to establish themselves as global providers and to **diversify away from pure Indian delivery models** by adding to their capabilities and growing presence outside of India, for example:
 - HCL's acquisition of Axon in UK gave the former excellent SAP capabilities
 - TCS's acquisition of UK-based back office insurance firm Unisys Insurance provided strong insurance skills
- During the last four years, **Indian IT providers have won deals worth over US\$ 19.8bn against multinational companies** that were up for renewal
- In 2010, Indian players were estimated to have a **43% share of the ADM market** (Source: The Outsource Blog)

Why:

The Drivers for Outsourcing and the Sourcing Evolution in FS Institutions

WHY: Sourcing Evolution in the Financial Sector

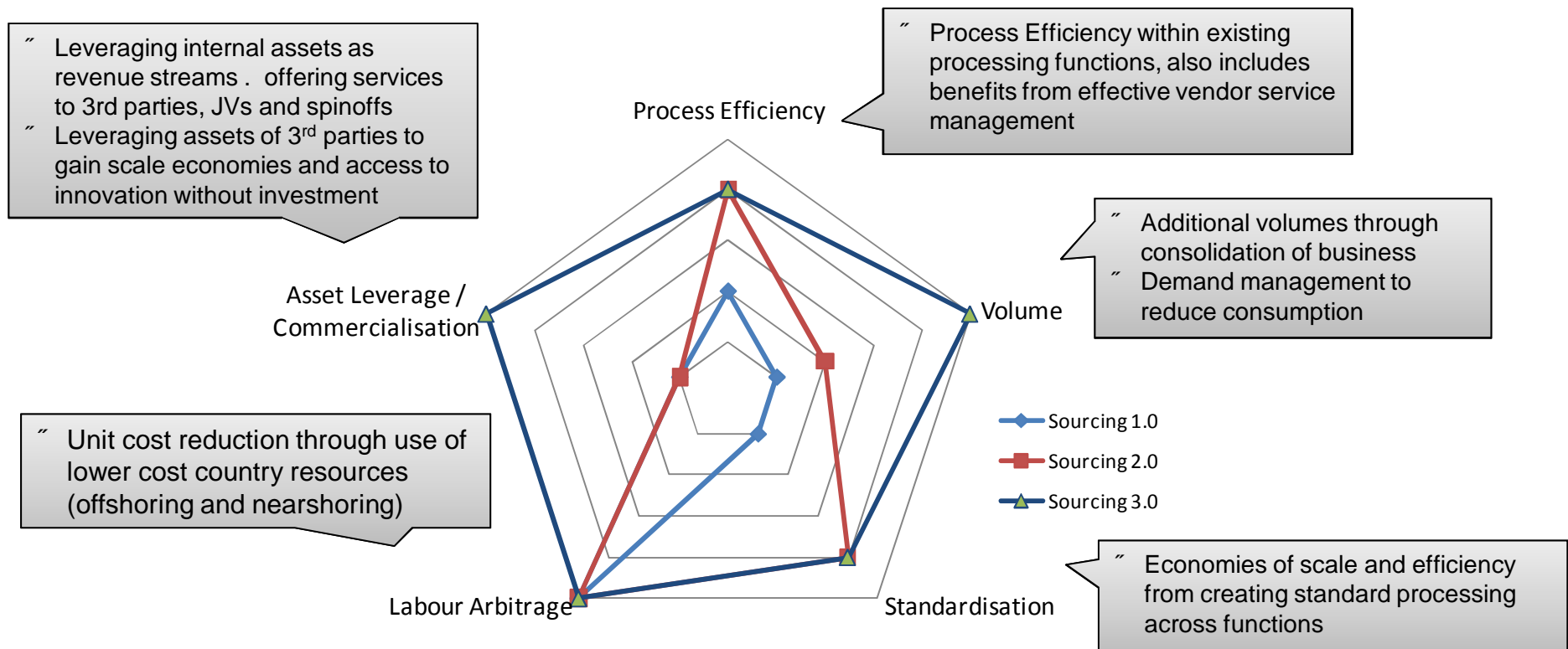
The industry is seeing a step-change in sourcing strategies and operating models



- While labour cost-arbitrage was the principle motivation behind the first outsourcing efforts, companies are now reaching the limits of what they can easily offshore and are met by inflationary pressures in low-cost centres
- Companies are increasingly shifting their focus to explore the process efficiencies and external capabilities that service providers can bring to drive more value for their businesses
- Companies are increasingly acting as service managers and integrators themselves to remain competitive
- Innovative companies will look to commercialise their assets, partnering up with service providers or industry competitors to create industry utilities

WHY: Sourcing Value Levers

As companies move through the Sourcing Evolution curve, they flex different value levers to maximise the commercial opportunity. This is not industry-specific and there are many lessons to be learned from non-FS examples








WHY: Leveraging Outsourcing Vendor Capabilities Beyond Arbitrage - Process Optimisation

The business case for pure arbitrage offshoring is reducing due to no longer delivering sufficient returns for companies because of:

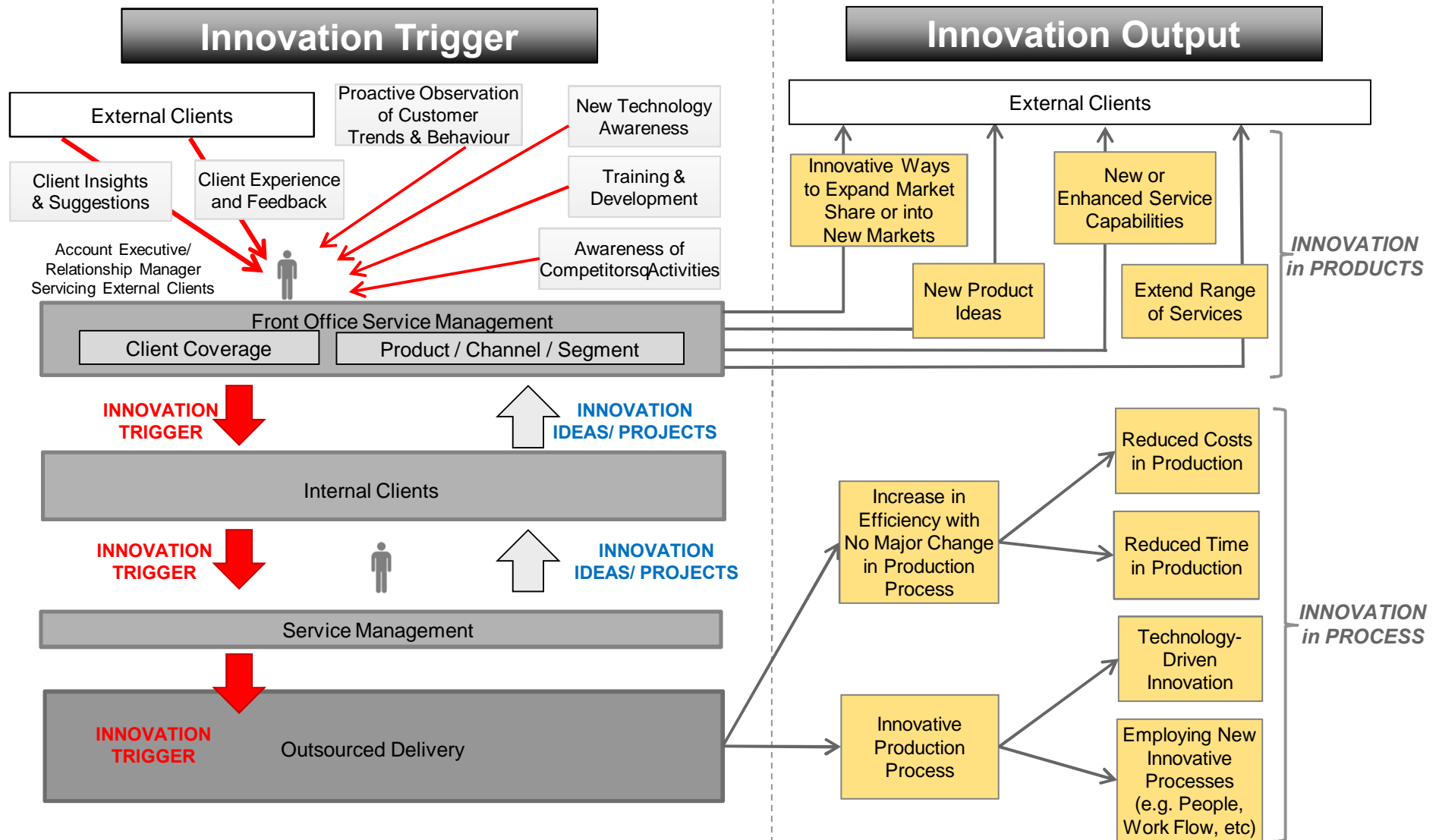
- “ Inflation of prices in low cost locations
- “ Level of exploitation of offshore models maturing in many major FS companies

However, service providers have also evolved their capabilities and significant benefits can still be extracted from optimisation of shared service models

	Description		Example
Build, Operate, Transfer	<ul style="list-style-type: none"> “ Companies leverage the expertise of a service provider in establishing a shared service capability, often in a new market of geography, with the option to bring that capability in-house when established “ Can also use the provider to spread the investment cost of setup 	 	<ul style="list-style-type: none"> “ HCL supported State Street in building greenfield European service centres “ HCL are also running a BOT to centralise support from 5 countries into a Colombian delivery centre across multiple back office functions.
Results-based consulting	<ul style="list-style-type: none"> “ Use service providers with experience in shared service creation and process optimisation to support internal transformation . gain access to skillsets outside the current organisation and also accelerate timescales vs. internal delivery capability 		<ul style="list-style-type: none"> “ Accenture are acting as transformation partner to Santander in S. America and Europe in streamlining and consolidating support functions across their acquired businesses
Opex vs. Capex	<ul style="list-style-type: none"> “ Service providers have developed technology platforms to support their process services “ Clients can leverage these on an Opex basis rather than investing in large scale ERP implementations and upgrades 		<ul style="list-style-type: none"> “ UBS have reduced their TCO for F&A and other ERP areas by using Wipro's platforms to underpin the BPO services
Cloud Services	<ul style="list-style-type: none"> “ Leverage global capabilities and assets of third parties to deliver (largely IT) related services on an as required, pay per use basis “ Flexible model without need for infrastructure investment or need to own assets 		<ul style="list-style-type: none"> “ IBM are building the private cloud infrastructure for Nordea to variabilise their costs

WHY: Leveraging Outsourcing Vendor Capabilities Beyond Arbitrage - Innovation

Exposure to vendors service multiple clients and to back office functions incentivised to drive efficiency as a profit centre may present many more innovation triggers than solely internal capabilities



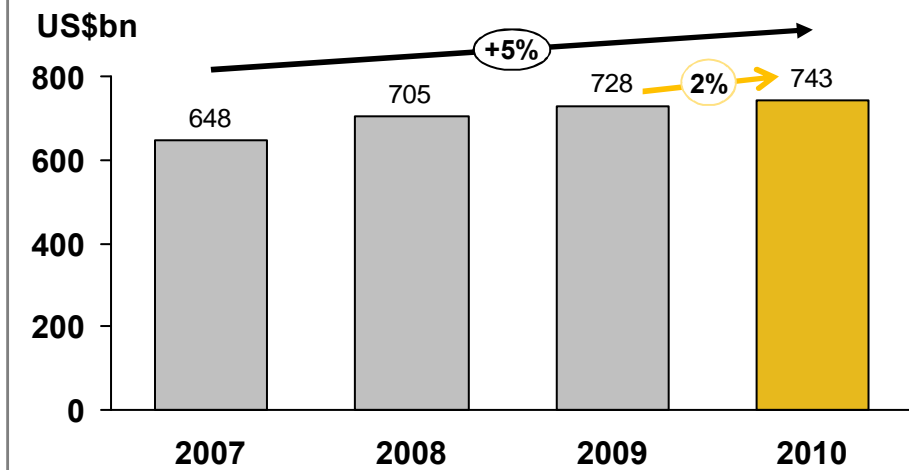
What:

Functions Outsourced/ Offshored

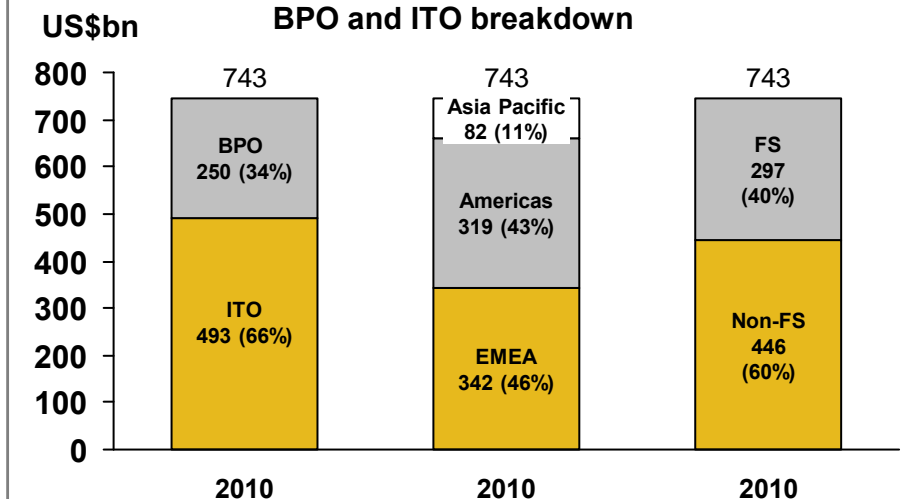
WHAT: Key Trends in the Outsourcing and Offshoring Market

Overall growth of the outsourcing industry continues to be modest due to global economic pressures

Growth in Outsourcing Market , 2007-2010



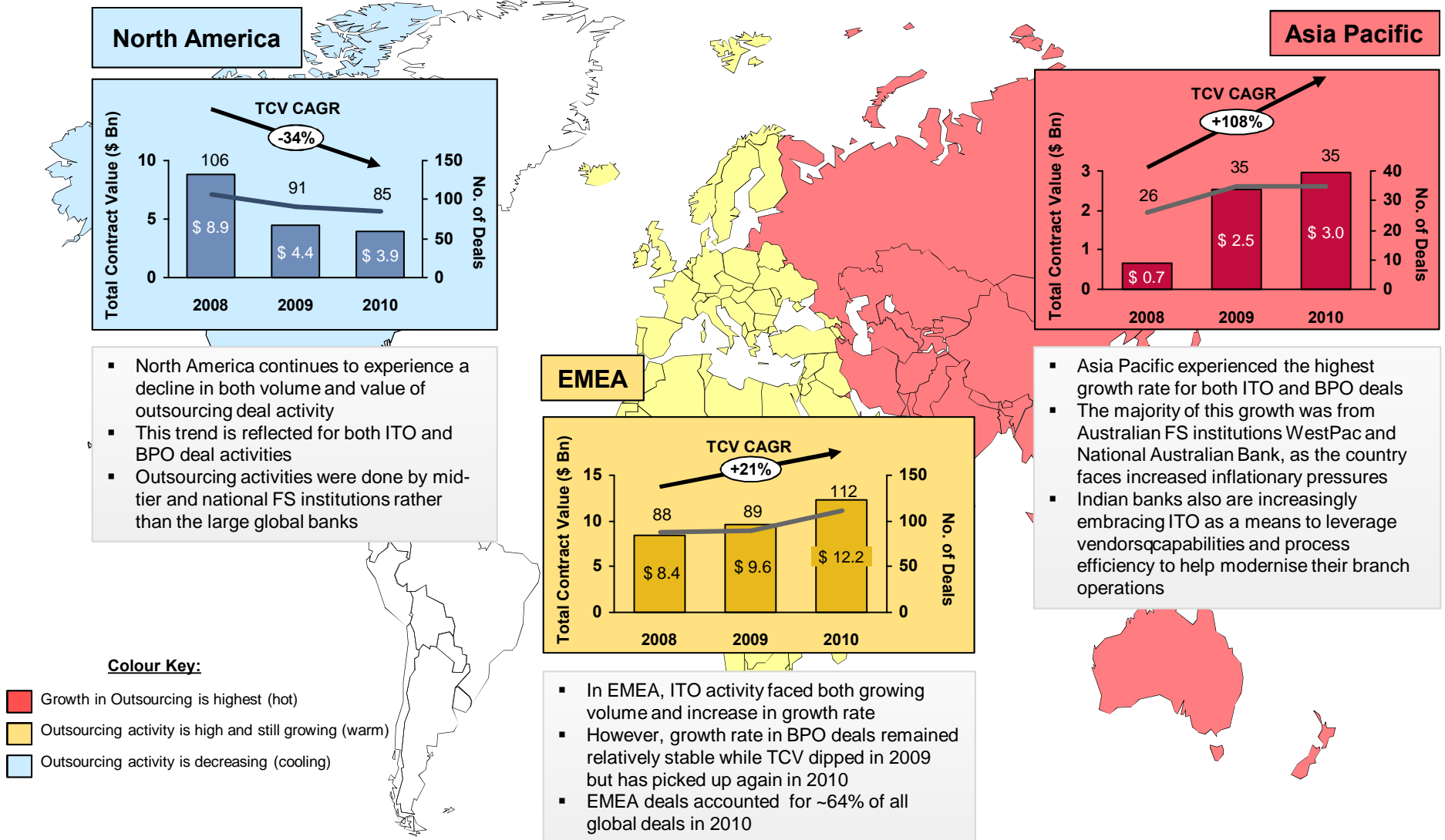
2010: Outsourcing Market by Region and BPO and ITO breakdown



- The outsourcing market grew by a nominal 2% in 2010
- The growth in the outsourcing market over the last 3 years has been moderate
- On a regional basis, EMEA and the Americas still account for the majority of the outsourcing market . though the Americas market share is decreasing as the industry continues to grow in EMEA and Asia
- India has 55% of the offshoring market in ITO and BPO (Source: Nasscom 2010)
- ITO continues to generate the largest proportion of revenue in the outsourcing market and also continues to enjoy the fastest growth rate of the outsourcing sectors though as a maturing market this growth will not continue indefinitely
- Financial Services is still the largest sector for outsourcing services at 40%, while the US is the largest customer by country

WHAT: Global View of FS Outsourcing Deal Activity 2008-10

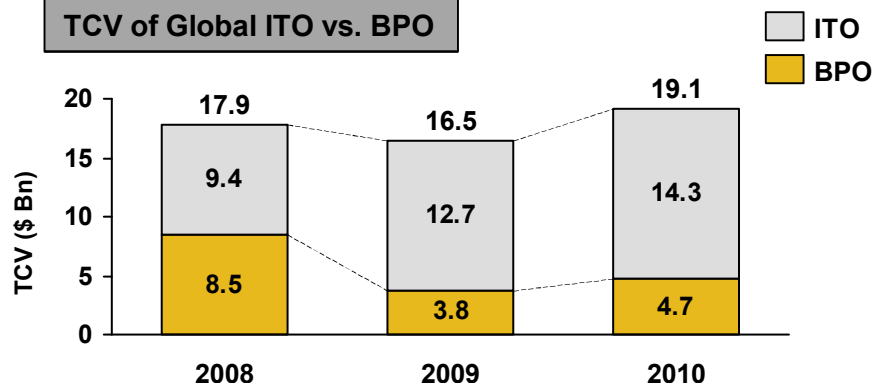
The US outsourcing market is in decline and EMEA saw greater total contract value for the second year. While Asia Pacific region is still comparatively small it continues to grow at a very high rate



WHAT: FS ITO and BPO Outsourcing Activity Comparison

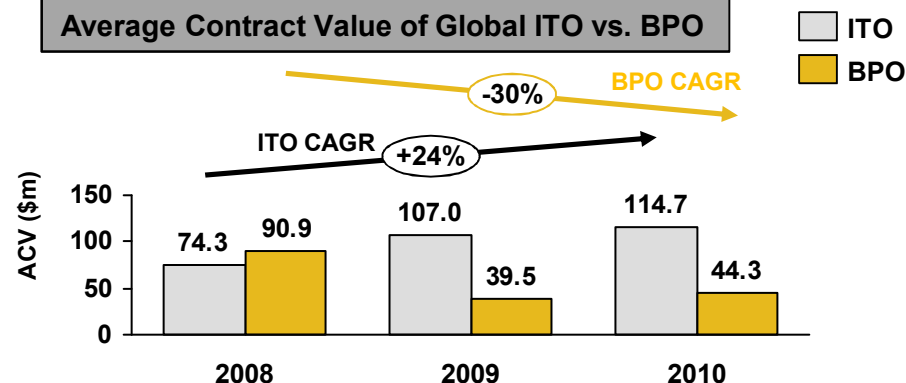
ITO continues to show growth while BPO deals have been affected significantly due to the economic crisis. However, market activity in 2010 was driven by renewals and extensions not new outsourcing deals

TCV of Global ITO vs. BPO



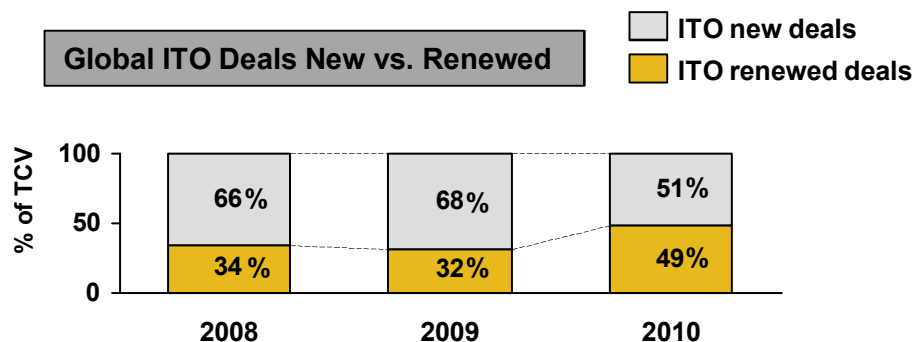
- The BPO industry has been heavily impacted by the global recession though is beginning to recover as companies exhaust tactical and internal cost cutting measures
- ITO deal activity has continued to grow, fuelled by growth in EMEA and new interest from major Australian FS firms and emerging India-to India outsourcing

Average Contract Value of Global ITO vs. BPO



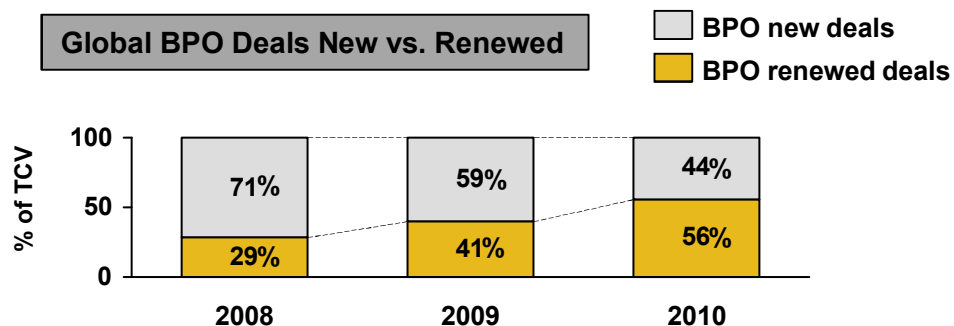
- Average contract value for IT deals has risen by over 50% in the past 3 years, due to:
 - Increasing commoditisation of infrastructure services, especially networks, leading to large managed service deals
 - Several renewals of large contracts in 2010
- For BPO, market nervousness has led to largely small scale transactional outsourcing activity, with average value down by 40% vs. 2008

Global ITO Deals New vs. Renewed



- Globally, there has been an increase in the proportion of renewals vs. new contract activity
- This may indicate a maturing of the market place as most companies already have some level of outsourcing in place
- Examples of large renewed deals include ABN Amro, Nordea and Danske Bank

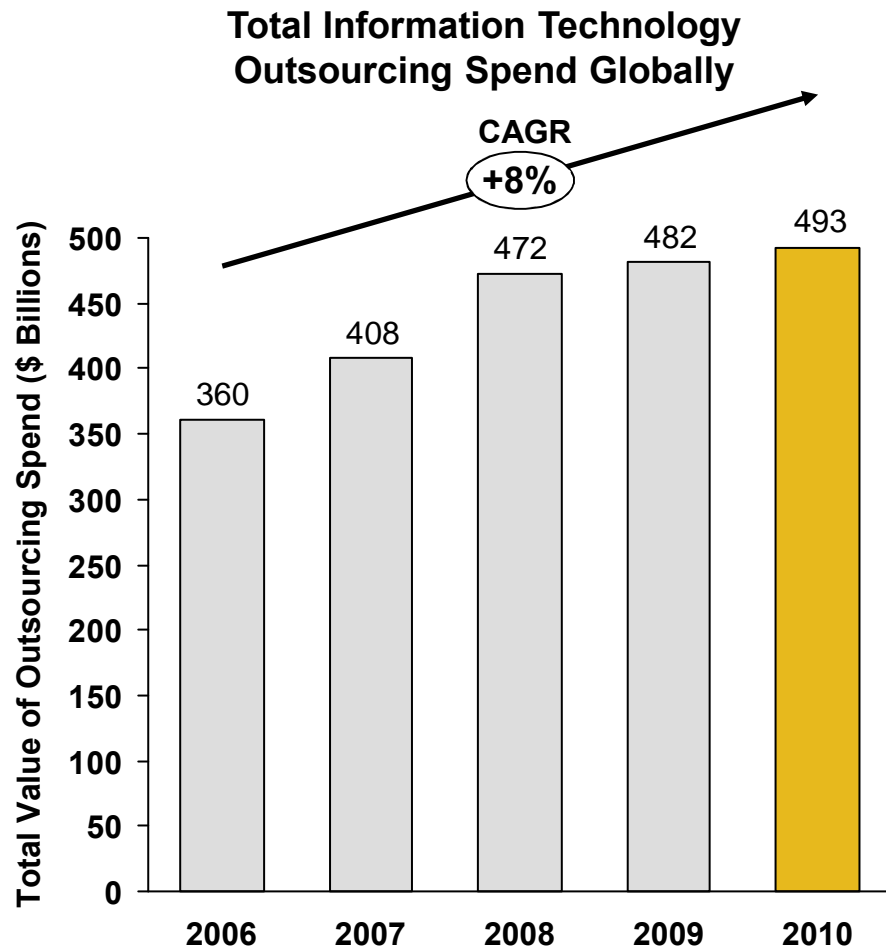
Global BPO Deals New vs. Renewed



- Proportionally, there has been a marked decrease in new BPO contract activity which exacerbates the issues of reduced total contract value in the market . implying much of the market activity is with clients already outsourcing rather than companies exploring new outsourcing opportunities
- Examples of large renewed deals include Swiss Re in EMEA and Fifth Third Bancorp in North America

WHAT: ITO Trends in the Outsourcing Market

Central and federal government clients combined with banking and financial institutions drove the demand in the ITO market in 2010



- IT outsourcing in the FS sector had the highest growth in 2010 (in terms of volume) followed by the Government and Defence sectors, respectively
- Indian vendors have captured 20% of the global IT sourcing market
- While the value of the contracts won by Indian IT service providers in 2010 was less than previous years, the volume of contracts won by Indian players grew by 8% (year on year)
- Large majority of the contracts offered were in the range of \$40-50 million with a few exceptions, such as:
 - ABN Amro renewing a \$1.95bn 5-year ITO contract extension with IBM in Nov 2010
 - Nordea awarding a \$1.92bn 5-year ITO contract extension to IBM in March 2011
 - Australia-based Westpac Banking Group awarding IBM a five-year \$1.08bn ITO contract extension, beginning in December 2010

Source: Analysis of Tholons and Gartner Data

Note: Currency converted from Euro to US\$ using historical rates from Oanda

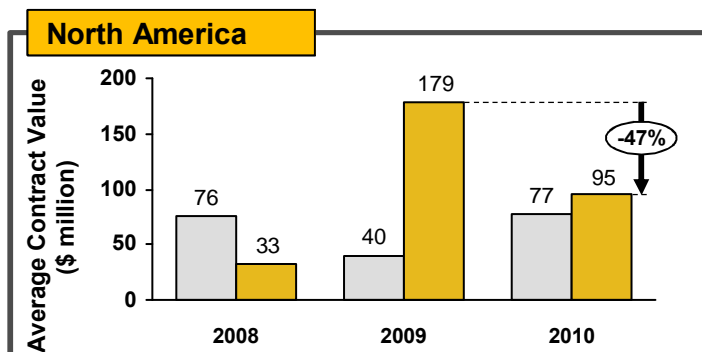
Source: Gartner Research, 2011

WHAT: FS ITO Outsourcing Contracting Activity

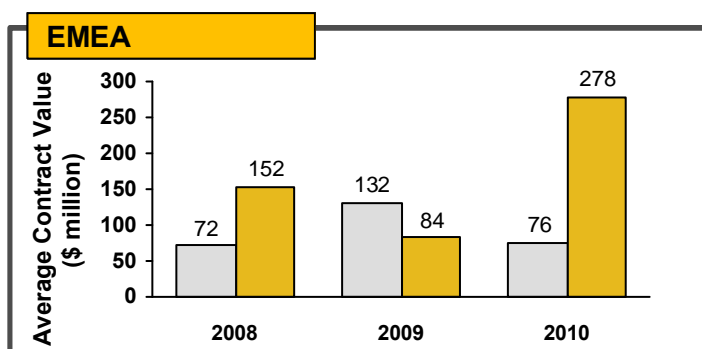
Average contract value in ITO has grown, mainly driven by renewals . new deals in 2010 tended to be sub-\$100m Total Contract Value

KEY

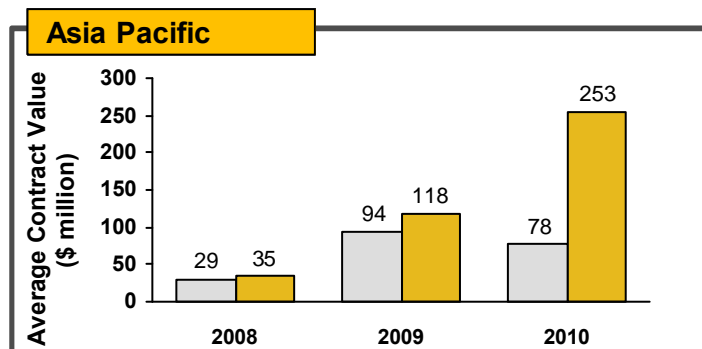
- New Deals
- Renewed Deals



- North America, formerly home to mega deals of over \$1bn now has the lowest average contract value across the 3 major outsourcing regions
- Most new transactions in the FS sector in 2010 were by regional/national banks and insurers, such as Fifth Third Bank and Hartford, not the global players who have predominantly exploited ITO already through captives or outsourcing
- 3 of the top 10 largest transactions were Canadian financial institutions, further evidencing that market activity is in the less mature markets



- Even in EMEA, where ITO growth continues, the average transaction size of new deals is smaller than 2009, indicating a common global trend to smaller deals
- Major renewals such as the ABN Amro / IBM deal have driven the spike in renewal contract value
- There has been significant activity in the Nordic banking sector (Nordea, Tryg etc.)



Overall the Asia Pacific market continues to experience high growth. There are two key emerging trends:

- Australian banks have been responsible for the largest deals in the region, with NAB and WestPac signing major outsourcing deals . this may mark a change in Australia's historically conservative attitude to offshoring
- In India, there is an increasing amount of onshore outsourcing India to India . this confirms the rise in outsourcing as a tool to drive efficiency rather than arbitrage benefits

WHAT: FS ITO Outsourcing Domain Activity

Infrastructure services continue to dominate ITO activity. The Asia Pacific region is currently very under-developed in terms of Application Development and Maintenance

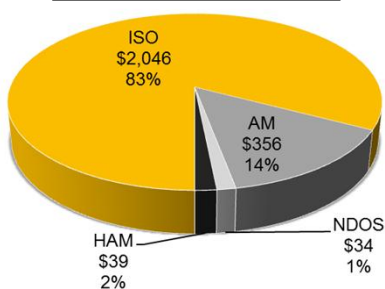
ITO Sub-Domain Outsourcing Activity- based on 2010 TCV (\$m)

KEY:

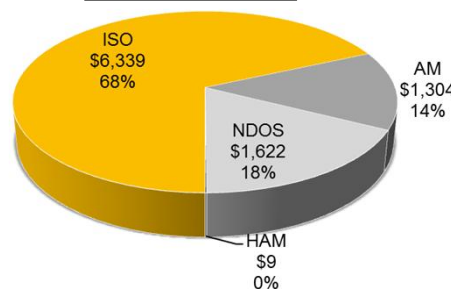
ISO = Infrastructure Services Outsourcing
AM = Applications Maintenance
NDOS = Network & Desktop Outsourcing

HAM = Hosted Application Maintenance
HIS = Hosted Infrastructure Services

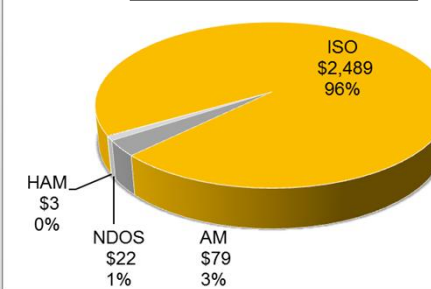
North America



EMEA



Asia Pacific



■ ISO and AM have seen rising growth from 2008-10

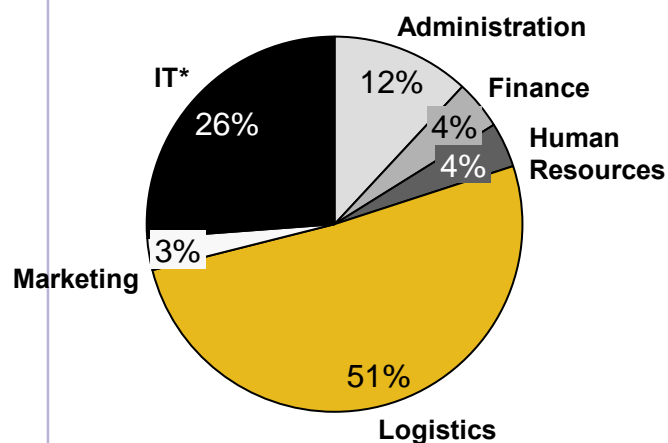
- Infrastructure services, as in previous years, continued to be by far the most common form of IT outsourcing in 2010, accounting for ~75% of all ITO market activity
 - It has also seen the most growth since 2008 as commoditisation continues and FS companies experience matures . especially in the Asia Pacific region
 - In particular, there has been a rise in the instance of Cloud computing transactions . in 2009 and before there were only a handful in the sector, notably the American Express deal but in 2010 two of the largest deals in EMEA were for cloud services (Tryg and Nordea, both Scandinavian companies)
- In North America and EMEA (more specifically, Europe), Application Management is a relatively mature area of outsourcing among Financial Institutions with 14% of transactions but there has been limited activity in this space in Asia Pacific to date
- Trends in Network and desktop outsourcing suggest this area is set to grow in Europe and in Asia

- **Cloud computing** gaining momentum as next wave of Infrastructure sourcing . removing the assets from the institutions. Cloud for Infrastructure and desktop have already become accepted in FS, as evident by the several new deals in last 12-24 months. Meanwhile, ERP and business applications will be the next phase of innovation . companies like NetSuite are already proving the economics of Cloud ERP for SME businesses, larger scale implementations will follow
- **Emerging technologies:** Recent popularity of mobile technologies and applications will be increasingly embraced by financial institutions if they wish to remain modern and appealing to multi-channel customers
- **Service Management:** New standards and service models for ITO where current models are perceived as failing
- **Increased IT spending:** Government-mandated industry reforms are expected to lead a significant increase in the spending for IT investments (e.g. recent health reform policies in the US has created a huge market in the Health Information technology sector)
- **Increased Customer participation:** With the tightening of IT budgets, customers are taking an increased interest in working with their outsourcing providers

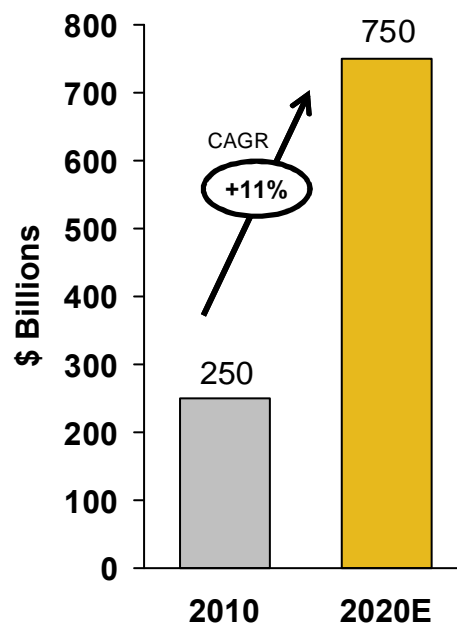
WHAT: BPO Trends in Financial Services

- “ The Global BPO market is estimated to grow from \$250bn in 2010 to \$750bn in 2020, with a CAGR of 11%
- “ FS accounts for 40% of the Global BPO market, and it is expected that this share will stay the same until 2020
- “ Logistics is by far the largest service segment in the BPO market, representing over half the market

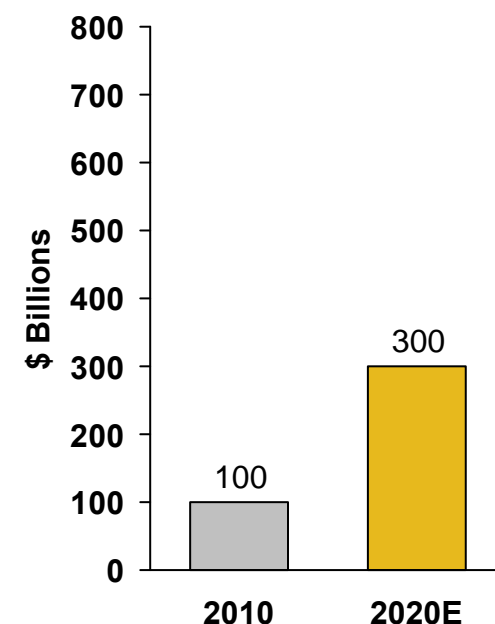
**BPO Market Shares in 2010
by Service Segment**



Global BPO Market Size



Global FS BPO Market Size





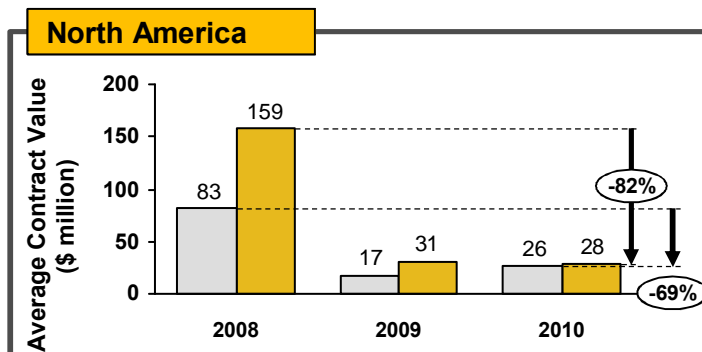
* IT services are those related to BPO delivery not ITO

Source: Elix-IRR analysis, Nelson Hall 2010, Everest Group 2011, IDC

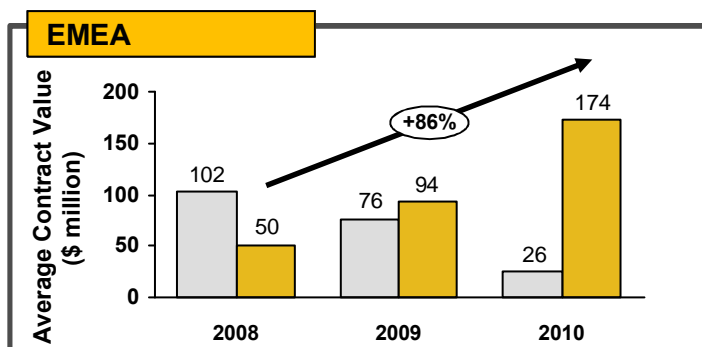
WHAT: FS BPO Outsourcing Contracting Activity

Average contract value for BPO deals is far lower than ITO . particularly for new contracts where the average is sub-\$30m

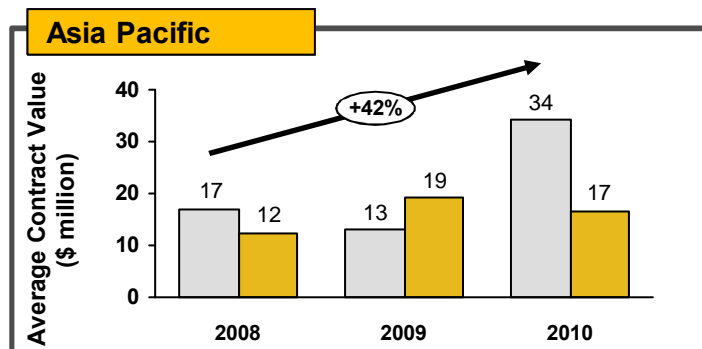
KEY
 New Deals
 Renewals



- As with ITO, BPO in North America has seen transaction values decline 2009-10 with most deals being very low value
- Two significant exceptions to the rule are the HR deals made by Bank of America for \$650m contract value and, more recently in 2011, by Fifth Third at \$190m, HR outsourcing seems to be bucking the trend in the US



- Europe has seen strong growth in the BPO sector but the larger transactions in the marketplace are predominantly renewals based (Swiss Re, Zurich Financial)
- New deals, as in North America have been decreasing in size if not in volume . indicating tactical outsourcing and smaller enterprises



As with other sectors there is very high growth in Asia Pacific and a glut of new activity

- F&A in particular is benefitting as companies look to outsource basic accounting functions already tackled in more mature markets
- Overall though BPO is still an emerging proposition in most of Asia Pacific relative to ITO. The early adopters seem to be Indian companies looking to leverage skills, platforms and economies of scale by using in-country delivery capability built by the Indian outsourcing vendors

WHAT: FS BPO Outsourcing Domain Activity

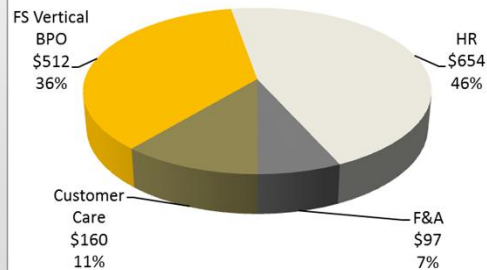
While HR deals have dominated the US market, EMEA and Asia Pacific have seen high levels of activity in industry-specific processing. Asian companies have also been increasing F&A outsourcing, catching up with more mature markets

BPO Sub-Domain Outsourcing Activity - based on TCV (\$m)

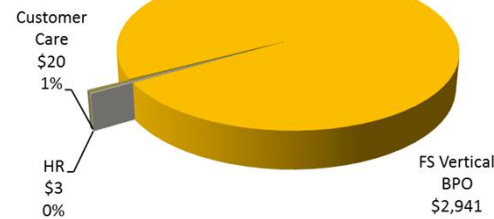
Key:

HR = Human Resources
F&A = Finance & Accounting
FS Vertical BPO = BPO specific to FS Industry

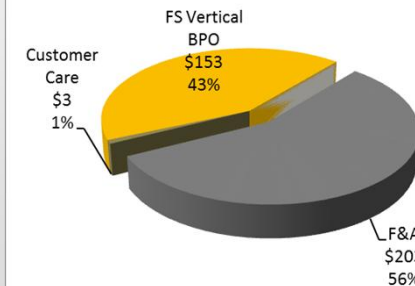
North America



EMEA



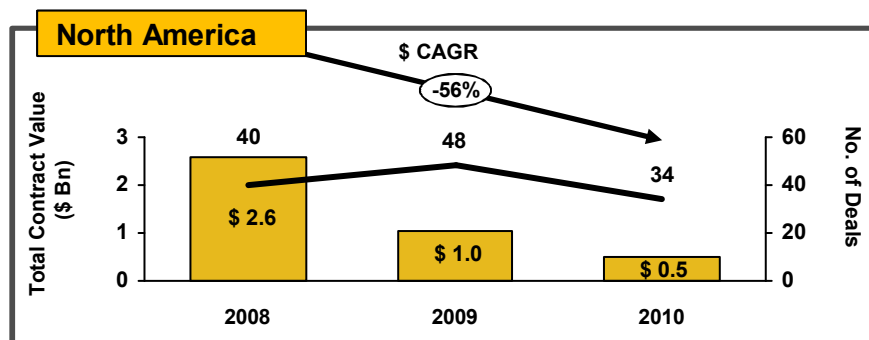
Asia Pacific



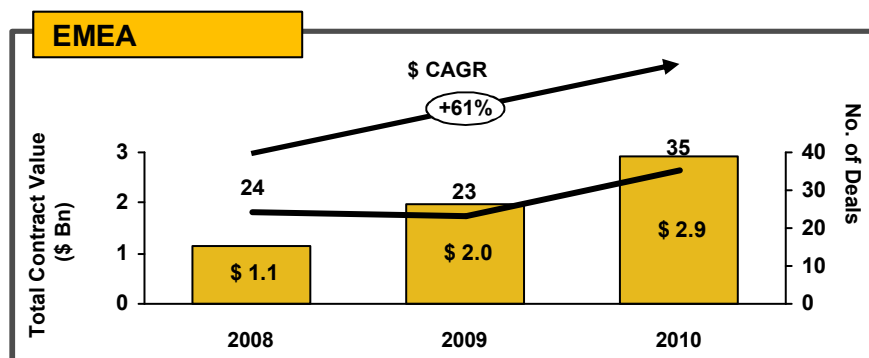
- Unlike many other industries, business. specific processing for Financial Services is big business . over 75% by value of the BPO contracts signed in 2010 were for banking or insurance specific processing. While there were some anomalous large deals in Europe, figures of 40-50% are normal
- In North America, HR and customer contact / customer care propositions were also popular - the Bank of America deal accounting for most of this but activity in 2011 such as the Fifth Third deal with Northgate indicates similar activity this year
- In Europe the Swiss Re deal dominated proceedings as they extended their BPO/customer care deal with CSC. Other than this though the BPO market's other main domains saw little activity with virtually no major HR, F&A or Procurement engagements
- For Asia Pacific it is partly a game of catch-up while companies outsource basic accounting and administrative functions already tackled in Europe or America . Australia and India were the countries figuring most on the list for 2010

WHAT: FS Industry-Specific Processing BPO Activity

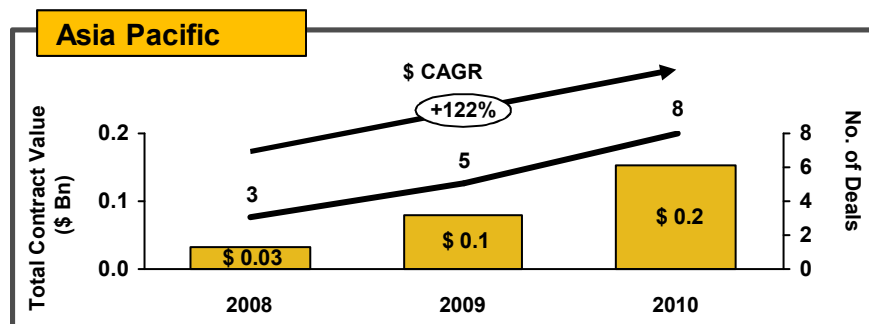
Activity in FS-specific BPO (banking and insurance operations processes*) has returned to 2008 levels but the majority of new deals were in EMEA



- In 2010, FS Vertical BPO in North America accounted for ~11% of the total FS BPO contracts signed
- FS-specific BPO deals have decreased significantly as banks have largely relied on tactical measures to reduce costs, especially in the face of rising political resistance to offshoring



- In EMEA, FS Vertical BPO deals have seen both an increase in deal volume and growth
- In 2010, EMEA FS Vertical BPO accounted for a significant 61% of total FS BPO deals signed
- The majority of these were new FS Vertical BPO deals (22 of 33 deals)
- Greatest activity was in the Insurance sector with both Swiss Re and Zurich signing significant customer care and claims processing deals



- In Asia Pacific, FS Vertical deals have seen a significant growth rate between 2008-10, particularly due to Indian FS firms embracing FS Vertical BPO as a means to leverage vendors capabilities to modernise operations
- An example is State Bank of India signing on Spanco in 2010 for their loan and account processing as well as F&A activities

* NOTE: Banking and Insurance operations processes include but are not limited to – trade processing, loan administration, billing services, payments services, document and data management, account processing and reconciliation etc.

Source: IDC Services Contract Database, November 2011

BPO - FS Specific

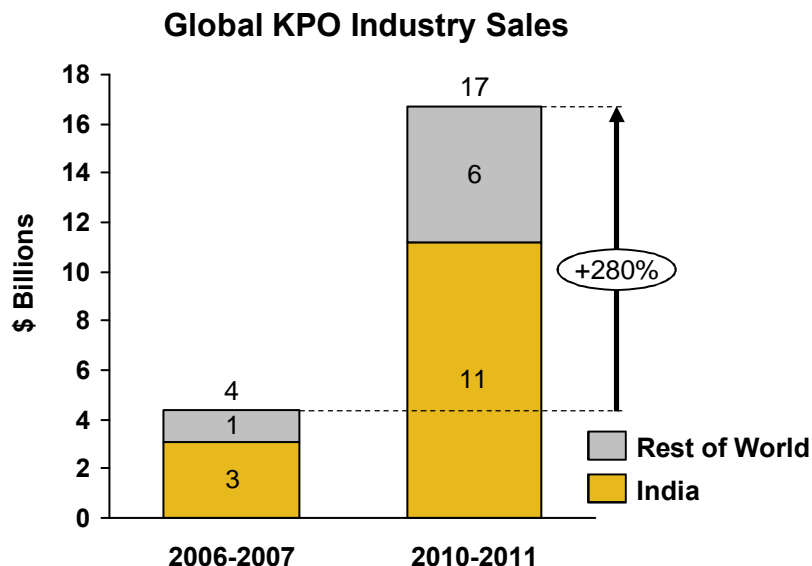
- Insurance groups to be more active in embracing BPO deals, particularly around claims processing and customer care
 - This trend which has clearly started in the EMEA region will spread to North American insurance groups
- Expansion into Front & Middle Office functions
- Commercialising Back Office processing engines . major banks as service providers
- Move back onshore for failing functions . potentially some institutional client services
- Due to increasing inflationary pressures, it is likely that BPO will become more attractive to Australian financial institutions

BPO – Generic

- Human Resources Outsourcing will increasingly become more popular among the large financial institutions
 - Bank of America and Fifth Third Bancorp both signed two large HRO contracts in the last 12 months
- Procurement outsourcing growth - separation of Strategic Sourcing and Fulfilment functions
- Accessing improved ERP system capabilities in the marketplace
- F&A - management reporting and analysis

WHAT: KPO Trends in Financial Services

The KPO industry continues to grow at a significant rate of over 50% annually, reiterating the increasing importance that companies place on managing their knowledge processes



Source: Evalueserve Report 2010 and 2011

Bank/In-House Research Department	Traditional BPO Firm with Expansion to KPO	Professional KPO Firm
Goldman Sachs	Progeon	Evalueserve
Morgan Stanley	Genpact	Amba Research
JP Morgan	WNS	Irevna
UBS	Nipuna	Copal Partners
Deutsche Bank	Office Tiger	Aranca
SAP	EXL	Lexadigm
GE	Wipro	IP Pro
Intelleve	Accenture	Roc Search
IBM	Mphasis	Market Rx
DataMonitor	Infosys	Inductis

- The overall KPO market has been the fastest growing outsourcing market, with a growth rate of 51 -58%* annually
- India has retained its dominant share of the global KPO market with over two thirds of the market share ,due to a large talent pool of chartered accountants, MBAs, lawyers and research analysts. However, the Philippines, China, Ireland, Sri Lanka, Chile and Mexico are emerging as alternative destinations
- The fastest growth in the KPO market is seen across:
 - Banking and financial research services
 - Data management
 - Legal services
- FS firms are investing more time, equity and intellectual property into preferred KPO providers such as Amba Research and Copal Partners, whereby forming a joint venture or partnership has become increasingly more popular . for example, the SocGen / Copal Partners deal where research is co-branded
- Competition has intensified as KPO niche players have been increasingly challenged by major BPO providers who are growing or acquiring KPO capabilities, e.g. Cognizant bought out UBSqcaptive as part of a wider delivery centre acquisition

* Due to the difference in methodology adopted by various firms in calculating growth rates in the KPO market; different estimates/figures have been reported in the range of 45% to 58%

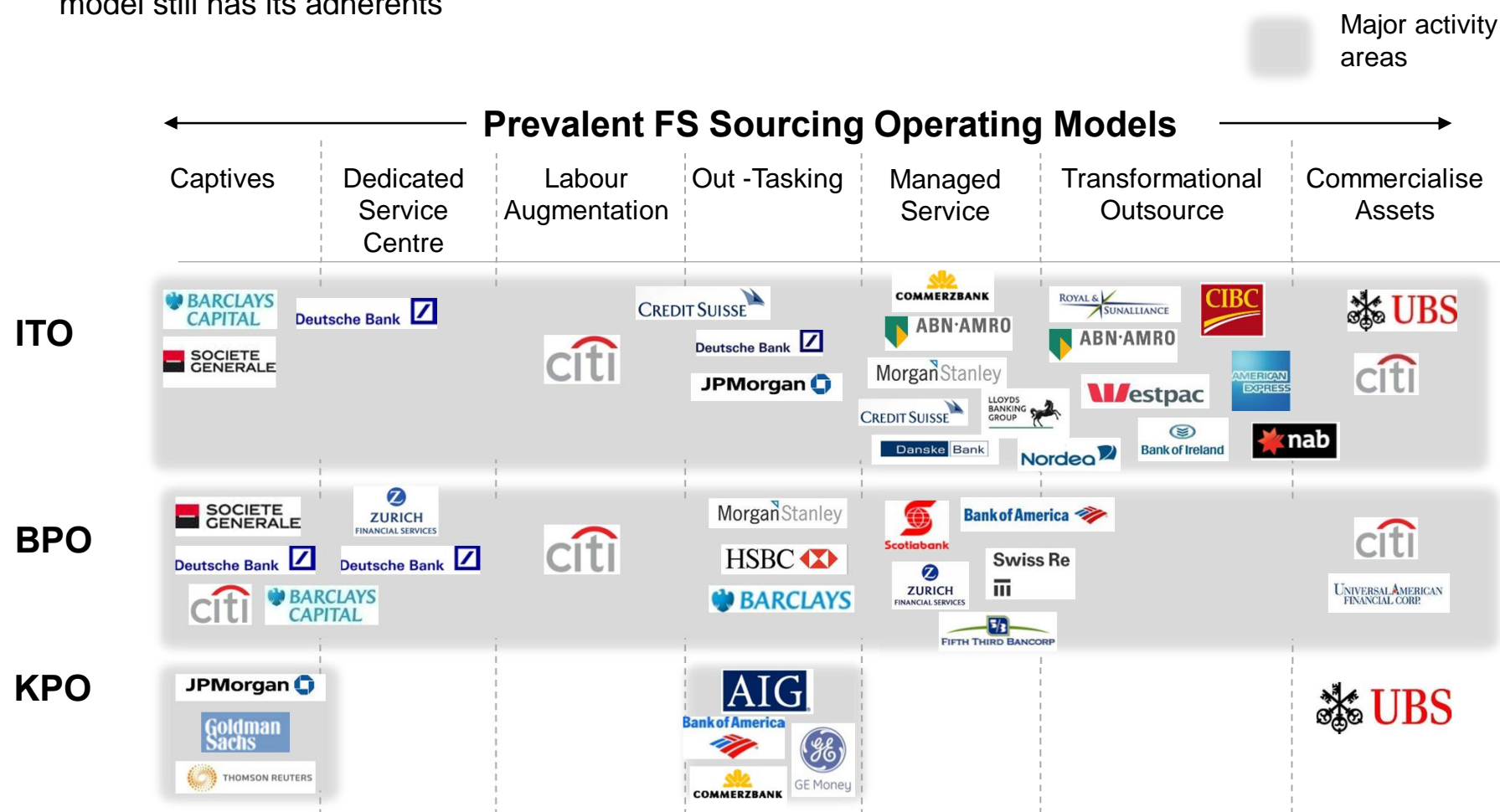
- Diversification of research services . product structuring, end-to-end research production
- Growth of legal offshoring for FS as well as other industries
- KPO is BPO - most KPO processes become integrated into wider BPO capabilities, not viewed as distinct discipline
- Major BPO outsourcers will continue to cannibalise KPO specialists and the industry will also see a consolidation of KPO service providers
- Financial institutions will invest more time, intellectual property and equity into preferred KPO providers, whereby forming a joint venture or partnership will become an increasingly popular relationship . it will be come more accepted/visible externally that banks leverage third party research rather than deliver in house
- Prioritisation of KPO by other industries . pharmaceuticals, biotechnology, automotive and aerospace industries will drive greater economies of scale
- Move upstream in the value chain . for example, the senior analyst talent will begin to emerge from the offshore locations rather than the traditional onshore FS locations

How:

Forms of Outsourcing and Offshoring

HOW: Operating Model

- “ ‘Best Sourcing’ as most common model . most FS institutions now employ several different models of outsourcing and offshoring across the spectrum of service providers depending on the maturity of the services and their internal capabilities
- “ There has been an increase in captive activity in 2010 vs. 2009, especially for BPO, showing this model still has its adherents

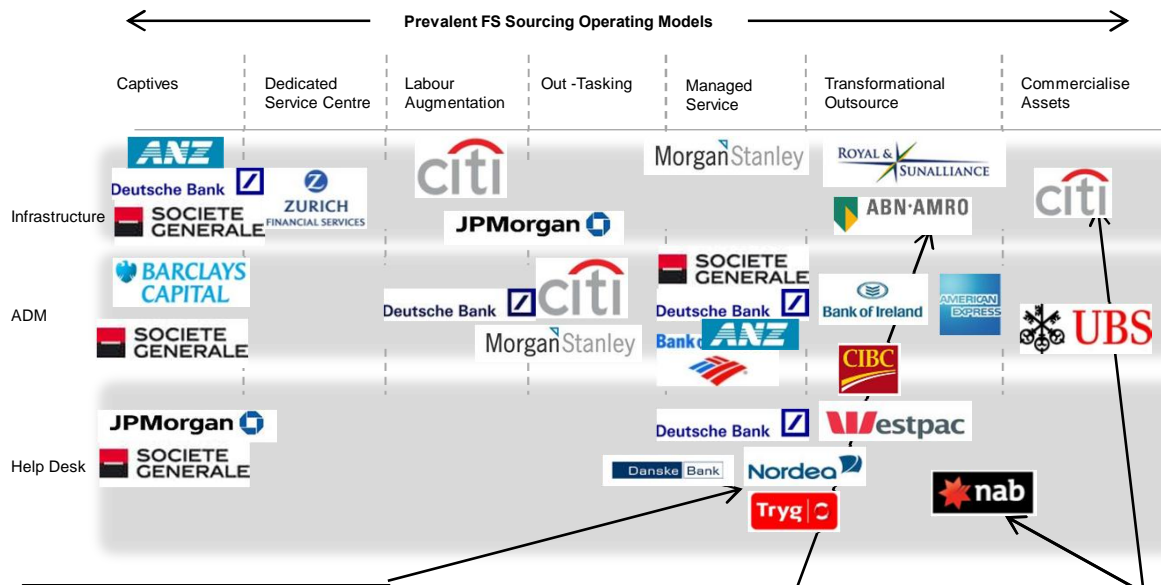


NOTE: This picture is oversimplified . many banks straddle multiple operating models

HOW: Operating Model for ITO

Significant FS examples between 2008-11 show activity across the full spectrum of delivery models

Major activity areas



- Most major institutions operate a **mixed portfolio** of strategies across ADM and Infrastructure, including:
 - Captive
 - Dedicated / co-managed
 - Managed service
- Full **managed service and transformational outsourcing** is most prevalent in infrastructure services, particularly telecoms where **transactional pricing** models are now prevalent . e.g. Lloyds TSB
- ADM services are still perceived as core in banking sectors especially and retained on a more task or FTE-governed basis
- High level of **consolidation to major vendors**
- ITO has become more attractive for Australian banks** such as Westpac and National Australian Bank as the country faces higher inflation
- Financial institutions are increasingly **embracing emerging technologies** such as **cloud computing** to increase IT cost efficiency

Emerging technologies such as Cloud are increasingly embraced by financial institutions as innovative ways to achieve increased IT cost efficiency

- IBM is helping **Nordea** to set up their cloud computing infrastructure
- CSC is deploying private cloud technologies to provide **Tryg** with higher efficiency and flexible support
- EMC is building a private cloud for **Westpac**

Majority of new large ITO deals within the last 12 months have been Managed Service and / or Transformational Outsourcing:

- ABN Amro's** deal with IBM now expanded to integrate Fortis Bank's IT infrastructure through a new standardised platform
- IBM will help **Westpac** transition to a new core data centre, as part of the Bank's strategy to consolidate their data centres

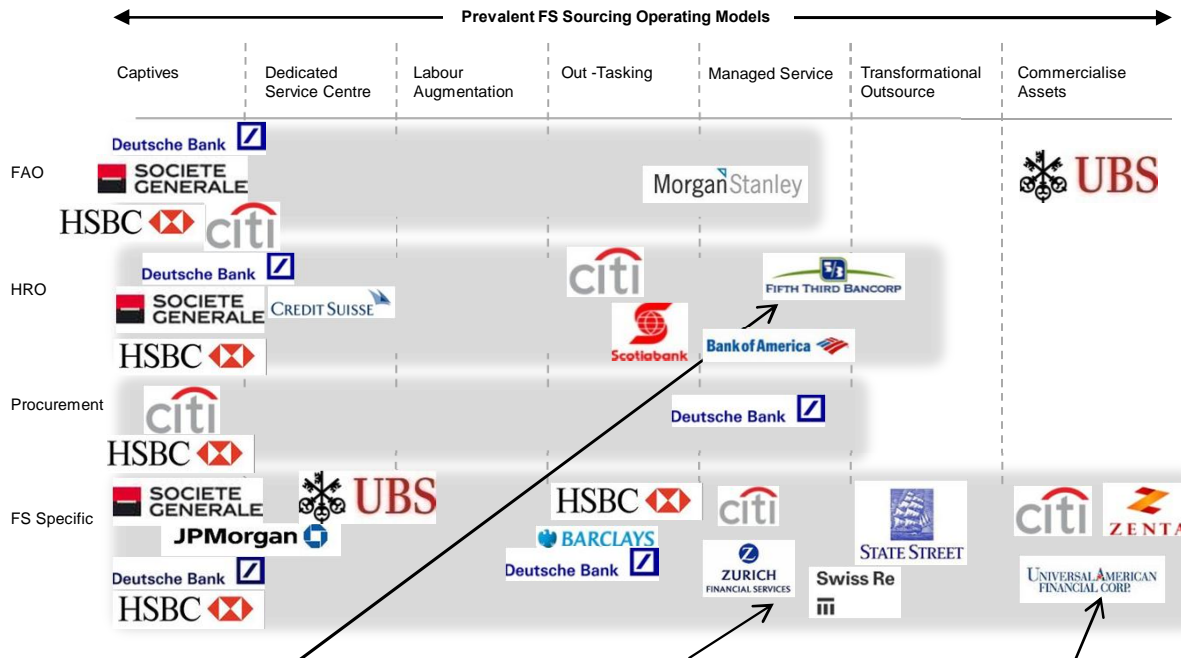
As service providers try to expand globally, they have increasingly bought the assets of large financial institution, include:

- Wipro buying **Citi** data centre in Dusseldorf
- Cognizant buying **UBS** Indian IT delivery centre
- IBM acquiring **National Australian Bank's** main data centre in Melbourne

HOW: Operating Model for BPO

Back Office functions largely use traditional captive or managed service models.
There has been greater experimentation with regards to industry specific processing

Major activity areas



HRO has seen an increase in activity versus other BPO areas in recent years, particularly among the large deals

“ **Bank of America** signed on AON Hewitt for HR admin, payroll, health / life mgt, and performance & recruitment tracking

“ NorthGate Arinso will provide HR services to **Fifth Third Bancorp** and upgrade the company's HR IT

Two of the largest BPO deals globally in the last 12 months have been by Swiss insurance groups **Zurich Financial Services** and **Swiss Re**

“ The main outsourced functions have been Claims Processing and Customer Care

Service providers continue to build market share by acquiring assets of financial institutions

“ Patni acquired CHCS, a subsidiary of **Universal American Financial**, establishing them as a 3rd Party Administrator in insurance & healthcare

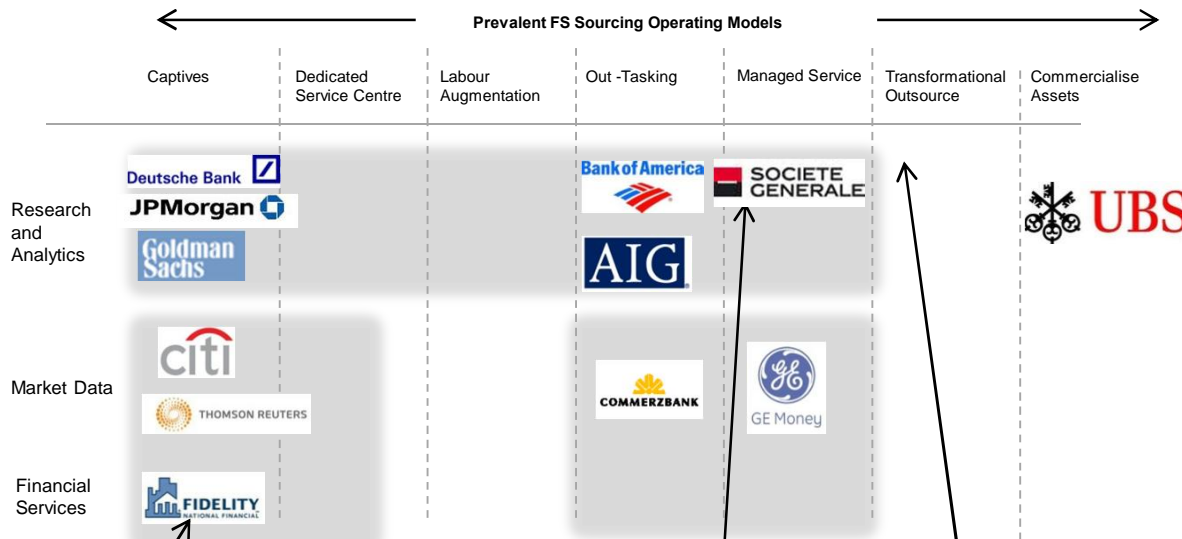
“ Accenture acquired **Zenta**, the US mortgage administrator

- As with ITO, FS institutions have continued to leverage existing models in trusted locations
- Offshoring to Back office processes for **capital markets remain dominated by India centre solutions**
 - Deutsche Bank use HCL and its own delivery centre (DBOI)
 - UBS and JP Morgan continue to expand services with Wipro
 - Citi's offshore BPO services are provided by their former captive centre, now Infosys
- Multi-national banks are looking to leverage their investments in processing platforms **by selling services to smaller players** and hedge funds / asset managers
- While there have been no global BPO asset sell-offs since the UBS and Citi transactions, there have been regional banks following a similar path such as UFA to Patni and several deals believed in the pipeline in Europe and the Middle East
- HRO** has seen an increase in activity in FS companies over the last 12 months

HOW: Operating Model for KPO

KPO still has fewest examples and new activity in banks has lessened in the last 2-3 years

Major activity areas



Fidelity National Financial (FNF) transferred 800 US jobs to its captive in Bangalore in March 2011, whereby 50 roles would be for the KPO team which would offer services in escrow, post closing, corporate tax and accounts payable

Societe Generale Private Banking has formed a partnership with KPO provider Copal Partners in Oct 2010. The latter will provide equity research services to its private banking clients and these reports will be co-branded with the bank's name and Copal's. **Deutsche Bank** and **Bank of America Merrill Lynch** are already investors in Copal

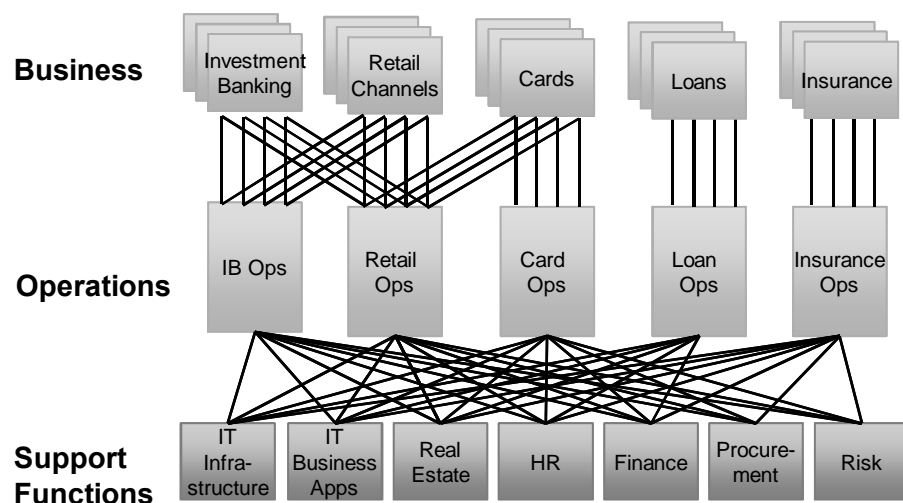
Given perceived high value nature of processes involved, it is unlikely banks will fully outsource all their research services as this is still seen as a key differentiator area

- KPO is the smallest and least mature area of outsourcing but is growing in popularity as banks try to reduce the cost of their research functions in an effort to reduce cost to service clients
- UBS has led the way in building an offshore analytics function in its Indian delivery centre but has since spun the function off to Cognizant
- Small outsourcers have gradually been acquired by larger players such as Cognizant, TCS and GenPact
- Smaller Indian KPO providers struggling to achieve growth in this economic climate are forming a consortium to jointly bid for large outsourcing projects
- Given the nature of these functions there is little immediate appetite for outsourcing anything more than basic tasks; judgement-based tasks remain largely onshore with high cost analyst resources
- Although in the past, KPO analysts have stayed far in the background, the trend is towards forming partnerships/ JVs with KPO firms to leverage the latter's coverage and established expertise

HOW: FS Companies Using Learnings from Working with Outsourcers To Define Back-Office Operating Models

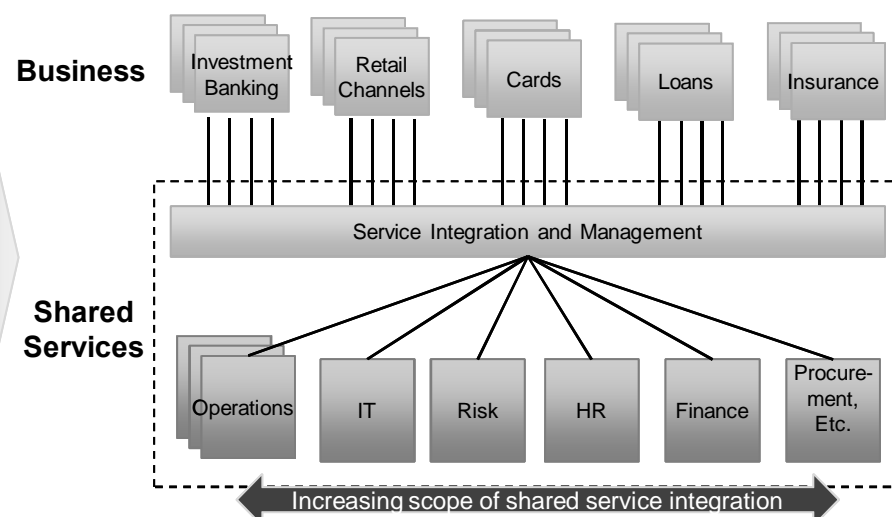
Simplifying the service landscape improves overall service delivery to the business and fosters continuous improvement across the back office functions

Complex Multi-Sourced Environment



- “ Business operations are still often verticalised or regionalised in banking, particularly in complex product set areas such as investment and corporate banking
- “ Commoditisation of service and arbitrage opportunities have driven the emergence of shared services, outsourcing and offshoring models across most banks and insurance companies
- “ As a result, many companies have evolved a complex landscape of service interactions across support and operating functions

‘Synthetic Company’ Shared Service Model



- “ Companies are increasingly looking to reduce operational complexity and standardise service delivery
- “ Companies are increasingly looking at the operating models of service providers to inform their own operating models
- “ This is leading to the emergence of support functions as a synthetic company with dedicated service management and transaction-based pricing models
- “ Individual functions are still sourced in the most effective manner whether captive or outsourced, onshore or offshore

FS Institutions embarking on this journey include:



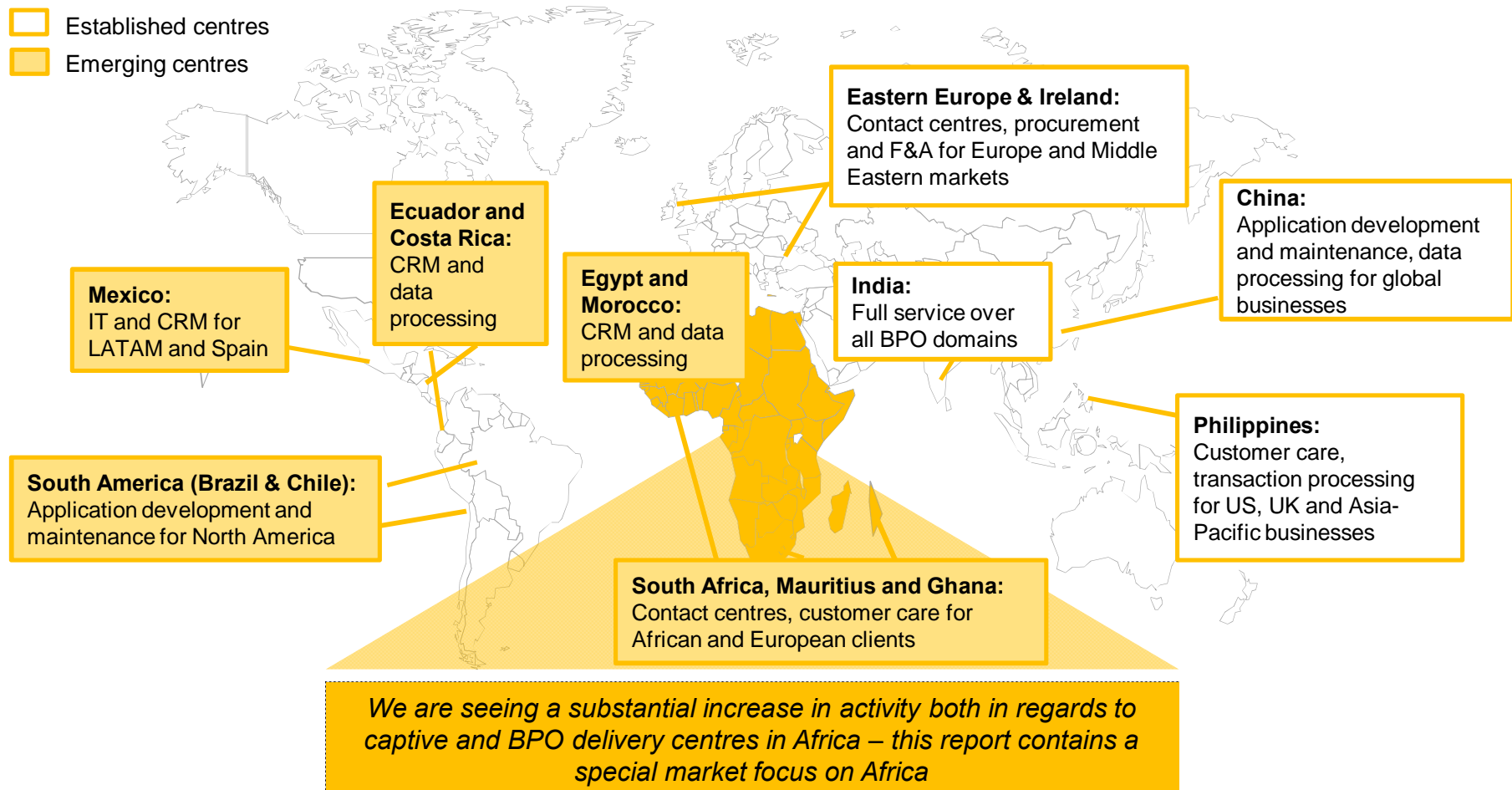
- Lack of convergence on single strategies across the industry will continue
- As companies exhaust tactical cost savings in the extended economic downturn, they **will look to outsourcers to provide more strategic and transformational change capabilities**, including:
 - Process optimisation skills such as Lean & 6Sigma
 - Leveraging platforms owned and maintained by vendors to avoid capital investment in systems
 - Move beyond basic back office to industry-specific processing
- **FS companies will manage their own back offices in the same manner as a service provider:**
 - Integrated service management to front office businesses
 - Use sourcing as a tool in the multi-sourced environment
 - ~~In~~-source volume via commercialising internal capabilities in the marketplace as a way of generating savings on fixed cost bases (e.g. banks providing processing services to other banks)

Where:

Popular and Emerging Destinations for Delivery

WHERE: Emerging and Nascent Locations are Expected To Change the Game

- “ India and China continue to be the most mature delivery centres
- “ Certain Central & Eastern European as well as Central and South American countries are already attractive FS BPO delivery centres
- “ There is also increase offshoring activities coming out of Ecuador, Costa Rica, Ghana, Mauritius and South Africa



WHERE: Qualitative Assessment of Countries

○ = Poor ↑ = Gaining Attractiveness
● = Excellent → = Stable
 ↓ = Losing Attractiveness

COUNTRY	Financial Attractive-ness	Political Environment	Talent Pool	Infra-structure	OVERALL	Relevance for FS	Trend	Comment
India	●	◐	◐	◐	◐	High	→	Major emerging economy, huge resource pool, strong government support. Labour arbitrage opportunities suffering inflationary pressure
China	●	◐	◐	◐	◐	High	→	Major emerging economy, huge resource pool, strong government support.
Egypt	◐	◐	◐	◐	◐	High	↓	Potential as alternate to ME and E Europe. Increased risk due to uprising and political stability may stnt growth
Sri Lanka	●	◐	◐	◐	◐	High	↑	Strong F&A, stabilising, could be managed by Indian hub. Successful due to their focus on smaller deals and specific niches.
South Africa	◐	●	◐	◐	◐	High	↑	F&A strength, time zone & language convenient for Europe, FS centre for region. Gaining traction as BPO hub for region and increased government support.
Philippines	◐	◐	◐	◐	◐	High	↑	Major mature global offshore centre, especially for English language BPO/ call centres. Keeping its competitive edge and cost efficiency, especially for CRM.
Brazil	◐	◐	◐	◐	◐	Medium	→	Large IT pool, emerging global economy but mainly domestic, language and bureaucracy barriers
Mauritius	◐	●	◐	◐	◐	Medium	↑	French & English skills, major DCs established by MNC outsourcers. Increasing traction due to ease of doing business and tax regulations.
Vietnam	●	◐	◐	◐	◐	Medium	↑	Popular for Japanese business, very low cost. Gaining some traction with F&A in other Asian countries.
Chile	◐	●	◐	◐	◐	Medium	→	Spanish language support and KPO centre. Increased government incentives.
Ghana	◐	◐	◐	◐	◐	Medium	→	Strong government support for BPO. Multiple Shared Services Hubs serving the West Africa Region. Second largest banking market in West Africa
Jordan	◐	◐	◐	◐	◐	Medium	↓	Potential for ME business support, especially in IT

N.B. Order based on relevance for FS. Position within same ranking does not indicate any relative value, e.g. Brazil is not ranked 'more relevant' than Chile

Source: Elix-IRR analysis,
A.T. Kearney Global Services Location Index, 2010

WHERE: Qualitative Assessment of Countries (continued)

○ = Poor ↑ = Gaining Attractiveness
● = Excellent → = Stable
 ↓ = Losing Attractiveness

COUNTRY	Financial Attractive-ness	Political Environment	Talent Pool	Infra-structure	OVERALL	Relevance for FS	Trend	Comment
Morocco	○	○	○	○	○	Low	↓	Niche French language centre. To some extent effected by the political uprising in other North African Countries.
Kenya	○	○	○	○	○	Low	→	Strong government support for BPO. Multiple Shared Services Hubs serving the East Africa Region.
Russia	○	○	○	○	○	Low	→	Insufficient return on investment required. Some traction in ITO mainly serving MNCs.
Ukraine	○	○	○	○	○	Low	→	Immature but potential Eastern Europe alternate in future. Strong IT talent
Thailand	○	○	○	○	○	Low	→	Southeast Asian support, low cost but recent stability issues
Indonesia	○	○	○	○	○	Low	→	Southeast Asian support, low cost but stability issues
Madagascar	●	○	○	○	○	Low	→	French language back up to Mauritius only
Mexico	○	○	○	○	○	Low	→	Similar to Chile but more relevant for US dominant businesses/Spanish language
Caribbean	○	●	○	○	○	Low	→	Limited skill base - suitable for US contact centres

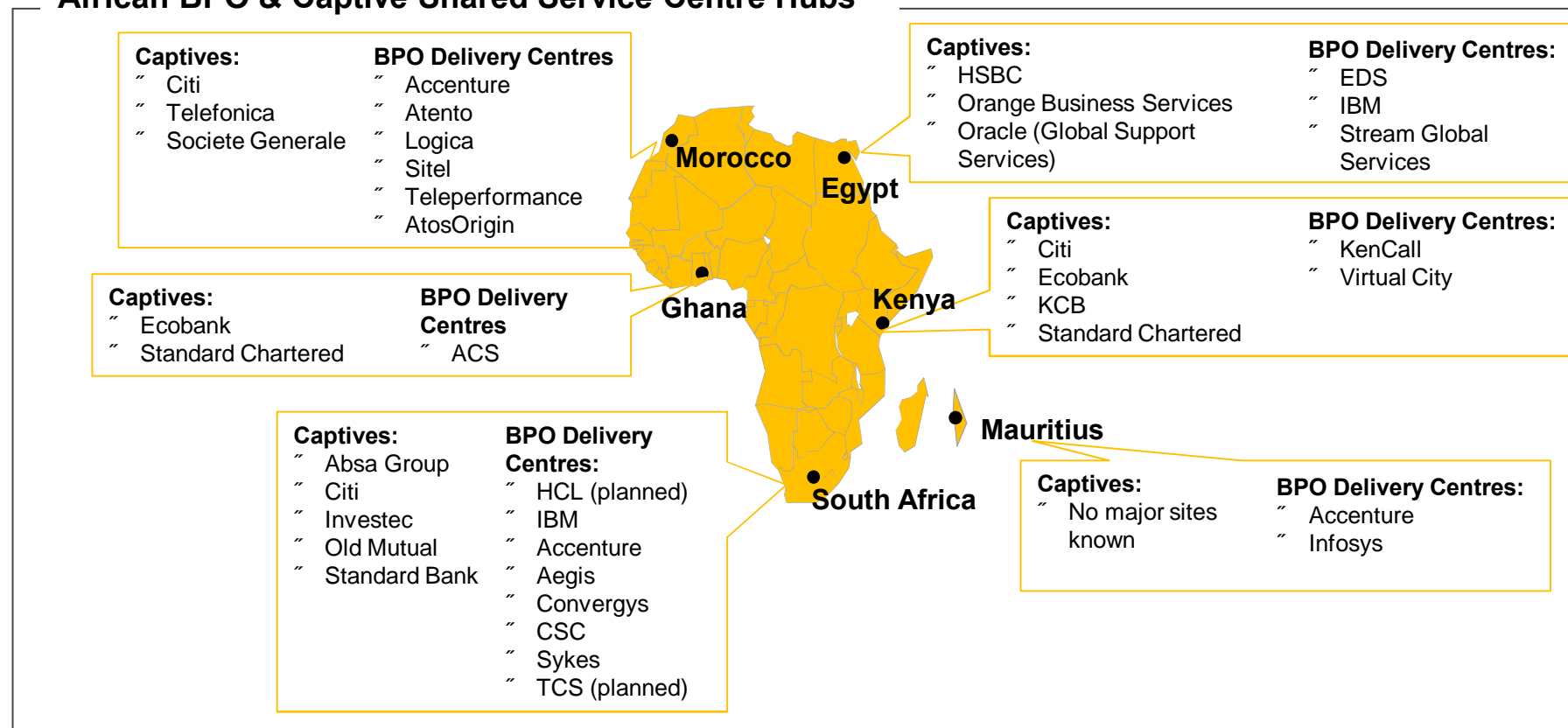
N.B. Order based on relevance for FS. Position within same ranking does not indicate any relative value, e.g. Brazil is not ranked 'more relevant' than Chile

Source: Elix-IRR analysis,
A.T. Kearney Global Services Location Index, 2010

WHERE: Focus on Outsourcing and Offshoring in Africa

- Northern Africa has already seen many BPO successes coming out of Morocco and Egypt . Morocco, Tunisia, Algeria have mainly grown to serve French-language support requirements
- Some Sub-Saharan countries such as Ghana, Kenya and Mauritius are emerging as attractive locations for regional delivery . indeed Accenture has a well-established call centre and IT delivery centre business in Mauritius due to attractive tax and labour legislation
- South Africa is already a location with global delivery capabilities, and we are seeing that service providers are trying to expand their service offering outside of CRM in this region

African BPO & Captive Shared Service Centre Hubs



WHERE: Examples of Banks who have set up Shared Services Centres in Africa

- " A number of banks have chosen to implement a hub strategy with regional delivery centres
- " Although the strategies are similar, their tactical moves differ as they have chosen different locations for their regional hubs
- " Access to talent, a competitive cost base, a favourable regulatory environment and existing footprint are key criteria when choosing a location



Locations

- " Primary hub is a Technology and Shared Services Centre in Accra (Ghana)
- " Secondary hub in Lagos (Nigeria) and disaster recovery hub in Lome (Togo)
- " Further satellite centres in Abidjan (Côte d'Ivoire), Douala (Cameroon) and Lagos (Nigeria)
- " Data centres based in Accra (Ghana), Lagos (Nigeria) and Lome (Togo)

Processes / businesses covered

- " Contact centre services, HR, IT, Operations

Rationale / results

- " Captive operating model
- " Centralised and standardised middle and back office operations to increase service levels and improve efficiencies



Locations

- " 14 African countries organised into 5 sub-clusters:
 - " North Africa . Algeria, Morocco (hub), Tunisia
 - " West Africa . Nigeria (hub), Ivory Coast, Senegal
 - " East Africa . Kenya (hub), Tanzania, Uganda, Zambia
 - " Central Africa . Cameroon (hub), Congo, Gabon
 - " South Africa

Processes / businesses covered

- " Payment Services (expense, fixed assets & accounts payable processing)
- " Procurement (sourcing & transactional, supplier & contract management)
- " General Services

Rationale / results

- " Captive operating model
- " Delivers service levels similar to elsewhere in their global operations



Locations

- " Implemented a two hub strategy in Africa as part of a broader global hub strategy
- " West Africa . Ghana (hub), Nigeria, Gambia, Côte d'Ivoire, Sierra Leone and Cameroon
- " East Africa . Kenya (hub), Botswana, Zambia, Uganda, Tanzania and South Africa

Processes / businesses covered

- " HR and IT applications support are delivered from the global Shared Services Centres in Malaysia and India
- " The African hubs deliver all Operations-related services to their African franchises
- " The two hubs act as cross-border DR/BCP for each other

Rationale / results

- " Captive operating model
- " SSC costs have decreased over the last 8 years although there has been a substantial increase to the workload . the scale advantage is evident

WHERE: African Regions – Emerging Regional Hubs

Northern Africa

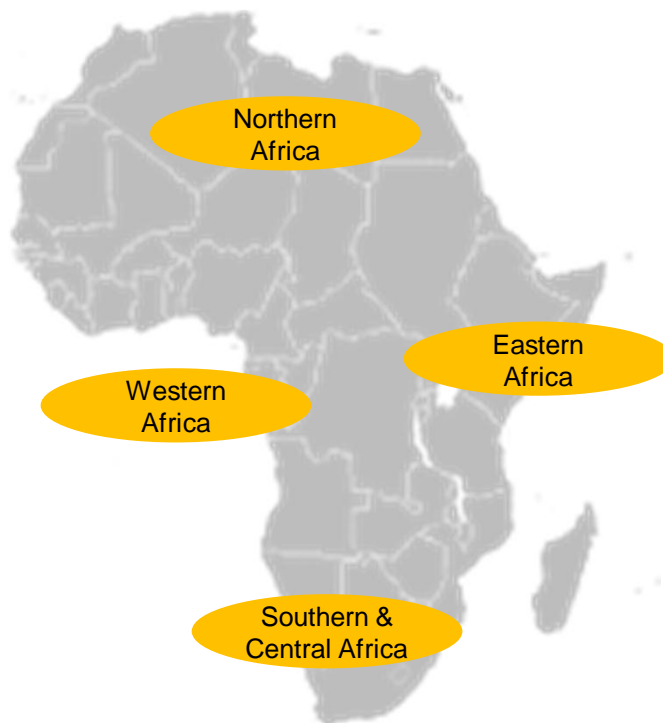
Algeria, Egypt, Libya, Morocco, South Sudan, Sudan, Tunisia, and Western Sahara

Emerging hubs:
Egypt, Morocco

Western Africa

Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo

Emerging hubs:
Ghana, Nigeria



Eastern Africa

Tanzania, Kenya, Uganda, Rwanda, Burundi, Djibouti, Eritrea, Ethiopia, Somalia, Mauritius

Emerging hubs:
Kenya, Mauritius, Uganda

Southern Africa

Angola, Botswana, DRC, Lesotho, Madagascar, Malawi, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe

Emerging hubs:
South Africa, Madagascar

- Multiple companies and BPO vendors have implemented or plan to implement a hub and spoke strategy in Africa
- The four regions North, West, East and South are often chosen as regional hubs serving the surrounding countries
- Northern Africa and South Africa are emerging centres to serve international businesses, particularly in Europe

WHERE: Elix-IRR's Location Assessment Identifies Four Regional Leaders

- " Egypt established a strong outsourcing capability with government support over the last decade
- " However there are current concerns over future political stability following the recent upheavals

- " In 2007 BPO was named one of the six flagship clusters included in Kenya's Vision 2030 roadmap
- " Kenya is a regional leader in ICT based industries

	North Africa				West Africa			East Africa			Southern Africa	
CRITERIA / COUNTRY	Algeria	Egypt	Morocco	Tunisia	Ghana	Burkina Faso	Nigeria	Tanzania	Uganda	Kenya	Mauritius	South Africa
Political and regulatory environment												
Talent pool												
Economics (salaries, real estate, inflation, COLA etc.)												
Infrastructure												
Technology												
CONCLUSION												

- " Ghana has a sophisticated banking and finance environment
- " It has strong public institutions and governance indicators with relatively high government efficiency, particularly by regional standards

- " South Africa is best positioned to leverage its language and skill strengths as well as MNC density to serve as a regional hub for Sub-Saharan Africa
- " As an international business support location, it has time zone and language strengths but also issues regarding infrastructure

Source: Elix-IRR analysis, Accenture, HCL, IBM, Infosys, TCS, Wipro and Xchanging, 2011

WHERE: Country Profile – South Africa

Background

- ❑ Politically and socially stabilising and open for international business since the end of the Apartheid regime in the early 90s
- ❑ Development centres are heavily focused on 5 hubs (Johannesburg, Pretoria, Port Elizabeth, Durban, Cape Town) with the rest remaining very rural/undeveloped
- ❑ The BPO industry in South Africa currently employs around 200,000 people

Summary Data

Area	Data
Major Cities	Johannesburg, Cape Town, Durban, Pretoria
Population	50.6 million (2011 estimate)
GDP	\$383.1bn (2010 estimate)
Official Language	11 languages, but English is the most common

Major Outsourcers / Captives

- ❑ Outsourcers with delivery centres:
 - ❑ Accenture, IBM, CSC, Aegis, Convergy's, Genpact
- ❑ Multinationals with captive centres
 - ❑ Citi, Absa Group, JP Morgan, Deloitte, Shell, Lufthansa, ASDA

Skills Availability

- ❑ Graduate pool of c. 90,000 p.a.
- ❑ 200,000 employed in BPO . approximately 90% in CRM
- ❑ Approximately 70,000 employed in domestic captive financial services
- ❑ Strong F&A pool . approximately 26,000 chartered accountants (2nd highest after India)

Positive and Negative Factors

- ✓ Strong F&A pool . higher numbers of accountants, actuaries and CFAs than most other outsourcing destinations
- ✓ Strong graduate pool . 90,000 graduates per year
- ✓ English as a first language and Western cultural fit
- ✓ Good time zone for Europe . 0-2 hour time difference
- ✓ Financial hub for the whole of Sub-Saharan Africa
- ✗ There are still infrastructure concerns . however, the power outages experienced in 2009 are no longer as frequent; while telecom costs are continuing to come down rapidly
- ✗ The political and social environment whilst improving is still relatively poor . high levels of poverty and crime
- ✗ Arbitrage is moderate at best compared to other offshore hubs; 10-15% less arbitrage than India and it is decreasing

WHERE: Country Profile – Egypt

Background

- ❑ Has been emerging as the major outsource destination for MENA region
- ❑ Majority of business and industry is located in and around Cairo and Alexandria (Egypt's largest port)
- ❑ The Arab Spring has put Egypt's BPO success story at risk . the current political situation is challenging and uncertain

Summary Data

Area	Data
Major Cities	Cairo, Alexandria
Population	80.8 million (2011 estimate)
GDP	\$231.1bn (2011 estimate)
Official Language	Arabic

Major Outsourcers / Captives

- ❑ IBM
- ❑ HP / EDS
- ❑ Orange Business Services
- ❑ Oracle (Global Support Services)
- ❑ Stream Global Services

Skills Availability

- ❑ Approximately 90,000 graduates per annum
 - ❑ Multilingual; 30,000 p.a. with English language, 3,000 p.a. with French language skills
 - ❑ 14,000 p.a. technical/ engineering degrees
- ❑ Young population (avg. 24) with high unemployment (9-10%)

Positive and Negative Factors

- ✓ Strong government support and incentives have been in place
- ✓ Competitive costs of operation - fully loaded cost per FTE is claimed to be on a par with India (higher salary but lower real estate)
- ✓ Good location for Europe . 4 hour flight, 1-2 hours time difference
- ✓ Improved IP protection . piracy rate below global median
- ✓ Multi-lingual labour pool
- ✗ Political/ social stability risk . the Arab Spring have left its marks
- ✗ Limited experience in higher level BPO processes . mainly basic contact centre activities; many of these activities are already offshored elsewhere
- ✗ Currency is currently artificially pegged to USD . could be a disadvantage in the event of a US recovery

WHERE: Country Profile – Ghana

Background

- ❑ A stable, multi-party democratic system of government
- ❑ A relatively developed Legal and Regulatory Environment compared to neighbouring West African countries
- ❑ Since 2001, the Government has made impressive progress in improving and expanding access to telecommunications in both rural and urban areas
- ❑ Implementing tax breaks for the BPO industry

Summary Data

Area	Data
Major Cities	Accra, Kumasi
Population	24.2 million (2010 estimate)
GDP	\$37.5bn (2011 estimate)
Official Language	English

Major Outsourcers / Captives

- ❑ Outsourcers with delivery centres
 - ❑ ACS
- ❑ Multinationals with delivery centres
 - ❑ Ecobank and Standard Chartered

Skills Availability

- ❑ Ghana has an annual tertiary education labor pool estimated at 36,000
- ❑ Ghana has the highest school enrolments in West Africa; however, an overall skills shortage of technical and management skills remains

Positive and Negative Factors

- ✓ Strong government support and incentives are in place
- ✓ Low employment rigidity
- ✓ Favourable labour relations
- ✓ English as a first language
- ✓ Good time zone for Europe . 0-2 hour time difference
- ✓ BPO free zone area outside Accra . zero taxes for 10 years and 8% tax after the 10-year period
- ✗ Relative low levels of corruption . ranked 62 out of 178 in 2010 rankings (4th highest ranking among African countries)
- ✗ On-going infrastructure concerns . power outages, both black and brown-outs keep causing problems
- ✗ High rental costs for suburban offices
- ✗ High wage rates for professionals, skilled and technical workers

WHERE: Country Profile – Kenya

Background

- ❑ Kenya's BPO cluster essentially began to form in 2005 when KenCall was founded . it was Kenya's first call centre that met international quality standards
- ❑ In 2007 BPO was named one of the six flagship clusters in Kenya's Vision 2030 roadmap
- ❑ The World Bank has been subsidizing Kenyan BPO firms' bandwidth costs and the government is offering funding for BPO-related training and industry development

Summary Data

Area	Data
Major Cities	Nairobi, Mombasa
Population	41 million (2011 estimate)
GDP	\$ 32.2 B (2010 estimate)
Official Language	Swahili, English

Major Outsourcers / Captives

- ❑ Outsourcers with delivery centres
 - ❑ KenCall, Virtual City (Call Centre)
- ❑ Multinationals with delivery centres
 - ❑ KCB, Citi, Standard Chartered

Skills Availability

- ❑ Kenya has an annual tertiary education labor pool estimated at 32,000 and 73% of Kenyans are under 30
- ❑ With a large pool of skilled, low cost labour, Kenya is well placed to offer voice services such as customer call centres and contact centres

Positive and Negative Factors

- ✓ Regional leader in ICT based industries
- ✓ Fast growing service sector
- ✓ English as a first language
- ✓ Good time zone for Europe . 0-2 hour time difference
- ✓ Some large MNCs present
- ✓ A 7,500-seat BPO Park is expected to be completed in 2012
- ✗ High levels of corruption . ranked 154 out of 178 in 2010 rankings
- ✗ High perception of country/business risk
- ✗ Limited grade A office space
- ✗ On-going infrastructure concerns . power outages, both black and brown-outs keep causing problems

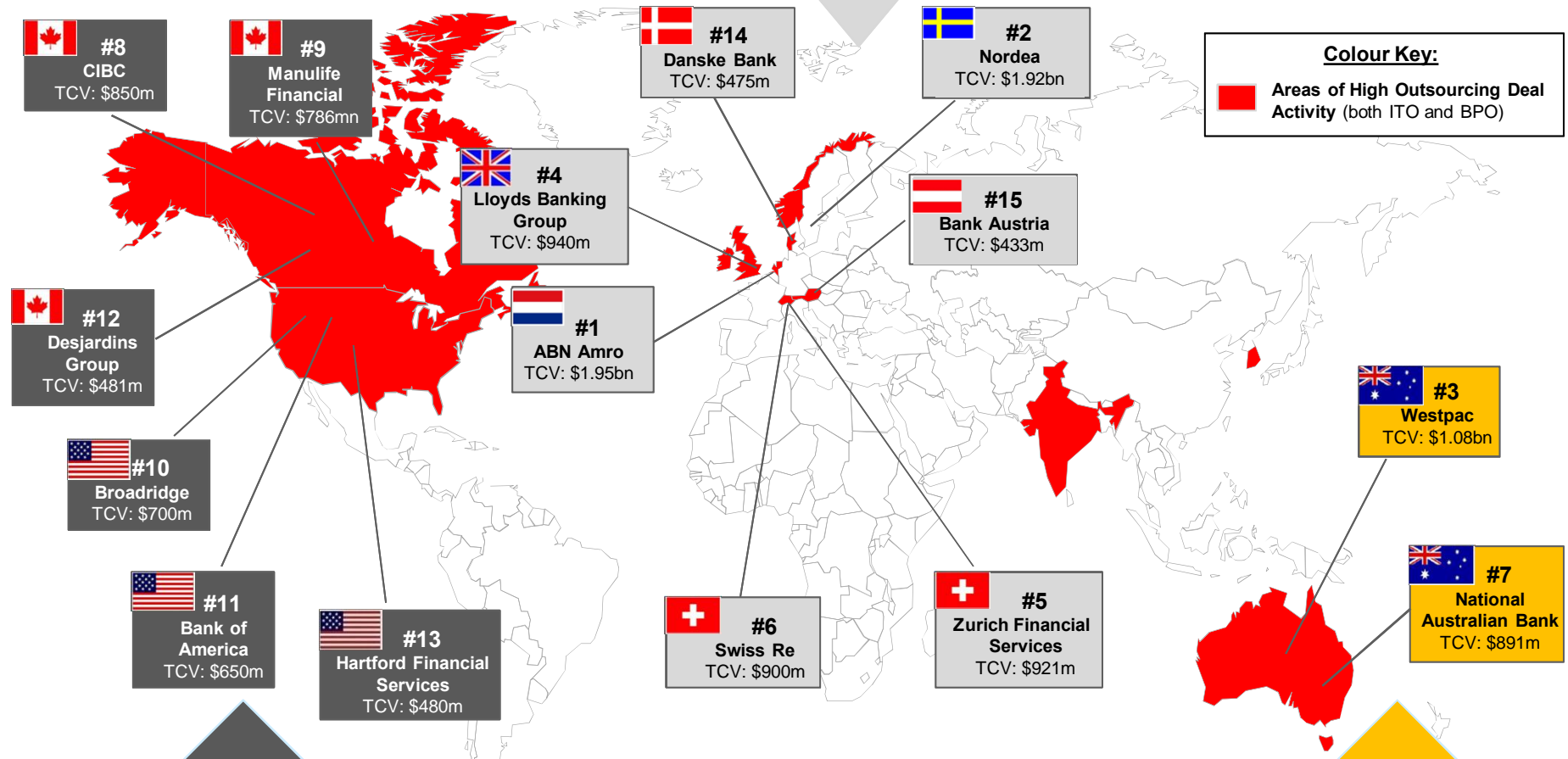
- Outsourcing providers will look to diversify delivery locations out of India to mitigate risk of inflationary pressures
- Rise of emerging market outsourcing locations such as SE Asia (Vietnam, Indonesia), Africa (Egypt, Morocco, South Africa, Mauritius) and South America (Brazil, Chile, Argentina) as alternatives to India and Eastern Europe
- However, recent popular offshoring destinations in the Middle East and Northern Africa, including Jordan, Egypt, Morocco, Tunisia will suffer setbacks due to recent political turmoil
- Sourcing locations become demand locations . FS companies in outsourcing countriesq like India and China will seek to leverage outsourcersqskills in optimising processes to allay inflationary pressures
 - Two of the top ten global deals have in fact been ITO deals by two major Australian banks
 - Doubleqoffshoring . Indian banks to nearshore own operations to lower cost centers within the country (Tier 2 & 3 locations)
- Australian financial firms to increasingly find offshoring attractive, with other Asian Pacific countries being the preferred destinations due to similar time zones
- Japanese banks to also increasingly embrace outsourcing due to cost pressures, despite Japanese insurance firmsqreluctance to outsource in the past, with China being the most popular destination followed by India

Who:

***Summary of Major Outsourcing
Deals by Key FS Players and
Service Providers***

WHO: Overview of Top 15 Global FS Deals & Trends

- In the last 12 months, the largest global outsourcing deals took place in EMEA rather than in North America
- The largest deal in EMEA was ABN Amro at \$1.95bn, compared to CIBC, the largest deal in North America at \$850m
- Within EMEA, Scandinavian/Nordic countries have featured highly in ITO activities over the last 12 months
- Swiss insurance and financial groups signed on two of the largest BPO deals in the last year



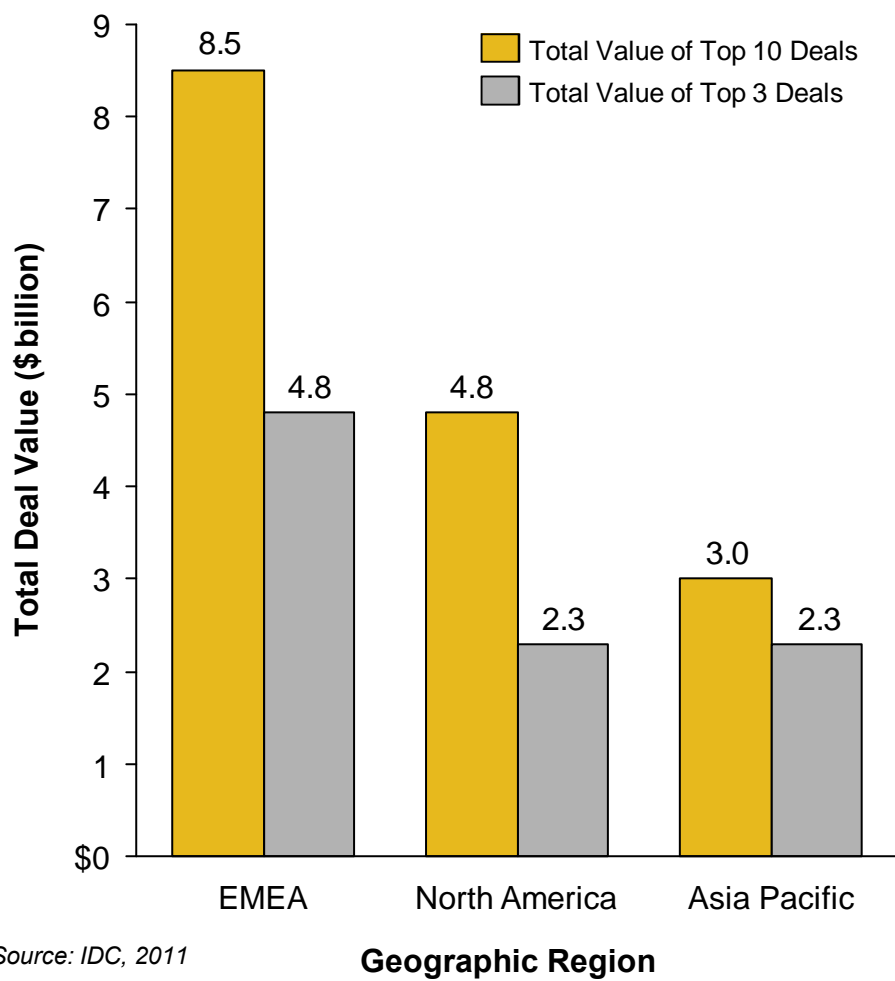
- Most large deals in North America were done by mid-tier and regional banks rather than the large global financial institutions, which may be a result of the latter having already pursued outsourcing options earlier
- The largest BPO deal in North America was for HRO by Bank of America

- Australian banks have also signed on some of the largest outsourcing deals, as the country continues to face high inflation and outsourcing becomes a more attractive option

WHO: Value of Top Ten FS Deals by Region







The top 10 Deals in each region represent over 80% of the total contracted value in 2010. The EMEA region now dominates market activity for large deals as well as the market in total

Value of Top Ten Deals by Region









- “ The size of the top three outsourcing deals in EMEA is more than double the value of the top three deals in North America in the last 12 months
- “ The average size of the top ten North American deals is smaller than in EMEA, reflecting the fact that the top EMEA deals were undertaken by large institutions unlike in North America, where most deals were by mid-tiered financial firms
- “ In Asia Pacific, the top two deals - both in Australia - account for most of the total value of the top ten deals.
- “ The other Asia Pacific deals were by Indian banks and most are signed with an Indian service provider
- “ IBM is the most popular service vendor in all three regions
 - “ In EMEA, 6 deals of the top 10 deals went to IBM
 - “ In North America, 6 of the top 10 deals went to IBM
 - “ In Asia Pacific, 4 of the top 10 deals went to IBM
 - “ The majority of IBM deals involve Infrastructure Outsourcing, while some involve ADM

WHO: Top Ten FS Outsourcing Deals in North America







Rank	Company	Service Provider	Total Contract Value	Domain	Description
#1			\$850m	ITO ADM; Infrastructure Outsourcing;	<ul style="list-style-type: none"> Canadian Imperial Bank of Commerce (CIBC) awarded a \$850m ITO contract extension to HP for 5 years in August 2011 HP to continue to support the Bank's IT infrastructure, including internet banking, branch tellers, point-of-sales, wire payments, fraud detection systems, automated banking machines, network management, ADM, data centre management and desktop messaging Sub-domains: ADM, Network Management, Desk Top, Data Centre
#2			\$786m	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> Canadian-based Manulife Financial awarded IBM a \$786m 7-year extension in June 2011 IBM will continue to provide ITO services around data centre, desktop, help desk and network management The contract extension involves an increase in scope from both a tower and geo perspective Sub-domains: Help Desk, Network Management, Desk Top, Data Centre
#3	 Broadridge		\$700m	ITO ADM; Infrastructure Outsourcing;	<ul style="list-style-type: none"> US-based Broadridge Financial Solutions awarded a 10-year \$700m ITO contract to IBM in March 2010 IT services were previously provided under a data centre outsourcing agreement between Broadridge's former parent company ADP Inc, although services will transition to IBM in phases over the next two years IBM to provide IT infrastructure, including data centre and processing, IT operations and network support Sub-domains: Help Desk, Network Management, Desk Top, Data Centre, ADM

WHO: Top Ten FS Outsourcing Deals in North America







Rank	Company	Service Provider	Total Contract Value	Domain	Description
#4	 Bank of America	 Aon Hewitt	\$650m	BPO HR	<ul style="list-style-type: none"> Bank of America signed on AON Hewitt (formerly Hewitt Associates) in a HR-focused BPO deal estimated at \$650m over 5.5 years Hewitt will support HR administration, payroll and health and life management administration, as well as provide enabling technology for timekeeping, recruiting applicant tracking, global talent and performance management Additionally, Hewitt will offer core service centre support for all US Bank of America associates Sub-domains: Human Resource Outsourcing
#5	 Desjardins	 IBM	\$481m	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> Desjardins Group, a large Canadian cooperative financial group, selected IBM for its centralised IT operations and web-based hosting The 5-year ITO contract is estimated at \$481m Sub-domains: Data Centre, Managed Web Hosting
#6	 THE HARTFORD	 IBM	\$480m	ITO ADM; Infrastructure Outsourcing;	<ul style="list-style-type: none"> Hartford Financial Services Group awarded a 5-year \$480m ITO contract extension to IBM in January 2011 IBM will continue to manage Hartford's data centre operations and create a more efficient IT platform through virtualising their server network IBM will also provide a centralised desktop cloud solution to Hartford's employees Sub-domains: ADM, Data Centre, Storage, Help Desk, Desk Top
#7	 MASSACHUSETTS	 IBM	\$350m	ITO ADM; Infrastructure Outsourcing;	<ul style="list-style-type: none"> Blue Cross Blue Shield of Massachusetts (BCBSMA) and IBM signed a 5-year \$350m ITO contract in June 2010 IBM will optimise BCBSMA's IT environment by providing end-user technical support and management of data centre operations and applications to enhance operational efficiency Moreover, IBM provides desktop outsourcing, IT helpdesk, managed web hosting and network management Sub-domains: ADM, Data Centre, Help Desk, Desk Top, Network Management, Managed Web Hosting

Source: IDC, Press Releases







WHO: Top Ten FS Outsourcing Deals in North America

Rank	Company	Service Provider	Total Contract Value	Domain	Description
#8	 FIFTH THIRD BANCORP	 NorthgateArinso	\$190m	BPO HR	<ul style="list-style-type: none"> Fifth Third Bancorp awarded a 7-year \$190m BPO contract renewal to Northgate Arinso (NGA) in June 2011 NGA will continue to provide HR outsourcing services and to upgrade the company's HR technology platforms Sub-domains: Human Resource Outsourcing
#9	 UNIVERSAL AMERICAN FINANCIAL CORP	 patni	\$175m	Multi-Domains ITO . ADM; BPO	<ul style="list-style-type: none"> Universal American Financial Corp., a US-based senior health insurance company, signed a \$175m 5-year agreement with Patni Computer Systems The latest contract expands on the scope and services provided by Patni under the previous agreement signed in 2005 Patni has agreed to acquire CHCS Services Inc, a wholly-owned subsidiary of Universal American, thereby establishing the former as a Third Party Administrator in the insurance and healthcare sector and enhancing their BPO capabilities Sub-domains: ADM, Administration, Data Management, Document Management, Other BPO Services
#10	 STATE STREET	 IBM	\$160m	ITO ADM; Infrastructure Outsourcing;	<ul style="list-style-type: none"> State Street awarded a 5-year ITO contract to IBM valued at \$160m in July 2011 IBM will enhance State Street's IT infrastructure in the following areas: process architecture, service desks, hardware maintenance, IT operations, project management, ADM, data centre, help desks, software engineering and infrastructure engineering Sub-domains: Data Centre, Help Desk, ADM





WHO: Top Ten FS Outsourcing Deals in EMEA

Rank	Company	Service Provider	Total Contract Value	Domain	Description
#1	 ABN-AMRO		\$1.95bn	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> ABN Amro renewed a \$1.95bn 5-year contract extension with IBM in Nov 2010 Under the new ITO contract extension, IBM will provide a new computing environment while integrating the existing infrastructure of ABN Amro and the former Fortis Bank The IT of Fortis Bank Nederland was not originally outsourced, but as part of the new agreement, 350 of the former's employees will join IBM To enable ABN Amro to become more client-centric, IBM will implement a standardised end-user computing platform to help the bank to communicate faster internally and with clients Sub-domains: Data Centre
#2	 Nordea		\$1.92bn	ITO Infrastructure Outsourcing; Cloud	<ul style="list-style-type: none"> Nordea awarded a \$1.92bn 5-year ITO contract extension to IBM in March 2010 IBM and Nordea first signed a 10-year outsourcing agreement in 2003, but the present contract replaces the previous deal IBM will continue to provide IT infrastructure and operations services, including mainframes, PCS, LAN, help desk services and data centre, for Nordea in the Nordic countries IBM will also provide emerging technologies, such as cloud computing Sub-domains: Data Centre, Desk Top, Help Desk, Network Management
#3	 LLOYDS BANKING GROUP		\$940m	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> Lloyds Banking Group awarded a 10-year contract worth \$940m in Dec 2010 to BT BT will provide networked voice and data services to the bank The contract is one of the UK's largest private sector outsourcing deals In 2004, IBM and Vtesse Networks originally won the Lloyds Banking Group voice and data network contract by beating BT; however, BT won the deal back when it was up for renewal Sub-domains: Network Management





WHO: Top Ten FS Outsourcing Deals in EMEA

Rank	Company	Service Provider	Total Contract Value	Domain	Description
#4			\$921m	BPO Processing Services	<ul style="list-style-type: none"> Zurich Financial Services recently expanded its existing BPO arrangements with Capita Group in April 2011 Capita Group will continue to provide customer servicing, policy administration and claims activity for Zurich's UK life business operations for another 11 years, as well as help develop Zurich Global Life's European and international administration hubs for 15 years The contract extension as well as the 15-year new work is valued at \$921m Sub-domains: Claim Processing, Customer Care
#5			\$900m	BPO Processing Services	<ul style="list-style-type: none"> Swiss Reinsurance signed a \$900m 10-year BPO contract extension with CSC in July 2010 It is estimated CSC is managing 300 policies for Swiss Re CSC will continue to provide industry-leading administration for Swiss Re's direct life insurance business To date, Swiss Re has acquired and transitioned over 40 US life insurance blocks into CSC's Life and Annuity BPO operations for fully policy and claims administration Sub-domains: Claim Processing, Customer Care
#6			\$475m	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> Danske Bank awarded a \$475m 7-year ITO contract extension to IBM in June 2010 IBM will continue to manage the bank's IT infrastructure, including mainframe and mid-range servers, client platform, network, help desks, data centre and storage outsourcing IBM will also virtualise Danske Bank's IT environment Sub-domains: Data Centre, Desk Top, Storage, Help Desk, Network Management









WHO: Top Ten FS Outsourcing Deals in EMEA

Rank	Company	Service Provider	Total Contract Value	Domain	Description
#7	 Bank Austria <small>UniCredit Group</small>		\$433m	ITO ADM; Infrastructure Outsourcing;	<ul style="list-style-type: none"> Unicredit Bank Austria awarded IBM a 5-year ITO contract valued at \$433m in May 2011 IBM will provide IT support and application services to reduce complexity across the bank's operations and enable the latter to strengthen its market position and focus on customer needs IBM will also build the first Austrian Banking Solutions Centre located in Vienna to provide services in the field of application development, application management and IT management The Banking Solutions Centre will operate as an independent provider of innovative IT services, including software development, ADM, database and data centre management Sub-domains: ADM, Help Desk
#8	 Tryg		\$348m	ITO Infrastructure Outsourcing; Cloud	<ul style="list-style-type: none"> Danish insurance group Tryg has renewed a 7-year \$348m ITO contract with CSC in Jan 2011 The new agreement expands the scope of the existing contract which has been in place since 2003 to include new services and extends to the company's latest acquisitions in Finland and Sweden with Moderna CSC will continue to provide IT infrastructure services, including mainframe, help desk, network, web hosting, project management, print and distributed computing Sub-domains: Data Centre, Desk Top, Help Desk, Managed Web Hosting, Network Management, Cloud Computing







WHO: Top Ten FS Outsourcing Deals in EMEA

Rank	Company	Service Provider	Total Contract Value	Domain	Description
#9	 Bank of Ireland		\$338m	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> Bank of Ireland signed IBM on a \$338m 5-year ITO deal in October 2010 This contract followed on from the natural expiration of the Bank's agreement with HP As part of the contract, employees and services transferred over into IBM on a phased basis into Q2 2011 IBM will manage the Bank's entire IT infrastructure, including desktop systems, servers, mainframes, LAN, service desks and data centres Sub-domains: Data Centre, Desk Top, Help Desk, Network Management
#10	 Legal & General		\$294m	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> Insurance group Legal & General awarded an estimated \$294m 7-year ITO contract to IBM in June 2010 IBM will host Legal & General's IT infrastructure and provide support for IT security operations and assurance, as well as IT procurement and IT supplier relationship management Legal & General's objective will be to ensure its IT infrastructure can support future business growth and reduce risks associated with creating its own bespoke data centre Sub-domains: Data Centre







WHO: Top Ten FS Outsourcing Deals in Asia Pacific

Rank	Company	Service Provider	Total Contract Value	Domain	Description
#1			\$1.08bn	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> Australia-based Westpac Banking Group awarded IBM a five-year \$1.08bn ITO contract extension, beginning in December 2010 Under the contract, IBM will be responsible for Westpac's IT infrastructure services, including the Group's new data centre, mainframe, midrange, storage, desktop, print and security operations IBM will also help the Bank transition to a new data centre as they consolidate their data centres Sub-domains: Data Centre, Desk Top, Help Desk, Network Management
#2			\$891m	Multi-Domains ITO . Infrastructure Outsourcing; BPO	<ul style="list-style-type: none"> National Australian Bank (NAB) signed a new \$891m five-year ITO contract with IBM in December 2010 The deal involves transferring 425 IT jobs to IBM and the latter is also set to acquire NAB's data centre in Melbourne IBM will oversee NAB's IT infrastructure, including mainframe and storage, while maintaining desktop, printing, help desks and operating systems Sub-domains: Storage, Data Centre, Desk Top, Network Management, Help Desk, Document/ Print Management
#3			\$308m	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> HDFC Bank, a major Indian financial services company, awarded a major 15-year \$308m outsourcing contract to Reliance Communications Reliance will look to build and manage a data centre for HDFC Sub-domains: Data Centre
#4			\$203m	BPO F&A; Processing Services	<ul style="list-style-type: none"> State Bank of India (SBI) awarded a \$203m 5-year BPO contract to Spanco in November 2010 The BPO contract comprise finance & accounting outsourcing, as well as loan processing and servicing On behalf of SBI, Spanco will provide the banking services in Maharashtra: account opening, cash deposit and withdrawals, remittance and loan application Sub-domains: Finance & Accounting, Loan Processing & Servicing, Other BPO Services

WHO: Top Ten FS Outsourcing Deals in Asia Pacific

Rank	Company	Service Provider	Total Contract Value	Domain	Description
#5			\$126m	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> UCO Bank, a leading Indian public sector bank, awarded a 7-year \$126m ITO contract to Wipro in August 2010 Wipro will help implement a Core Banking Solution (CBS) across UCO's 800 rural branches The scope of the ITO services include building, hosting and managing the underlying data centre infrastructure, as well as network management, desk tops and help desks Sub-domains: Data Centre, Help Desk, Hosted Application, Network Management
#6			\$117m	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> Central Bank of India awarded Wipro a 7-year \$117m ITO contract in August 2010 Wipro will deliver Core Banking Solution across 2,000 sites and include internet banking and mobile banking Under the contract, Wipro will set up a centralised help desk centre and data centre, as well as manage network, hosted application, security and end user systems Sub-domains: Data Centre, Help Desk, Hosted Application, Network Management
#7			\$79m	ITO Infrastructure Outsourcing	<ul style="list-style-type: none"> Singapore Exchange (SGX) signed on HCL in an ITO deal in June 2010 estimated at \$79m Under the agreement, HCL will provide SGX with infrastructure support and management services, including data centre, desk top, help desks and network management As part of the Reach Initiative, SGX plans to create the world's fastest trading engine and set up a state-of-the-art data centre and global hub facilities Sub-domains: Data Centre, Help Desk, Desk Top, Network Management

WHO: Top Ten FS Outsourcing Deals in Asia Pacific

Rank	Company	Service Provider	Total Contract Value	Domain	Description
#8	 Westpac	 EMC ²	\$70m	ITO Infrastructure Outsourcing; Cloud	<ul style="list-style-type: none"> Westpac signed a \$70m a five-year IT storage deal with EMC in June 2011, following the renegotiation of its outsourcing deal with IBM Although IBM retains prime responsibility for the Bank's key infrastructure, Westpac would take greater accountability in the design and management of IT services Under the agreement, EMC will provide leased storage arrays and managed storage services at the bank's data centres, as well as manage storage requirements EMC is also building a private cloud for Westpac Sub-domains: Storage Outsourcing, Cloud Computing
#9	 India Infoline IT'S ALL ABOUT MONEY. HONEY!	 IBM	\$66m	ITO ADM; Infrastructure Outsourcing;	<ul style="list-style-type: none"> India Infoline awarded IBM a 10-year \$66m ITO contract in June 2011 IBM will manage over 700 branches, 450 servers spread over 5 data centres and 15,000 end user systems Additionally, IBM will set up a centralised help desk centre providing services capability to users, applications and infrastructure in branches across India Sub-domains: ADM, Data Centre, Desk Top, Help Desk, Storage, Network Management
#10	 Dongbu Insurance	 IBM	\$60m	ITO ADM	<ul style="list-style-type: none"> South Korean-based Dongbu Insurance awarded IBM a \$60m 7-year ITO contract in Jan 2010 to support the company's enterprise-wide business transformation Dongbu will build and integrate IT infrastructure based on IBM's technology to streamline operations and reduce complexity of their operating environment, whereby diverse applications had previously run on disparate IT systems and operating standards Sub-domains: ADM

- Indian service providers (Wipro, TCS, Infosys, HCL etc.) to become global players to challenge established players such as Accenture, IBM, HP
- Continued M&A activity . Global players diversify their capabilities and presence by acquiring niche players
- FS companies spinning off their back offices into separate companies, including JVs and co-developed offerings between FS companies and outsourcers
 - Global banks looking to get more value from their captive capabilities . commercialise their investment in back office assets, bring volume into scalable platforms
 - FS industry realising the benefits of using marketplace skills to enhance internal delivery capability and a ~~front office~~/ revenue generator mind-set being brought to traditional ~~back office~~ functions

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