



Topic: IT Outsourcing in Banking – Annual Report 2013: Banking for the Next Generation

Banking, Financial Services, and Insurance (BFSI) IT Outsourcing
Annual Report: June 2013 – Executive Summary

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- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

¹ Banking, financial services, and insurance

Background and scope of the research

Background of the research

In 2012, BFSI buyers continued to remain under pressure to increase revenues, enhance customer experience, reduce costs, replace legacy systems, and meet regulatory requirements. To address these challenges, banks are focusing on transforming themselves and increasing investments in technologies (such as social media, mobility, big data and analytics, and cloud computing) in order to enhance customer experience while simultaneously reducing their operational costs, better managing risk, and improving shareholder returns.

As financial institutions gear up for these changes, they are looking to identify strategic partners that can help them develop solutions that drive efficiency and sustain the pace of technological advancement in this rapidly-evolving industry. In addition, with the continued trend towards consolidation, financial institutions are signing larger and more strategic AO contracts with a fewer number of service providers, a phenomenon that is expected to meaningfully alter the AO services landscape in the BFSI segment.

In this research, we analyze the current trends and the future outlook for large, multi-year application outsourcing relationships for the global banking sector. We focus on:

- Trends in AO in the BFSI segment
- Market trends and activity for large AO relationships in banking
- Emerging priorities of buyers and key investment themes in banking AO
- Future outlook for 2013

The research also captures key movements in volumes/values of banking AO transactions, evolving trends, market dynamics, and emerging priorities of buyers in the last 12 months.

Scope of this report

- **Industry:** Banking (retail banking, commercial banking, credit cards, loans, and mortgages); excludes capital markets and insurance
- **Services:** Large (TCV > US\$25 million), multi-year (>three years), and annuity-based application outsourcing
- **Geography:** Global
- **Sourcing model:** Third-party AO transactions; excludes shared services or global in-house centers (GICs)

Everest Group's BFSI research is based on two key sources of proprietary information

1

- Everest Group's proprietary database of 400+ large, active, multi-year AO contracts within BFSI (updated annually). The database tracks the following elements of each large AO relationship:
 - Buyer details including industry, size, and signing region
 - Contract details including TCV, ACV, term, start date, service provider FTEs, and pricing structure
 - Activity broken down separately for banking, capital markets, insurance, and by LoB (e.g., retail banking, credit cards, and loans & mortgages)
 - Scope includes coverage of buyer's geography as well as functional activities
 - Global sourcing including delivery locations and level of offshoring

2

- Everest Group's proprietary database of **operational capability of 20+ BFSI AO service providers** (updated annually)
- The database tracks the following capability elements for each service provider:
 - Major BFSI AO clients and recent wins
 - Overall revenue, total employees, and BFSI employees
 - Recent BFSI-related developments
 - BFSI AO delivery locations
 - BFSI AO service suite
 - Domain capabilities, proprietary solutions, and intellectual property investments

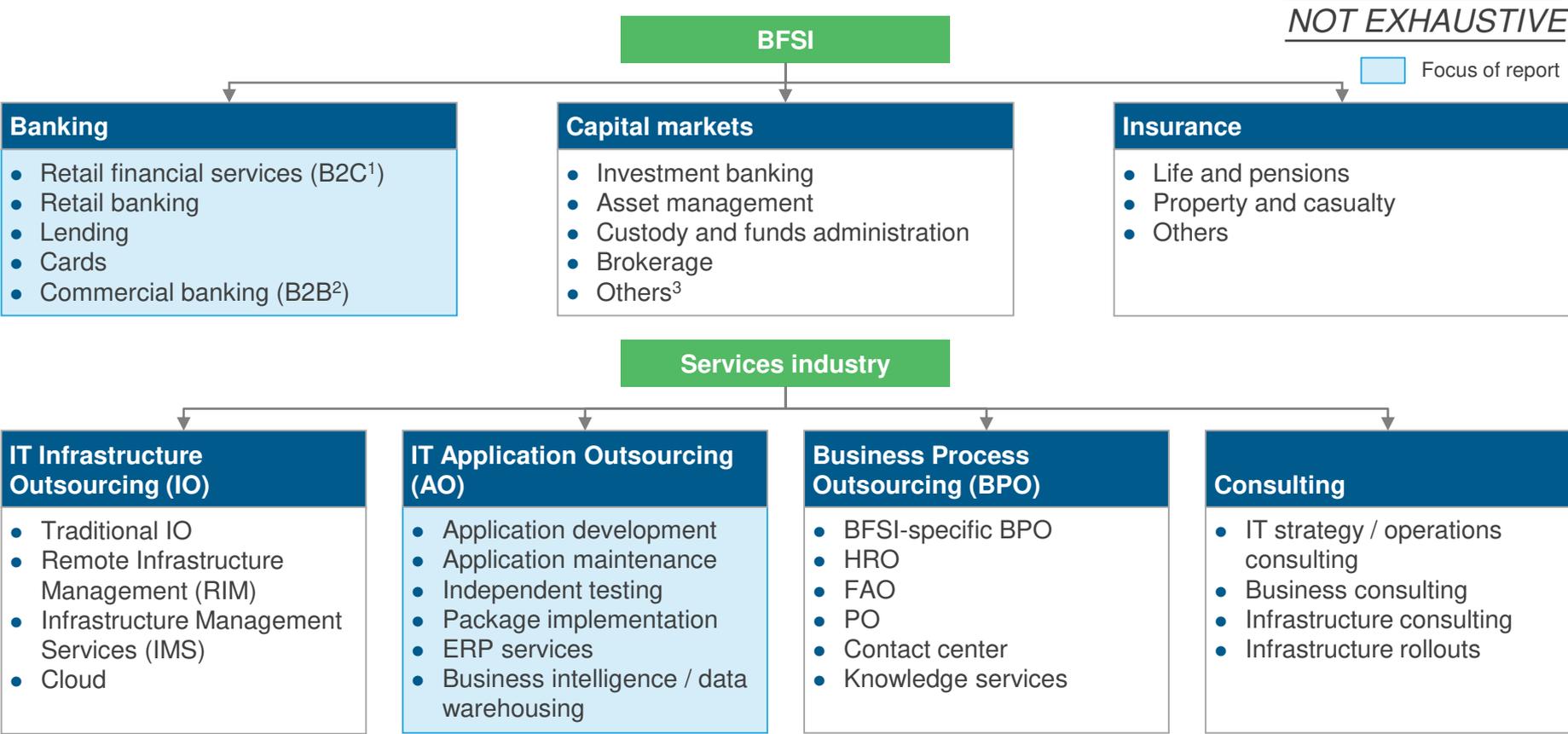
Service providers covered in the analysis



Note: We continuously monitor market developments and track additional service providers beyond those included in the analysis

Confidentiality: Everest Group takes its confidentiality pledge very seriously. Any information, that is contract-specific, will be presented back to the industry only in an aggregated fashion

This report provides an insight into the current trends and future outlook for large, multi-year application outsourcing relationships in the global banking sector

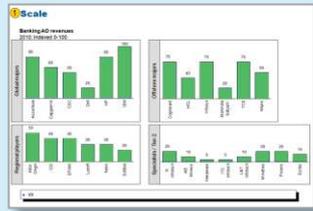


This report analyzes IT applications outsourcing in the banking subvertical with a focus on large (TCV > US\$25 million), annuity-based, multi-year (>three years) relationships

1 Business-to-consumer relationships
 2 Business-to-business relationships
 3 Includes other capital markets functions such as structured finance, treasury, FX, and horizontal functions including risk management

This report is a part of the Everest Group's series of nine reports focused on AO in BFSI in 2013

IT Outsourcing in BFSI – Annual Report



Each report provides:

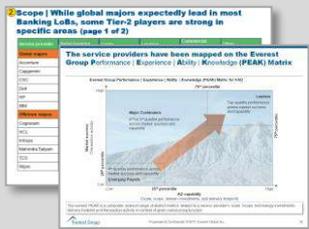
- An overview of the application services market for the BFSI verticals, capturing key trends in market size, growth, drivers and inhibitors, adoption trends, regional/functional break-outs of the market, emerging themes, key areas of investment, and implications for key stakeholders
- Key movements in volumes/values of AO transactions, evolving trends, market dynamics, and emerging priorities of buyers in the last 12 months

Banking

Capital Markets

Insurance

IT Outsourcing in BFSI – Service Provider Landscape



Each report provides:

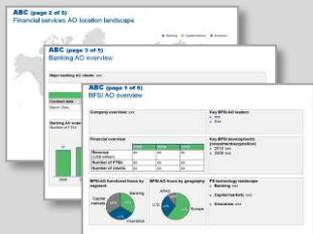
- Assessment of service provider landscape in AO services and mapping of providers on Everest Group's PEAK Matrix – as Leaders, Major Contenders, and Emerging Players
- Comparative evaluation of BFSI-AO capabilities of provider categories such as global majors, offshore majors, regional players, and tier-2 specialists. Benchmarking scale, scope, domain investments, and delivery footprint of each provider's BFSI-AO practice
- The 2013 BFSI-AO PEAK analyses focus on identifying the "Star Performers", i.e., providers with strongest forward movement over time – both in terms of market success and capability advancements

Banking

Capital Markets

Insurance

BFSI ITO – Service Provider Profile Compendium



Capability profiles of service providers capturing their AO services experience in specific subverticals. Each service provider profile includes:

- Service provider overview – details of AO services capabilities, key investments, proprietary solutions, and technological expertise
- Functional / Line of Business (LoB) focus
- Transactions overview for application services offerings
- Delivery footprint

Banking

Capital Markets

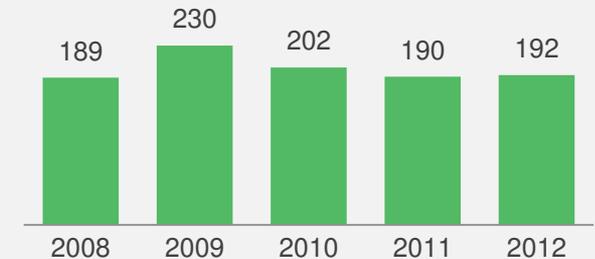
Insurance

Summary of key messages (page 1 of 3)

BFSI ITO market overview

- The global ITO industry grew at a modest pace of ~5% to reach at US\$500-525 billion; BFSI was the largest vertical in terms of ITO adoption
- 192 BFSI ITO deals were signed in 2012. While the total number of contracts remained almost flat as compared to 2011, the total value of BFSI IT outsourcing contracts declined by 25%
- The average contract duration for banking deals declined from 5.1 years in 2011 to 4.8 years in 2012
- Banking and insurance buyers signed shorter duration deals; whereas the average deal duration for capital markets firms increased during the year
- The banking industry accounted for 44% of total number of IT outsourcing deals announced in 2012
- New deals continue to make up the majority (over 80%) of total ITO deals within the BFSI industry; renewed contracts grew by ~25% in 2012
- AO deals continued to dominate the BFSI ITO industry in 2012. Mobility, social media, analytics, and cloud are the key trends/themes for application outsourcing market in BFSI
- Most IT outsourcing deals in 2012 originated from EMEA. The activity was driven by the insurance subvertical where the number of deals grew more than 50% in 2012 as compared to last year

Number of BFSI ITO transactions¹
2008-2012



¹ Publicly-announced transactions tracked through Everest Group's Transaction Intelligence Database; TCV analyses limited to known TCVs
Source: Everest Group (2013)

Summary of key messages (page 2 of 3)

Banking AO overview

- While the total number of large application outsourcing deals in banking remained almost flat, the value of contracts grew ~50% as compared to last year
- The demand for application maintenance services remained strong, as banking buyers continued to focus on cost containment
- Outsourcing in the retail and commercial banking segments declined in 2012, as many banks took a “wait and watch” approach due to delays in Basel III implementation and other reforms. Outsourcing in the cards and lending business segments increased
- The majority of large banking AO deals originated from Europe, followed by North America. In terms of TCV share, both the regions witnessed a decline whereas the share of APAC expanded in 2012
- Small-sized European banks (across Norway, Sweden, Ireland, and Portugal) accounted for a large number of deals announced in 2012. In terms of TCV, mid-sized retail banking firms in North America led the market
- Demand for offshoring in the banking AO continues to be high (over 90%); driven by European buyers, particularly for application development, maintenance, and ERP services
- India remains the dominant delivery destination, followed by China, Mexico, and Brazil for banking AO services
- Renewal activity remains strong; approximately US\$18 billion worth of banking AO contracts are due for renewal between 2012 and 2017

Number of large, active banking AO contracts¹
2008-2012



¹ New transactions with TCV > US\$25 million, which started in the given period and were active as of December 2012
Source: Everest Group (2013)

Summary of key messages (page 3 of 3)

Emerging priorities of buyers, and key investment themes in banking AO

- Increasing profitability and improving customer experience are the most important objectives impacting the IT investment strategy for the banking industry in 2013
 - The current low interest rate and regulatory environment is making it more challenging for banks to increase revenue and maintain profitability
 - Customer channel preferences are changing with increasing adoption of mobile and social media
- To address these challenges, banks are focusing on:
 - Strategically reducing costs across their business models
 - Restructuring their balance sheets, making adjustments to business models, and examining their product mix to enhance capital adequacy
 - Investing in social media to engage with customers, given the extraordinary growth in social media adoption
 - Incorporating mobile banking as a regular delivery channel
- Social media, mobility, analytics, and cloud computing are emerging as key technological themes for banks for the next 12-18 months
 - Banks are expanding their social media footprint to improve customer engagement and loyalty
 - Mobile banking and payments are witnessing major growth as banks introduce next-generation mobile initiatives to drive growth
 - Banks are adopting big data and analytics to drive better client service and improve profitability
 - Banks are increasingly leveraging cloud-based services to reduce costs and improve time-to-market



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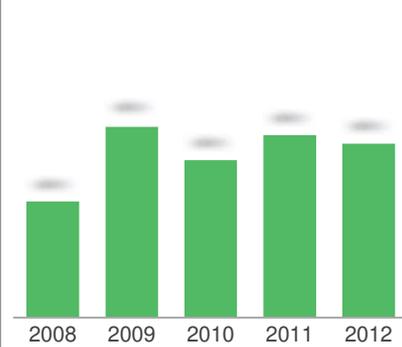
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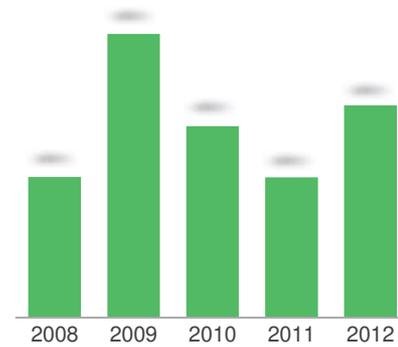
This study offers three distinct chapters providing a deep dive into key aspects of banking AO market; below are four charts to illustrate the depth of the report

Number and TCV of large-sized transactions in banking AO

Number of large, active banking AO contracts
2008-2012; Number of transactions



Total TCV of large, active banking AO contracts
2008-2012; US\$ billion

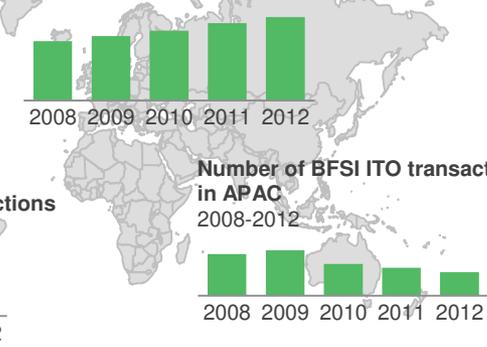


Number of BFSI ITO transactions by source regions

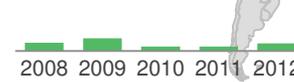
Number of BFSI ITO transactions in North America
2008-2012



Number of BFSI ITO transactions in EMEA
2008-2012



Number of BFSI ITO transactions in Latin America
2008-2012

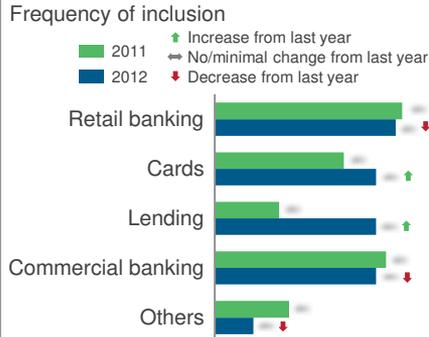


Number of BFSI ITO transactions in APAC
2008-2012



AO subfunctional demand across various banking Lines of Business (LoBs)

Banking LoBs included in large AO transactions

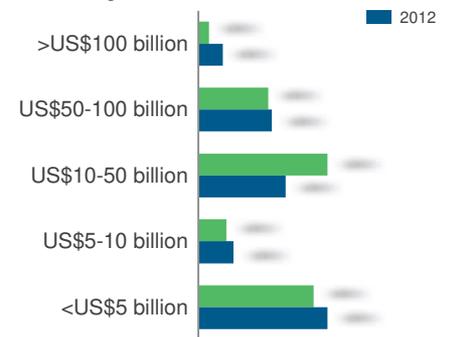


Subfunctional demand across different LoBs

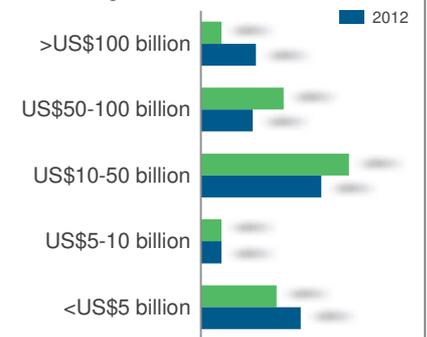


Adoption trends by buyer size

Transaction distribution by buyer size

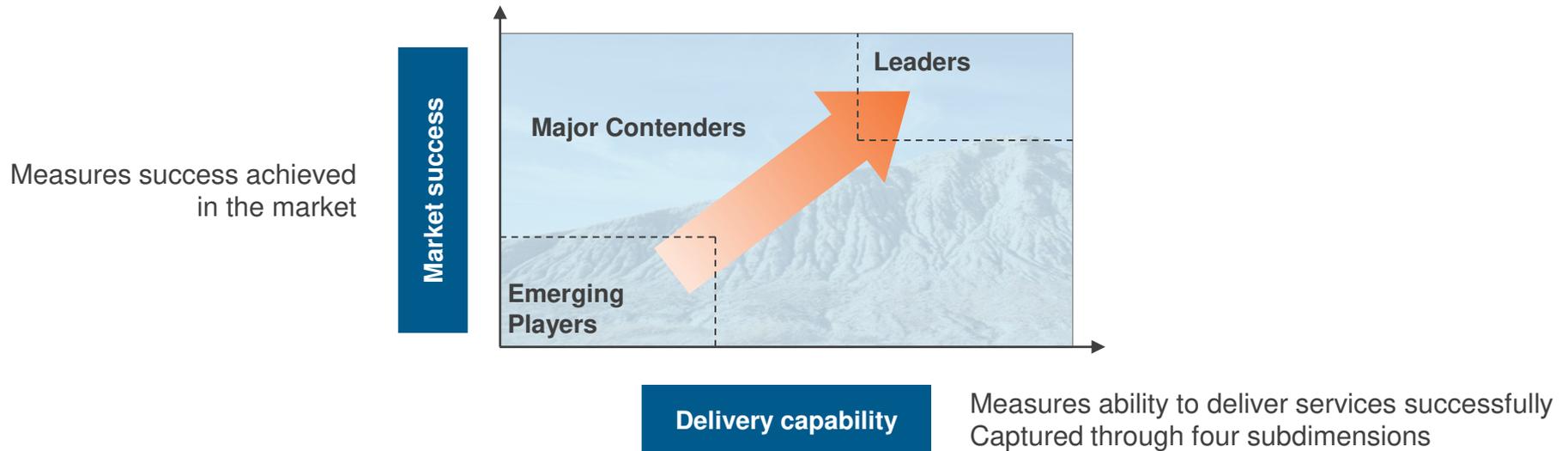


TCV split by buyer size



Source: Everest Group (2013)

More detailed analysis of the banking AO service provider landscape including the PEAK matrix will be published in the upcoming reports



Banking AO service provider landscape

- Detailed analysis on service provider market shares
- Relative positioning of service providers on the Everest Group PEAK Matrix
- Service provider capability assessment and key investments made

Banking AO service provider compendium

- Profile of service providers in the banking AO space
- Each four to five page service provider profile provides a comprehensive picture of their service suite, scale of operations, technology landscape, recent developments, and delivery locations

BFSI ITO research calendar

Published
 Current

Topic	Release date
Application Outsourcing (AO) in Banking – Service Provider Profiles Compendium	October-2012
Application Outsourcing (AO) in Insurance: PEAK Provider Landscape – Policies for Growth and Differentiation	October-2012
Application Outsourcing (AO) in Capital Markets Annual Report – Change is the Only Constant	October-2013
IT AO in Capital Markets: PEAK Provider Landscape – Need for Speed: Capturing the Capital Markets Momentum	December-2012
IT Application Outsourcing (AO) in Insurance – Service Provider Profile Compendium	January-2013
Webinar Deck: State of the Global Services Market: 2013 Predictions	January-2013
IT AO in Capital Markets – Service Provider Profile Compendium	February-2013
Analytics in Banking: War is Ninety Percent Information	June-2013
IT Outsourcing in Banking – Annual Report 2013: Banking for the Next Generation	June-2013
IT Outsourcing in Banking – Service Provider Landscape with PEAK Matrix Assessment 2013	Q3-2013
IT Outsourcing in Banking – Service Provider Profile Compendium 2013	Q3-2013
IT Outsourcing in Insurance – Annual Report 2013	Q3-2013
IT Outsourcing in Insurance – Service Provider Landscape with PEAK Matrix Assessment 2013	Q3-2013
IT Outsourcing in Insurance – Service Provider Profile Compendium 2013	Q3-2013
IT Outsourcing in Capital Markets – Annual Report 2013	Q4-2013
IT Outsourcing in Capital Markets – Service Provider Landscape with PEAK Matrix Assessment 2013	Q4-2013
IT Outsourcing in Capital Markets – Service Provider Profile Compendium 2013	Q4-2013

Additional research references

The following documents are recommended for additional insight into the topic covered in this report. The recommended documents either provide additional details on the topic or complementary content that may be of interest.

1. **Analytics in Banking: War is Ninety Percent Information** ([EGR-2013-11-R-0888](#)); 2013. This report provides a comprehensive understanding of the analytics services industry with focus on banking domain. Analytics adoption in the banking industry is covered in depth, exploring various aspects such as market size, key drivers, recent analytics initiatives, and challenges. The report also analyses the trends in analytics deals for various banking subverticals (cards, retail, commercial, and lending) and evaluates analytics capabilities of 20+ service providers in the banking space
2. **IT Application Outsourcing (AO) in Capital Markets Annual Report – Change is the only constant** ([EGR-2012-11-R-0766](#)); 2012. This report provides an overview of the Application Outsourcing (AO) market for the capital markets industry, through an in-depth analysis of large-sized AO contracts (i.e., contracts over US\$25 million in TCV and over three years in duration). The report analyzes key trends in market size and growth, demand drivers, adoption and scope trends, emerging priorities of buyers, key investment themes, and future outlook for 2012, with regards to such large capital markets AO deals
3. **Application Outsourcing (AO) in Banking: PEAK Matrix Provider Landscape – Evolution at Play** ([EGR-2012-11-R-0732](#)); 2012. This report provides a comprehensive assessment of the service provider landscape in AO services for banking and maps them on Everest Group's PEAK Matrix. It also benchmarks the scale, scope, domain investments, and delivery footprint of each provider's banking AO practice. Finally, the 2012 banking-AO PEAK analysis focuses on identifying the "Star Performers", the providers with strongest forward movement over time in terms of market success and capability advancements

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