Executive Summary

The banking and financial services (BFS) industry has endured one of the most turbulent times ever in the history of the global financial markets; however, two key challenges need to be addressed:

1. Have companies learned from the crisis and are they taking meaningful action to prevent a future one?
2. How will financial institutions conduct business going forward and regain the confidence of their customers and investors?

This report outlines the strategic business priorities BFS executives will focus on over the next few years and examines how the outsourcing industry is evolving to support the industry. To that end, HfS Research has assessed:

- **Enterprise buyer expectations.** To what extent are BFS companies looking to providers for business support overcoming these challenges?
- **Outsourcing models.** Is work returning onshore, moving into a shared services model, or being outsourced?
- **Market size and forecast.** What is the trajectory of the BFS outsourcing market over the next five years?
- **Provider responses.** Have service providers progressed in supporting client needs, and where are the gaps?
- **Top global providers.** How do companies rank in their ability to support the BFS industry?

Finally, we provide recommendations for both buyers and providers on how to navigate and leverage the outsourcing and service delivery opportunities in an increasingly complex market environment.
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Key Business Challenges Impacting Banks

As industry leaders prepare to execute strategies over the next 12 to 18 months, they will look at every facet of the business. Service delivery models will change to adapt to the new business needs and requirements. Below, HfS Research lays out how executives define and segment their businesses in the current market environment.

Exhibit 1: Market definition and segmentation

Source: HfS Research, 2013

In this HfS report, we look across all of these businesses and focus on the overarching trends for the industry. HfS Research evaluates the priorities for business executives and how outsourcing will support key areas of the business. As leaders continue to increase their reliance on outsourcing models, HfS Research is able to forecast market growth in the outsourcing market for BFS.

Driving results now

The recent financial crisis and ensuing regulatory actions have forced the BFS industry to radically shift course. After an emphasis on pushing quarterly margins to all-time highs, companies have stepped back, designing new roadmaps for success in a transformed market environment. HfS Research spoke with more than 50 BFS executives
across a variety of businesses over the last three months; a consensus emerged around four key priorities. Each of these will drive the forecasted growth of the market as executives look to outsourcing partners for help and support to manage these areas of the business.

**Staying ahead of massive regulatory changes**

Above all else, every regulatory body, including the US president, has told the BFS industry that a crisis of the magnitude the country just experienced must not ever happen again. As a result, the industry is now confronting massive regulatory changes, the most sweeping and confusing of which are contained in Dodd-Frank. A hefty 884 pages when it was signed in 2010, Dodd-Frank is the largest financial reform act in US history, introducing the most sweeping changes to financial regulations since reforms that followed the Great Depression.

Financial institutions are scrambling to abide by the 398 rules Dodd-Frank has generated as of January 2013, while trying to anticipate the implications of additional rules that have yet to be finalized. Not since Y2K has the industry had to manage such a monumental task; the average financial institution has doubled, or is expected to double, the size of risk and compliance teams over the next 18 months — that is, if they can find resources with the requisite skills. (Learn more about Dodd-Frank in our recently released paper, Getting Frank About Dodd-Frank: Happy Birthday Dodd-Frank – A Two-Year Progress Report.)

**Improving damaged brands; enhance the customer experience**

The implosion of the BFS industry destroyed $19.2 trillion in household wealth and caused unemployment to peak at over 10 percent. It will take time to repair tarnished brands and customer relationships. Banks must improve analytics around customer behavior, create better customer segmentation models, and develop new products and channels to fit client needs. Social media and mobile banking will play a paramount role in this strategy, enabling financial institutions to interact more directly with customers, and on the customers’ terms.

While every executive understands the importance of these new tools, few know how to leverage them to improve customer relationships: J.D. Power’s 2012 U.S. Retail Banking Satisfaction Study measured a mere 0.1% improvement over 2011 results. The 2012 U.S. Credit Card Satisfaction Study showed a 3.9 percent increase over 2011. Clearly, more needs to be done.

Banking executives say that when the issue of poor customer service comes up, customers cite offshore teams as the primary reason for their dissatisfaction. Yet when HfS Research surveyed 65 financial institutions in July 2012, we found that only 35 percent of them had outsourced customer service functions. This suggests that customer dissatisfaction may reside in the process, not the delivery location.
Combatting money laundering and fraud

Anti-money laundering (AML) and fraud remain a major industry headache as criminals become more sophisticated and related institutional losses become larger. In addition, the post-9/11 Patriot Act, an amendment to the Bank Secrecy Act (BSA), spawned more compliance requirements aimed at detecting and preventing international money laundering and terrorism funding.

While BFS firms have increased compliance staff levels by 50 to 100 percent since 2009, regulators have punished AML deficiencies with record-setting fines. In 2011, JPMorgan paid $88.3 million for violations. Most recently, HSBC was hit with $1.9 billion and Standard Chartered Plc. for $327 million in AML-related penalties. Read more on this topic in our paper, *Combatting Anti-Money Laundering*.

Meanwhile, financial institutions continue to rack up hundreds of millions in fraud-related losses every year. Fraud can permeate almost every facet of large BFS organizations. Credit and debit card operations capture many of the chilling newspaper headlines, but online fraud is one of the newest, fastest growing, and most difficult problems to control. As trillions of dollars of financial transactions whisk through global networks, industry leaders are looking at more efficient and effective ways to process and monitor the millions of transactions within their organizations.

Restoring Margins by Reducing Costs

The cost of processing transactions has increased dramatically because of additional quality checks and regulatory compliance. Take new mortgage originations – those costs have more than doubled over the last three years and risk organizations have doubled in size across all lines of business during this time. At the same time, technology platforms are outdated, with some institutions two to three versions behind. While loan write-offs are decreasing, write-offs have not subsided. Fraud and residual legal impacts from the last five years are still pending.

Executives tell us that they are seeking to hedge future profits while serving their clients in a timely manner. Most large financial institutions have eliminated staff, sold assets, and given up leases. As volumes begin to return, banks are determined not to add back fixed cost structures that exacerbated their financial woes, building into their decision-making process the cyclical nature of mortgage processing, payment processing, and brokerage services. Moreover, as they continue to move clients to lower-cost online tools, they will continue to close branches. According to FDIC data, the number of branches in the United States has steadily decreased between early 2010 and August 2012: More than 5,500 branches closed and 3,500 opened, corresponding to a net decrease of 2,000 branches.

Notably missing from the above list of major industry priorities is outsourcing, shared services, and offshoring, once considered part of a particular strategy or an initiative all its own. Why? Business leaders are now including outsourcing as a potential solution for every strategy and business goal.
The BFS Outsourcing Market Continues to Trend Higher at a 5% Clip

HfS Research conducted a detailed study of the BFS outsourcing market in early 2013, examining the top 75 providers of banking and IT services. In 2011, the outsourcing market was approaching $170 billion. Banking industry-specific BPO (business process outsourcing) services made up about half of the total, with the remainder including IT infrastructure management, application management, and project-based IT-related professional services provided to the financial services industry.

We project that the BFS market will grow 5.2% annually over the next five years, largely driven by BPO services’ estimated 7% compounded annual growth rate (CAGR). Compared to its IT counterparts, the BPO market continues to benefit from its lower relative maturity and some emerging BPO opportunities.

In simple terms, the BPO market can be divided into two main categories: “established BPO markets” in areas such as payment processing, mortgage processing, and core bank administration, and “emerging BPO markets” covering procurement, risk management, compliance, and an increasing number of analytics roles. In terms of maturity, even established BPO areas are still five to seven years behind the increasingly commoditized IT outsourcing markets and continue to return higher growth rates (approximately 1 to 2 percent more than IT outsourcing). These two factors combined bring us to our prediction of solid 7 percent BPO growth.

Exhibit 2: BFS IT and business services outsourcing market at $170 billion

Source: HfS Research, 2013 market sizing data
Process-specific outsourcing trends that will drive growth in BFS

After discussions with both financial services executives and business development leaders for providers, these are the specific business areas HfS Research predicts will receive the most attention over the next 12 to 18 months:

**Mortgage market:** This will be an area of intense outsourcing focus over the next couple of years, with mortgage volumes continuing to rise because of HARP (Home Affordable Refinance Program) and HARP II. Many mortgage companies liquidated assets during the financial crisis; they terminated leases on space and eliminated staff. The market has since seen a huge spike resulting in the HARP-related originations for refinancing. Buyers are thinking about ways to handle the new volume while hedging against future volume variability. The ability to support certain business activities from domestic markets will also be an important differentiator, especially because the Secure and Fair Enforcement (SAFE) act requires standards and licensing at a state level for mortgage loan originators. SAFE also mandates that many originations elements need to remain onshore.

**Credit card business:** These activities remain a hot area for outsourcing because of scale (especially in customer service) and many of the card processes are standard. What is becoming a key provider differentiator is location – the ability to offer clients locations in North America and to support language requirements around the world. Canada has therefore become a very popular location for credit card processing. According to numerous studies, Toronto is the most culturally diverse city in the world, followed closely by New York. Fraud is another significant area of interest, driven by providers’ ability to support related processes with new and better technology. US-based providers are making a strong play in this market.

**Commercial lending:** An emerging area in the outsourcing business, commercial lending had long been considered too complex to outsource, falling into the KPO category. Two developments are now making it possible to look at outsourcing commercial lending. First, the number of experienced individuals in India in this line of business has grown substantially in recent years. Second, more providers are offering hybrid models, with domestic US teams working jointly with offshore teams to bring business acumen to the program. The effectiveness levels have grown as a result, creating options for buyers.

**Mobile banking:** Mobile banking will be the primary tool financial institutions use to interact with different customer groups. Outsourcing opportunities will begin with the platforms, then move into service support and analytics. Finally, there will be an increase in support required by either the buyer or provider for the new areas to ensure that they are meeting all regulatory requirements for these emerging areas.

**Payments:** As new products enter the market, others are declining in volume. Take check payments. They continue to drop every year but will not disappear completely for many more years, creating a big opportunity for strong aggregation play. Financial institutions are reluctant to invest in new technology or talent development in a declining area that is nevertheless a core business process requiring substantial technology and labor. For providers to aggregate these volumes from multiple customers, payment processing is a long-term cash cow. At
the same time, providers would be wise to look at electronic payments to understand the future of payments and support critical relation exception handling and reporting.

**Risk and compliance:** Reluctant to outsource this area before the recession, most financial services companies have seen these operations double in size, and half the new regulations have yet to be implemented. There is a labor shortage in experienced risk analysts in the United States, and technology has not yet been adapted to the new risk-related requirements. Because of this, expect to see more work around reporting areas outsourced. US-based providers and some private-label players will have a significant competitive advantage with their ability to leverage an extensive domestic presence and experience. Much risk and compliance work would fit well in an offshore model. The challenge is to identify what regulators will allow offshore and to secure enough experienced resources to support the work.
Five Major BFS Trends Impacting Outsourcing

BFS leaders tell HfS Research they want to strengthen partnerships with providers, explore new geographies for expansion, evaluate technology offerings, and work with providers to drive more innovation and thought leadership.

HfS Research completed a survey of 40-plus large-scale BFS organizations in early 2013 to evaluate how the recession has altered buyers’ behaviors, expectations, and views of their outsourcing partners’ ability to keep up with industry changes. In the sections below, HfS Research outlines the five most significant findings.

1. Work is being redistributed; little is moving in-house

To improve their use of outsourcing, BFS companies are redistributing work across service providers. Buyers are expecting more of their providers and if they cannot deliver, are looking elsewhere (Exhibit 3). Application development and maintenance (ADM) and IT infrastructure remain the most mature BFS outsourcing areas. Many contracts are coming up for renewal and competition is intense. Buyers are issuing RFPs, looking for the best options in the market. This trend of moving IT areas between providers is likely to continue and eventually move into additional areas including F&A, IT infrastructure, and HR.

What buyers said they are not doing is moving a lot of work back onshore. Contact centers, a customer-centric process, is the primary area rumored to be moving more to an insourced model, but the research shows only a mere 12 percent of buyers are bringing this process on shore. This tells us that the buyers are not aggressively looking to bring back work. Instead, they want outsourcing models to work better.
Exhibit 3: Banking executives may complain but few want to change

Have you changed services providers or insourced any of the following in the last three years?

Source: Hfs Research, 2013, n=44 BFS buyers

2. Buyers are deliberating hybrid models

Across the BFS industry, executives are looking to expand their options. As company strategies become more complex, so do the service delivery models they utilize. HFS Research has found that 67 percent of BFS leaders said they plan to expand hybrid models over the next three years (Exhibit 4), while 72 percent of leaders from all industries will be looking to leverage the hybrid model. Executives on the buy side like this model because they incorporate the best of both worlds. They give buyers access to low-cost services through a third-party model along with the option to retain “in-house” processes that are more complex. As a result, buyers gain financial and quality benefits from centralizing and standardizing processes in a shared services model, eliminating waste and applying best practices to the processes performed.
Exhibit 4: BFS industry to look at combining models to support their strategies

Over the next three years will your company increase or reduce its reliance on the following operating models for your general and administrative functions?

Source: HfS Research, 2013, study of 44 BFS buyers and 215 industry buyers

3. Buyers focus on line vertical business process and IT outsourcing

As we dig deeper into primary areas of the BFS business, BFS respondents shared that that CRM, procurement, and marketing will remain in-house. Marketing and CRM are no surprise because financial services firms pull in high-touch areas as they focus on restoring customer confidence. Procurement remains as one of the best opportunities being overlooked by BFS leaders today, because on average a financial institution spends about 65 percent of their total cost on people, they fail to look at the advantages of a strong sourcing and procurement organization.

HfS Research also examined KPO where 45 percent of respondents were not planning to utilize outsourcing. We detected some interesting findings. First, the definition of KPO now applies to fewer business areas. Industry leaders have finally come to realize that only very few processes are purely contextual, and for those areas in which staff sizes are generally small, why go through the pain of transitioning the work and losing the institutional
knowledge amid minimal savings? Second, many KPO functions fall within industry-specific categories. They are not bundled in a generic KPO grouping, and BFS executives plan to increase outsourcing activity in their core businesses by 44 percent over the next 12 months. (See Exhibit 5)

Exhibit 5: IT and financial services-specific areas lead the way into 2013

Source: HfS Research, 2013, n=42 financial services buyers

4. Buyers’ priorities are about scalability, flexibility and cost, they do not view outsourcing as a transformative opportunity

BFS organizations are seeking to grow their revenues in many areas impacted by the recession, most notably within lending services. As they regain momentum in areas such as mortgage processing and commercial lending, the operational support and infrastructure that many banks had previously down-sized, is again required and outsourcing helps add that scale and flexibility in this volatile environment. Hence, while cost savings continue to drive outsourcing business decisions, the capability to scale up business volume and meet complex regulations are paramount (Exhibit 6).
Conversely, BFS organizations are clearly not viewing outsourcing as a major opportunity to improve analytical capability or transform operations. HfS believes many BFS executives still view outsourcing as a utility solution and are yet to be convinced of the greater strategic benefits.

**Exhibit 6: Business growth and regulatory reform remain mission critical for financial services**

*Source: HfS Research, 2013, n=45 BFS Buyers*
5. Many providers can drive cost through process rigor

A number of service providers continue to excel at driving cheaper, more efficient and effective processes (Exhibit 7). Banking leaders asked by HfS Research about their providers’ performance said that strong global models clearly support cost reductions. However, many providers do continue to struggle with innovation, analytics, and technology, areas in which buyers are seeking thought leadership. Providers such as Accenture, Genpact and IBM get it, however, many other providers will have to catch up, and fast, otherwise risk get left behind in the BFS services market.

Exhibit 7: Effectiveness levels remain high for areas of process rigor

How effective have your current business process outsourcing initiatives been for achieving the following business benefits to-date?

Source: HfS Research 2013, n=45 BFS buyers
Marketplace and Service Provider Analysis

The provider landscape in the $170 billion outsourcing market continues to expand and flourish. There is an abundance of providers, some traditional ones like Fiserv, SunGard, FIS, and others with operations that stretch around the world. For this report, HfS focuses on the global business services outsourcing providers and evaluates their performance relative to the competition.

Between the second and third quarters of 2012, HfS Research researched the banking and financial services global BPO market. To understand the major industry issues and provider capabilities, we conducted exhaustive briefings and interviews with key sell- and buy-side organizations. The following analysis summarizes those discussions and ranks the strongest players in the financial services market.

Scoring methodology

In Exhibit 8, we considered delivery capabilities and execution along the x-axis and strategy and innovation along the y-axis.

Capabilities and execution:

» Scale in financial services: The nature of clients and size of programs in core functions;

» Industry depth: Maturity in performing core functions for financial services companies;

» Global delivery footprint: The dependency on predominantly offshore delivery models;

» Workforce: The scale of industry-specific FTE support.

Strategy and innovation:

» Scalability: The ability and willingness to invest in and grow the financial services vertical;

» Service area focus: Depth of service capabilities to cater to multiple lines of business, thought leadership in solving business-specific issues, and the performance of complex, high-value services in addition to large-scale core operations;

» Capability integration and innovation: Level of vertical-specific technology solutions with a modern business platform approach, innovatively leveraging analytical insights across the value chain.
Exhibit 8: Service Provider performance scoring for banking and finance services business services outsourcing

Source: HfS Research, 2012
**Exhibit 9: Service provider evaluation**

<table>
<thead>
<tr>
<th>Groups</th>
<th>Providers</th>
<th>Group description and reasoning</th>
<th>Scope for improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strong</strong></td>
<td>Accenture, Genpact, IBM, TCS</td>
<td>• Significant offshore and nearshore scale</td>
<td>• Onshore delivery: Despite presence in client markets, many do not offer BFS BPO delivery in the US</td>
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<td></td>
<td></td>
<td>• Strong focus on analytics to support processes</td>
<td>• Innovative outcome-based solutions: As the current market leaders, these providers must drive outcome-based solutions for industry-specific challenges</td>
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<td></td>
<td></td>
<td>• Largest range of core services (volume driven as well as complex high value)</td>
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<td></td>
<td></td>
<td>• Aggressive growth path including strategic acquisitions and solutions (e.g., Genpact/Headstrong and Accenture/Zenta)</td>
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<tr>
<td></td>
<td></td>
<td>• Bundled technology and process offerings</td>
<td></td>
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<td></td>
<td></td>
<td>• Strong thought leadership through consulting models or domain experts</td>
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<tr>
<td></td>
<td></td>
<td>• Strategic acquisitions (e.g., Genpact/Headstrong, Accenture/Zenta)</td>
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<tr>
<td><strong>Neutral</strong></td>
<td>Cognizant, CSC, Infosys, Wipro, Xerox</td>
<td>• Progress developing the BFS vertical in the past five years</td>
<td>• Developing a balanced range of capabilities (delivery and high-value services) across different lines of business</td>
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<td></td>
<td></td>
<td>• Yet to develop a full range of service capabilities</td>
<td>• Developing capability integration – BFS-specific technology solutions with a platform-based approach to move into the “Strong” group in the next few years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Yet to develop a balanced delivery footprint (e.g., CSC and Xerox) have significant onshore delivery; offshore delivery is not as competitive; WNS, Infosys, and Wipro are India-centric and lack global BFS presence</td>
<td>• Focus on product innovation</td>
</tr>
<tr>
<td><strong>Developing</strong></td>
<td>Aegis, Capgemini, EXL, WNS</td>
<td>• Players such as EXL and WNS are strong in the insurance market but must focus on BFS capabilities</td>
<td>• More focus on developing BFS vertical, adding more clients and capabilities</td>
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<td></td>
<td></td>
<td>• Insufficient scale, services</td>
<td>• More acquisitions to move up quickly in the BFS space</td>
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<td>depth across lines of business</td>
<td>Investments in recruiting and deeper domain expertise, from sales to delivery</td>
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_HfS Source: HfS Research 2012_
### Exhibit 10: Overall service provider observations

<table>
<thead>
<tr>
<th>Providers</th>
<th>Key strengths and analyst observations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accenture</strong></td>
<td>Accenture is a market leader in horizontal BPO services for financial services organizations, its expertise in this segment built through these relationships. With vast resources and experience in core banking and credit services BPO, Accenture must continue to invest in expanding its BFS client range and capabilities. Its client base remains largely focused on the top 20 BFS institutions despite efforts to attract regional banks because its relationship-based business development activities are not as mature and clients are more price sensitive.</td>
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<tr>
<td><strong>Aegis</strong></td>
<td>Aegis has a long history serving a wide spectrum of financial services companies through a global delivery network. Its core proposition is helping clients rebuild customer relationships – a key business challenge for banks today. While it provides services across business functions, it has yet to develop comprehensive customer-centric solutions such as diverse engagement channel support, customer loyalty management, and sentiment analysis. For a small company like Aegis, a focus on differentiation is critical for clients to take notice.</td>
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<tr>
<td><strong>Capgemini</strong></td>
<td>Capgemini has yet to create formal verticalized practice areas for its outsourcing business. The company currently serves several financial services organizations, primarily running Finance &amp; Accounting and Retail Banking operations. Capgemini is strong in Europe but still working to establish a presence in the US financial services market. It lacks core banking operations expertise, preventing its many F&amp;A clients from carving out vertical processes.</td>
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<tr>
<td><strong>Cognizant</strong></td>
<td>Cognizant is a strong contender for future market leadership. It has developed a significant BFS BPO presence with clients across North American and Europe, a majority of them Fortune 500 companies. In part through strategic partnerships and acquisitions, Cognizant has built complex capabilities in asset management, investment banking, and consumer lending. A marked emphasis on IT platform-based solutions has also contributed to growth. It currently lacks scale in existing operations compared to other large providers and has yet to expand into other business lines and high value services.</td>
</tr>
<tr>
<td><strong>CSC</strong></td>
<td>CSC has great experience working with BFS clients on IT outsourcing, and has developed BPO capabilities in consumer lending, HELOC servicing, credit scoring, default management, and customer analytics. It primarily operates out of the United States, with clients including North American consumer finance companies. Its strengths lie in onshore delivery and platform-based solutions. However, it lacks significant scale in its Indian and Australian delivery and a fuller range of core services.</td>
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<tr>
<td><strong>EXL</strong></td>
<td>EXL has traditionally been a leader in the insurance BPO market and has carefully selected areas in the BFS space to provide clients with similar high-value services. Its key strengths are analytics products for customer lifecycle management and mortgage BPO operations. To continue the growth of its high-value services portfolio, EXL will have to invest in scaling its mortgage operations and continuing to develop domain-specific skills (e.g., anti-money laundering [AML] and compliance) that clients need expertise on. Additionally, EXL has yet to compete with large IT players and clients</td>
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will be better served through partnerships/acquisitions in the area of technology platforms.

Genpact is among the largest providers in the BFS BPO space, offering clients the most exhaustive range of processes across the financial services value chain. Genpact continues to leverage its GE heritage and its extensive process improvement acumen. However, solutions in key business challenge areas such as AML and fraud are as yet evolving. It also lacks onshore and nearshore delivery for BFS clients.

Building on its rich technology background, IBM is a market leader for BFS BPO. The company helps clients address three key challenges: Becoming more customer-centric, reducing enterprise complexity, and optimizing risk management. IBM is expanding its presence in the Philippines to support analytics outsourcing operations and high-level customer support for the firm’s social media business. To maintain its leadership position as competitors catch up, this provider must continue to invest in these and other emerging high-value areas of interest to clients.

Infosys is a strong player that we expect will become a market leader in coming years. Working with several Fortune 500 BFS clients across business lines, Infosys has particularly scaled its mortgage, wealth management, and commercial/corporate lending operations. The company recently invested in a BPO restructuring exercise that will bring in more domain skills, business-specific solutions, and integrated IT and BPO platform-based solutions. We believe these efforts will catapult the company’s growth in coming years.

TCS is a heritage technology provider, with its platforms solutioning giving it massive reach in the BFS space. The company is also one of the largest providers in terms of scale, particularly in retail banking. TCS has made significant investments for BFS clients in emerging technologies such as mobility and social media. Primarily operating out of India, TCS lacks onshore and nearshore delivery of increasing importance to clients. It is also relatively immature in mortgage and capital markets, corporate banking, and brokerage operations.

Wipro has built a strong presence in capital markets, advanced by its Center of Excellence for the financial services industry. Apart from BPO, the company is trying to move up the value chain through consulting and platform-based offerings. Wipro’s capabilities in retail banking, mortgage, and commercial lending processes are immature. In addition, its India and China based delivery shows a lack of strong BFS-specific onshore and nearshore operation centers that many clients desire.

While a leader in insurance BPO, WNS has yet to develop similar muscle in the BFS market. The company carved out the vertical from BFSI only a year ago, building core BFS capabilities particularly in brokerage operations and retail banking. WNS has tackled the insurance segment by developing high-value core services and acquisitions in technology platforms. This investment will help the company grow BFS revenues as well in coming years.

Xerox is one of few providers delivering most of its BFS BPO services out of the United States, a key strength that helps it interact with end customers on behalf of its clients. Accordingly, the company’s strongest presence is in retail banking and mortgage lines, supported by its document operations.

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handling and imaging solutions support. The ACS acquisition was a great start at building deeper BFS capabilities but does not do enough. Another sizeable acquisition will convince clients more of core banking capabilities. The provider already has a presence in every US bank, but clients are not yet ready to expand these relationships into BPO. We also believe that the lack of developed nearshore / offshore locations affects Xerox’s pricing competitiveness.

Source: HfS Research, 2013

Clearly, the provider landscape for banking and financial services BPO is growing more diverse and complex. Each equipped with unique strengths, providers are targeting the different pain points BFS organizations face. While some buyers are adamant about customer relationship building, others are more invested in risk management/regulatory compliance. Regardless, providers are developing analytical skills, cloud-based platforms and operations solutions, and complex domain knowledge. Winning providers will work with their BFS clients to leverage these capabilities in order to further explore cost saving potential, pricing flexibility, and innovation tailored to client-specific needs.

The Bottom Line

Recommendations for buyers

» Providers are working to build better processes and greater experience in the BFS industry: Xerox, through the ACS/Symcore deal, Accenture and Zenta, Genpact and Headstrong, and the list goes on. Watch to see which other providers are willing to make investments designed to drive business improvements.

» Global footprint will only become a more important decision criterion for buyers selecting a delivery model. US regulatory changes could impact which geographies financial institutions choose to utilize for certain services, as well as their ability to react to global economic conditions. It will therefore be imperative to keep options open.

» Buyers should evaluate concentration risk, including geographies, number of providers, and percentage of processes being performed by providers. It is all about finding the right balance between maximizing benefits and identifying the organization’s risk tolerance levels.

» All 13 providers HfS Research interviewed expressed a deep desire to support their clients, and all are willing to make the requisite investments. However, to best allocate those investments, they need their clients to work with them.

» If buyers want providers as partners, they must embrace collaboration and information sharing. Performance-based models support that, but buyers must be willing to open up if they expect providers to take on risk.
Recommendations for service providers

» Domestic models are no longer a differentiator, so it is imperative to have sites in the United States that are able to support risk, analytics, and high-touch (internal and external) areas of the business. Simply limiting this model to voice, however, is not a formula for success.

» Buyers expect cost savings, so providers must offer them innovation, flexibility in their delivery models, and solutions for combating regulatory risk in order to create differentiation. Cost alone will win very few deals.

» Providers should place more emphasis on domain expertise. It is not critical for a provider to garner domain expertise with 10-plus clients and 1,000-plus people. Instead, providers can and should have staff that really understands the buyer’s business, including sales, account management, and delivery teams.

» One of the main drivers for outsourcing will be risk mitigation, including process volume variability. The ability to provide variable models will be well received by buyers.

» Buyers want partners who will to take on risk with them. Providers offering performance pricing will be the ones who understand the ingredients of a true partnership.

» Providers must offer specific solutions to client's needs. For example, Dodd-Frank has 398 rules. Instead of attempting to cover each one, home in on five to seven key rules and develop capabilities around those.
About the Author

Michael Koontz

Michael Koontz is Senior Vice President and Research Director for HfS’ Banking, Financial Services and Insurance (BFSI) analyst advisory practice. He provides leading-edge and practical research into global outsourcing and shared services strategies in the BFSI sector, which is in high demand from HfS Research’s 120,000-strong readership base and knowledge community, which has a very strong representation from global financial services institutions.

Looking into the past, present and future of the outsourcing and shared services markets, reinforced with HfS data and supported by its global analyst team, Michael supports HfS financial services clients in creating strategies for their businesses. He examines the core financial services industry dynamics driving global sourcing strategy, as the boundaries between IT, Shared Services and Business Process Outsourcing strategy continue to blur.

Prior to joining HFS, Michael spent 4 years working as SVP of BFS on the provider side of the business, working with many of the top financial institutions in North America. Michael supported the creation of new capabilities, account management and new business development. Michael was at Wachovia Bank for 14 years, where he was the SVP of Outsourcing Strategy and Governance; leading over 130 transitions, and managing over 1,000 SLAs, over four countries and three providers. Michael played a critical role in the creation of one of the most creative offshore models in existence, the idea of the virtual captive.

Michael held many other roles within Wachovia, including; CFO for Banking Operations, Operations Manager in Check Processing and Research Adjustments, and Process Improvement Leader in Treasury Services.

Michael has been very active in the offshoring world for the past 10-plus years, and has spoken at many industry conferences including: the Gartner Offshoring Summit, TPI, The Conference Board, BAI, SIG and many others. He was selected by Finance and Accounting Outsourcing Magazine in 2006 and 2008 as one of their “FAO Superstars”.

Michael has a BS in Finance from the University of Tennessee, and an MBA from Kennesaw State University in Georgia.

His favorite times are those with his family, his wife Renee and two sons, Dylan and Tyler. They spend much of their free time at baseball and soccer games with the kids.

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Reetika Joshi

Reetika Joshi is a Principal Analyst at HfS Research. She currently tracks the outsourcing industry, with a special research focus on the BPO and Analytics services markets. She regularly contributes to HfS’ research content in the form of reports, rapid insights and blog posts. She also supports custom research and strategy projects; analyzing data, supporting client inquiry, conducting regular discussions and briefings with both buyers and providers, providing consultative, analytical and expert support to HfS clients.

Based in Pune, India, Reetika spent the last three years working with the sourcing research wing of business research and consulting firm ValueNotes. Her last profile as Project Manager encompassed a range of responsibilities including research product design and development (reports, models, etc. for the outsourcing community), managing custom research engagements, developing thought leadership through targeted content and community interaction, and supporting the business development team. Being a strong believer in the power of online communities, she was also responsible for driving the unit’s web and social media strategy and presence.

Reetika has undertaken several research assignments across the outsourcing spectrum, including market studies in niche BPO and KPO areas such as analytics, medical transcription, market research and e-learning. She has served clients through multiple bespoke research engagements, including in-depth competitive intelligence studies, market and investment opportunity assessments, demand-side surveys and marketing communication optimization for outsourcing buyers, providers, consultants and investors. Her work has appeared in many industry-relevant publications and websites, including Outsourcing magazine, Global Services Media and the Horses for Sources blog. She has presented her views on the state of the outsourcing at various conferences.

Reetika has completed her Masters in Marketing Management with distinction from Aston University, UK, receiving Beta Gamma Sigma honors. She was awarded the Accenture prize for Best Student on her course. Prior to this, she received her Bachelors in Business Administration with distinction from Symbiosis International University, India.

On a more personal note, she enjoys reading (fantasy series in particular), travelling to world heritage sites, watching the odd foreign/independent film, kicking back with strategy/simulation gaming, and lastly, rooting for Google Android and the open source community.

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About HfS Research

HfS Research (www.HfSResearch.com) is the leading independent global analyst authority and knowledge community for the business and IT services industry. It is unique in the fact that it serves the research and strategy needs of business operations leaders across finance, supply chain, human resources, marketing, customer management, IT and core industry functions.

In addition to researching business operations strategies, HfS educates and facilitates discussion among the world’s largest knowledge community of enterprise services professionals, currently comprising 120,000 subscribers. HfS Research also facilitates the HfS Sourcing Executive Council, the acclaimed elite group of sourcing practitioners from leading organizations, which meets on a bi-annual basis to share the future direction of the global services industry and discuss the future enterprise operations framework.

Led by recognized industry expert Phil Fersht, HfS Research differentiates itself with its global team of expert services analysts with real industry experience, provocative and opinionated research, unrivalled market analytics, and a view of technology as an enabler for business process improvement. Its on-demand expertise relationship model helps clients leverage HfS knowledge and strategic insight in a rapid, responsive and engaging manner.

In 2010 & 2011, HfS was awarded Analyst of the Year by the International Institute of Analyst Relations (IIAR), the premier body of analyst-facing professionals, and achieved the distinctive award of being voted the research analyst industry’s most Innovative Analyst Firm in 2012.

Now in its sixth year of publication, HfS Research’s acclaimed blog "Horses for Sources" is widely recognized as the leading destination for unfettered collective insight, research and open debate of sourcing industry issues and developments.

To learn more about HfS Research, please email research@HfSResearch.com.