AGENDA

Industry Landscape

Trends

Case Studies
### AGENDA

<table>
<thead>
<tr>
<th>Industry Landscape</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Overview</td>
</tr>
<tr>
<td>– MNC Banks in India</td>
</tr>
<tr>
<td>– Transition from Vendor Set-up to Captive</td>
</tr>
</tbody>
</table>

### Trends

### Case Studies
The BFSI offshoring Industry in India has been growing at a CAGR of 29% and is expected to become a USD 6.5 billion industry by 2010.

Growth Trend of BFSI Offshoring in India (2003 – 2010)

BFSI Offshoring – Growth Analysis

- 50% of the world’s biggest banks (by assets) have presence in India.
- The BFSI vertical was an early entrant in the Indian offshoring market.
- The exports in this vertical from India have been growing at a CAGR of ~29%.

Source: ValueNotes
For quite a long time, the banks have regarded India as an appropriate offshoring destination.

**Pre 1990s**
- Had a strong market presence and full-fledged banking operations in India

**Early entrants**
- Citibank
- BNP Paribas
- Calyon Bank
- The Bank of Nova Scotia
- JPMorgan Chase Bank
- Abu Dhabi Commercial Bank
- Bank of Bahrain and Kuwait
- Taib Bank

**Mid 1990s**
- Moved into India focusing on investments and Corporate finance options

**Major banks set up in mid 1990s**
- American Express Bank Limited
- The Development Bank of Singapore Ltd.
- State Bank of Mauritius Ltd.
- ABN Amro Bank
- Arab Bangladesh Bank
- DBS Bank

**Until 2000**
- Have forayed into the commercial banking operations and have a strong customer base in India

**Major banks set up in 2000**
- Standard Chartered Bank
- The Hong Kong and Shanghai Banking Corporation Ltd.
- China trust Commercial Bank
- Sonali Bank
- ING Vysya Bank
There is an upsurge in the number of captives set up in the last 5 years

2000-2002

- Advantage of cost and talent
- Offshore non-core IT operations
- Local insights - Leverage captive operations to understand market for future growth

- Lehman Brothers
- Standard Chartered Bank
- Royal Bank of Scotland

2003-2005

- Details of key trends across the years are captured in the full report, please send your requests to info@zinnov.com

2005 Onwards

Source: Zinnov research
There are a large number of MNC financial institutions with strong captive presence in India.

Captive Offshoring by Global Banks to India

- Details of offshoring nations are captured in the full report, please send your requests to info@zinnov.com

Note: Other countries include Singapore, Korea, Oman, Sri Lanka, Bangkok, Bahrain, Mauritius, Dubai etc.
Most of the banking institutions have moved up the offshoring value chain

Process Value Chain in Banking Captives

- Pre 1990s
  - Non-Technical Support
    - IT Maintenance
    - Software Development
  - IT Support
    - Customer Care
    - Record Keeping

- Mid 1990s
  - Software Development & IT Support
    - IT Maintenance
    - Software Development

- 2000-2007
  - Core Banking Activities
    - Mortgage/Loan Processing
    - Credit Cards
    - Credit Management
    - Commercial/Corporate Financing
    - Wholesale Banking

- 2007 Onwards
  - Investments & Securities
    - Investment Banking
    - Securities
    - Online Trading
    - Asset Management
    - Financial Research
    - Analytics
    - Wealth Management

Source: Zinnov research

Around xx MNC banks have their captive center operations in India.
Top Fortune 500 banks in India have already set up their captive centers, complemented by vendor services

<table>
<thead>
<tr>
<th>Bank</th>
<th>Captive</th>
<th>Vendor</th>
<th>Location</th>
<th>Headcount</th>
<th>Discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citigroup</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of America</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JP Morgan Chase</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
<td></td>
<td>• Details of captive locations, their evolution etc. are captured in the full report, please send your requests for the report to <a href="mailto:info@zinnov.com">info@zinnov.com</a></td>
</tr>
<tr>
<td>Wachovia</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of New York</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Research
Top financial institutions are now looking to further grow their captive operations in India

<table>
<thead>
<tr>
<th>Bank</th>
<th>Year of Establishment</th>
<th>Origin Country</th>
<th>India Headcount</th>
<th>Model of Operation</th>
<th>Functions Offshored</th>
<th>Location in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank 1</td>
<td>2000</td>
<td></td>
<td>Captive</td>
<td></td>
<td>BPO</td>
<td>Mumbai, Chennai, Bangalore</td>
</tr>
<tr>
<td>Bank 2</td>
<td>2001</td>
<td></td>
<td>Captive</td>
<td></td>
<td>IT Support</td>
<td>Mumbai</td>
</tr>
<tr>
<td>Bank 3</td>
<td>1999</td>
<td></td>
<td>Captive</td>
<td></td>
<td>IT/ITES</td>
<td>Pune, Hyderabad, Kolkata, Bangalore</td>
</tr>
<tr>
<td>Bank 4</td>
<td>2004</td>
<td></td>
<td>Captive</td>
<td></td>
<td>BPO/IT</td>
<td>Bangalore, Mumbai</td>
</tr>
<tr>
<td>Bank 5</td>
<td>1994</td>
<td></td>
<td>Captive</td>
<td></td>
<td>BPO</td>
<td>Mumbai, Kolkata, NCR</td>
</tr>
<tr>
<td>Bank 6</td>
<td>2003</td>
<td></td>
<td>Captive</td>
<td></td>
<td>IT</td>
<td>Delhi</td>
</tr>
<tr>
<td>Bank 7</td>
<td>2007</td>
<td></td>
<td>Captive</td>
<td></td>
<td>BPO/IT</td>
<td>Bangalore</td>
</tr>
</tbody>
</table>

• Details of captive locations, headcount, their evolution etc. are captured in the full report, please send your requests for the report to info@zinnov.com
Captive offshoring, which initially started as an experiment, has now become a core competency of many financial institutions (1/2)

<table>
<thead>
<tr>
<th>Reasons for Transition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IPR</strong></td>
</tr>
<tr>
<td>• Technology and IP remains in-house.</td>
</tr>
<tr>
<td>• Customer data remains confidential.</td>
</tr>
<tr>
<td>• Reduced data theft and related frauds by employees</td>
</tr>
<tr>
<td>• Retain company best practices and values</td>
</tr>
<tr>
<td><strong>Control</strong></td>
</tr>
<tr>
<td>• Fully owned</td>
</tr>
<tr>
<td>• Control over operations</td>
</tr>
<tr>
<td>• Easy knowledge transfer</td>
</tr>
<tr>
<td>• Process evaluation</td>
</tr>
<tr>
<td>• Issue handling</td>
</tr>
<tr>
<td><strong>Favorable Market</strong></td>
</tr>
<tr>
<td>• Foreign Institutional Investors are allowed to invest and operate in the Indian capital market with minimal restrictions</td>
</tr>
<tr>
<td>• RBI Norms</td>
</tr>
<tr>
<td>• Value for money</td>
</tr>
<tr>
<td>• Support by the Government</td>
</tr>
<tr>
<td><strong>Talent pool</strong></td>
</tr>
<tr>
<td>• Growing need for technology</td>
</tr>
<tr>
<td>• Easy accessibility to talent pool</td>
</tr>
<tr>
<td>• Leverage domain expertise</td>
</tr>
<tr>
<td>• Training facilities in India</td>
</tr>
<tr>
<td>• Availability of fresh talent pool</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
</tr>
<tr>
<td>• Pressure to further strengthen cost-cutting efforts</td>
</tr>
<tr>
<td>• Increase scale of operations to improve efficiency and thus cost</td>
</tr>
<tr>
<td><strong>Others</strong></td>
</tr>
<tr>
<td>• Competition</td>
</tr>
<tr>
<td>• Roadway to India</td>
</tr>
<tr>
<td>• Increased brand value</td>
</tr>
<tr>
<td>• Strategy planning &amp; decision making for emerging markets (India)</td>
</tr>
</tbody>
</table>

Source: Zinnov research, Zinnov interviews
Captive offshoring, which initially started as an experiment, has now become a core competency of many financial institutions (2/2)

**Drivers for captive Offshoring**

**Cost**
- To achieve cost advantage, the institutions need to build scale in offshoring operations.

**Compliance**
- Institutions need formal and effective governance processes to monitor and enforce compliance in their offshore operations, which is easier in the case of a captive setup.

**Culture**
- Institutions can imbibe culture in captives faster than the partners by providing their employees with opportunities similar to onshore centers.

Source: Zinnov research, Zinnov interviews
Improving company focus is one of the main reasons for a captive set up.

### Reasons for Captive Offshoring

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve company focus</td>
<td>10%</td>
</tr>
<tr>
<td>Concentrate on key function</td>
<td>10%</td>
</tr>
<tr>
<td>Reduce costs</td>
<td>10%</td>
</tr>
<tr>
<td>Non-availability of resources</td>
<td>10%</td>
</tr>
<tr>
<td>Re-engineering benefits</td>
<td>10%</td>
</tr>
<tr>
<td>Reduce time to market</td>
<td>10%</td>
</tr>
<tr>
<td>Leverage offshore capabilities</td>
<td>10%</td>
</tr>
</tbody>
</table>

**Discussion**

- There are many commercial reasons for captive offshoring apart from cost savings.
- While improving company focus forms the prime objective, offshoring back-end work can help companies concentrate on core projects, thereby optimizing its resources.

Source: Zinnov research, Zinnov interviews
Despite existing relationship with vendors, Banks are now deciding to set up their own captive in India

**Vendor Model**

- Technology Improvement
- Focus on core financial activities
- Cost Advantage – Talent/Infrastructure
- Increased manpower – Quick Job

**Captive Model**

- Following Leaders
- Leverage on existing India presence
- Cost Advantage – In-house services
- Strategic Decision – Leveraging on India as a strategic destination

**Bank chose Vendor for the following reasons:**
- The need to constantly improve technology capabilities became difficult
- To focus on its core financial-services business
- The decision to outsource wasn't only about cost. Bank wanted to increase resources on projects to increase faster roll-out and reduce time to market

**Bank moved on to a Captive Model for the following reasons:**
- To retain critical IT functions in-house
- Faced competition from new players both inside and outside the traditional banking industry
- Have already established strong institutional presence with the help of its retail.

Zinnov Confidential
# Best practices of offshoring followed by Bank in India

<table>
<thead>
<tr>
<th>Observation</th>
<th>Discussion</th>
</tr>
</thead>
</table>
| **Start small, then build up**       | ▶ Starting out with a 30-people team enabled the company to make mistakes and learn from them. It also helped them to build trust within Bank and convince various stakeholders on India opportunity.  
▶ Today Bank employs around 5000 employees in India for its IT functions.                                                                 |
| **Customer Involvement is Crucial**  | ▶ Handling critical customers is best done in-house and issues are quickly resolved.  
▶ They consider it vital to get the experts involved.  
▶ Bank brings in experts who have an experience using the processing system.                                                            |
| **Use of Hybrid Offshoring Model**   | ▶ In 2003, Bank acquired US financier household finance.  
▶ Household had a partnership with Vendor, an offshore software-services provider.  
▶ Bank continued the vendor relationship and also set up its own captive for core functions. This helps them to leverage hybrid offshore model effectively. |
| **Company Values**                   | ▶ Bank's attrition rate is far lower than the industry average of 10% to 15%.  
▶ Retaining company values and quality mission in captive has been fairly successful till date.                                          |
| **Offshoring Competency**            | ▶ “Think hard about the whole strategy. Let your own people do the short-term work, while the outside contractor undertake the bigger jobs. It's not the outsider's job to fix your mess” is the policy followed.  
▶ Offshoring has moved from an experimental level to a core competency.                                                                     |

Source: Zinnov Research
AGENDA

Industry Landscape

Trends
- Location
- Headcount
- Functions

Case Studies
Location Analysis: Tier 1 & Tier 2 cities are popular destinations for captives to be set up key business hub and cost being the focus area

- List of companies in each location are captured in the full report, please send your requests for the report to info@zinnov.com

Source: Primary Research
India has a large talent pool of IT engineers

IT Talent Pool

- Datawarehousing/BI: 30250
- DBA: 22550
- SAP-all: 22000
- C, C++/Unix: 77550
- Telecom: 12100
- Oracle Application DBA: 7700
- Oracle Apps-Func & Tech: 18150
- People Soft: 9350
- Portal and content management: 8800
- Retek: 1650
- Java/J2EE: 96800
- Mainframe: 59400
- Siebel: 10450
- Quality- SQA and SEPG: 6050
- EAI: 6600
- ABAP: 22000
- Testing: 57750
- Microsoft technologies: 52250
- IT infrastructure: 28600

Note: The chart above represents data collection done for 96 centers in IT
Source: Zinnov research

Details of talent pool size/breakup are captured in the full report, please send your requests to info@zinnov.com

From Nasscom: Total = 5,50,000
Talent pool analysis for IT and BPO services in India

**ITES Talent Pool**

- Finance and Accounting: 143780
- Outbound Sales (Voice): 121660
- Insurance: 88480
- HR Backoffice: 27650
- Technical Help Desk: 127190
- Content Development: 11060
- Clinical Data Management: 11060
- Procurement: 22120

Note: The chart above represents data collection done for 93 centers in ITES.

Source: Zinnov research

Details of talent pool size/breakup are captured in the full report, please send your requests to info@zinnov.com

From Nasscom: Total = 5,53,000

Zinnov Confidential
Bangalore ranks the highest in employee salaries for IT services followed by NCR region

Bangalore has been taken as the benchmark i.e. 100

Salaries are calculated for Bangalore and compared with other major cities in India.

<table>
<thead>
<tr>
<th>Cities</th>
<th>Compensation relative to Bangalore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chennai</td>
<td>80</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>90</td>
</tr>
<tr>
<td>Pune</td>
<td>95</td>
</tr>
<tr>
<td>Bangalore</td>
<td>100</td>
</tr>
<tr>
<td>NCR</td>
<td>95</td>
</tr>
<tr>
<td>Mumbai</td>
<td>110</td>
</tr>
</tbody>
</table>

Note * - Cost to Company: It is the total remuneration that the employee draws during a year which includes Basic salary, Various allowances, HRA, and others

Source Literature search, Zinnov analysis

Discussion

• Details of salary trends across major cities in India are captured in the full report, please send your requests to info@zinnov.com
Salary Trends in the BPO segment in India

Bangalore has been taken as the benchmark i.e. 100

Salary bands for Bangalore (2007)

<table>
<thead>
<tr>
<th>Band</th>
<th>Title</th>
<th>CTC* Range (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery head</td>
<td>VP - Service Delivery</td>
<td></td>
</tr>
<tr>
<td>Operations Managers</td>
<td>Sr. Operations Manager</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operations Manager</td>
<td></td>
</tr>
<tr>
<td>Leads</td>
<td>Team Lead</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Senior Analyst</td>
<td></td>
</tr>
<tr>
<td>Agents</td>
<td>Process Flow Analyst</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Process Associate (Non Technical)</td>
<td></td>
</tr>
</tbody>
</table>

Discussion

- Details of salary trends across major cities in India are captured in the full report, please send your requests to info@zinnov.com

Note * - Cost to Company: It is the total remuneration that the employee draws during a year which includes Basic salary, Various allowances, HRA, and others

Source Literature search, Zinnov Analysis
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Case Studies
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Thank You!

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