



IT Outsourcing in Banking – Annual Report 2016: Simplify the Bank

Banking, Financial Services, and Insurance (BFSI) IT Outsourcing
Annual Report – June 2016 – Preview Deck

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Subscription information

- This full report is included in the following subscription(s)
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¹ Banking, financial services, and insurance

Background and scope of the research

Background of the research

Global banking profitability hit an all-time high in 2015, recovering from the lows of 2009 in the aftermath of the financial crisis. The recovery was led by North America and China. However, effects of the financial crisis can still be seen in Western Europe. Macro-economic uncertainty continues to plague the banks. Some of the events this year include United States signaling a reversal in monetary policy and raising interest rates for the first time since the 2008 financial crisis and Japan adopting negative interest rates. Banks are still trying to determine the long-term impact of these events on their profits. Amid tightening regulations, macro-economic uncertainty, and technological disruption leading to increased competition from non-traditional sources, banks are looking at new technology investments that yield cost savings and free up budgets to spend on change initiatives. Consequently, IT budgets in 2016 are expected to remain flat or witness a modest increase from the levels in 2015.

As banks struggle to balance the three priorities of run, manage and change the bank, there is an increased need for simplification. Led by consumer demand for simplicity in financial interactions, easy-to-understand products and the demand for speed, banks are now faced with the challenge of dealing with the new age consumer who is willing to switch his banking relationship more quickly than ever. Banks have started to recognize the threat of digital technologies and the rise of non-traditional competitors. In order to compete in a market that is becoming more crowded, banks need to simplify business operations, regulatory compliance, and user experience to reduce costs and remain competitive.

In this report, we look at the global trends in the banking industry and their implication for application services outsourcing.

We focus on:

- State of the banking industry
- Business priorities of banks
- Market trends and activity for large AO relationships in banking

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)

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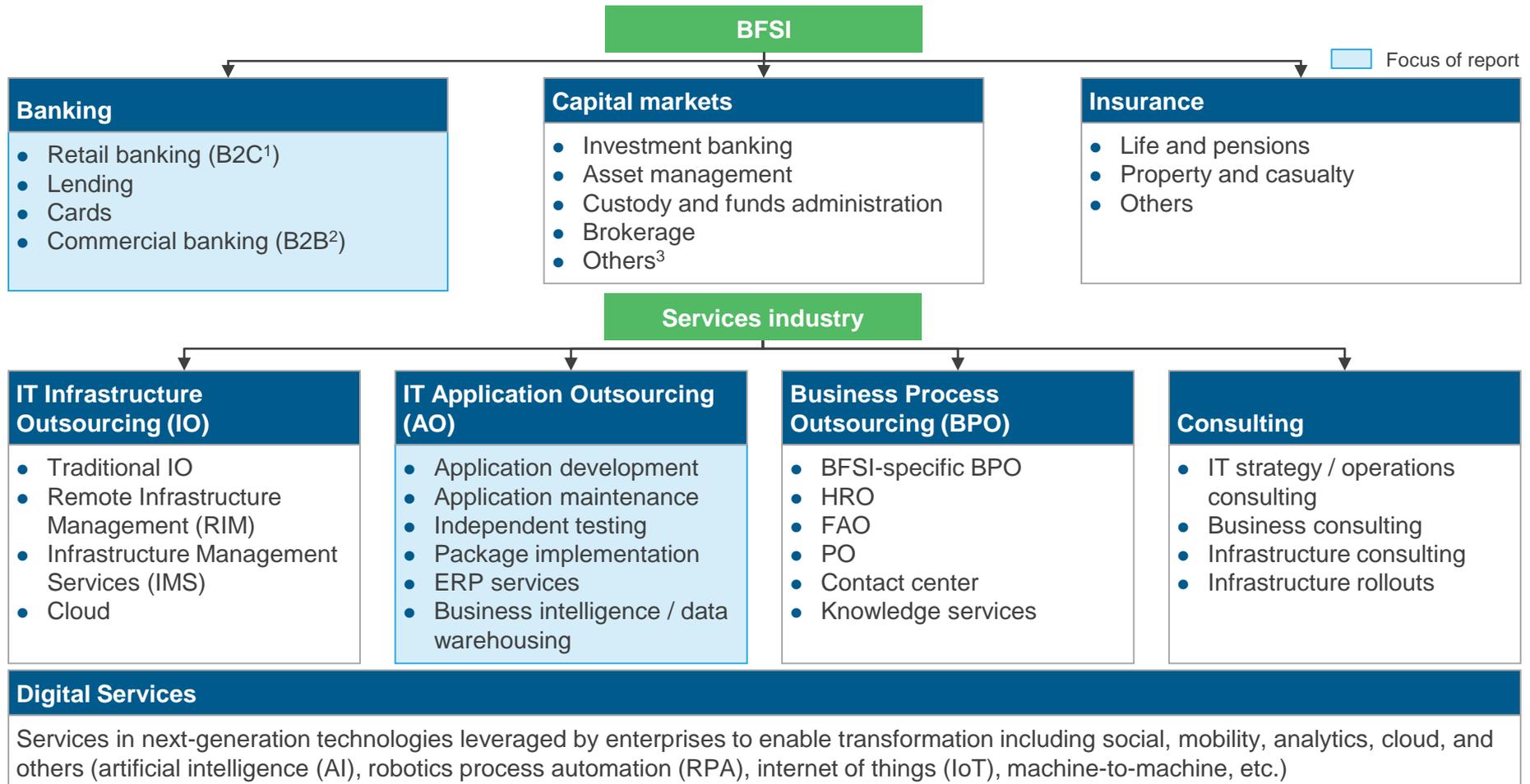
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This report provides an insight into the current trends and future outlook for large (TCV > US\$25 million), annuity-based, multi-year (> 3 years) application services relationships in the global banking sector

NOT EXHAUSTIVE



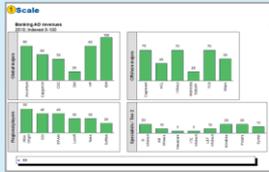
1 Business-to-consumer relationships

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 reports focused on ITO in BFSI in 2016

IT Outsourcing in BFSI – Annual Report

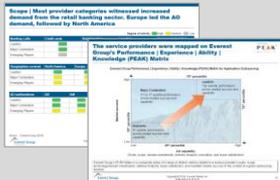


Each report provides:

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

- Global Banking
- Global Capital Markets
- Global 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 Aspirants
- Benchmarking scale, scope, domain investments, and delivery footprint of each provider's BFSI-AO practice along with comparative evaluation of their BFSI-AO capabilities
- The 2016 BFSI-AO PEAK analyses focus on identifying the "Star Performers", i.e., providers with the strongest forward movement over time – both in terms of market success and capability advancements

- Global Banking
- Global Capital Markets
- Global Insurance
- Mobility in Banking
- Mobility in Insurance
- Analytics in Banking
- Analytics in Insurance

Enterprise Digital Effectiveness with APEX Matrix



Two reports as part of an "open source" evaluation of the digital effectiveness of the largest retail banks in Europe and the United States and mapping them on Everest Group's APEX Matrix – as Leaders, Optimizers, Innovators, and Aspirants

- APEX Matrix for Digital in the U.S. retail banks
- APEX Matrix for Digital in Europe retail banks

Everest Group's banking 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 banking (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 by lines of business (LoB) – retail banking, credit cards, commercial banking, and lending
 - 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 25+ Banking AO service providers** (updated annually)
- The database tracks the following capability elements for each service provider:
 - Major banking AO clients and recent wins
 - Overall revenue
 - Recent banking-related developments
 - Banking AO delivery locations
 - Banking 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

Overview and abbreviated summary of key messages

This report provides an overview of the application outsourcing (AO) market for the banking 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 themes, key areas of investment, and implications for service providers, with regards to such large banking AO deals

Some of the findings in this report, among others, are:

State of the global banking industry

- The global banking industry has recovered from the 2008 financial crisis except in Europe. However, economies worldwide are reeling from various macroeconomic challenges.
- IT spending in banking industry will witness a moderate increase as banks adopt digital across front-, mid- and back-office functions
- Overall in 2016, banks globally will invest in digital in spite of strained IT budgets. Digital adoption will further increase as banks look to contain costs in a period of low growth

Future of banking: Simple and digital

- Banking IT has become complex over the years due to various reasons – inorganic growth, complex product portfolios, complex regulatory environment, and globalization. Banks have a broad array of products and services that increases cost of sales and service. Banks need to move away from a product-centric view to a customer-centric view and provide simple, easy to understand, personalized customer experience.
- This requires simplification across the bank. Simplification helps banks to shed the burden of legacy and embrace new technologies

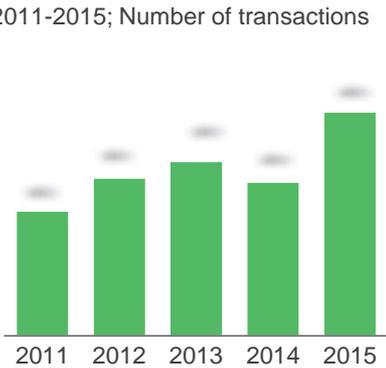
Banking AO overview

- Large AO transactions in the banking sector hit a record five-year high – fifty-four new transactions with a total contract value of US\$5.9 billion were signed in 2015. Transaction volume increased by an impressive 45% and TCV increased by 25%. Average TCV declined by 9% as compared to last year, as clients signed smaller deals
- Banks have embraced digital whole-heartedly and this is reflected in the demand for digital in outsourcing contracts. Over 50% of all large AO contracts signed in 2015 included some component of digital in their scope of work. Analytics and mobility are the most in demand new technologies at 45% and 37% inclusion rate in large deals
- Renewals are under pressure as clients look to break up large contracts into smaller chunks and negotiate improved productivity using automation. Only US\$2 billion worth of large AO contracts are up for renewal in 2016 compared to US\$5.7 billion in 2015

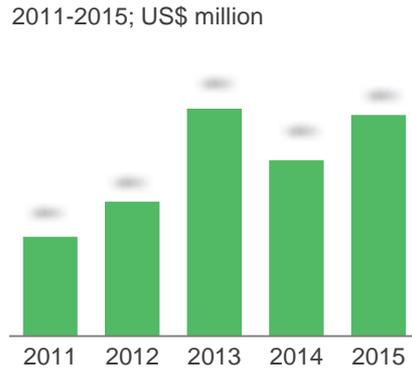
This study offers three distinct chapters providing a deep dive into key aspects of Banking AO market; below are four charts to illustrate the depth of the report

Number and TCV of new large Banking AO contracts

Number of new large, banking AO contracts
2011-2015; Number of transactions



Total TCV of new large, banking AO contracts
2011-2015; US\$ million



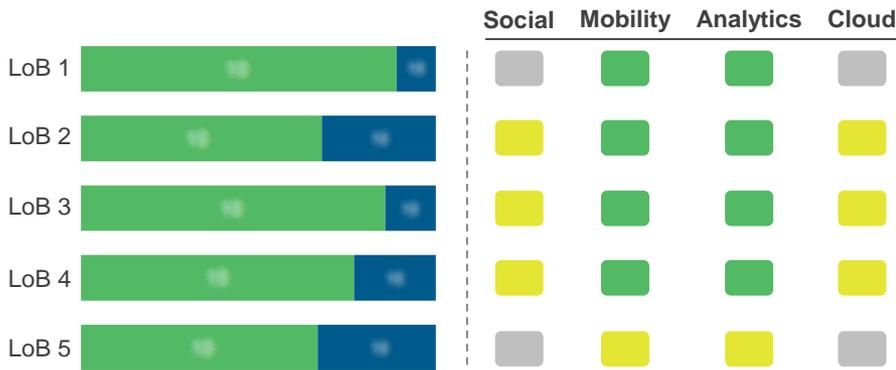
Digital themes included in large banking AO transactions

Frequency of inclusion

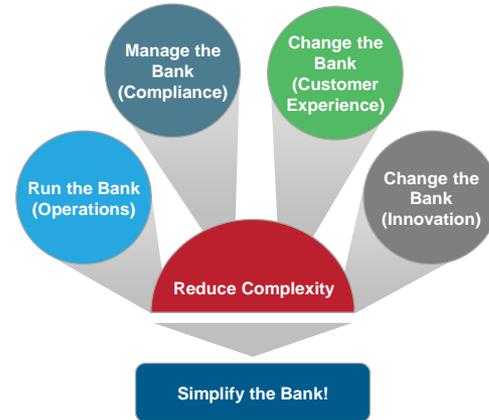


Demand for digital across different LoBs

Legend: Digital (Green), Traditional (Blue), High (Light Green), Medium (Yellow), Low (Grey)



Future of banking: Simple and digital



Source: Everest Group (2015)

BFSI ITS research calendar

Published
 Current

Topic	Release date
IT Applications Outsourcing in Insurance – Service Provider Profiles Compendium – 2015	January 2016
Blockchain in BFSI – Looking Beyond the Hype	March 2016
IT Outsourcing in Banking – Annual Report 2016	June 2016
Digital Effectiveness in U.S. Retail Banking – APEX Matrix™ to Identify the Digital Banking Leaders 2016	Q2 2016
IT Outsourcing in Banking – Service Provider Landscape with PEAK Matrix™ Assessment 2016	Q3 2016
Digital Effectiveness in Europe Retail Banking – APEX Matrix™ to Identify the Digital Banking Leaders 2016	Q3 2016
IT Outsourcing in Capital Markets – Annual Report 2016	Q3 2016
IT Outsourcing in Global Capital Markets – Service Provider Landscape with PEAK Matrix™ Assessment 2016	Q3 2016
IT Outsourcing in Insurance – Service Provider Landscape with PEAK Matrix™ Assessment 2016	Q3 2016
IT Outsourcing in Insurance – Annual Report 2016	Q3 2016
Analytics in Banking– Service Provider Landscape with PEAK Matrix™ Assessment 2016	Q4 2016
Mobility in Banking– Service Provider Landscape with PEAK Matrix™ Assessment 2016	Q4 2016
Mobility in Insurance – Service Provider Landscape with PEAK Matrix™ Assessment 2016	Q4 2016
Analytics in Insurance – Service Provider Landscape with PEAK Matrix™ Assessment 2016	Q4 2016

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. **Blockchain in BFSI – Looking beyond the hype** ([EGR-2016-11-R-1725](#)); 2015. This report provides an overview of blockchain technology and its impact on global BFSI sector. The report covers the market trends, enterprise priorities and key investment themes related to blockchain. The report helps financial services institution and service provider cut through the hype and understand the current state of adoption and the future promise of blockchain
2. **BFSI Digital Adoption Trends – The Investment Enigma for BFSI Enterprises: Where to Invest?** ([EGR-2016-4-R-1720](#)); 2015. This report assesses the current state of digital adoption in BFSI enterprises. The report establishes a definitional framework for digital adoption, provides insights into the forces driving the adoption, assessing current state of adoption, and identifying implications for enterprises and service providers in their digital investments
3. **IT Outsourcing in Banking – Annual Report 2015: Riding the Digital Wave** ([EGR-2015-11-R-1496](#)); 2015. This report provides an overview of the Application Outsourcing (AO) market for the banking 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 & growth, demand drivers, adoption & scope trends, emerging priorities of buyers, key investment themes, and future outlook for 2015 with regards to such large banking AO deals

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About Everest Group

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