Future of Banking – “Experience First”: Banking ITO Annual Report 2017

Banking, Financial Services, and Insurance (BFSI) IT Outsourcing Annual Report – September 2017: Complimentary Abstract / Table of Contents
Our research offerings for global services

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**Subscription information**

- This report is included in the following subscription(s)
  - BFSI ITO
- In addition to published research, a subscription may include analyst inquiry, data cuts, and other services
- If you want to learn whether your organization has a subscription agreement or request information on pricing and subscription options, please contact us

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This report examines the service provider landscape for large (TCV > US$25 million), annuity-based, multi-year (>3 years) application services relationships in the global banking sector.

**Focus of report**

### BFSI

- **Banking**
  - Retail banking (B2C³)
  - Lending
  - Cards and payments
  - Commercial banking (B2B³)

- **Capital markets**
  - Investment banking
  - Asset management
  - Custody and funds administration
  - Brokerage
  - Others³

- **Insurance**
  - Life and pensions
  - Property and casualty
  - Others

### Services industry

- **IT Infrastructure Outsourcing (IO)**
  - Traditional IO
  - Remote Infrastructure Management (RIM)
  - Infrastructure Management Services (IMS)
  - Cloud

- **IT Application Outsourcing (AO)**
  - Application development
  - Application maintenance
  - Independent testing
  - Package implementation
  - ERP services
  - Business intelligence / data warehousing

- **Business Process Outsourcing (BPO)**
  - BFSI-specific BPO
  - HRO
  - FAO
  - PO
  - Contact center
  - Knowledge services

- **Consulting**
  - IT strategy / operations consulting
  - Business consulting
  - Infrastructure consulting
  - Infrastructure rollouts

### Digital services

Services in next-generation technologies leveraged by enterprises to enable transformation including social, mobility, analytics, cloud, and others (Artificial Intelligence (AI), Robotics Process Automation (RPA), Internet of Things (IoT), machine-to-machine, etc.)

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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 part of Everest Group’s series of reports focused on ITO in BFSI in 2017

**IT Outsourcing in BFSI – Annual Report**

Each report provides:

- An overview of the application services market for the BFSI vertical, 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

**IT Outsourcing in BFSI – Service Provider Landscape and Profiles Compendium**

Each report provides:

- Assessment of the 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
- Capability profiles of service providers capturing their AO services experience in specific subverticals including details such as AO services capabilities, key investments, proprietary solutions, and technological expertise

**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

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Note: The content above is a summary of the report's main points and does not include detailed analysis or specific data.
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

1. Accenture, EPAM, Hexaware, and Unisys excludes service provider inputs, and is based on Everest Group’s proprietary Transaction Intelligence (TI) database, service provider public disclosures, and Everest Group’s interactions with banking buyers
2. Analysis for DXC Technology includes combined capabilities of CSC and HPE Services
3. Analysis for NTT DATA includes capabilities post integration with Dell Services

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.
Background and scope of the research

Disruption in technology is leading to disintermediation in value chain and business model of banks. FinTechs, non-traditional financial service providers, and neo-digital banks are developing new products, services, and business models, impacting front- to back-office functions to compete with traditional banks. Decreasing dependency on branches and increasing adoption of digital channels are forcing traditional banks to adapt to new client processes and reinvent themselves.

As banks embark on this digital transformation journey, they will move from a banking-as-a-product model to banking-as-a-service model, the signs of which can already be witnessed in Europe where the Payment Service Directive II (PSD2) has mandated banks to open up their core through Application Programming Interfaces (APIs).

Banks are moving toward a plug-and-play model that will allow multiple participants (sellers and buyers) to connect to it to gain value.

In future, banks will become more and more invisible and will be ambient. Link to banking will be integrated in every end-user device / business system and will become part of our lifestyle, similar to Facebook or Google. Banks will become a network of assets and instead of capital, will offer end-to-end customer experiences. As banks move to a banking-as-a-lifestyle model, they will need to reorient themselves to a customer-centric model, which would require changes in business processes, IT architecture, culture, as well as operating model.

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

Scope of this report

INDUSTRY
Banking (retail banking, commercial banking, credit cards, loans, and mortgages); excludes capital markets and insurance

SERVICES
Application outsourcing

GEOGRAPHY
Global

SOURCING MODEL
Third-party AO transactions; excludes shared services or Global In-house Centers (GICs)
Key takeaways from this report

Pace of technology disruption, changing consumer preferences, and need for banks to come up with new business models are disrupting the current banking landscape

Industry will witness a sea change, as banks move to a co-creation model to combine, package, and offer products/services from banking and allied businesses by orchestrating customer lifecycle

Banks will move away from being perceived as physical structure that offers financial services/products to being an ambient fabric connecting people and businesses

It will require banks to transition from a product-centric approach to a customer-centric model by redesigning the existing IT landscape

The core will evolve from transaction to intelligence centered around customer journeys

Artificial Intelligence (AI), API-enabled open banking architecture, and cloud are the foundations of future banking IT architecture
This report provides a point of view on envisioned future state of banks, current gaps, and technology investments to transform to an experience-provider.

Future state of banking
As we move from collaboration to co-creation, banking platforms will be integrated in every device/system to provide multiple services.

BANKING-AS-A-LIFESTYLE (“AMBIENT BANKING”)
- Banking will be cash-free, ubiquitous, and part of our day-to-day lifestyle.
- Banks will move upstream and coordinate the entire ecosystem. They will integrate with allied businesses and extend access through edge devices.
- They will be able to influence customer experience across all channels (self as well as TPP’s own).
- Technology land through a customer and enabled by AI and microservices.

BANKING-AS-A-SERVICE
- Adoption of APIs and move to open rendering banking as a plug-and-play service.
- Provides an as-a-service platform to integrate seamlessly with back-end systems for TPPs.
- Focus is on externalizing single view of data for TPPs.
- Manage customer experience over their own channels provided over TPP’s channels.

BANKING-AS-A-PRODUCT
- Viewed as seller of products such as loans, CASA, credit cards, and money market accounts.
- Focus is on building a single view of customers across different business units or product functions.
- Manage customer experience over their own channels and do not integrate with Third-Party Providers (TPPs).

Evolve as data-centric enterprise
Digital transformation will collapse process stacks to create data-centric enterprises backed by sophisticated AI engines.

A traditional example of how to process a home loan
- Application for home loan
- Applicant's scrutiny and verification
- Underwriting
- Issuance of home loan offer letter
- Property verification
- Loan disbursement

How a home loan process will be transformed by artificial intelligence
- AI engine will automatically analyze data and take decisions to offer loans.

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This study also offers deep dive analysis into key aspects of Banking AO deal trends in 2016 and implications for enterprises and service providers.

Number of transaction, TCV, and deal duration analysis

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<thead>
<tr>
<th>Number of deals signed</th>
<th>Average TCV</th>
<th>Average deal duration</th>
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2014 2015 2016

TVC of ITO banking contracts coming up for renewal

<table>
<thead>
<tr>
<th>TCV of ITO banking contracts coming up for renewal (large(^1) and small)</th>
<th>Number of transactions</th>
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<tr>
<td>2018-2021; US$ million</td>
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Examples of large upcoming renewals

1. Significant increase in adoption of cloud to drive agility, business flexibility, and cost effectiveness.
2. Blockchain and AI are seeing increased activity, as banks explore various use cases.
3. Similar adoption for mobility, since mobile has become the fabric of interconnectivity between channels for customers.
4. Analytics, Social Media, Mobile, Cloud, AI, Blockchain.

Source: Everest Group (2017)

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# Research calendar – BFSI ITS

## Flagship BFSI ITO reports

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<td>Insurance, L&amp;P, and P&amp;C Service Provider Landscape with PEAK Matrix™ Assessment 2017 and Profiles Compendium</td>
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<td>Digital Services in Wealth Management – Service Provider Landscape with PEAK Matrix™ Assessment 2017</td>
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<td>Digital Services in P&amp;C Insurance – Service Provider Landscape with PEAK Matrix™ Assessment 2017</td>
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<td>Digital Effectiveness in North American Retail Banking – APEX Matrix™ to Identify the Digital Banking Leaders 2017</td>
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## Thematic BFSI ITO reports

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<tr>
<td>InsurTechs Envisioning the Future of Insurance – Top 40 Trailblazers</td>
<td>May 2017</td>
</tr>
<tr>
<td>Digital Force Multiplier – A Cloud Adoption Story in Banking and Financial Services: Public Cloud First</td>
<td>August 2017</td>
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**Note:** For a list of all BFSI ITO reports published by us, please refer to [website here](#)
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. **IT Outsourcing in Global Banking – Service Provider Landscape with PEAK Matrix™ Assessment 2017 and Profiles Compendium** (EGR-2017-11-R-2232); 2017. 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 2016 with regards to such large banking AO deals.

2. **Digital Force Multiplier – A Cloud Adoption Story in Banking and Financial Services: Public Cloud First** (EGR-2017-11-R-2315); 2017. This report analyses top 15 BFS enterprises across four geographies (Australia, Europe, the United Kingdom, and the United States) to understand the role of cloud technology in enhancing the digital experience. These BFS enterprises have been mapped on Everest Group’s proprietary assessment framework. The research also includes a detailed study and profiles of leading cloud service providers and their offerings catering to the needs of BFS enterprises.

3. **FinTechs in Payments – Top 40 Trailblazers** (EGR-2017-11-R-2172); 2017. In this report, we analyze current state of FinTech adoption, drivers of growth, investment trends, key areas of disruption within the payments value chain, and 40 leading FinTechs that stood out from a list of around 125.

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About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empower clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

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