NEAT EVALUATION FOR TCS:

Retail Banking BPS

Market Segments:
Overall, Loans Focus, Payments Focus, Deposits Focus

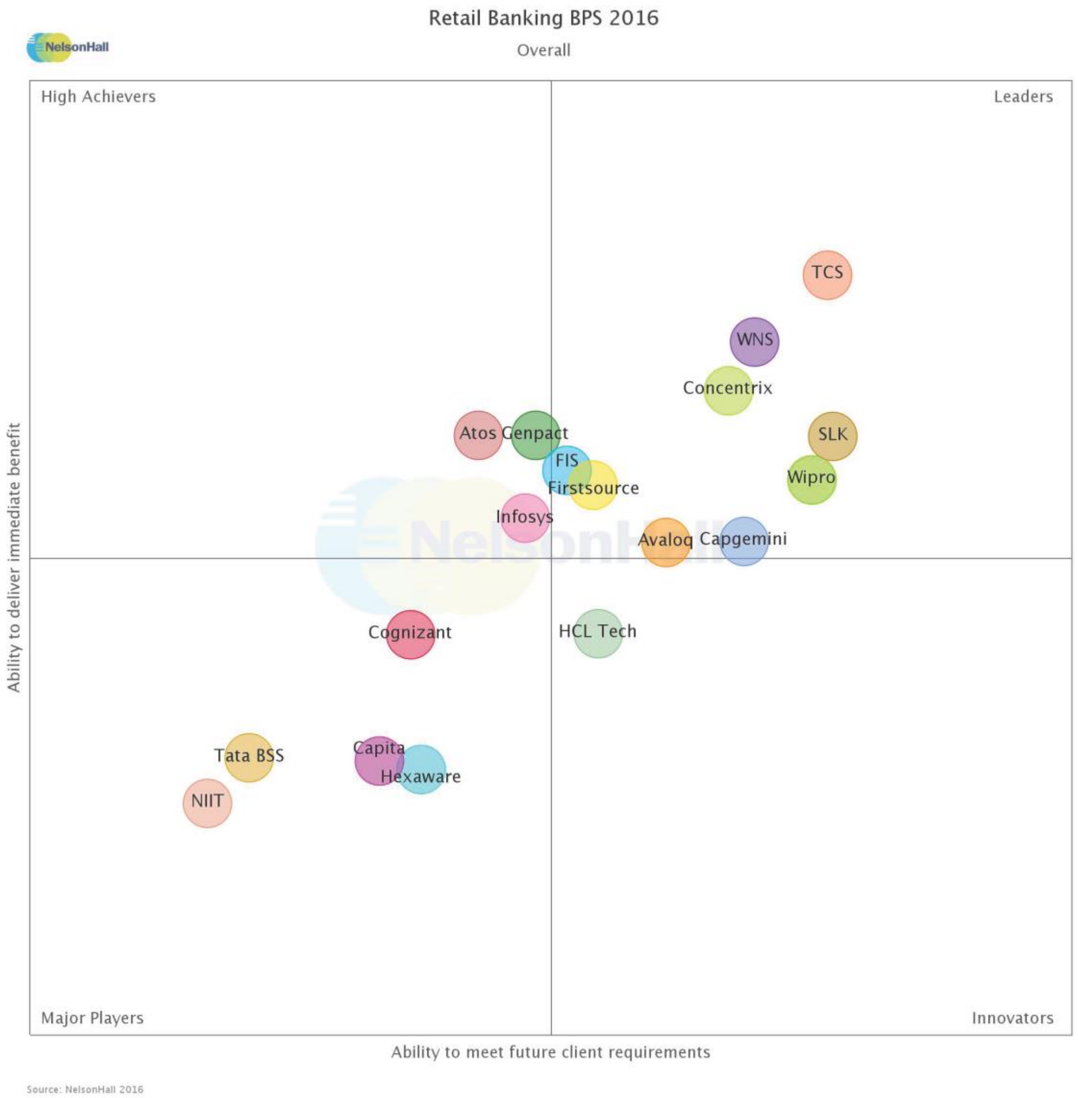
This document presents TCS with the 2016 NelsonHall NEAT vendor evaluation for Retail Banking BPS in four market segments (Overall, Loans Focus, Payments Focus, and Deposits Focus). It contains the NEAT graphs of vendor performance, a summary vendor analysis of TCS in Retail Banking BPS, and the latest market analysis summary for Retail Banking BPS. An explanation of the NEAT methodology is included at the end of the document.

The vendors evaluated are: Atos, Avaloq, Capgemini, Capita, Cognizant, Concentrix, Fidelity Information Services, Firstsource, Genpact, HCL Technologies, Hexaware, Infosys, NIIT, SLK, Tata BSS, TCS, Wipro, and WNS.

Introduction

NelsonHall has assessed and evaluated TCS' proposition against demand for Retail Banking BPS services, and has identified TCS as a Leader in the *Overall, Loans Focus, Payments Focus, and Deposits Focus* market segments, as shown in the NEAT graphs on pages 2 to 5.

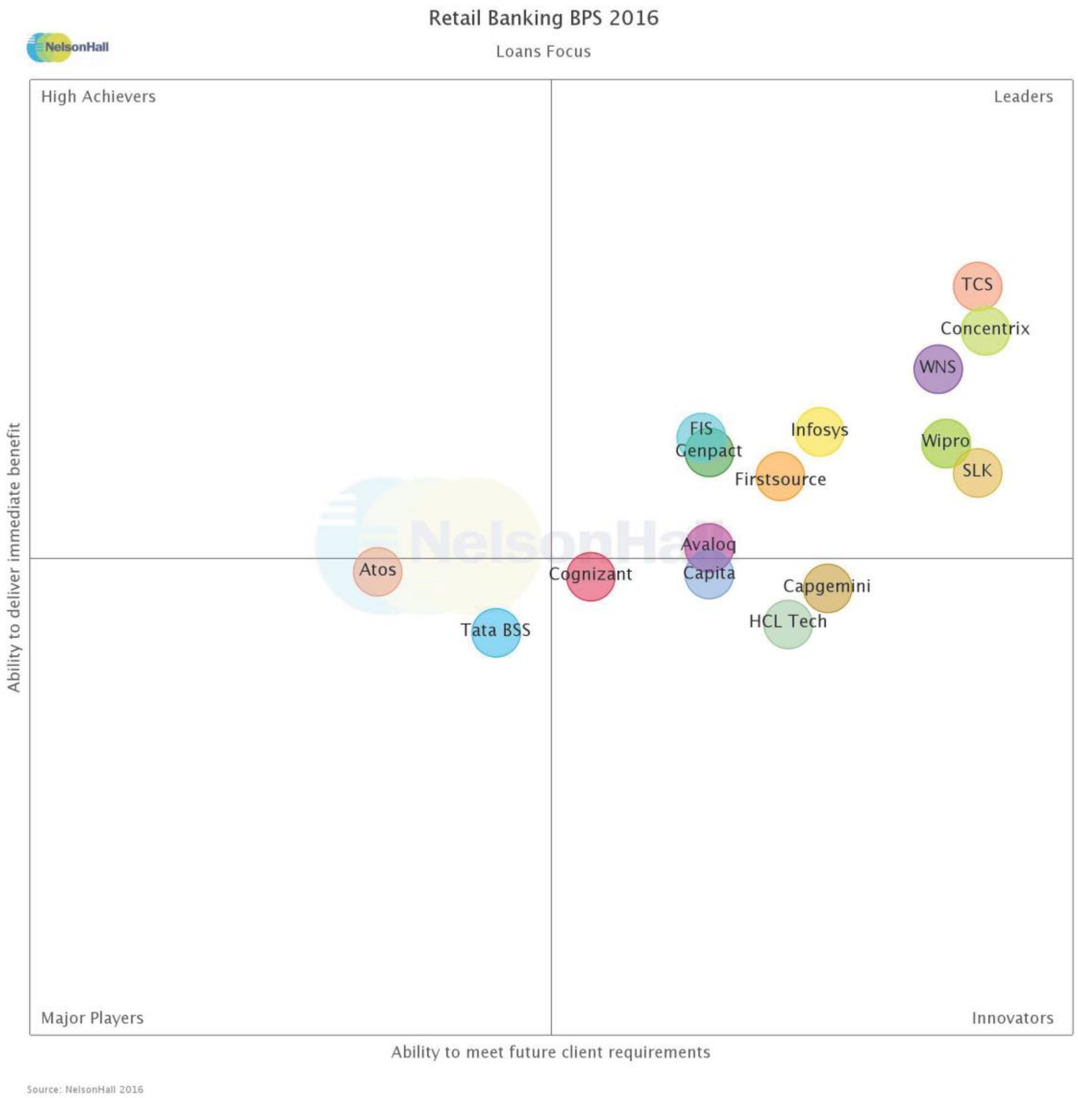
NEAT Evaluation: Retail Banking BPS (Overall)



The *Overall* market segment reflects TCS' overall ability to meet future client requirements as well as delivering immediate benefits to Retail Banking BPS clients.

Buy-side organizations can access the Retail Banking BPS NEAT tool (Overall) here.

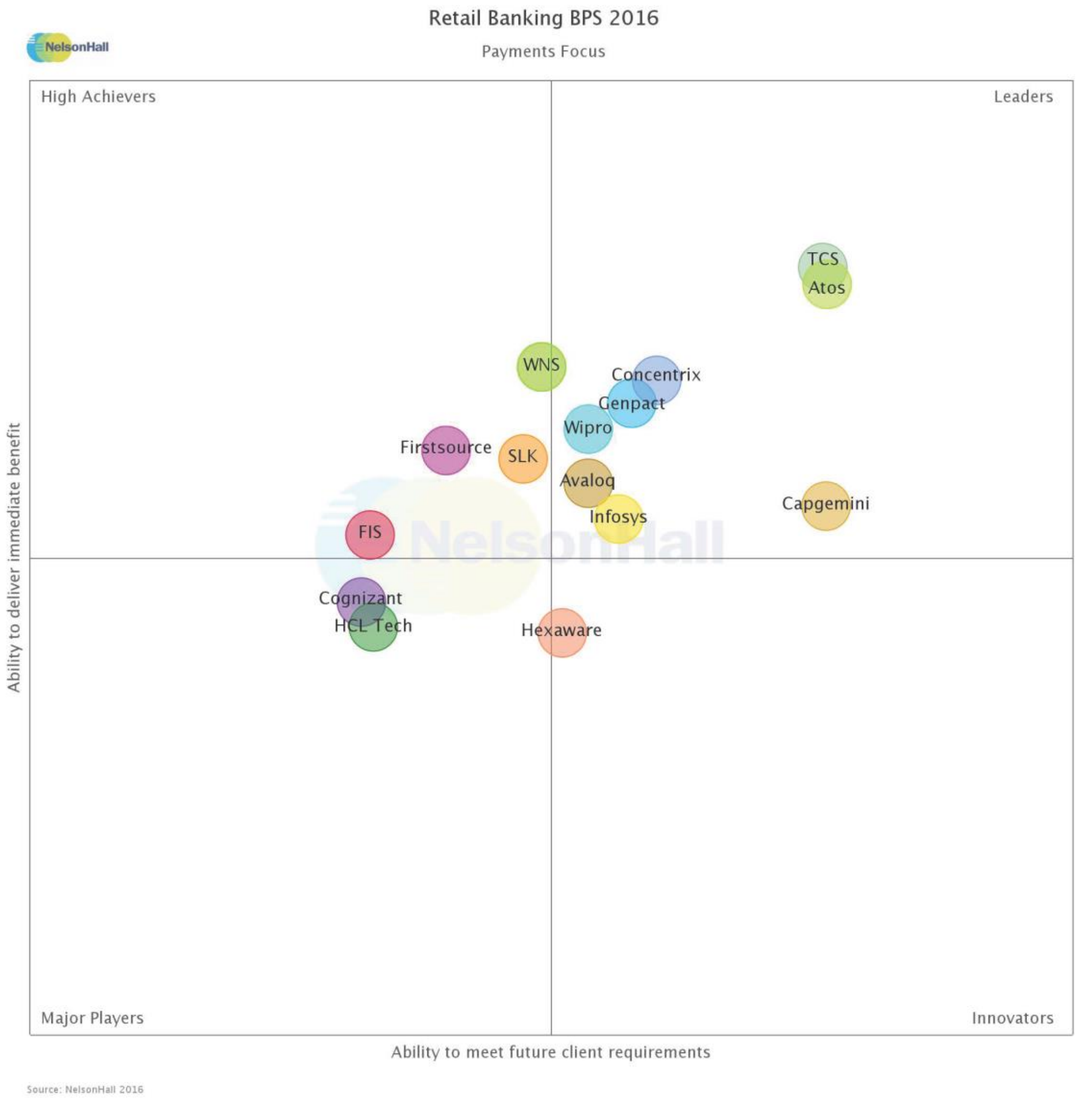
NEAT Evaluation: Retail Banking BPS (Loans Focus)



The *Loans Focus* market segment reflects TCS' ability to meet future client requirements as well as delivering immediate benefits to Retail Banking BPS clients with a specific focus on Loans.

Buy-side organizations can access the Retail Banking BPS NEAT tool (Loans Focus) here.

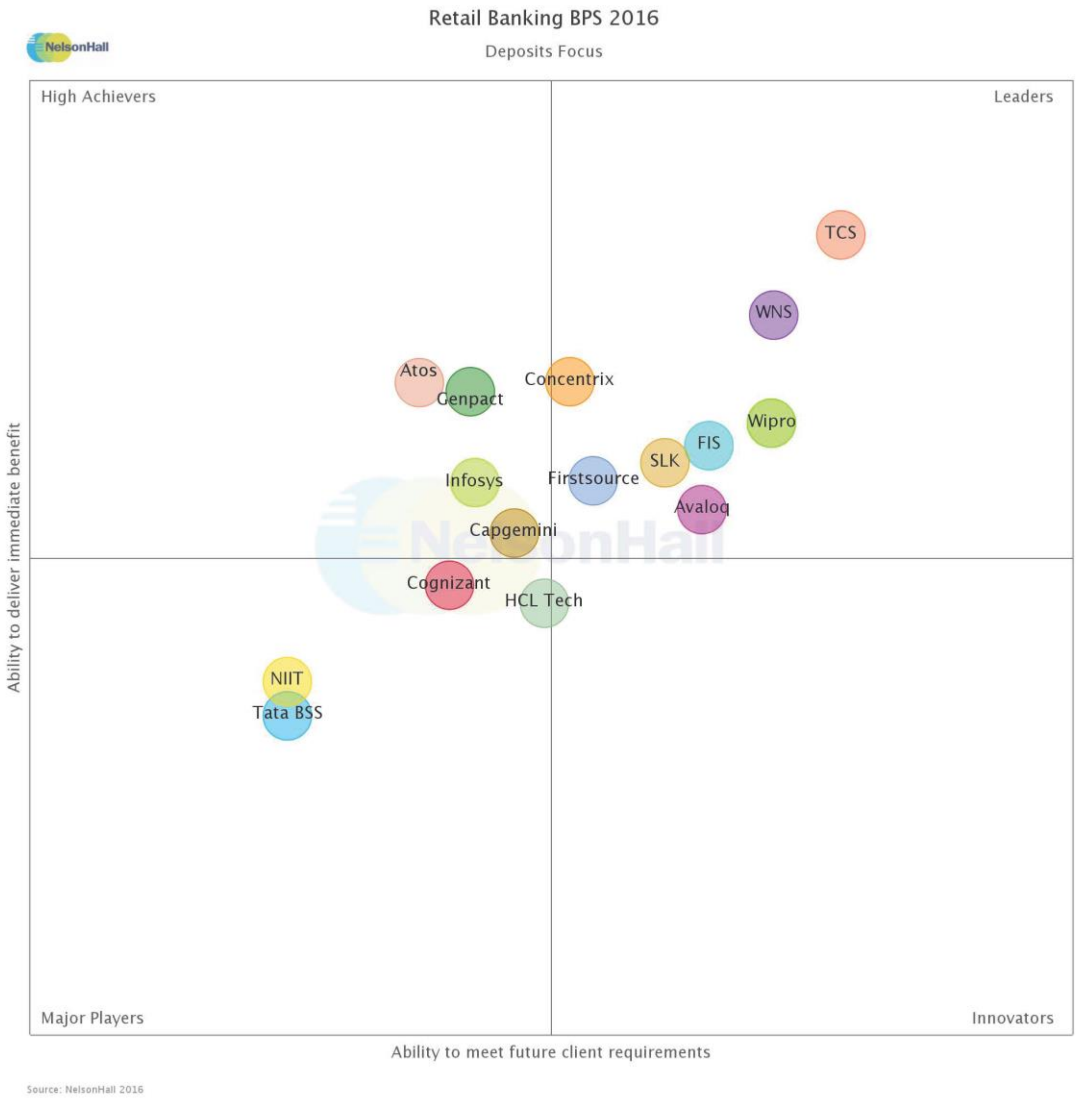
NEAT Evaluation: Retail Banking BPS (Payments Focus)



The *Payments Focus* market segment reflects TCS' ability to meet future client requirements as well as delivering immediate benefits to Retail Banking BPS clients with a specific focus on Payments.

Buy-side organizations can access the Retail Banking BPS NEAT tool (Payments Focus) here.

NEAT Evaluation: Retail Banking BPS (Deposits Focus)



The *Deposits Focus* market segment reflects TCS' ability to meet future client requirements as well as delivering immediate benefits to Retail Banking BPS clients with a specific focus on Deposits.

Buy-side organizations can access the Retail Banking BPS NEAT tool (Deposits Focus) here.

Vendor Analysis Summary for TCS

Overview

TCS has ~21k FTEs working in Retail Banking BPS that includes lending, deposits, cards and payments, and delivers service from the following fourteen delivery centers, as well as onsite with clients:

- Chennai
- Kolkata
- Gurgaon
- Delhi
- Gandhinagar
- Pune
- Mumbai
- Cincinnati
- Midland
- Doha
- Manila
- Santiago, Chile
- Quito, Ecuador
- Guadalajara, Mexico.

Chennai, Kolkata, and Gurgaon are TCS' primary delivery centers for Retail Banking BPS. Delivery employees are based 85% offshore and 15% onshore.

TCS' Retail Banking business supports all major geographies. Key geographies supported, by line of business, are:

- Mortgage:
  - NA – 57%
  - APAC – 14%
  - LATAM – 11%
  - EMEA – 18%
- Retail Banking and Cards:
  - NA – 19%
  - APAC – 11%
  - LATAM – 54%
  - MEA – 7%
  - UK – 5%
  - Europe (excluding U.K.) – 4%

Financials

The breakdown of TCS' Retail Banking BPS revenues by activity is:

- Banking and Cards: 37%
- Mortgages: 32%
- Analytics and Insights: 5%
- Change Management: 8%
- Customer Experience Management: 17%
- Enterprise Services (FAO, HRO, SCM, and LPO): 1%

Strengths

- Experience with global banking clients, including ownership of previously captive operations which bring both experience and breadth of processing
- Custom banking platform (BaNCS) which is useful for small and mid-tier banks, Tier 1 banks in emerging markets, and emerging technologies (such as mobile)
- Established onshore delivery presence, especially in the U.S. and U.K.

Challenges

- Low adoption to date of platform based BPS in small and mid-tier banks
- Lack of growth of business in Asia outside the Indian market (especially with mature markets)
- It delivers a broad range of Retail Banking services for clients, but has not productized these capabilities into a comprehensive Retail Banking offering.

Strategic Direction

TCS has had a longstanding commitment to the Retail Banking industry. It has grown its Retail Banking BPS business from basic transaction processes (e.g., reconciliation and collections) to broad-based industry-specific processes (e.g., account and transaction management, lending). Much of this transition was enabled initially by working with Citibank to set up eServe; and then by the acquisition of Citibank's eServe, which provided experienced operations managers with internal exposure to bank priorities and practices.

TCS' strategy has been to acquire operational delivery capabilities in Retail Banking BPS from Tier 1 institutions such as:

- 2005: Financial Network Services (FNS) of Australia
- 2005: Comicrom of Chile (and Latin America)
- 2008: Citigroup Global Services (previously eServe)
- 2013: Alti SA IT services for Continental European firms, including banks.

In recent years, TCS has changed its focus from client-specific BPS to developing digital capabilities for clients, including retail banks. These capabilities help TCS to create multi-tenant BPS offerings which can leverage shared overheads to deliver lower costs.

This allows clients to:

- Address the challenges and costs of increased regulations
- Introduce new offerings to market or enter new markets
- Exit offerings and markets at little cost.

Ultimately, TCS wants to set up several Retail Banking BPS utilities for clients which would provide service on a BPaaS basis. TCS is able to draw on IP and domain expertise that came with the acquisition of Citibank's CGSL delivery assets, providing experienced operations managers with internal exposure to institutional practices.

TCS' focus for the upcoming year will be on enhancing its core capabilities with functionality enabling support for emerging segments of the Retail Banking industry, including:

- Introducing services to reduce voice interaction with banks by pushing customers to lower cost channels and self-service
- Improving process execution efficiency with RPA and analytics
- Introducing tools to improve bank efficiency (e.g., fraud/disputes tool, and mobile sales tool)
- Implementing AML utility to support lower cost compliance with new regulations.

Outlook

TCS' global presence and its breadth of Retail Banking BPS services position it well to cross-sell business to Tier 1 global financial institutions and regional banks. It now needs to expand its BPS bundle with Tier 1 clients, beyond the top five clients, in order to grow revenues quickly. Regional banks will require the addition of new clients to grow its revenues quickly in that market tier.

The third segment on which TCS is focusing is specialty lenders and payments, where it sells services in a geography to a market participant (i.e., lender or merchant). The large number of target clients in a market makes market penetration important for cost competitiveness and brand awareness. TCS has good penetration in its chosen markets for payments, but needs to drive new client acquisitions in both payments and lending to cement its cost delivery advantage, as cost competition moves from labor based arbitrage based to scale delivery based.

TCS has a combination of domain and technological expertise which allows it to deliver Retail Banking services for a larger operational footprint than most competitors and specialist vendors. When it builds its BPaaS offerings, these should be the catalyst for TCS to successfully penetrate the mid-tier Retail Banking market.

TCS should be able to continue to grow its Retail Banking BPS business in the 8% to 12% range for the next two years, by pursuing these initiatives in this period of rapid change in the industry.

Over the next 24 months, TCS should be able to grow its Retail Banking BPO business by:

- Targeting global banks looking to consolidate operations across geographies
- Targeting emerging country local banks with platform-based BPO; this has to be undertaken selectively by country. Key countries include India, Australia, Continental Europe and the Middle East
- Up-selling existing U.S. based clients on additional services.

Retail Banking BPS: Market Summary

Overview

Retail Banking BPS is a large scale, mature business with high adoption by tier 1 banks in mature markets, and low adoption by mid/small tier banks or all banks in emerging markets. Current adoption is from global banks, with single tower BPS engagements. Vendors are delivering elemental processes focused on disputes, reconciliation, and data management, from offshore centers.

The top drivers of Retail Banking BPS are:

- Mature markets: lack of market growth (i.e. new customers) has reduced ability to share overheads across larger revenue base. Banks look for support to harvest optimum value from a stagnant customer base. Also, younger customers (still a small part of the opportunity) prefer to engage banks in a non-legacy fashion, which requires non-bank support to implement
- Emerging markets: high cost of entry and variation across low volume markets drives the need for low cost third party support. Third party shared services amortize the costs of new market entry (and where possible provides local market knowledge) and aggregates volumes to benefit from scale.

Pricing is rapidly shifting from per FTE (~60% of market) to per transaction (~40% of market). Transaction pricing is preferred where a vendor provides capital based BPS (e.g. infrastructure, software, or network). Retail Banking BPS engagements are increasingly requiring ITS services, which use per FTE or fixed price methods.

Buy-Side Dynamics

The Retail Banking BPS market is established in mature markets, especially the U.S., and U.K. Drivers include:

- Affordable quality: improve accuracy, reduced TAT, and access to labor arbitrage (~30%-70% savings)
- Compliance: BPS vendors bringing in project labor as needed and ongoing best practices. Compliance has been the focus for past five years
- Shift from risk to transaction based products requires much lower cost of delivery at any volume
- Need to increase revenues to offset margin declines, by shifting from product to customer focus including customer value maximization (mature markets) and customer acquisition (emerging market).

Tier 1 bank and service vendors remain the primary adopters (~90%+ of revenues) with support for single banking product lines e.g. loans, deposits, payments) accounting for ~65%+ of revenues, while single country services account for 75%+ of revenues.

Clients are typically buying:

- Manual review, remediation, and analysis of assets/liabilities/entities, data, and documents

- Process optimization to improve efficiency, accuracy, and meet deadlines.

Market Size & Growth

NelsonHall estimates the size of the Retail Banking BPS market to be ~$26.6 bn in 2015, and that it will grow at 2.6% per year in the period 2015 to 2020.

The Retail Banking BPS market is led by its oldest market North America, which accounts for ~57% ($15,200m) of client spend and is growing at 2.5% over the forecast period. Europe accounts for ~25% ($6,700m) of client spend and is growing at 2.3% over the forecast period. ROW is moving rapidly from an emerging to established market status in Retail Banking BPS, with ~18% of client spend ($4,700m). ROW will grow 3.2% per year over the same period.

Success Factors

The critical success factors for Retail Banking BPS vendors are the abilities to:

- Standardize and consolidate Retail Banking process delivery across multiple markets and entities/products
- Re-engineer across sub-processes incorporating RPA and AI to improve global efficiency
- Reduce error rates and meet deadlines (mostly using automation)
- Deliver cost reduction: initially 25%+; overall cost reductions of ~30% - ~70% over five years on a variable volume basis
- Offer new technology based services including BPaaS platforms, RPA tools, self-service tools, omni-channel, and tools to pull data from legacy systems (asset/liability).

Vendors also need to expand their coverage to regional, community, and startup banks, which require a different set of services (broader set of industry standard services). Similarly vendors need to provide support for new mass affluent products such as self-service payments, conforming loans and online only deposits. This requires high automation, multi-channel access, and high compliance capabilities.

All FIs need to increase regulatory reporting and standardization of processing, under conditions of unclear regulations, and in the long run may allow the reuse of IP across borders, unlike today. The current focus is on AML/KYC/FATCA, which impacts account opening and customer onboarding.

Increasing their process footprint within existing clients requires vendors to increase proximity to clients (i.e. expand onshore delivery capabilities for certain processes).

Outlook

Vendors are now focusing on developing technology to drive omni-channel access, scale cost efficiency, and standardize operations, and are beginning to target regional/community banks with BPaaS-based services. Broad trends include:

- Greater emphasis on platform and RPA-based services to assist clients in driving operations consolidation and improved data management
- Development of sales/marketing Retail Banking BPS, with a focus on omni-channel and social media

- Increasing focus on leveraging greater analytic insight from transactional services.

In future, vendors will:

- Expand into regional banks, specialty/startup banks, and emerging markets
- Support tier 1 banks in expanding their channel initiatives and conversion to customer-centric management.

Clients will increasingly purchase:

- Processes with increasing data/transaction support, document management, compliance, omni-channel delivery, and support for entire operations for smaller/startup banks
- BPaaS to share overhead costs (e.g. compliance, reconciliation) and apply best practices for Fintech.

Pricing is rapidly shifting from per FTE (~60% of market) to per transaction (~40% of market). Transaction pricing is preferred where a vendor provides capital based BPS (e.g. infrastructure, software, or network).

NEAT Evaluation for Retail Banking BPS

NelsonHall's (vendor) Evaluation & Assessment Tool (NEAT) is a method by which strategic sourcing managers can evaluate outsourcing vendors and is part of NelsonHall's *Speed-to-Source* initiative. The NEAT tool sits at the front-end of the vendor screening process and consists of a two-axis model: assessing vendors against their 'ability to deliver immediate benefit' to buy-side organizations and their 'ability to meet client future requirements'. The latter axis is a pragmatic assessment of the vendor's ability to take clients on an innovation journey over the lifetime of their next contract.

The 'ability to deliver immediate benefit' assessment is based on the criteria shown in Exhibit 1, typically reflecting the current maturity of the vendor's offerings, delivery capability, benefits achievement on behalf of clients, and customer presence.

The 'ability to meet client future requirements' assessment is based on the criteria shown in Exhibit 2, and provides a measure of the extent to which the supplier is well-positioned to support the customer journey over the life of a contract. This includes criteria such as the level of partnership established with clients, the mechanisms in place to drive innovation, the level of investment in the service, and the financial stability of the vendor.

The vendors covered in NelsonHall NEAT projects are typically the leaders in their fields. However, within this context, the categorization of vendors within NelsonHall NEAT projects is as follows:

- **Leaders**: vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high capability relative to their peers to meet client future requirements
- **High Achievers**: vendors that exhibit a high ability relative to their peers to deliver immediate benefit but have scope to enhance their ability to meet client future requirements
- **Innovators**: vendors that exhibit a high capability relative to their peers to meet client future requirements but have scope to enhance their ability to deliver immediate benefit
- **Major Players**: other significant vendors for this service type.

The scoring of the vendors is based on a combination of analyst assessment, principally around measurements of the ability to deliver immediate benefit; and feedback from interviewing of vendor clients, principally in support of measurements of levels of partnership and ability to meet future client requirements.

Exhibit 1

'Ability to deliver immediate benefit': Assessment criteria

Assessment Category	Assessment Criteria
Offering	Range of Retail Banking Processes - Loan/Mortgage Range of Retail Banking Processes - Deposit/Core Range of Retail Banking Processes - Payments Perception Of Value Deposit Perception of Value Loan Perception of Value Payments Roadmap and/or Benchmark
Delivery	Suitability Of Delivery Reengineering Of Manual Processes Hiring/Training/Certifications Of Staff RPA/Automation Delivery Capability in Support of U.S. Delivery Capability in Support of EU Delivery Capability in Support of ROW
Presence	Client Process Transformation Scale of Retail Banking Operations: North America Scale of Retail Banking Operations: Europe Scale of Retail Banking Operations: ROW
Benefits Achieved	Cost Savings TAT-Deadlines met Operational Flexibility Pricing ITS/Platform Transformation Revenue Generation Speed To Market Ability To Standardize Operations

Exhibit 2

'Ability to meet client future requirements': Assessment criteria

Assessment Category	Assessment Criteria
Risk Factors	Perception Of Value Financial Rating Commitment To Deposit Commitment To Loan Commitment To Payments
Suitability To Deliver Future Benefits	Mechanisms In Place To Deliver Service Innovation Extent Client Perceives Delivery Innovation Has Been Delivered Suitability For Deposits Suitability For Loans Suitability For Payments Impact Of Benchmark And Roadmap Methodology

For more information on other NelsonHall NEAT evaluations, please contact the NelsonHall relationship manager listed below.

research.nelson-hall.com

Sales Enquiries

NelsonHall will be pleased to discuss how we can bring benefit to your organization. You can contact us via the following relationship manager:

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