NEAT EVALUATION FOR TCS:

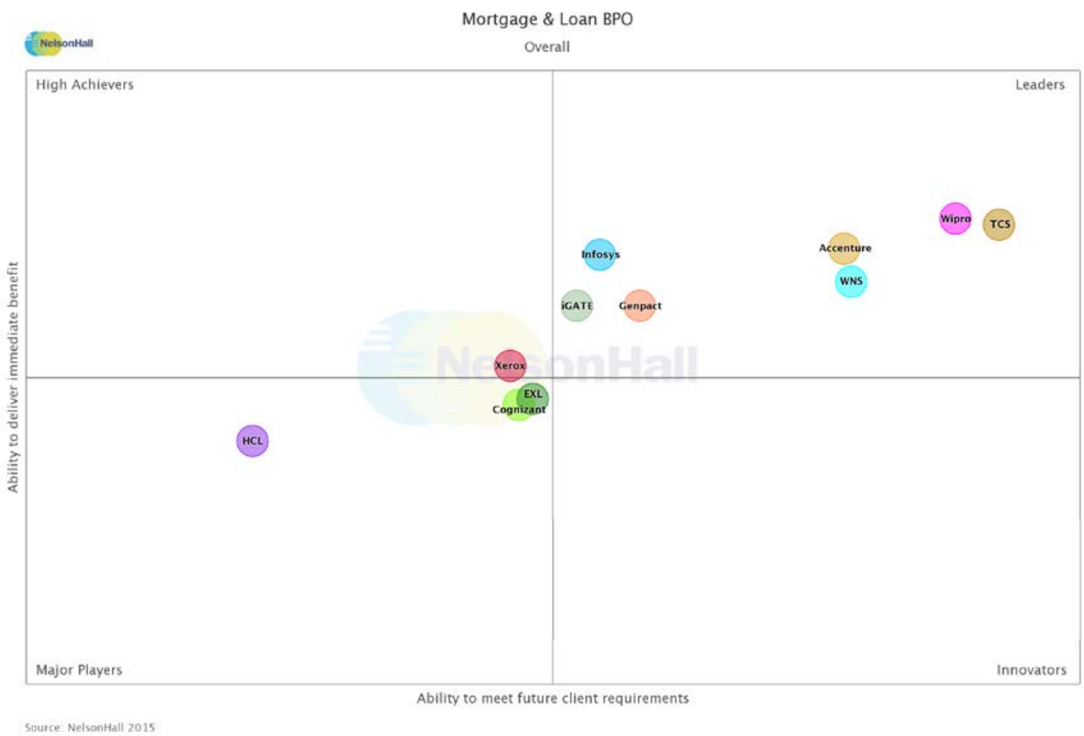
Mortgage and Loan BPO

Market Segment: Overall

This document presents TCS with the NelsonHall NEAT vendor evaluation for Mortgage and Loan BPO (Overall market segment). It contains the NEAT graph of vendor performance, a summary vendor analysis of TCS in Mortgage and Loan BPO, and the latest market analysis summary for Mortgage and Loan BPO. An explanation of the NEAT methodology is included at the end of the document.

The vendors evaluated are: Accenture, Cognizant, EXL, Genpact, HCL Technologies, iGATE, Infosys, Tata Consultancy Services, Wipro, WNS Global Services and Xerox.

NEAT Evaluation: Mortgage and Loan BPO (Overall)



Buy side organizations can access the Mortgage and Loan BPO NEAT tool here.

Vendor Analysis Summary for TCS

Overview

TCS started in M&L BPO services in 2002, with originations processing for Citibank. At that time Citibank wanted to expand lending in mortgages (both first and second mortgages), but did not want to invest in permanent originations processing capacity to support that line of business. By 2004, Citibank wanted to increase its value from the engagement beyond capacity to cost savings; to support that effort, TCS started delivering M&L BPO (in 2004) to support retail, commercial, and correspondent mortgage originations for first and second mortgages. By 2008, TCS had expanded its service delivery for M&L BPO outside of India, by acquiring onshore U.S. delivery capacity.

TCS BPO has >8,300 FTEs working in M&L BPO, and delivers service from seven delivery centers:

- Mumbai
- Chennai
- Gandhinagar
- Kolkata
- Cincinnati
- Guadalajara
- Manila.

TCS staffing is 90% based in the Indian locations, with the remaining 10% of staff either onshore or in non-Indian offshore locations.

Employees are evenly allocated to the following lines of business:

- Origination
- Administration
- Default management.

Annually, TCS processes:

- Value of loans originated: ~$80bn.

TCS' primary targets for M&L BPO are:

- Global retail banks headquartered in the U.S., Canada, India, Australia, and Europe
- Mortgage service providers in India, the U.S., and Europe
- Regional banks in the U.S., LATAM, Middle East, and Australia.

In future, TCS will continue to target global institutions, while expanding its targeting to lenders which are regional in scope. The current focus in M&L BPO is on default management, and originations.

TCS has eighteen primary M&L BPO clients, of which fourteen are mortgage clients and four are auto loan clients, including:

- Citibank: started 2002
- Leading U.S. financial institutions: six clients
- Largest independent mortgage bankers in U.S.
- Regional U.S. settlement services provider
- Leading Canadian bank
- Leading U.S. mortgage insurance provider
- Largest non-bank financial services provider in India
- Top ten south American bank
- Four auto lenders:
  - Large U.S. financial institution
  - Top five Australian bank
  - Leading bank in Qatar
  - Leading bank in the U.S.

Financials

TCS' M&L BPO revenues are split by product line, as follows:

- Mortgage: 90%
- Auto loan: 10%.

TCS' M&L BPO revenues are split by process, as follows:

- Origination: 33%
- Administration: 25%
- Default management: 42%.

TCS' M&L BPO will generate an estimated $210.0m in 2014; a growth of 30.0% over the prior year.

Strengths

- Willingness to acquire captive operations and run them as an engagement for clients
- Proprietary banking platform to provide BPaaS M&L services for regional and smaller lenders
- Established onshore delivery presence in the U.S., Mexico, and Chile
- Extensive experience with mortgage process re-engineering of large operations, to provide flexibility and automation of manual processes.

Challenges

- TCS needs to expand its presence in M&L BPO outside North America and Australia. Key areas to grow include LATAM, Continental Europe and the Middle East
- Demonstrate value for its M&L BPaaS with early clients to drive demand for adoption. TCS will need to move quickly to arrive at market, as other vendors are working on this right now
- Current experience with large clients limits experience with a wider range of client needs, especially smaller lenders.

Strategic Direction

TCS' strategy is to offer M&L BPO where it can provide re-engineering services to reduce costs and increase flexibility. 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 with little cost.

Ultimately, TCS wants to set up an M&L BPO utility for clients, which would provide service on a BPaaS basis and would give clients flexibility in buying M&L services to match the cyclical nature of the loan business. TCS is able to draw on IP and domain expertise that came with the acquisition of Citibank's eServe, which provided experienced operations managers with internal exposure to bank priorities and practices.

The primary focus for the upcoming year will be in pursuing:

- Regional expansion into Europe, LATAM, and Asia
- Creation and rollout of BPaaS M&L BPO services
- Implementation of compliance with new regulations
- Pursuit of regional lenders and mortgage portfolio investors.

Mortgage and Loan BPO: Market Summary

Buy-Side Dynamics

The mortgage and loan BPO market is well established in mature markets, especially the U.S., and U.K. Drivers include:

- Compliance and operational flexibility: BPO vendors bring in project labor as needed, ongoing best practices and standardization
- Cost cutting: reduced TAT for originations, default resolution, and portfolio acquisition (~30% to 70%), delivering labor arbitrage (~20% to 40% savings), and improved accuracy (~10%).

The primary client profile is:

- Tier 1 banks and M&L service vendors selling to residential mortgagees remain the primary adopters (~90%+)
- Single country support for origination, servicing, and elemental services remains the primary service bundle (~85%+ of revenues).

Clients are buying service bundles including:

- Primarily manual paper processing and acquisition and review of third party supplied documentation
- Process optimization to improve efficiency, accuracy, flexibility, and reduce TAT.

Pricing remains overwhelmingly on a per FTE basis (70%). Cost take out through labor arbitrage remains a key driver behind the decision to outsource, and service providers now support clients from a wide variety of low cost near and offshore delivery centers in order to achieve this. Offshore delivery remains the prime driver of cost.

There are other significant drivers for outsourcing buy decisions. The top drivers of mortgage and loan BPO are:

- Improved compliance to adapt to changing regulations
- Data remediation requirements (project work)
- Low process standardization and high error rates
- Reduced turnaround time (TAT) to meet shorter industry processing deadlines
- Lack of process automation or systems to adequately support processes.

For organizations preparing to renew mortgage and loan BPO contracts (second generation), the key challenges focus on how to drive further operations consolidation and standardization/minimize localization of processes through CoEs.

Market Size & Growth

NelsonHall estimates the size of the mortgage and loan BPO market to be ~$9,150m in 2014, and that it will grow at 3.6% in the period 2014 to 2019.

The mortgage and loan BPO market remains dominated by North America, which accounts for ~66% ($6,000m) of client spend and is growing at 2.6% over the forecast period. EMEA and ROW are moving rapidly from an emerging to established market status in mortgage and loan BPO; EMEA is expected to grow at 4.0% over the forecast period, APAC at 7.6%, and LATAM at 2.7% over the same period.

Success Factors

The critical success factors for mortgage and loan BPO vendors are:

Domain knowledge:

- Ability to provide consulting support helps develop an M&L roadmap, especially for regulations
- Key multi-client challenges (e.g. compliance) are best addressed by third party vendors with access to best practices and early adopters.

Processing skill:

- Ability to balance workloads across various components of the M&L environment to maintain long run operational effectiveness
- Cost reductions: Initially >20%; continuing cost reductions of ~20%-~50% over five years
- Standardizing and consolidating process delivery across multiple markets and entities/instruments
- Ability to convert CAPEX to OPEX by making upfront investment in operations and by taking some volume risk
- Ability to convert FTE based pricing (currently industry standard) to transaction based, as utilities are adopted
- Understanding interaction between IT and process domains to support change management.

Proprietary IT services:

- Building automation into manual processing services (e.g. consulting to automate processes, or paperless loan docs)
- Ability to work with key technology vendors to create useful BPO ecosystems.

Key success factors for clients include:

Strategy development:

- Establish a roadmap to increase revenues (new loan types, new markets, and/or greater wallet share of existing customers), while minimizing capital allocation to lending operations. Flexibility for growth and shrink must be built into BPO contracts from the start to anticipate business changes

- Identify relevant vendors for each major loan process (origination, servicing, default management, and secondary market services). Origination fulfillment and secondary market services require vendors which can consume very large amounts of data quickly and then remediate and analyze the data. Default management and servicing require vendors which can execute transactions quickly, compliantly, and accurately.

Execution:

- Operational flexibility and declining cost of delivery are the two top priorities in selecting a M&L BPO vendor
- Global operational standardization and consolidation are required as regulations synchronize.

Vendor selection:

- Key vendor attributes: ITS, ability to commit capital, compliance expertise and customer experience for origination, servicing, default management, and/or secondary market services
- Reduced internal client staffing requires vendors to be able to suggest operational change and improvement to clients. Look for centers of excellence, consulting and shared service environments.

The key challenges faced in M&L BPO include:

External challenges:

- Regulations: this is the primary challenge today. Banks need to increase regulatory reporting and standardization of processing, under conditions of unclear regulatory implementation. At the same time, regulations are synchronizing across borders, which in the short run requires more adaptation by vendors, but in the long run may allow the reuse of IP across borders, unlike today
- New clients: traditional clients have been tier 1 lenders. The new clients are much smaller, requiring greater investment from the vendors in an engagement and a broader set of operations services
- New markets: lending is growing in emerging markets, and is stagnant to falling in mature markets. However, in addition to different local regulations, each market has differing cost structures, competitors, and product features
- New loan products: delivery of fluctuating volumes for loan types (e.g. auto, student) with fundamentally different customers, characteristics, and regulations, requires continuous employee training and platform enhancement
- Changes to business models: banks generally understand that they must reduce or exit businesses with subpar performance. However, the shift to customer lifecycle management is driving banks to find ways to continue to satisfy lending requests, despite not wanting to be in the lending business. Vendors need to be able to manage delivery of a service which is undesirable (for universal banks), but necessary. Vendors need to be able to deliver a cost effective service, where the bank is unwilling to pay for increased value.

Internal challenges:

Operational:

- Flexibility: volume swings, both cyclical and secular, across products and processes (e.g. default, origination) make scaling, planning and managing a challenge for vendors
- Accuracy: multiple credit/collateral data feeds are notoriously divergent in valuations. Working with vendors, identifying and scrubbing best feeds while handling higher volumes (especially in secondary market services) is required
- Nearshore/onshore: M&L BPO clients want to move to onshore operations. In mature markets regulators are increasing the pressure for onshore, and lenders in emerging markets usually demand onshore presence. Finally, up-selling additional process outsourcing requires greater onshore delivery in mature markets; vendors need to support this move to remain relevant
- Flexibility: volume swings, both cyclical and secular, make scaling, planning and managing a challenge for vendors.

Standardization of processes:

- Hosting/systems integration/consolidation: lenders are reducing internal staff, requiring more support for combined IT/BPO offerings. Vendors are challenged to take over client environments to reduce costs and standardize processes
- Customer treatment: regulators and managements are requiring consistent treatment for fairness and reduced cost of management. Standardizing across multiple markets and products remains a challenge in addressing local regulations.

Key initiatives in new offerings cover five areas including:

- Expanded coverage of specialty loans: to cover non-residential loan types (commercial, auto, student loans). The key is databases and analytics, to make specialty loans easier to understand and manage
- Secondary market services: facilitating portfolio acquisition with better portfolio evaluation tools and services. Ability to conduct loan evaluation faster on a massive scale
- Support for new market entry: facilitating new market entry (primarily emerging markets). Offerings are focused on origination services, using automation to deliver low cost and operational flexibility
- Process improvement for origination: increase automation and standardization of processes. Increase flexibility to add new loan products to operations
- Process improvement for loan administration: use of portals and analytics to allow greater insight into processing of individual loans.

NelsonHall tracked new offerings (last 24 months) show: 100% of new offerings have embedded compliance capabilities, offerings have embedded IT 95%, and embedded analytics 90%.

NEAT Evaluations for Mortgage and Loan BPO

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
M&L BPO offerings	Range of M&L BPO: origination related Range of M&L BPO: servicing services Range of M&L BPO: default management Range of M&L BPO: secondary services Range of origination services Range of servicing processes Range of default management processes Range of secondary processes Perception of value: origination Perception of value: servicing Perception of value: default management Perception of value: secondary services Analytics Compliance support Risk management Benchmarking and roadmap support
M&L BPO delivery	Delivery capability in support of U.S. Delivery capability in support of Europe Delivery capability in support of Rest of World Re-engineering of manual processes Application of M&L platform technology: origination Application of M&L platform technology: servicing Application of M&L platform technology: default management Application of M&L platform technology: secondary services
M&L BPO presence	Scale of M&L operations: overall presence Scale of M&L operations: U.S. presence Scale of M&L operations: Europe presence Scale of M&L operations: Rest of World presence
M&L BPO benefits achieved	Cost savings TAT reduction Operational flexibility Pricing flexibility

***Exhibit 2*: 'Ability to meet client future requirements': Assessment criteria**

Assessment Category	Assessment Criteria
Risk factors	Perception of T&Cs and value for money Financial rating Commitment to origination BPO Commitment to servicing BPO Commitment to default management BPO Commitment to secondary services BPO Delivery of service innovation
Suitability to deliver future benefits	Perceived impact as a process change agent Perceived ability to support geographic expansion Mechanisms in place to deliver innovation Perceived ability to meet future client needs: origination Perceived ability to meet future client needs: servicing Perceived ability to meet future client needs: default management Perceived ability to meet future client needs: secondary services Perceived impact of benchmarking and roadmap support

This provides one of the five separate NEAT market segment evaluations for Mortgage and Loan BPO:

- Overall
- Default management BPO
- Origination BPO
- Secondary market services BPO
- Servicing BPO.

For more information on these and other 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:

Steven Taelman at steven.taelman@nelson-hall.com