fs viewpoint

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The United States as a low-cost location and the implications for financial institutions

pwc

Point of view

Sourcing locations for financial institutions

Changing market conditions have overturned preference for and the suitability of sourcing locations for financial institutions. This leaves the US in a relatively better position for consideration as a low-cost location than it has been in years.

- Many traditional locations have undergone profound macroeconomic and geopolitical changes (e.g., wage inflation, currency appreciation/depreciation, political instability, and skills shortages), undercutting their long-standing dominance as a market of choice for sourcing. At the same time, the increasing focus on moving beyond information technology services to business operations places a premium on skills availability, political stability, and geographic proximity – all positives for lower-cost locations in developed countries. We believe the US, in particular, will benefit from this trend.

The traditional "offshore" business model is no longer the best default option.

- While cost arbitrage will continue to exist to some extent for the foreseeable future, heightened awareness of geopolitical and privacy risks, constraints on the low-cost model, and mixed client experiences tend to reduce the potential efficacy of the traditional offshore model. While cost pressures on offshore centers may be mitigated by downturns in the global economy, socioeconomic pressures are likely to maintain some inflationary pressures on labor rates in traditional low-cost locations. Recent adverse events, with some providers being "blacklisted," have led to negative sentiment regarding the outsourcing industry overall.

As offshore markets mature, they are competing for talent and sustaining record wage increases.

- Average wages in India, for example, have appreciated more than 30% in the last 18 months, with staff turnover in major offshore firms and captives. At the present time, it is uncertain what impact the accelerating financial crisis will have on wage rates, and recruitment and retention of key people. This is echoed in other markets and centers around the world. We are seeing commercialization, roll-ups, and consolidation of captive offshore processing sites on a global basis in all major markets.

The Financial Services sector

The financial services sector is likely to be severely challenged on costs for the medium term.

- Analysts vary on the extent and duration of the current slowdown in financial services. Tower Group estimates a 12-18 month time frame, while the Tabb Group foresees a more significant restructuring of the sector over a longer duration. Despite these variations, there is consensus that all global markets face challenging times for the medium-term. Leading firms are turning to global sourcing as a source of sustainable cost efficiency and competitive differentiation.

The financial services sector is witnessing unprecedented governmental intervention. As a result, businesses are revisiting their sourcing strategies and are contemplating onshore alternatives.

- The US federal government, along with other major governments, has taken unprecedented steps to stabilize the financial system. These steps have led to significant budget deficits and heightened public attention to the activities of financial institutions. As unemployment rises and the recession continues, the level of government involvement is likely to have a significant influence on key business decisions and may restrict offshore options for financial institutions.

This situation may herald a competitive opportunity for United States financial institutions.

- The US leads the world by a significant margin on broad labor productivity as reinforced by a recent Key Indicators of the Labor Market (KILM) report from the International Labour Organization, a UN agency. According to this report, the average US worker adds US $63,885 of value per year, significantly ahead of second-placed Ireland at US $55,986, attributable in large part to the increased number of hours worked by US workers. With high levels of productivity, a flexible labor market, and a high quality infrastructure, sourcing functions in the US can be more cost effective than expected, especially when compared to other regions such as the European Union.

US and nearshore locations

US and nearshore locations are significantly more attractive than at any other point in history due to factors including an abundance of talented labor and government incentives.

- Overall the economy lost several million jobs in the past 12 months, most of them white collar positions. This has created a surplus of talent, available at competitive salary and benefit levels, for companies to draw upon for sourcing. Additionally, state and local governments are actively promoting existing incentives and subsidies; local governments have been aggressive in creating innovative packages tailored for individual transactions, as evidenced by recent transactions in Alabama and Iowa. These factors, coupled with the advantages of proximity, cultural similarity, and risk mitigation, make US and nearshore locations significantly more attractive than at any other point in history. While leading financial services firms have long had shared service centers in locations such as Baltimore, Buffalo, Jacksonville, and Tampa, we are likely to see the emergence of additional locations with significant potential for supporting the financial services sector.

Current trends

Outsourcing costs—No longer business as usual

Most firms tend to use simplistic per-hour wage differentials as indicators of offshore savings. Furthermore, some firms also make the mistake of applying generalized/low-end pricing metrics to specialized or high-end functions.

However, four personnel-related costs significantly alter the equation:

Wage inflation

According to the US Government's Social Security Administration, between 2001 and 2007 annual US gross wage increases have ranged from about 1% in 2002 to about 4.6% in 2004. Traditional offshore locations have historically seen annual wage increases of 10-15%. While these increases might slow down as a result of the current economic environment, socioeconomic conditions are likely to continue to exert upward pressure on salaries in traditional low-cost locations.

Attrition

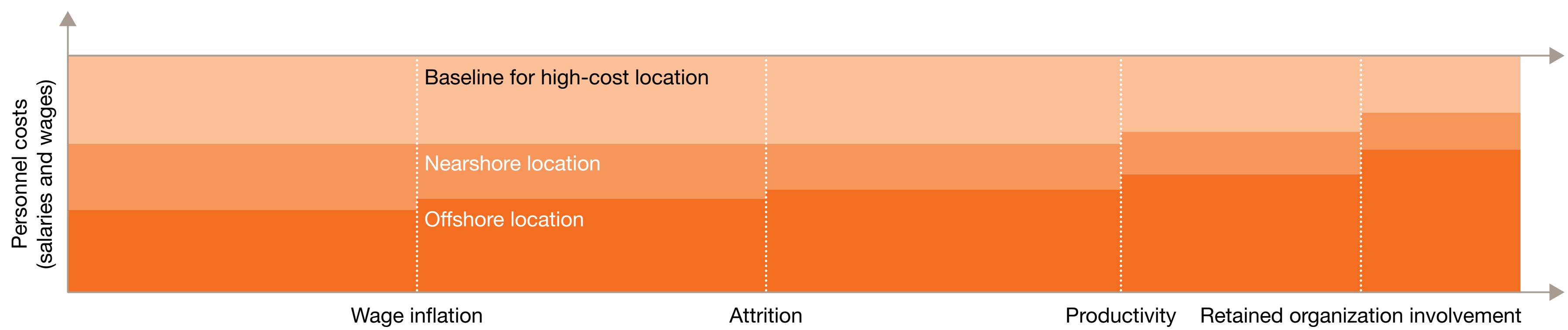
Traditionally low-cost locations, especially those in India, have had significantly higher attrition than in the US. While attrition is expected to be reduced significantly in the short term, it is still likely to be higher than in the US and nearshore locations.

Productivity loss

Other than for the least complex commoditized services, the act of moving processing operations to a nearshore or offshore location tends to have an accompanying loss in productivity. However, relocating to low-cost onshore locations in the US tends to lead to significantly lower productivity loss due to proximity and cultural similarity.

Retained organization involvement

Most outsourcing initiatives plan for the involvement of management at the remote location, and a governance process for interaction with the originating location. However, often overlooked when assessing operations for the nearshore or offshore location is the significant time spent by firm personnel on knowledge transfer and operational activities at the new location.



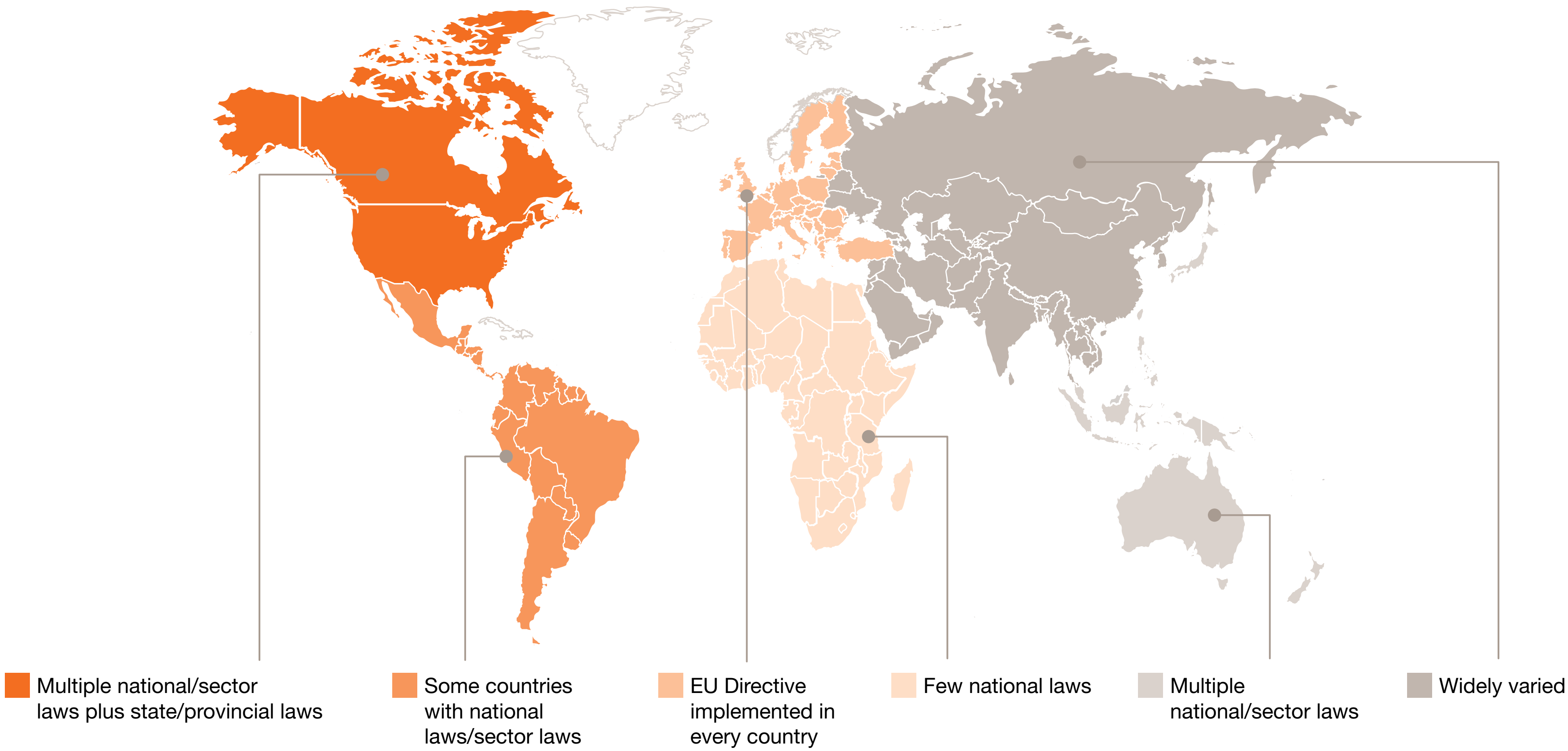
Risk considerations

While most financial services firms have made advances in managing some aspects of operational risk, leveraging remote locations for processes (especially when shared across businesses) introduces additional risks.

Overall risk	Financial institutions should consider all risk factors in the calculation of overall cost for sourcing locations.
Geopolitical risk	The following points should be considered when addressing geopolitical risk: • Stability of country, market, regime, and political environment • Degree of safety or occurrence of violence against international firms • Regulatory risks and uncertainty with politicians • Potential for incentives • Accuracy of data related to geopolitical risks
Concentration risk	Consider reducing exposure by diversifying sourcing locations and vendors. Recent events in the vendor landscape have underscored the need for effective concentration risk management.
Regulatory risk	The regulatory burden for offshore entities is typically higher than for local entities since they have to meet legal requirements in multiple jurisdictions. Further, characteristics of local regulations might make it unfeasible for firms to perform certain operations in their shared service centers.

Risk considerations—Information privacy

The varying nature of privacy requirements across geographies puts added stress on the global sourcing model.



The Government as the single biggest stakeholder

With the US government now the single biggest stakeholder in the US financial services industry, there is increased public scrutiny on firms. This scrutiny, combined with recent large workforce reductions, may make it politically untenable for firms to engage in significant offshore sourcing initiatives despite their benefits.

Firm	Investment in Millions*
Citigroup Inc	50,000
Bank of America Corp	45,000
American International Group Inc	40,000
Wells Fargo & Co	25,000
JPMorgan Chase & Co	25,000
Morgan Stanley	10,000
The Goldman Sachs Group Inc	10,000
PNC Financial Services Group Inc	7,579
U.S. Bancorp	6,599
SunTrust Banks, Inc.	4,850

Sources: US Department of Treasury, Transaction Report dated 02/24/2009

*As of February 20, 2009, based on the US Treasury transaction report dated February 24, 2009. Completed investments, including Capital Purchase, Targeted Investment, Systemically Significant Failing Institutions and Asset Guarantee programs. Does not include Automotive Industry Financing Program. Does not include loans from Federal Reserve or transactions not completed under various treasury programs.

Key Figures

- Firms participating: 523
- Total treasury preferred stock investment completed: over $276 billion
- Fed support programs for financial markets: $1.9 trillion
- Announced job reductions of more than 109,500 across the top 10 recipients of TARP funding

The US is offering unprecedented tax credits and incentives to stimulate business investments.

Key drivers:

- State and local bodies are using statutory tax credits and negotiated economic incentives to induce taxpayers to locate or expand operations in specific jurisdictions, thereby generating tax revenue.
- Credits may be statutorily available based on project specifications.
- Project cost reductions may be obtained through negotiation with state, local, and federal governments, as well as utility providers.

Available credits may include:

- Statutory credits/exemptions
- Employment based tax credits
- Investment tax credits
- Research and development tax credits
- Training tax credits
- Enterprise zone tax credits
- Sales and use tax exemptions

Available incentives may include:

- Cash
- Wage withholding refunds/grants
- Job creation grants
- Training grants
- Industrial development agency
- Sales/property exemptions
- Property tax abatements
- Industrial development bonds
- Public infrastructure grants
- Tax apportionment relief
- Utility incentives

Recent examples of onshore expansion

IBM Plans new center in Iowa—January 15, 2009

- Center to employ up to 1,300 people by 2010.
- Biggest new U.S. facility in 10 years.
- $55 million package from Greater Dubuque Development Corp. including $11.7 million loan with a provision for loan forgiveness.
- Local community colleges to pay $10 million for job training expenses.
- Low rate lease for the site, to be renovated at taxpayer expense of $25 million.

Source: WSJ

Goldman expands Salt Lake City Operation—June 11, 2008

- Facility set up in 2000 expanded to 700 jobs.
- New jobs to cover multiple lines of business: Institutional Asset Management, derivatives, sales and trading, and Goldman Sachs Bank USA.
- $20 million incentive as a tax rebate over 20 years for GS to add 375 jobs paying significantly more than the Salt Lake County median.

Source: Deseret News

Competitive intelligence

Sourcing—Leading versus observed practices.

The following table illustrates the difference between industry sourcing leading practices and what we see in practice across investment/money center banks, regional banks, and asset managers.

Industry leading practices	Industry Observations		
	Global investment/ money center bank	US regional bank	Global asset manager
Leverage current global sourcing portfolio for immediate cost savings	• Considering monetization of current assets (such as captives). • Tactical rationalization of initiatives and vendors.	• Initiated preliminary conversations on leveraging global sourcing. • Restricted usage of low-cost locations to IT functions.	• Expand role of current captives. • Increased use of long term global contracts to reduce costs.
Utilize global sourcing as a strategic initiative with senior management involvement	• Global sourcing decisions made predominantly by IT and operations. • Business leadership provides cost-reduction directives.	• Current environment forcing senior executives to consider global sourcing: viewed as a necessity with cultural implications rather than as a strategic initiative.	• Considered strategic to IT and Operations. • The business drivers continue to be cost reduction and increased standardization.
Develop a balanced sourcing strategy, incorporating onshore, in-country low-cost, nearshore and offshore locations, including the US	• Mostly high cost locations with some India-centric offshoring and limited nearshoring. Limited leverage of US low-cost locations.	• Predominantly in house and in country/state locations.	• Usage of locations in North America, Europe and Asia. • Sourcing decisions made tactically and not as part of an integrated strategy.
Employ a "right placement" business case and decision framework	• No specific framework employed. Decisions made on individual and varied business cases at the business level.	• Considering explorative frameworks. • Broad scope inhibits completion of framework/ approach.	• Right placement framework in place. • Supply and demand side processes and decision frameworks in place.

The following table illustrates the difference between industry sourcing leading practices and what we see in practice across investment/money center banks, regional banks, and asset managers.

Industry leading practices	Industry Observations		
	Global investment/ money center bank	**US regional bank**	**Global asset manager**
Leverage corporate synergies while preserving business unit governance	• Business units have full autonomy in setting up captives and establishing locations.	• Viewed as a back office initiative with key focus being retaining business support at existing levels.	• Process transitioning from business unit to a global sourcing function. • Global sourcing function viewed as facilitator rather than strategic.
Define key drivers for the initiative	• IT, Operations, Finance, HR.	• Information Technology. • Under consideration for retail back office.	• IT and Operations.
Take a portfolio view of global sourcing assets across the enterprise	• Global sourcing assets managed based on cost and performance within IT and operations.	• At a preliminary stage.	• Global sourcing primarily restricted to the back office technology and operations functions. • Traditional third party relationships (sub advisors, fund accountants, custodians) not considered.
Perform periodic reviews against stated management goals	• Review carried out as a part of vendor management. • Reviews are performed as applicable to all units/ geographies.	• At a preliminary stage.	• Reviews performed as part of vendor management process.

The following table illustrates the difference between industry sourcing leading practices and what we see in practice across investment/money center banks, regional banks, and asset managers.

Industry leading practices	Industry Observations		
	Global investment/ money center bank	US regional bank	Global asset manager
Governance and costing	• Rudimentary chargeback mechanism. • Captives managed as a subsidiary to a single function, and not a strategic asset.	• At a preliminary stage.	• Rudimentary chargeback mechanism. • Captives managed as a subsidiary to a single function, and not a strategic asset.
Organizational change management	• Not integrated into the governance approach. • Lack of institutional knowledge on global sourcing.	• Considered a critical roadblock to global sourcing.	• Not integrated into the governance approach. • Lack of institutional knowledge on global sourcing.
Location selection	• Location selection methodology primarily driven by cost and availability of talent. • Onshore/nearshore locations as an adjunct to business or for certain back office processes.	• In the process of development. • US based locations for established functions such as call centers, transaction processing and reconciliation.	• Driven by transactional business needs rather than portfolio analysis. • In country business operations leading to the need for US based processing/operations centers.

If these financial institutions continue their current practices, they can expect the following impact in the areas of cost structure, client satisfaction, and risk mitigation.

Industry leading practices	Industry Observations		
	Global investment/ money center bank	US regional bank	Global asset manager
Cost structure	• Not a significant impact on overall cost structure. • Cost savings lower than expectations.	• Developing anticipated cost savings.	• Mechanism for regular cost assessment in place. • Cost assessments treated differently.
Client satisfaction	• Significant effort invested to stabilize quality. • Predictability still a challenge.	• At a preliminary stage.	• Client satisfaction higher with captives for operations and processing.
Risk mitigation	• Secondary decision criterion.	• Key consideration during planning.	• Secondary decision criterion.

Call to action

What should firms do in this environment?

How to assess sourcing options in this environment.

Review locations and options, including the US

Assess whether a mix of onshore low-cost centers should be established as part of the global processing environment, taking into account economic, political, and other stability factors.

Revamp decision support tools to include all key factors

Analyze geopolitical risk, the cost of privacy protection, and escalating local wage rates, and balance cost against traditional TCO calculations. Consider the implications of using the traditional calculations which may overlook the consequences of change in local markets.

Define true cost

Implement processes and supporting data structures to get a true picture of the total cost of sourcing decisions.

Adopt portfolio analysis practices

Consider existing sourcing options as a portfolio which needs to be continually revisited, rebalanced, and optimized based on quantitative and qualitative factors and analysis.

Making global sourcing work

Drive cost efficiencies from current initiatives

- Revisit effectiveness of current initiatives and benchmark against industry practices.
- Rationalize the vendor portfolio to improve economies of scale.
- Move from transactional sourcing to functional sourcing.
- Monetize global sourcing assets where possible.
- Initiate process improvement programs towards defined operational and tactical goals.
- Move sourcing/shared service center management out of the back office.

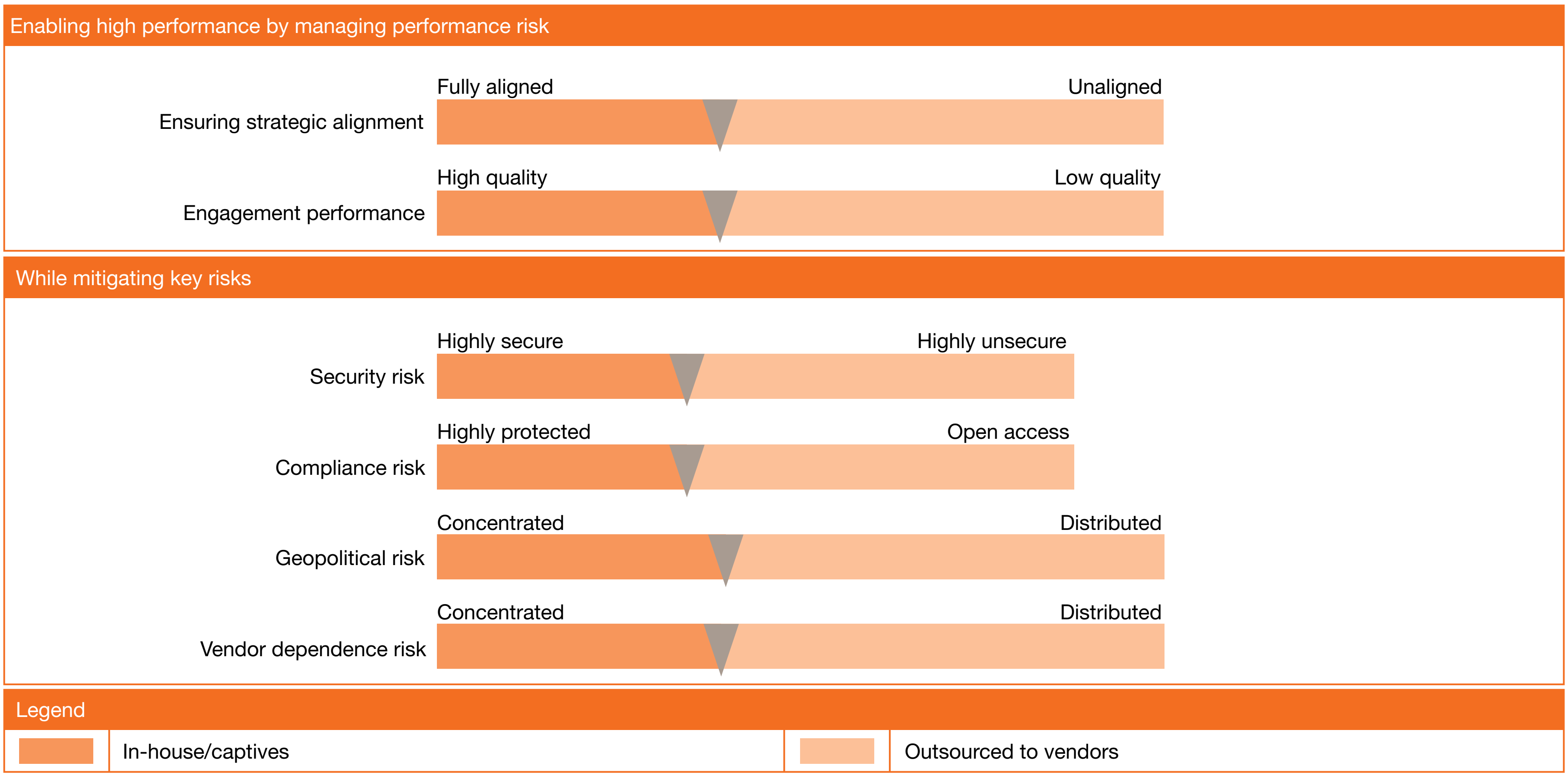
Mitigate risk by utilizing a balanced portfolio approach

- Derive objectives and approach for the balanced portfolio based on business strategy, economic, political, and other relevant considerations.
- Develop a function/location cross matrix to determine preferred location for each function.
- Develop and implement a management model for global sourcing.
- Develop and implement transition plans as per approach.

Govern like a business, manage like a portfolio

- Define targets using a senior cross-functional team.
- Create balance between cost effectiveness, performance, and risk management, as well as between geography, vendor, and vehicle (vendor owned/JV/captive).
- Maintain strategic and tactical assets: locations, functions, and vendor relations.

The balanced portfolio approach supports managing performance while mitigating risk.



Implementing the balanced sourcing portfolio— Governed like a business

Board of directors

CEO & Senior management

Individual initiatives/ locations

Strategic direction

Line of business leads

- Determine strategic direction, overall objectives and investment allocations across the entity
- Sets performance plans, evaluates sourcing performance
- Monitors progress vs. established metrics
- Ensures that organization's objectives are met
- Contains appropriate business/stakeholder representation

Oversight & approval

Global sourcing management

- Unified technology, operations, risk
- Full responsibility for global sourcing objectives
- Infrastructure and financials
- Sets operating plan and compensation for regional utility heads
- Liaison with business unit compliance teams
- Direct link to procurement

Execution/Client service

Initiatives/locations

- Conduct monitoring for defined countries/business units within the region
- Interacts with country/business heads (customer service leads)
- Ensures that operations are executed within defined services levels

Board of directors

- Strategic and operating agenda
- Performance driven
- Initiative prioritization

Middle office	Back office	Technology
Finance, compliance, regulatory, and legal		

Global sourcing senior management

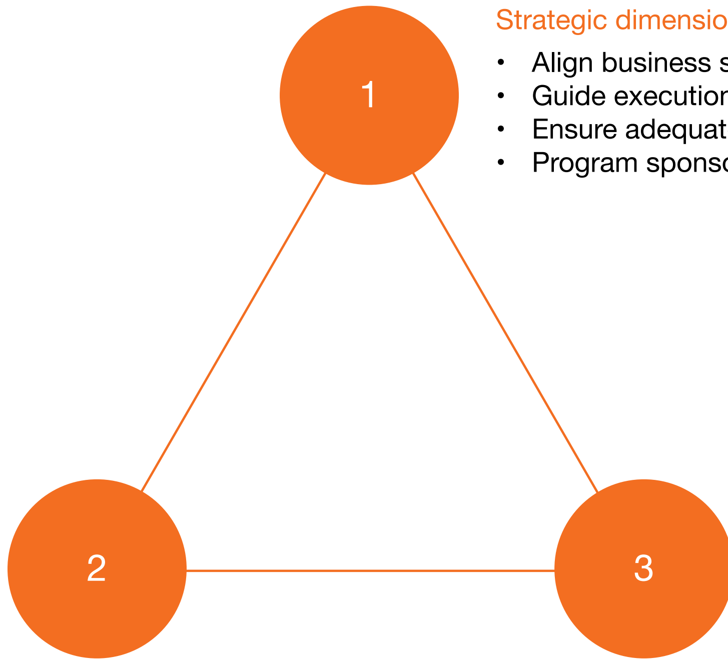
Middle office support	Back office support	Risk/ regulatory compliance
SSC HR, finance, technology		

Operating committee
(includes functional and support leads)

Functional operations

Customer service
Support operations
Function-specific infrastructure

Governance for the balanced sourcing portfolio— The three components of effective governance



Strategic dimension

- Align business strategy and global services initiatives
- Guide execution of enterprise wide globalization initiatives
- Ensure adequate risk mitigation and controls
- Program sponsorship

Tactical dimension

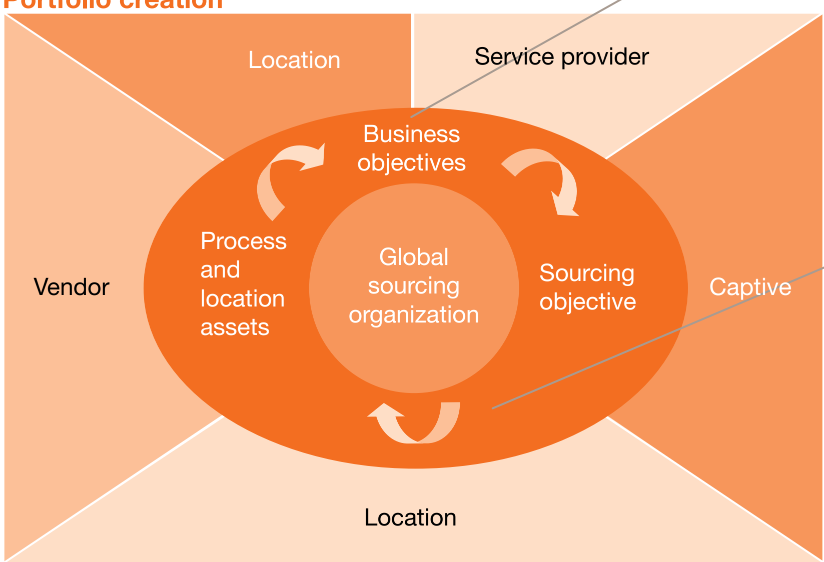
- Coordination, communication, and control between process owners
- Provide for knowledge transfer and knowledge management
- Opportunity identification and enable demand aggregation
- Cross-functional, cross-geography, cross-vendor alignment

Operational dimension

- Manage global sourcing contracts and service levels
- Manage vendor relationships, performance, and resources
- Manage scope and integration
- Reporting

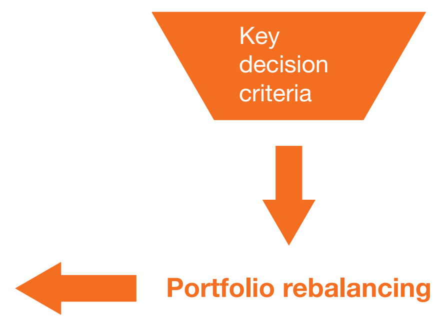
Implementing the balanced portfolio— Manage like a portfolio

Portfolio creation

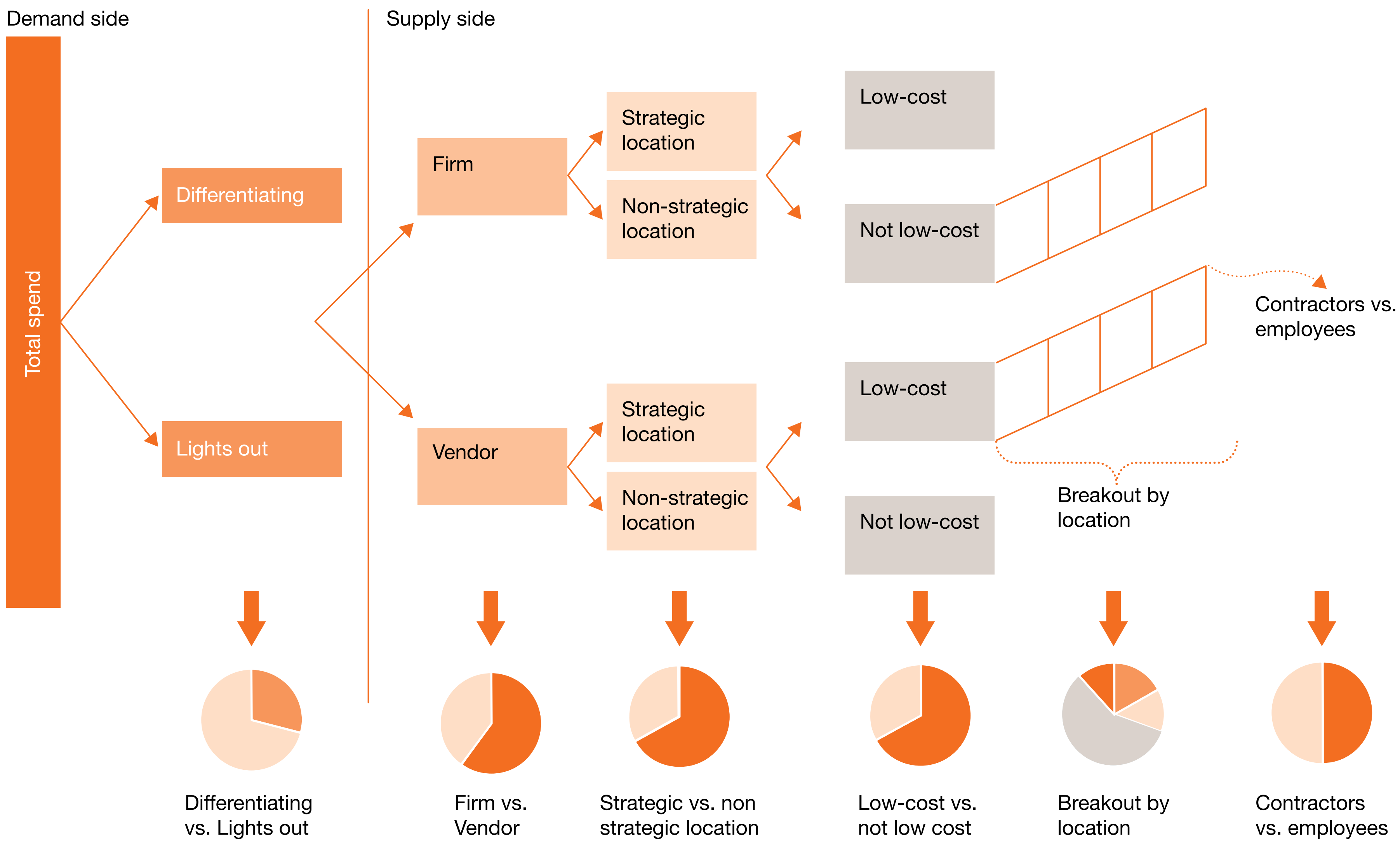


Portfolio analysis

Sourcing balanced scorecard		
	Target	Actual
Cost effectiveness	Xxxxxx	Yyyyyy
Compliance risk	Xxxxxx	Yyyyyy
Performance risk	Xxxxxx	Yyyyyy
Geopolitical risk	Xxxxxx	Yyyyyy
Location risk	Xxxxxx	Yyyyyy
Service maturity	Xxxxxx	Yyyyyy



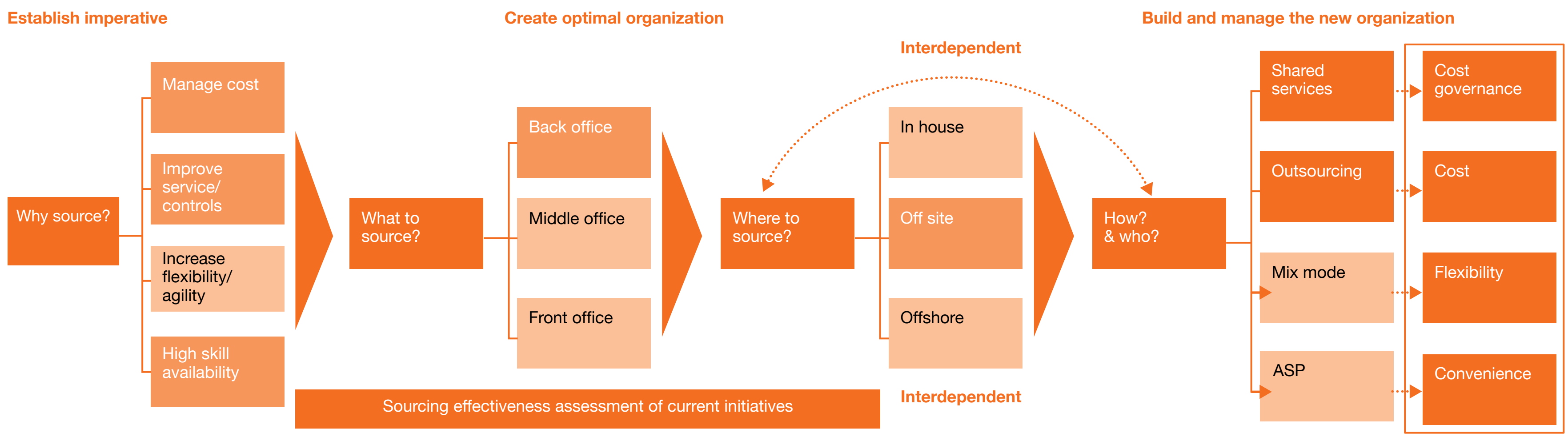
Managing the balanced portfolio based on a comprehensive set of key metrics



A framework for response

Better decision making and execution.

Right placement methodology



Step 1 – Key considerations

- Why source: Define strategic objectives:
  - Cost reduction
  - Improve service, quality, controls/compliance
  - Rationalize and re-engineer operations and build flexibility
  - Respond to market pressures
  - Availability of high skill resources
- Build support:
  - Executive and business buy-in required to facilitate decision making

Step 2 – Key considerations

- Current state of sourcing: Sourcing effectiveness assessment
- Additional considerations
  - Appropriate de-coupling points in the organization
  - IT Functions
  - Middle and back office functions
  - Additional areas – Payroll, HR, Purchasing/Inventory
- Where, how, and who
  - Review internal capabilities, scale of operations to offshore, timelines, cost/savings, flexibility, and control requirements
  - Decide on most appropriate operating/delivery model and location preferences
  - Review service provider strategy (e.g. multi/single, platform/ regional service)
  - Shortlist partners/vendors based on capabilities

Step 3 – Key considerations

- Development
  - Determine process design drivers and create “To-Be” processes
  - Develop operating model
  - Chargeback and accounting model
  - Assess and define legal, regulatory, as well as enhance tax structure
  - Define operating infrastructure and technology requirements
  - Establish change management strategy
- Support
  - Retained organization design and timing
  - Manage requirements to ensure successful execution with appropriate continuity planning
  - Maintain momentum and ownership, supporting the businesses with HR and technology initiatives

Sourcing effectiveness assessment

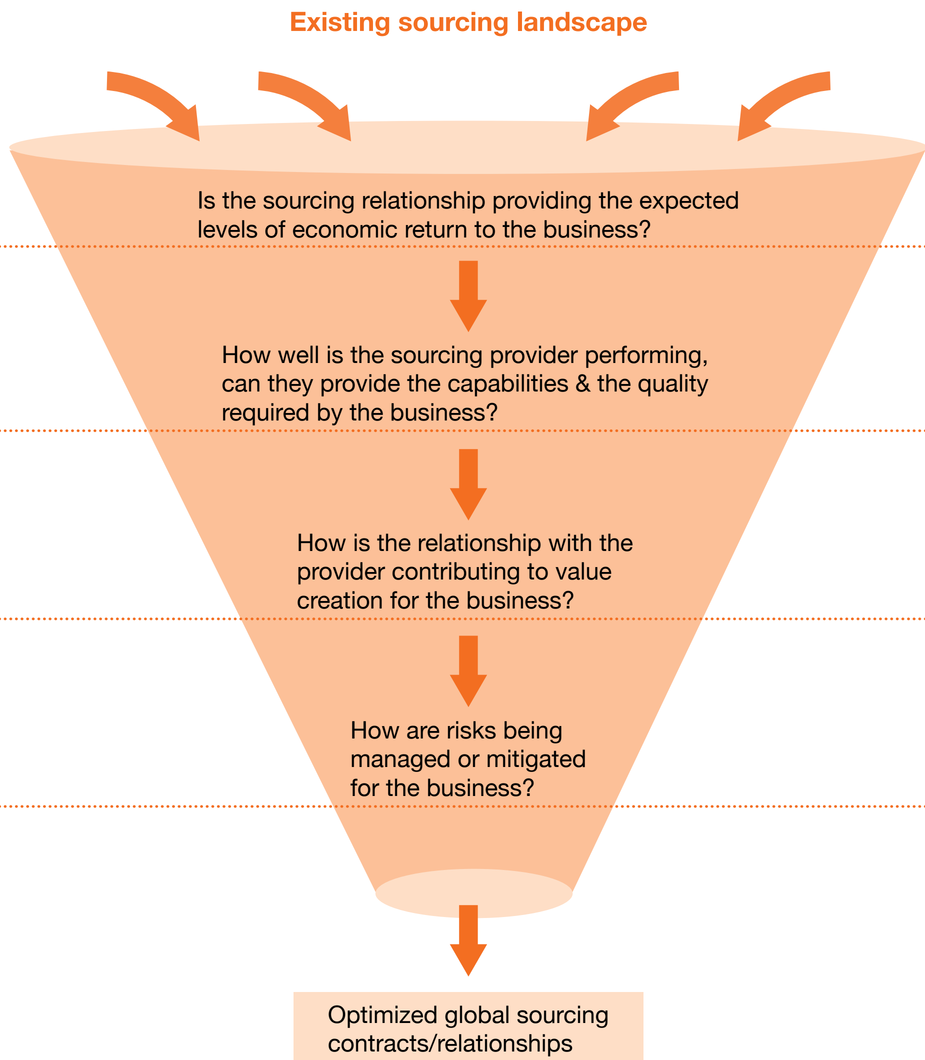
Sourcing
value drivers

A. Economic value filter

B. Performance/quality value filter

C. Governance value filter

D. Risk value filter



Sample value metrics
and/or key indicators:

A. Economic:
- Cost/Call on-offshore by call type/mix
- Actual savings versus base case
- Apps $ conversion from fixed to variable
- % reduction in capital expenditure

B. Performance/quality:
- % improvement in 1st call resolution
- % improvement in cross sell closings
- Project SLA's budget vs. actual
- Innovation SLA compliance/acceptance

C. Governance:
- End-user satisfaction improvement %
- Vendor contract compliance ratios
- % SLA penalties and earn-backs
- On-time project completion %

D. Risk:
- Vendor/Contract compliance %/Trends
- Key personnel turnover ratios
- Offshore compliance % (market scan)
  – On-boarding and release management

PwC's sourcing effectiveness approach unlocks tangible business value.

	Analyze		Implement		Realize	
Activities	• Review current sourcing contracts/ agreements • Review business drivers/ requirements and sourcing strategy – Update based on client market conditions and business dynamics • Review and validate the existing sourcing business case • Interview key stakeholders and perform client/ vendor workshops	• Identify gaps in sourcing requirements and assess provider's capabilities • Perform market scan for contract and provider competitiveness • Identify changes to: – Scope of services – SLAs – Terms and conditions – Pricing – Governance and demand management models – Risk and compliance	• Establish transitional PMO for rapid response • Establish contract re-negotiation team for renewal • Negotiate and complete contract renewal document and schedules • Establish transition plan to execute changes to services • Communicate expected changes to affected parties	• Transition PMO to operational cross functional units/team • Execute transition to implement changes to contract • Re-establish baseline performance/ SLA measures • Re-establish governance model and processes • Implement sourcing performance management environment	• Ongoing performance monitoring/measurement: – SLA's – Pricing – Other key metrics and contract terms • Periodic (i.e. annual) sourcing effectiveness assessment update – Adjust key metrics – Benchmark key indicators – Update performance management toolset	• At least 4 months prior to the existing contract's provision for notice period to extend or terminate, perform final SEA periodic update
Inputs	• Current contract(s) • Original business case • Business/IT plans	• Performance reports on projects, SLA's etc. • Competitive market data • IT costs/budgets	• Current contract • Revised business case • Negotiation strategy	• Renewed contract • Transition plan and risk assessment	• SEA roadmap and plan • Updates to business and IT needs/ strategy/plans	• SEA Roadmap and plan • Updates to business and IT needs/ strategy/plans • Market competitive scan
Deliverables	• Value received from existing relationship • Definition of future value drivers	• Recommendation: – Potential value – Roadmap to realization – Partnering approach	• Transitional PMO • Renewed contract • Plan for service enhancement	• Transition review • •SEA performance management environment	• SEA scorecard and update to roadmap and plan • Changes to contract • Transition plan	• SEA • Recommendation: – Renew/revise/extend – Repatriate – RFP

"Value Obtained" → "Value Potential" → "Value Contracted" → "Value Realized"

Typical benefits from performing a sourcing effectiveness assessment

Quantitative

- Cost reduction and/or value improvement potential ranging from minimum 10% up to 30%+.
- Increased transparency and visibility into actual global sourcing costs, service levels, and other performance metrics.
- Fact based analysis of actual benefits realized from global sourcing contracts/relationships (vs. anticipated/contracted).

Qualitative

- Improved quality and focus of service delivery.
- Better alignment of sourcing arrangement/contract to future business direction and needs.
- Improved leverage in negotiating with suppliers.
- Improved overall working relationships with suppliers.
- Reduced overall levels of risk in the global sourcing contract/relationship.

PwC also brings

- Deep knowledge and experience regarding tax structuring, regulatory, risk, information security, identify theft, and all contemporary multi-sourcing options.
- Significant knowledge of the global sourcing market place, top global destination, and best practices of the world's leading service providers.
- The ability to assist the client to rapidly execute on any continent on the globe.

PwC's location assessment methodology

Phase I Screening		**Phase II Feasibility**	**Phase III Due diligence**	**Phase IV Implement/build**
Confirm project specifications and long list of location options	Analyze long list of candidate locations and identify short list	Evaluate in detail short listed locations and select prime and back-up locations	Operational due diligence	Implementation
Objectives: • Understand the project requirements, and in-scope processes including scope of activities • Identify critical location factors and advantageous requirements • Advise on the possible forms of legal set-up for the proposed entity • Amend and agree on initial long list of locations	Objectives: • Narrow down long list of candidate locations based on selection of critical success factors. • Provide evidence for de-selection process • Identify short list of qualifying locations	Objectives: • Detailed forward looking assessment of project feasibility in the short listed locations • Identification of best option and back-up • Evaluate tax issues for short listed locations	Objectives: • Confirm remaining cost data and site specifications • Consistency check of proposals with relevant regulations • Confirm any other tax or regulatory issues • Assistance with application procedure • Executive visit to selected location • Validate business case	Objectives: • Legal entity set-up, registration with schemes • Facility lease/build • Infrastructure setup

How PwC can help

Our capabilities and tailored approach.

Select qualifications

Full cycle independent global sourcing expertise

- A robust global sourcing capability that covers strategy, implementation management, and review of current initiatives.
- Captive entity support, optimization, and commercialization.
- Service level design, development, maintenance, and monitoring.
- Financial services regulatory expertise in over 100 countries worldwide.
- Tax practice with expertise in credits and incentives. Global experience and expertise in site selection, negotiation, and benefits realization.
- Experience with domain, demand, and supply side analysis.

Information on the global marketplace

- Local presence in over 100 countries.
- Access to thought leaders and decision makers in all key locations world wide.
- Unique knowledge such as data privacy regulation information covering over 100 countries.
- Ability to provide specific comparative analysis of strategy, locations, and channels world wide.

Selected case studies

Global Financial Institution – Consolidation of compliance activities	The client is a leading financial institution with operations in over 100 countries. As part of their cost reduction and efficiency initiatives the client planned to implement a hub and spoke model for key shared functions, including compliance functions such as Anti Money Laundering (AML). PwC was requested to leverage its global sourcing and regulatory experience to help the client analyze the current state of AML monitoring, identify multiple operating models, and perform an assessment of each model. This analysis was then used as input to a top management workshop that was used by client leadership to define their future state model and define strategic action plans required to achieve this future state.
Global Financial Institution – Finance Function Shared Services Center	The client is one of the largest retail financial institutions worldwide, with significant operations in the US, Europe and Asia. The global corporate finance function was facing significant challenges in the account close process due to the variety of legal structures and accounting standards in place worldwide. In response, the corporate function in the UK and US embarked on a finance transformation initiative that involved moving to one global accounting standards (IFRS) implemented on one technology platform (consolidating the diverse platforms in use currently) with a shared service model. PwC was engaged because of its expertise in finance, program management, and global sourcing, and was actively engaged in defining and managing the global finance transformation initiative across the US, Europe, and Asia. As part of this initiative PwC's global sourcing and state/local expertise was key in helping the client compare low cost locations to existing near/onshore locations, and in helping the client broaden their footprint within the current onshore location.

Selected case studies

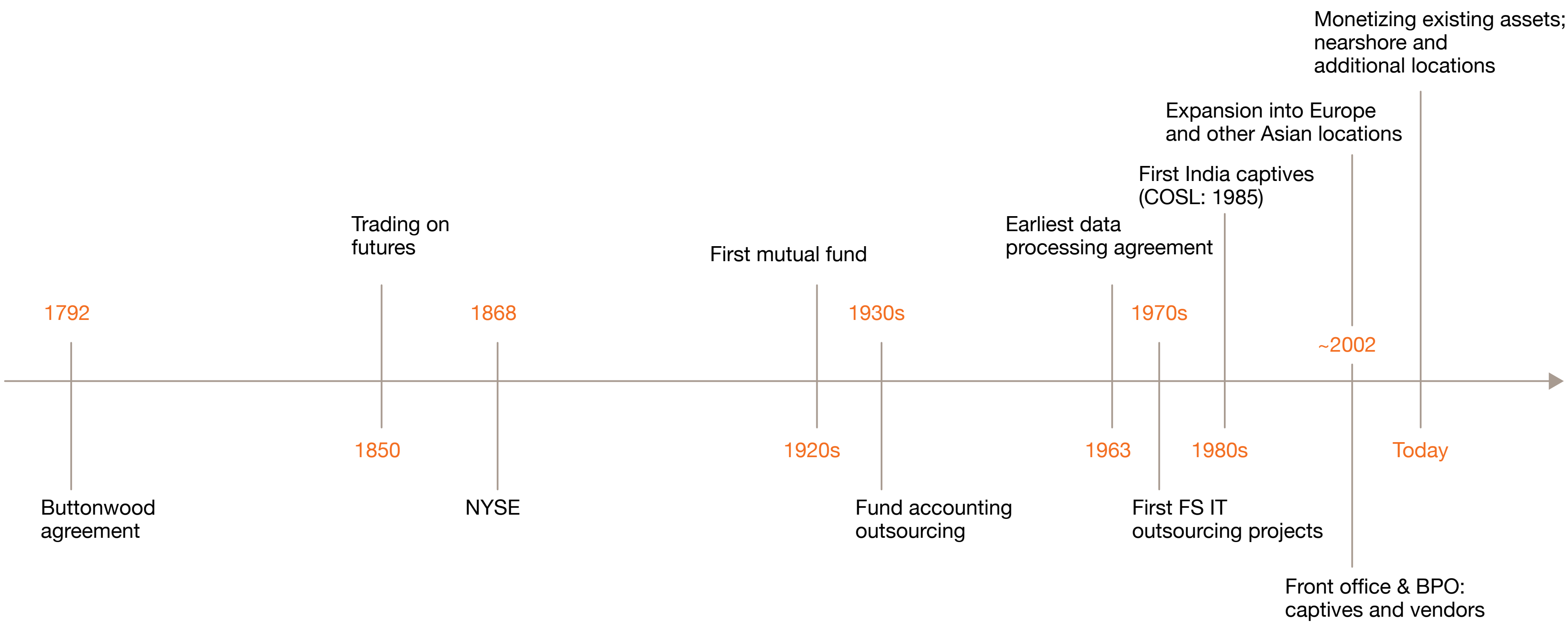
Global Financial Institution – Captive Centers of Excellence Strategy	The client had multiple captive entities across South America, Eastern Europe, and Asia, and also leveraged significant third party relationships. Over time, the role of the captives had become diminished in meeting business requirements, and hence faced challenges on talent retention and the viability of their business model. PwC was able to assist the client in defining key roles and expectations from captives and thereby distinguish them from other sourcing options. PwC was able to help the client articulate their definition and vision on centers of excellence, and a proposed roadmap towards achieving CoE status. PwC then facilitated the first cross-firm workshop between the captives and key business stakeholders to ensure appropriate direction setting and ongoing governance.
Global Investment Bank – Finance Function Shared Services Center	The client wanted to reappraise the role of the finance function, and the segregation of responsibilities between the business finance function and the shared service center. The client also wanted to take advantage of the cost efficiencies to be derived from offshoring. PwC assisted the client in reviewing the current end-to-end process and assessing the suitability of each activity to an offshore ‘production’ location. The initiative also enabled the client to refocus headcount away from production activities towards high end activities. PwC also assisted in the creation of a finance academy delivery model to enable retraining of personnel.
Global Asset Manager – Making outsourcing work	The client is a leading global asset manager. As part of their cost reduction initiative, they had outsourced a significant part of IT to servicer providers. However, they were unable to meet their business objectives due to internal inefficiencies and alack of transparency into operational information. PwC was able to develop and implement dashboard and supporting metrics to be able to deliver accurate and timely information. In addition, PwC also helped the client define and implement standards based processes across defined functions within the technology organization.

Selected case studies

Major Australian Bank – ITO and BPO Risk Assessment	This major bank has operations in both the UK and Australia. The client was looking to secure benefits from consolidation, rationalization, and outsourcing of its IT infrastructure and business processes through leveraging an offshore operating model using a third party service provider. The client wanted an independent assessment of the risks associated with both offshoring and of the related elements of the business case for change. PwC used its offshore risk assessment tool to categorize client risks, namely: strategic, financial, process and technology, regulatory and legal, and country-specific and leveraged the local knowledge of PwC's India offices to provide country-specific information. The client was provided with a report indicating over 50 significant risk areas along with recommended mitigation routes. The report was used in conjunction with other supporting documentation to present to the Board a more realistic business case for change. Feedback from the client stated that PwC had "made an immense difference to our understanding" of offshoring and associated risks and other work had been requested as a follow-on to this assignment.
Leading US National Bank – Risk Management of BPO Activities	Over the last 10 years, we have worked with this leading U.S. financial institution and a number of its predecessor organizations on a variety of IT, business and operations issues, including BPO and the governance and risk management aspects of these business decisions. We are currently assisting this organization on structuring their compliance and third party management activities to conform with the requirements of SOX 404. Working with this organization has, among other things, given us unique insight into the impact of merger and acquisition activities on the use of third parties and their effectiveness, control and governance.

Appendix

A brief history of outsourcing in financial services



- Largest use of the outsourced model among all sectors
- Leadership in leveraging different geographies and models (Vendor/JV/Captive)
- BPO track record significantly worse than ITO because:
  - Lack of maturity and consistent talent availability from BPO service providers and locations
  - The need for sophisticated cross organizational planning and management required for high end outsourcing
  - Poor enterprise knowledge management: Hence knowledge gained by individuals is not leveraged for the enterprise
  - Silo nature of the business: both by geography and line of business - makes it difficult to leverage assets as planned

Key trends in outsourcing

Maturity of global sourcing

- Increasing process maturity within financial services organizations.
- Geopolitical changes and government sponsorship has led to a truly global list of available destinations.
- Stability and acceptance across all modes and services.
- A business decision, not just restricted to IT and Operations - increased focus on long term business case and available benefits.
- From transactional outsourcing to more strategic outsourcing as part of a global operating model.
- Emergence of pricing models in line with the criticality and complexity of tasks being performed.
- Commercialization of captives.

Increasing maturity in the supply side

- Service providers taking steps to move up the value chain.
- Service providers aggressively exploiting destinations - for capacity, risk mitigation, and quality.
- Government agencies involved in active business development and promotion of locations.

Geographic dispersion

- Concerns with established locations (such as India) leading to exploration of other locations.
- Strategic use of locations across Asia, Europe, and America to provide local language and time zone support.
- Move towards a sourcing “hub and spoke” model - main sourcing locations managing smaller proximal locations.

Need to manage sourcing as a strategic function

- Multiple sites/avenues and business criticality predicate the need for a business management model.
- Geographic and functional dispersion require the use of a mature portfolio analysis model.

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"Boston, Bangalore, Beijing, Budapest, or Buffalo
The United States as a low-cost location and the implications for financial institutions," PwC FS Viewpoint, April 2009 www.pwc.com/fsi