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Tech companies eye $1 billion pie on US recovery

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BANGALORE: As America's top banks emerge from the Troubled Asset Relief Program (TARP) and the economy starts showing signs of recovery, Indian outsourcing vendors, Tata Consultancy Services (TCS), Infosys and Wipro, are set to gain offshoring projects worth around $1 billion over the next one to two years.

JP Morgan, Goldman Sachs and Morgan Stanley, which received approval to buy back government stake worth $68 billion earlier this year, apart from American Express, Bank of New York, Mellon and Capital One - which also started repaying government debt - are among the firms seeking operational efficiencies by outsourcing non-core IT and back-office projects to India. Many of these banks had deferred new offshoring decisions, as they attempted to cope with TARP funding and internal restructuring of processes. Experts such as Andy Efstathiou, director of the banking sourcing practice at research and consulting firm NelsonHall, say the US banks are increasing offshoring.

"Since the beginning of the economic crisis, many of these contracts have been put on hold. That is beginning to change. It is looking like the Q4 of 2009 is shaping up to be 20%-plus over Q4 of 2008," he told ET in an interview.
The government's decision to allow these banks to repay TARP funds also reflects a growing pressure to operate independently, devoid of any political and public interference.

In a September survey of around 480 firms by Mr Efstathiou, only 2% said they plan to reduce offshoring, while almost 37% of the respondents said they will increase offshoring. "The financial services firms we have spoken to intend to increase offshore spending. Specifically, in a survey of firms we did in September 2009, only 2% expect to spend less on offshoring, the rest expect to spend the same (61%) or increase spending offshore (37%)," he added. Merger among banking systems of Bank of America and Merrill Lynch among many other such transactions, is creating newer opportunities for offshoring and outsourcing vendors.

As these banks merge, they face a huge task of integrating their software applications, consolidating their data centres and other trading platforms into a single entity, so that their customers are able to transact without having to face any merger-related issues. And since offshoring will help them save costs by 30-40%, these merged banking entities are seeking to partner with a vendor having significant offshore presence.

When contacted by ET last week, a JP Morgan India spokeswoman declined to offer any specific comments about the bank's outsourcing plans.

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Indeed, Indian tech firms such as Infosys are already seeing their revenues from banking customers grow. For Infosys, which derives around 33% of its revenues from BFSI (banking, financial services & insurance) customers, consolidation among the top US and European banks is bringing new business, with some of these individual contracts worth around $500 million each, potentially.

"There are six integration projects we are currently looking at," Ashok Vemuri, senior vice-president and global head for banking and capital markets business at Infosys said in a recent interview. However, M&A practice is not an area where Indian companies have been positioned as leaders yet, especially with top consultants of the world, including Deloitte and Accenture, being the most preferred vendors.

“A year ago, Infosys was not among the ones to be called for such high-end M&A-related consulting, a Deloitte was called,” said Mr Vemuri who also heads Infosys' strategic global sourcing business focused on large multi-year contracts.

Rivals, TCS, Wipro and Cognizant are also seeing more business from America's top banks. In fact, Cognizant, which serves customers such as JP Morgan, outperformed peers helped by new business from BFSI customers. Cognizant's BFSI revenues grew by 9.6% sequentially during September quarter, higher than Infosys' 4.4% and TCS' 6.5% sequential BFSI revenue growth during the same period.

Meanwhile, these banks are also seeking newer engagement models in order to lower their capital expenditure in any new technology initiative. “They have a greater desire for transaction-based pricing, due to the need to convert fixed-base cost into variable cost. Anything else that supports variable cost and reduction of capital investment is of interest to them,” added Mr Efstathiou.

Banks emerging from the recession still do not want to commit high capital investments; therefore, they are asking vendors to share outsourcing costs. “The banks need to shore up capital so they need to reduce their own investment. They are willing to lease the service back (pay for the services and required investment over the life of the contract), but they cannot put a lot of capital into operations investment at this point,” said Mr Efstathiou.