Infosys

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INSURANCE, HEALTHCARE AND LIFE SCIENCES – Mr. ERIC PATERNOSTER

Good morning. I'm here to speak to you today about the Insurance, HealthCare and Life Sciences business unit. After an initial 18-month investment period as we got into these industry sectors in a major way, we've had significant growth since that period of time. In the last half year, we've added eight new clients, one of the top 10 life insurance in the US as well as the one of the top 10 global pharmas were added in the half year that just ended at the end of September. One of the things to highlight about this unit is that we generate about 35% of our revenues from domain-oriented solutions and alliances. We'll speak about that a little bit later in this presentation.

We have a high-growth account pipeline that's fairly significant. So we're able to project out significant revenue growth, we think, for the next two to three quarters without any difficulty based on when those accounts were opened and the type of initiatives that they have underway. To address these accounts, we really come at it from two ways. One is capability creation or transformation-type initiatives. And then the other way we're looking at it, is to bundle application development and fundamental integration work into a managed solution type of scenario.

Just to look at what's happening in the industry. In this calendar year, we did not see any of our clients cut their IT budgets. In fact, the majority of them had an increase in their IT budget this year. In the insurance sector, there's a significant focus on top line growth and funding IT initiatives that will contribute to top line growth. They went through a sustained period of cost cutting and there's surprising competitive strength against the other financial services players in the wealth creation/investment products. They're really pouring significant investment into that area and we see a lot of opportunities to go into new initiatives that were in the top line growth area. This might be in the underwriting systems, new policy administration systems to allow them to process new business faster, business intelligence to be able to, find cross-sell opportunities and find underdeveloped customer segments better. But a significant increase in what they're spending on new projects versus maintenance is happening. Next that we show here, 38% new projects versus maintenance, there's a lot of pressure in the insurance sector to push more of that percentage over to new projects which contributes to having the opportunity to go after larger maintenance deals, bundled application development so that they can shift some of that money into the new project imperatives that they have.

In the health care and life sciences space what we're seeing there is similar. There really have not been significant budget cuts. There have been a couple of players that have had flat budgets this year but most of them are having to increase budgets this year also. For both insurance and health care, we're in the budget cycle for 2008 in both those sectors. So we'll see whether that continues. But from all indications, and speaking with my CIOs and CFOs and my client base, I don't really anticipate a significant drop in - at least in any of my clients in their IT funding and actually a significant increase in some of them where they see a growth opportunity.

Now the areas that provide opportunities in health care and life sciences are the whole integration area, there's such fragmentation in the value chain and life sciences as well as in just the whole health care system in the US that there's a lot of investment happening to try to tie all the pieces together better. So there's a lot of spend there. Also, in the medical device area, there's an uptick in spending happening in both the big pharmas that have medical device divisions as well as in the pure play medical device companies.

Shibu mentioned the strategic priorities of Infosys earlier. I'd like to bring that down to - in the insurance, health care, and life science space, how we're implementing some of these. Now, within our three basic sectors, there are a couple of emerging sub-sectors that I think anybody that operates here has to pay attention to. One is the annuity space. As I mentioned earlier, that's a very high-growth product for most of the insurance clients that I have and my targets clients. Also, the provider space seems increasingly willing to consider outsourcing and offshoring after a long period of time where aside from maybe dealing with a domestic TPA, they weren't really interested in those kinds of discussions. And then the whole mid-market pharma and biotech space is following the global pharmas into significant offshoring over the next couple of years.

Like in the insurance space where we're pretty much in a displacement scenario most of the time, we have to come in with thought leadership and innovation. We really cannot come in and say, we're just another ADM player. So we have probably a higher focus and that's indicated by my solutions and alliance revenue and the thought leadership and innovation area we'd be able to do if this were like a brand-new space that, we were entering for the first time as an industry. We also have inside of our delivery organization invested very heavily in how to build the solutions assets faster and better inside of the business unit. Also investing heavily in productivity in terms of message and tools and putting a focus and acquiring the type of individuals who can lead large-scale, end-to-end transformation programs because that's what a lot of the opportunities that are being presented to us as part of this dynamic to shift into new projects that I mentioned earlier. We're being allowed to compete for the things that are very large, they're best-of-business type of initiatives. And we have to invest in training and acquiring people that have the ability to lead those programs.

This is a little bit of background on the solutions and alliances that we have. On the left side of the slide in front of you are listed our domain-specific solutions that are bringing in margins in line with what Shibu mentioned for the company solution margin increment about 6%-7% higher than the overall margins of the company. And the focus is a little bit different in the sectors. In insurance, they're really focus towards that move towards growth that I mentioned. We have a rapid product innovation, we have a new business process excellence for life insurance and insurance modernization solutions that we have a combination of frameworks, assets and alliances that address these three strategic thrusts, that you can find at least one of them in everyone of our client going on right now. In health care, there's a strong emphasis on the electronic health record movement that's happening in the US. Unlike the early 90s when people were anticipating a major change in health care when President Clinton was elected and people were kind of frozen, this time around people are actually stepping up investment, trying to figure out how to change linkages, bypass traditional middleman players. For example, we have pharma companies investing in direct contacts with providers, we have payors that are investing in direct outreach to consumers and there's a significant spend that's happening there. All of it is kind of centered around the electronic health record. Now there were not electronic health record vendor. We have built the connectors and interfaces between major players in that space and some of the other back end systems that were present in payer and provider.

From an alliances standpoint, we subscribe heavily to the overall company alliances with SAP, Oracle and Microsoft being the three largest. But we also have established a fairly robust niche alliances with some of the people that have solutions that fit in with those strategic initiatives that I mentioned earlier that are happening in our three sectors. For example, there's a couple of rules engine alliance partners that we have like a Corticon or an iLog. We also have specialty alliance partners that are involved with rules abstraction or business process management components that are industry-specific. And they're mentioned here. Examples of those are SEEC, Lombardi, Jacada from a call center standpoint. So we have maintained a fairly significant investment in alliance management in our business unit in order to try to stay out at the forefront of these strategic initiatives happening in our company. Either they're going to bring a capability to complement one of our solutions or they already have an established, trusted relationship with our client or prospect.

Let's finish with a snapshot of some of the engagements that we have underway currently. If you look at the second one, with a Fortune 50 pharma client, this is an example of this bundled ADM and infrastructure management that I mentioned where the clients are figuring out how they can fund more strategic developments by bunching together what formally was fragmented across geography, across functional groups. And for us, although they're competitive deals, the fact that we're able to spread the management bandwidth across a larger volume of revenue and be able to demonstrate all the services that we can bring, allows actually to do this profitably and at the same time establish a good revenue base at a client.

We also have targeted mission-critical systems in our clients, mostly in the insurance and health care space where we look for whatever is going to be processing their new business, whatever is going to be critical to them achieving their objectives. So, we're looking at, like in the insurance world, something that's involved with commissions for their sales channels or policy administration and figuring out how to transform those systems and processes to be more effective. A number of these have combined IT-BPO opportunities tied to them also. So that's just a snapshot of some of the types of engagements that we've been able to start up over the last couple of years. And this time, I'd like to take any question that you have about the insurance, health care, and life science sectors.

Speaker

(Unintelligible) opportunities there. Can you to talk a little bit more about how the combination of (ITO) and BPO might happen among these customers? How far are we from that really being a combined sales effort and what are some of the challenges there?

Eric

Well, I would say in life sciences, it's actually a reality that a significant amount of their business process work, at least when you get outside of F&A and some of the just fundamental core processes like procurement or F&A. When you get into their core business, for example in the R&D either the R or the D side, data is such an integral part of those business processes that you go into the business organization at a large pharma and they have DBAs not in IT but in the business. So in pharmas, it's a fact of life today that most of the BPO deals involve having to bring IT capabilities with you to those deals. And some of the barriers -- to address that part of your question -- what we see sometimes happening is that inside of our clients, they have a feeling that they have to run them as separate initiatives. So they want to have a separate group of approved vendors for IT work and then the business wants to have a separate group of approved vendors for BPO work. And that actually sometimes hurts the ability to bring as much value to the client. So sometimes, we and also some of our competitors are trying to educate our clients about the fact that they should be looking at vendors that bring both capabilities and not sub-optimizing by only having one pool of people that you'll talk to for IT and the other for BPO. That's one impediment that we face. The other impediment that we face is really just one of scale in the BPO side and some of the processes that are being put up for them. There are some long-time TPA players that have a five- or ten-year head start on us in that space. And so, while in IT we can compete on a level playing field or even at an advantage with most of our people that we go up against, in BPO, sometimes, the sales is very based on how many people with that exact business process experience can you demonstrate in your company right now. Even though in BPO you acquire a lot of the people after the deal is sold unlike in IT, that's still is a challenge that I think everybody is facing in the BPO space because traditionally, these three sectors were much more oriented towards, like if you look at IT, all of us that are operating in IT in these three sectors came into it after we were in banking, for example, where there was a lot less concern about, what's the resume looks like for the key people on the engagement. Have they spent 15 years in that industry space? In BPO, we're seeing the same thing happening. We got faster than IT as we built up that base of people. But in BPO, I think we're seeing the same thing happen. And that's why these sectors are probably a little bit slower in the global BPO movement and still probably have a higher percentage of domestic TPAs than some of the other sectors.

Speaker

And just on the eight deals that were won in the sector in the first half of the fiscal year, can you talk about how those originated? Were these basically sent to the pipeline from Infosys Consulting or were these RFPs or sole source-type deals?

Eric

Okay there was one that was off of a web site inquiry. So that's always good where that channel can generate actually a sale for you. And it was noncompetitive, so it was very fast moving. So that was good. There were three that were generated off our solutions program. One of them started out competitive. But really, when you have a solution at the point of the sales discussion from the beginning, it's a way to try to get it to be almost a noncompetitive situation. It's definitely a great differentiator if you're in a competitive situation. But sometimes, if you happen and have a good fit with your solution and the assets contained within it, you can prevent it from becoming competitive. So, three of these eight were solutions-generated new account openings. And out of those, two were noncompetitive. And the others they had competition involved. And three had Infosys Consulting involvement but they were all competitive bids. They were all RFP and we had Infosys Consulting. We had at least one or two of the other horizontal service offerings of Infosys involving the ___. So they were fairly complex but they were RFP.

Karen Ahooja

You mentioned in one of the earlier slides, it says that IT spending as a percent of revenue is higher compared to other industries. I'm curious if at $ 270 million of the four or so billion that Infosys is going to do this year is still relatively a small practice for you guys. I'm curious, is there any structural reason for that? Were you a little late to the game? Are they late to the game? Or we…

Eric

Well, when we started up this unit, a little bit less than four years ago, we got 80% of our revenue in these three sectors from two large clients that were top 10 clients for Infosys but that's not much of a presence. Now what we focused on since that time is expanding the base of medium to large client so that we'd derisk from those two and also establish more of a presence. Like I mentioned, all the people in professional Services tended to go into insurance last of the financial services sectors. I started out my career in financial services. I remember when more of my current competitors worked for them. We have two insurance clients worldwide and we have huge banking relationships. So we went through that same cycle. So I think being late to the game is probably the main explanation for why we're at where we're at. But we grew 60% last fiscal year; we're going to grow at least 50% this fiscal year. So we're catching up. And what's good is that the mindset in the market is changing in terms of this packaging and rationalization of vendor relationships. Even in insurance where I've said it's totally a displacement situation because everybody has been doing offshoring at least in some manner with somebody for five or ten years. There's a recognition that tier 2s and tier 3s can't scale, don't have some of the higher-end capabilities. So it's opening up an opportunity for us to go into companies that for the first time are reconsidering the way they use offshoring. And I think that the growth looks pretty robust. The other factor for us is very positive. When the unit was set up, we only got 6% of our revenue from other services in Infosys. The other 94% was ADM. Now we've got that percentage of other services up to 22% at the end of last fiscal and we should have it up to 25% by the end of this fiscal year even with this kind of growth. So being able to bring all those other services to bear also helps us penetrate new companies better.

Karen Ahooja

Just sort of a related question. If you look at some other parts of the financial services, it would seem maybe 50% of the IT services could be offshored. Do you have a sense of what that is for the areas that you cover and kind of where we are now?

Eric

I think that the potential is there to offshore that much. But insurance companies are a little less aggressive. Particularly in the infrastructure management space, they're reluctant to offshore that as much as like a bank would be, even though the risk is comparable or maybe even less. There's just a mindset that infrastructure might be something that's doesn't make sense to offshore. So in my part of financial services, I'd say that our potential is probably lower than it is in banking and capital markets right now. So we finish the education cycle. I mean, it happens all different ways. There are banking executives that come into my clients and target and educate their organization about what's possible and that it does work, that we do education, analysts do education. So, it's converging to be the same aggressive percentages that one of Ashok's clients has. But right now, I'd say that my average client say that they can't do more than 40%, would be what they would say would be the top end currently.

Karen Ahooja

So lastly, where are they now? I mean, on average?

Eric

They're on average in the 25% range, I'd say.

Sandeep

Folks, we now move to the last presentation of the day by Steve Pratt from Infosys Consulting.

Eric

Thank you.