

INFOSYS TECHNOLOGIES LTD
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FINACLE – SESSION II

Mr. Haragopal M

Is it okay? Yeah. Banks, as the overall economic conditions wherever they are, always need to look at two dimensions. One is the efficiency dimension, and second is the effectiveness dimension. Efficiency essentially means how well they are able to manage their bottom line, how well they are able to bring in the profits more. Effectiveness is all about how well they are able to compete, how well they are able to get the market share, how well they are able to innovate, how well they are able to bring in such innovations at quick pace and time to market, etc. So, whenever you look at it, the benefits or the need for the business for a solution, an enterprise part of solution like Finacle, it comes from both the dimensions. The efficiency dimension is essentially how well you can bring in the efficiencies in terms of operational cost, in terms of process reorientation, in terms of bringing in efficiency by various centralizations and various other aspects, that is one dimension. Second of course, the effectiveness part in terms of the ability and ability to innovate. So, both these dimensions which means actually the time to market, etc. Those are the basic drivers from the bank, and of course, we will get into that in a little more detail. Today, these are the kind of the trends that we are looking at. Finacle Universal Banking Solutions Suite has a play in each of these areas. Core banking has been our flagship in terms of the universal banking solution. The numbers are in front of you. These are the kind of, you know, the market opportunities which industry watchers are talking about and universal banking solution space is consolidating. It has been a pretty fragmented market, and it has been consolidating with some key players emerging and definitely our endeavor needs to be in the top three players, and today, we do see a good amount of traction. This, you know, in fact you would have seen some numbers of the revenues as well in terms of the geographical distribution. We have something called a hype cycle in terms of the adaptation through these kind of technologies and platform. Traditionally, Asia-Pacific has been very quick to adapt to the universal banking solutions and the core banking application, and over a period of time, Europe caught up with the hype and most industry watchers were talking about Northern America catching up with this maybe by about end 2009, but we are seeing the signs of acceleration of that in the last few quarters. So, that is about the core banking.

Channels, as you are aware, Finacle is present in channels both at the retail as well as corporate banking, and one of the fast emerging channels has been the mobile as a platform, and if you really look at the statistics, you know, in fact you were reading yesterday in some papers, the rate of growth of penetration of the mobile devices if you compare that with either your broadband subscription or the PC purchases in any country not only in India, of course in some of the emerging countries like India and China, it is definitely taking a point. It is a no-brainer that the mobile platform as a channel for not only for banking, but in terms of payments and transfers is going to emerge and emerge very strong.

The third market trend is Islamic finance, notwithstanding any faith related part, essentially as an opportunity for financial transactions as structure means gaining tremendous amount of acceptance and acceleration. It has been mostly in the Middle East and South East Asia to a large extent, but we are seeing good amount of interests in various other parts of the world like Europe and some countries in Asia-Pacific as well, and last but not the least, financial inclusion beyond the rhetoric, beyond the micro finance part of it, is capturing the imagination of bankers.

Essentially, what started with more in terms of yet another opportunity some of the CSR, etc., but essentially financial inclusion as a business opportunity is coming to the fore for the bank. Globally, out of the six plus billion population, we have more than three billion people unbanked who are not having access to financial services, and if you see the data, there are trillions of dollars which are dead capital, that means the ticket size of such deposits are so low that, you know, people are not able to go and deposit in the banks and hence it is not earning interest. Hence, you know, you do not have the capital, etc. So, there is a huge amount of opportunity, and if you see technology facilitating that kind of an opportunity to capture these small ticket transactions. Look at a villager, even in closer home in India. If she has 100 rupees on her and if she has to go to a bank and deposit even in an urban scenario, it will take half a day plus, you know, your travel cost, etc., which means she is paying typically about 20 rupees to go and deposit this 100 rupees, and if she is working most likely that day, you know half a day leave as well. How do we really use the technological innovation to really make sure that you did this banking through the doorstep because, you know, in a country like in India itself only 7% of the villagers have the banking access. So, it is not just an India phenomenon or a Bangladesh phenomena. In fact, as I was speaking at World Economic Forums few months back, in Latin America essentially, there again it is a similar challenge and that we are seeing as an opportunity for banks and so to us as well.

Competitive landscape, I know, you would be interested in how we stack up, you know, who are all the players in the market, you know, what are they doing, how they are doing. While I do not want to really comment on any specific names or the space, all I choose to present is that what the industry watchers in this space believe that, Gartner measures all the players in this space, for the core banking or the retail banking space on two dimensions. The completeness or vision of the player and their ability to execute from those two dimensions, they stack up and it is a very intense engagement of exercise evaluation and including talking to process customers in various market and that is how we stack up. We are right at the top of the heap in terms of these various players, what you call the quadrant is called magic quadrant, okay. That is where Infosys Finacle is and other players you have seen some of them familiar names in the magic quadrant, and there are some niche players as well.

Well, while we talk about the opportunity, I am talking about in this slide essentially the core banking and universal banking solutions, the opportunity, the customer space can be segmented into three dimensions. The fourth one is existing customers, where the cross-sell is an opportunity. Segment one is essentially global tier I and tier II banks, who are really looking at transforming their operations as well as the whole platform, and the challenges there are the huge amount of legacy and the impact and risk of the transformation and to commensurately address those we have the complete offering. Today, if you really look at most players, which we have seen in the previous slide are predominantly ISV, and when we are really looking at a transformation, when we are really looking at an enterprise wise transformation, banks really does beyond the impact of the millions, if your program does not come, the bank itself is not there. So, from that point of you, a partner who can really take them through right from the boardroom to the boiler room, understands the whole impact of the transformation not from the point of implementation alone but right from understanding their existing portfolio. Many of these large banks could have portfolio of subscriptions with running into thousands. So, having an understanding of how many of those gets assumed in to your core platform, how many would need to remain outside and how do you re-wire it and you know many of these legacy systems, you may not have any documentation or even code, etc. So, from that perspective, Infosys overall, along with Finacle brings in a tremendous value proposition for these banks through transitioning the whole legacy into a new platform and new systems. So, second thing is that, when we are really looking at these transformation, you cannot wait for five years to see the results. Typically, the transformation can run depending on the size and complexity of the organizations anywhere between, you know, some cases two years and some cases three years, some cases even a few months, but let us

say for a large organization, it takes about 3 to 5 years, you can't wait for the business benefit to kick in so late, so how do you bring in operational efficiencies right from quarter two onwards for the bank to really get those, and that is where you know our overall ADM as well as the other services portfolio of Infosys give a tremendous value proposition. While you are getting ready for the transformation, your efficiencies start kicking in early. Then second thing is that innovation part. I talked about efficiency and effectiveness. The effectiveness dimension in terms of ability to launch new offerings, whether it is in a direct banking, whether it is Islamic banking, whether it is mobile banking, whatever it is, even with your existing current Legacy, it is an other important driver for them. So, that is how we address the sales for segment one, and these are the banks where the deals were not happening so many, but you know, we see good amount of traction across the three geographies, predominantly in Europe and Asia-Pacific, North America not yet in segment one. Segment two is that these global players looking at global opportunity in terms of in a flat world competing with the big as well as the small players in terms of the mindshare as well as the business share. Today, if you look at in India itself, there are so many banks from across the world coming and setting up the shop, and in Europe again there are lots of banks who are going into the Central Eastern Europe as well as the various others, you know, in terms of geographies. So, emerging markets like India, China, Latin America, as well as operating across the world is a good model wherein banks are able to leverage their presence, their effectiveness. In fact, I was talking about the large bank which has chosen to deploy Finacle, you know, we just concluded the deal in quarter one. This bank has a model of going to a country, acquiring a bank, and bringing in the efficiencies, the process efficiencies and start building the results within about, say about two to three quarters, and looking at the key parameters, whether it is a cost to income, whether it is the fee-based income, each of these things, they would have targets to improve, and having a standardized platform, which can be off the shelf for the bank with all the banks products' definition, which can be rolled across is a compelling value proposition, and this not only for acquisitions which they get, but also for the Greenfield. So, if a bank decides to go and say set up shop in the next six months say in China or you want to set up shop in Russia, or you want to set up shop in Germany, and what does it take, you know, do I have to start everything from the scratch, you know, it may take a long time. So, apart from the time to market advantage, the ability to standardize the solutions, the platforms, the processes, the product definitions, thereby reducing the cost, some of the banks from India, which have set up shops across so well, and you know the banks, I don't need to name them, they are able to work in some of these countries like UK, Canada, with a cost to income of about 25, okay, which is a compelling value proposition. Because of that, they are able to pass on additional 25 or 50 basis points of interest, benefits to the depositors, so they have become big, big crowd pullers in those respective markets. So, that is an important segment for us, and some of these, initially some of the banks will start their transformation from these international operations and then they take to the core country as well.

Segment three again this is something which we did not focus in the early years and many of our smaller competitors were taking and joining with that, but it is important for us in terms of having the smaller banks being able to compete. Today, if you really look at an ICICI Bank, which just started about in 1993 or 1994. Today, they are a tier I, but for a bank of that size, a small size, being able to compete with the big boys by leveraging off-the-shelf processes as well as technologies is an imperative. So, that segment is another important...where we have the bank-in-a-box, Finacle bank-in-a-box solution for these segments.

So, overall, the Finacle transformation approach as I said, it is right from the business process engineering to the value mining and sustain, etc. I would skip that because you know you all have the details and each of these are available. This is our overall transformation map.

If you really look at the innovation part, one of the important points for any product entity is that how well are you adding to the IP and how well are you staying ahead of the curve, so that your customers can stay ahead of the curve. So, Finacle has had the history of continuous innovation,

which are right from the enterprise alerts in a multi-entity. These are all very important features for banks to compete, and whether it is wealth management, enterprise wide customer, you know, information case, bank-in-a-box, you know, webel in terms of business rule engines, SOA-enabling, you know, for componentization and line of business deployment, and as you all know earlier this year, this calendar year, we launched Finacle 10, and Finacle 10, we invested close to 60 million US dollars over a period of three years to build that. Finacle 10 stands tall amongst the peer group, not on just functionality and the reach alone, but in terms of architectural supremacy. This is an audited figure in terms of scalability. It can crunch up to 100 million, you know, at least we benchmarked up to 100, it could go more, 100 million transactions per hour, and with a concurrency more than 130,000 users. So, other innovations in the product space, here innovation is more of an applied innovation. It is not an R&D, patent kind of a thing, but ability to enable banks to launch and offer new offerings, that has been the Islamic banking and wealth management. Islamic Bank, I talked about the kind of an opportunity for the banks. Wealth Management, if you really look at, in many countries, the mid-segment is coming up as a mass influence what we talked about. It is coming up as a...you all are dealing with them, don't you? So, today, you do not have scalable solutions, which can really address that kind of a skill of customers, and these are not just a select few of high networth individuals, and the second thing is that, we are looking at a lifecycle of a customer from a Greenfield or from a startup to being a tier-I bank, my banks are also looking at their customers to take them through that. You know, an employee or a customer who takes an education loan, then afterwards going through that, getting his or her first job, then getting the salaries, then getting into the.... So, if you are able to have a seamless solution and enterprise solution, which can transcend beyond the retail into the wealth realm, you know, there is a continuity of loyalty of relationship and stickiness. So, that way, the wealth management solution is a compelling value proposition for customers.

I have a very good case study. Of course, this is closer home and this is an award winning implementation. I get a choice, how many minutes do we have? Yeah, I could take up the case study maybe after the questions or else I will just go through. Federal Bank implemented Finacle in late 2007, and they implemented more than 500 branches, and in close to nine months, less than nine months of timeframe, they have used Finacle platform extensively to stay ahead of the curve now. They are 100% on Finacle, and this is apart from being the fastest implementation and winning an award in the Asian Banker, essentially the business benefits are multifold in terms of flexibility to rollout innovative new products and enhancing the regulatory compliance and looking at various new things coming up right from the NEFE etc, enhanced service, enhanced client acquisition, and integration across the application suite. So, they were able to bring up the up-time. They were able to reduce the amount of inefficiencies in the system by smartly re-architecting their products using the standard infrastructure available in Finacle, and using the parameterization effectively and without any customization they were able to launch lots of new products and features including the statement processing for some of the stste of the art areas in the business, and they have also been able to launch the trading, mobile banking, various other things.

So net-net if you really look at, ultimately the business value proposition as well as the strategies for us at Finacle are largely determined by the markets for our customers, and how they are competing, how they are surviving, and how they are able to achieve what they are achieving, and how we can make them better. So, very closely connected with the industry, and this is some accolades from the industry as well as from the customers as well as industry experts. So, there, I end the presentation. We could take questions. If there is anything of my presentation, I need to go in little more detail. Yes, you want to speak in the mic?

Rishi Maheshwari

Hello, my name is Rishi Maheshwari representing Centrum Broking. I would like to know over the last few quarters, which geography have you seen more traction from. Are the price points for the same module sold in Europe and America and India, are they the same or are they different?

Haragopal M

Definitely not the same because in a product solution, there is value-based pricing. It is the amount of impact what you can make, so definitely the price points need not be the same, you know, I am talking about the overall offering, and second thing is that there is nothing like a one price point, you know, it depends on the scale, size, complexity, and what all they want to achieve. Based on that, what all modules or deliveries we would license to them. Based on all these things, the price can be very different for a tier I bank versus a cooperative bank.

Rishi Maheshwari

Let us say that the modules are exactly similar and how can you see selling the same module in Europe and America, so when you will pitch a higher price point?

Haragopal M

No, it is not the question of...that is what I said in the beginning itself, you know, it is not so much the like-to-like comparison and the feature because features do not at the end of the day make anything. For them, how much, what is the difference it is making, okay? So, some cases, yes of course, you need to really have different set of features, and if you really look at in this, it is not just license alone. You know, if you just buy a license, you know, buying is different from using and using is different from getting benefit from that, so essentially how well it is deployed, and there are professional services associated with that. There is a consulting element with that. There is a process redesign element in that. So, based on that, there is a variance in terms of what you say like.

Rishi Maheshwari

Alright. Just one more, what is the status of adoption of the SOA based core banking system so far you will see?

Haragopal M

Quite high

Rishi Maheshwari

As a percentage of the last few banking solutions we sold, what could it be?

Haragopal M

I can't comment on the other players, but you know, essentially it makes tremendous sense for these reasons, let me tell you why, you know, it is not so much of a technology thing, it is more of a business thing. When I have a large bank, you know, I can't really do a replace kind of a transformation, you need to do LOB, line of the business made and then afterwards so, and also it is not...even if you have universal banking solution, you don't replace 100% of the existing, you may go 80, you may go 60, depending on what all the things they would want to put in. So, the rewiring element, etc, so this definitely requires service orientation not only in the core theme, but in their surround applications which they are going to replace or bringing in their efficiencies. So, as an acceptance, it is quite high.

Rishi Maheshwari

Thank you so much.

Male Speaker

not audible

Haragopal M

Let me just give you an outline of.....

Male Speaker

not audible

Haragopal M

Sure, sure, I will address both. The efficiency effectiveness is very simple. Let us take a large bank, and today, some of the large ones may have cost to income even in....depending on which geography you look at, some of them could be in high 60s, mid 60s, or may be early 70s or something, okay. Wherever they are able to have good NIMs, good fee income, etc. They are able to afford, but when your competition increases, you know, one of the important element is that how could I do more with less. That is universal for any business, and the efficiency part, it is not so much the technology per se, but essentially technology being the driver for us bringing in the process efficiency. The processes, over a period of time, is nothing but the core business rule plus the limitations being brought about by various systems they would have used over a period of time. That means you know there is a core compliance issue or a core business accounting issue, the rule around which what are the limitations their previous systems are like, so when you are talking about the process, re-orchestration and re-engineering, whatever name you call is the ability to what you say peel off the things which they do not require and what are the newer efficiencies they can bring in using the new application. So, in some markets, it could be as simple as, you know, doing the whole business by categorizing the front-office, back-office, mid-office kind of a thing. What is that my teller should not be doing or need not be doing, can I get it done by internal offshoring into the back-office or a mid-office. So, these are the cases where you get lot of efficiencies. Second thing is that your time to market advantage in terms of many of these new products, they need not be a kind of Eureka kind of innovations. You could still have an application which gives that kind of an infrastructure, which can enable the plug and play. Today, I can give you example of Finacle itself. There are banks who are able to..... you know closer-home you see many banks as well who are Finacle customers launching those product services like that, anywhere between 60 days to 90 days, okay, and if I have to really start writing the requirements, procuring the platforms, then afterwards developing it, testing it, and deploying it, you can't do that. So, you need a flexible enterprise-wide system, which not only takes care of such business requirement, but has an accounting and what you say, the exposure impact for that customer across the system. So, that is where, you know, an enterprise solution like Finacle makes a lot of sense in terms of the time-to-market. to launch new products, the ability. and still it being able to innovate, launch that. So, different markets have different needs. Markets like India where still we are 600 million non-banked, it is more of an opportunity of client acquisition, but if you go to Europe, etc, it is not so much the client acquisition. Everybody is banked by one bank or the other. There, it is ability to cross-sell your products and services. How much of the customer, you know, by, it is not only within the Finacle ecosystem, but across the enterprise, using an enterprise case, how much do I know the customer beyond just the KYC norms, so that I can understand his or her preferences and patterns, and based on that do cross-selling, okay. So, cross-sell is a big driver for them in terms of bringing this. When we commissioned about six months back a survey through a consulting firm in Europe and across the rest in Europe, and every country, every CEO or CIO said it is not that if I need to transform, it is then I need to transform. How long can I really survive this My Legacy versus.....so, you know, it is a pain versus gain, it is pretty clear in their minds, and the leap of faith is something which they take, but in some markets, they are able to take that leap of faith, either because of the gains factor or some cases even the pain factor.

Coming to the second one, in terms of the readiness, our product has been a solution which, as you have seen over a period of time, had been consistently innovative. There are certain things which you call gaps, there are certain things which you call the wow factors. Gaps part of it is more in terms of the functional part of it, which can be as and when you train your eyes on your market, you know, immediately, you have been there. Like for example we trained our eyes a couple of years back on Europe, and we put in all our focus and energies on that, and last year, Europe business has grown more than 100%. So, from that point of view, consistently, like I talked to you little while ago the high case, the industry watchers have been saying that the inertia factor has been higher in some of the markets versus theirs, whereas you know there they did not have huge investments into the technology and the solutions earlier. Those are the markets which could jump into the transformation much faster. So, Asia-Pacific has been, you know, right from the South East Asia, South Asia, and Australia, etc., they were able to bring it much faster. So, now, we are in the same cycle now. Now, we are seeing that larger interests in the markets like North America for the transformation. So, we have good amount of it as far as our own products are concerned like channels, alerts, all these things. On the core part of it as well we have been making investments in some of the areas like lending and you know front-ends, etc. That is where we are able to compete with few of them.