Transforming Banking

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Good afternoon. My presentation today afternoon will cover all the exciting things that have been happening within the Banking Business Unit. The agenda, which is on slide #2, is 'Banking Business Unit and Overview - products and solution offerings' and the summary.

Moving onto the next slide, which is slide #4, that is the banking business unit and overview. This slide really gives the growth that we have seen in the last four years from March 1999 to March 2003. Revenues have grown from $3.7 million to $34.62 million, employees from 237 to about 700, customers from 25 to 78, and the countries where these customers are located (customers are all banks), have grown from 8 to 21. So, as you can see in the last four years, we have traveled quite some distance in terms of revenue growth, in terms of customer acquisition, in terms of country penetration. On a CAGR basis, the revenue represents a growth of 75% over the four-year period, which perhaps is one of the highest within the space of banking product vendor. A BBU offers end-to-end banking product solutions under the Finacle brand covering core banking, consumer and business, e-banking that is the internet banking, CRM, and treasury.

Next slide, which is slide #5, gives this information pictorally, CAGR of 75%, $3.7 million to $34.62 million. If you want to see the revenue split, in March 2003, the split between products and services was 68% and 32%. 32% included the ATS, which is the annual charge that we levy for supporting the customers and the installations which was about 13% of total revenue. So, that was the split between products and services.

Moving onto the next slide, these numbers basically have been made possible because of winning significant deals for centralized core banking in the South Asian region, India, Srilanka, Nepal, and Bangladesh in the last seven months. We have emerged as a clear market leader in India. India is today one of the most attractive markets anywhere on the globe because a lot of banking needs to be modernized, needs a lot more of technology input, and the banks are now aware and realize that unless they invest in technology they are going to be left behind or this lack of technology investment is going to emerge as a significant weakness. So, it is an important market. Over 60% of the market share in the centralized core banking solution spans across multiple segments. This is an important part that our success is not restricted to one segment of the market place. We are there in the first generation private sector bank, in the second generation private sector banks and in the public sector banks. Five of the public sector banks have decided to go in for centralized core banking solution. Three of them have chosen us, the remaining two have chosen one vendor each. So, basically if you take the total market place, it is 60% with us. I am talking of the public sector banks market place, 20% with one vendor, and the remaining 20% is with another vendor. So, we are the three times the second vendor in this particular space. We are there in cooperative banks. Cosmos Bank of Pune is with us. Foreign banks - ABN Amro. Now the purpose of showing this is that at the end of the day, technology has a lot to do with people and the success really comes from being able to operate in different segments because each segment is different. If you have dealt with these banks, you know what I am mentioning. These banks are different because each bank has a huge history and history means legacy, history means entrenched view of looking at things and doing things. So, to be able to work, these different sectors are in my opinion, a key strength, which we have demonstrated.

We also have 60% market share in the retail internet banking solution space. Finacle core banking is powering some of the largest sites in India. Now, this is also an important piece of statistics. There are 10 banks in India who have more than 100 branches running on a centralized core banking solution. Eight of them are using Finacle, which clearly establishes the scalability of the product, the ability of the product to handle an environment where the communication links go through some real challenges in terms of terrain, in terms of differing levels of communication infrastructure in different

parts of the country, and yet we have this kind of statistics on our ground. The largest core banking installation in India, which is ICICI Bank, is powered by Finacle core banking. They have about 400 branches running in a centralized environment using Finacle core banking. But that is about India. We have also been successfully extending the global footprint.

We are already in 21 countries. Market domains in West Africa, particularly Nigeria where we were actually able to rewrite the implementation story. When we went in there about 3½ years ago, the market was used to an implementation time schedule of 12 to 18 months. When we said that we will do it in six months, we were laughed at. People said, this is Nigeria, you can never do it in six months and as we know, the very first site we were able to get up and running in under six months. Subsequently also we have kept up this track record of ensuring quick implementation. This is simply because we believe that the banks are there not to spend too much time on implementation. You need optimum time, but all that is happening by putting in new technology is that you are changing the engine of your car. You still need to get behind the driving wheel and you need to go, you know to zoom past your competition, and the earlier we can put that engine in place with minimal disruption the better. And this one area we really focus on.

We have acquired through our Finacle treasury product, 3 top-tier commercial and investment banks from US, Europe, and Japan with asset size of over US $500 billion. This is a large banking and financial services group from Europe. Finacle treasury powers one of the largest dealing rooms in the whole of Europe. It is being used in Europe and USA since 1995. The other key customer we have won is in Caribbean, this is the National Commercial Bank in Jamaica. This is the largest and oldest commercial bank in Jamaica and one of the largest in the region. This is our customer for the full Finacle suite of solutions. I think this is an important part, this is a customer who is using the entire range of our solutions of our products. Then we also have key services from Infosys, not all of which are offered by Banking Business Unit. For instance change management, leadership development, which is offered by our ILI, Infosys Leadership Institute. They have utilized these services and have found them extremely useful. We have been providing them with what we call application-led business process reengineering. Unless we have the processes changed to suit the new technology, the banks or the customers are not able to derive full benefits from the investment in technology. Knowing this, we offer this service and this has been becoming quite popular. Security consulting is also offered by us as well as one of the units within Infosys.

The next slide, slide #8, gives the customers across the globe - 78 banks across 21 countries. Some of the leading clients include ABN Amro, ICICI Bank, largest bank in asset size based in Japan, one of the largest investment banks of US. These two names are not mentioned because when we acquired the product, we are bound by the confidentiality agreement.

Today, we are a team of 700 professionals both in the technical and domain streams. We have a number of bankers who have worked in foreign banks, Indian banks, banks outside India. Effectively we have a domain expertise which spans the entire banking experience. I think this is an important point because the banking in some respects tends to be quite fragmented. The way a particular bank will handle transactions can be…, at the top level might appear to be very marginal difference, but the reality is that when you look at it from a systems point of view, it is a significant difference, and since these are the systems and the processes that banks are comfortable with, you need to really understand how they operate and you need to understand what their view of banking is. So, we have this kind of skill-set on the domain side as well as on the technical side, where we have a very remarkable depth in terms of understanding all the technical issues as well as the domain issues.

Our key mantra for faster and smoother implementation, empowerment and enabling of the core team of the bank - We really believe that when we walk out of the bank, the bank should be able to run the installation without coming back to us. To that extent, we gave a lot of emphasis on training. We started with something which has been well received, we call it Executive Appreciation Program. We suggest that the CMD of the bank himself attend this particular program, which runs from anything between 2½ to 4 days. This gives the complete view of the change that is going to happen in the bank because typically what happens is that the banks take up the project with great amount of

enthusiasm but then somewhere along the line the enthusiasm goes away. It has been sort of mentioned humorously that there are five stages in a typical technology project. The first stage is excitement, because people feel that a new system is going to come in, it is going to change their lives, and it is going to add a lot of power to their ability to service customers. Then comes the next stage because the communication is not properly managed and because things are not appearing to be as smooth as they probably expected, it is the stage of confusion, where people start feeling lost, people start wondering whether they are going in the right direction. Then comes the stage which many of us may be familiar with is called search for the guilty, where people start wondering who got them into this mess in the first place, which is typically followed by punishment of the innocent, and then ends up with distinction of the uninvolved. So, this is one area which we have to realize that whenever you are implementing a system, you are really changing the organization, and unless you have a commitment right from the top and that commitment has to be reinforced through a good input of knowledge to the top management, so they understand as to what the entire change parameters involve. So, we insist on a right composition and ideal core team to perform their activities hands-on, to build confidence in them. So we actually get them, take them through the processes, get them behind in front of the computers, let them handle the processes themselves, which really builds the confidence. We spend a lot of time and focus in training the trainer who then goes out and trains the remaining part of the banking. Through this approach we are able to withdraw onsite support fairly quickly, maximum that we had had to do was less than two months. Core team of one of the largest public sector banks did the rollouts all by themselves with no support from our end. This is really the crux of the success that we achieve through training, through getting the commitment right from top, buttressing that commitment through proper input of training right from beginning, right from the top. One of the largest banks of Nigeria that carried out rollouts in 66 branches in 3½ months, post pilot, again with limited support from our side. So, this again is enabling part of the strategy, which is something which is appreciated by the market because once the customer realizes that he can control his own fortunes, he can control the speed at which he is going to rollout the system, I think he is a much happier customer than somebody who has to come to the vendor all the time.

We also have an approach to risk mitigation policy. For each project there is always a risk. We identify the risks with the customer and come out with the risk mitigation policy, which also includes an escalation policy – where, how and in what way are the issues to be escalated. Our philosophy is to be an integral part of the bank's transformation initiative and not just offer a typical application vendor. Here again, I can quote a number of examples where we have received kudos for being an integral part of bank's transformation and really adding value by telling them how exactly to leverage the technology, how exactly to get full benefit from the investment that they have made in technology. I will just read out a quote from Mr. Herp Philips, who is the member of board and director - transformation initiative of National Commercial Bank of Jamaica. Herp says and I quote, "...but beyond that we draw comfort in knowing two things that Infosys offers. One is their superb risk mitigation policy that they have and secondly implementation, that they never had a failure. That gives us a lot of comfort." So, basically a risk mitigation policy and a focus on implementation, because the moment of truth as far as we are concerned is when the person at the counter believes that this is a good system, and he will believe that he is properly empowered, he is properly trained, and he is properly supported.

So, again on the implementation side, 70% of projects have been completed on time, 26% of the delays caused due to delays in infrastructure readiness or external factors, 4% delays cause when the customer has changed the scope. So, a very large proportion of our projects have been on time. 31 out of 35 core banking customers signed prior to March 2003 are already live. Now, this is again an important piece of statistics. It shows that customers have gone live, minimum is the pilot stage which could include anywhere from 4 to 7 to 10 branches. In case of 31 out of 35 customers who have signed up before March 2003, an average implementation time frame of less than eight months and the shortest being four months from project initiation to pilot going live. Now there is a lot of variation between various types of implementations. There is a big bang approach where you convert all the branches in one go. In National Commercial Bank of Jamaica, we followed that. A phased rollout approach, which is fairly common where you do a pilot and then have branches rollout over every weekend sort of a thing. Modular rollout, which is first live with retail, followed by trade finance where

you go module by module and while the pilot branch will take a certain amount of time, once you have perfected your technique you should be able to rollout pretty fast. Let me give you statistics here. Punjab National Bank some time in December 2002, they had about 12 branches live, by March 31, 2003, which is the span of just about 3½ months, they had reached a total of 101 branches across the country covering different regions. As we speak today they have reached something like 210 branches. So, I am just alluding to the speed with which rollout can happen once the pilot phase has been properly settled down and you have learnt your lessons from the pilot stage and you have incorporated these lessons into your rollout plan.

We have replaced various systems, main frames, A-400 based systems, open systems, netware base systems. In terms of vendors, we would have replaced systems of almost all the vendors who are prominent in the banking space today.

We have a partnership strategy. We have a global alliance with Sun Microsystems, strong partnership with Oracle, Intel, Microsoft, Accenture, complementary solution providers Oracle, NCR, NewGen, service partners to extend and enrich customer value proposition. So, what we have are the partners who go out and are able to provide services to customer around our product to add to the total value proposition as well as take care of certain implementation issues. Channel partners across all the regions that we operate in who act as an extension to our sales effort. These are the people on the ground who have contacts with the banks, who alert us about the possible deals happening or likely to happen.

Let me just take you through the quick solution overview. Our systems are based on open systems and industry standard platforms, tightly integrated suite comprising best of breed solutions. As I said right in the beginning, a total of five products, Finacle Core Banking, Finacle Treasury, Finacle e-Channels which is the internet banking product for retail customers of the bank, Finacle e-Corporate which is the internet corporate banking product for the corporate customers of the banks, and the Finacle CRM. So, if you take the total suite, it covers a large range of what the banks need. The Finacle suite of solutions is the suite of new generation, functionally rich, fully integrated, end-to-end enterprise banking solution from Infosys. So, the basic advantages with the banks are faster time to market for new product and services that span across functional areas, easy customizability and integration of data through these five different systems.

What have we been doing? Let me move on to the next slide. Let me just take you through quickly as to what we have been doing about investing in the product. The reality is that no banking product will ever be complete. You need to continuously invest in the product purely because banking continues to change, expectations from what the product should deliver change. So the product needs to renewed, reinvented, and refocussed as we go along. So, in addition to the internal domain expertise we have, we have a regular system of periodic briefings and joint review with leading industry research firms and consultants. We have acquired a signature capture and display system. This was already being offered to customers through a third party solution. This acquisition was to de-risk our dependence on the third party for providing this small but crucial solution. So, it was really a de-risking strategy. This solution is now being enhanced to include signature verification. So, it will have some intelligence built into it, which will enable it to compare different signatures and bring out things like in a typical corporate account depending on the amount, the certain combination of people can sign the cheque. So, instead of searching that out as soon as it looks at the amount, it will be able to generate the list of people who can sign on cheque of that particular amount.

We have also acquired the right to the source code of CRM solution. This solution completes our end-to-end story. Finacle CRM is a banking specialty CRM solution focussed only on banking. We have already added and successfully deployed a new module called loan origination module, which has found good acceptance in the market. I have already referred to a Treasury Solution, which fills long standing gap in our solution set. Integration with other solutions is largely complete.

Next slide, is on the Finacle suite of solutions, which is truly world class. They are feature rich and proven. I have given statistics and data, robust, and scalable, as well as secure. Finacle Core

Banking has been certified COBIT compliant. COBIT stands for Control Objective for Information Technology. This is the framework, which looks at the security features of a particular product. This particular framework is now compulsory, which means all the banking software sold in United States need to be COBIT compliant. They need to have a certification to say that this has been audited by auditor to prove that it is okay on the security side. We have had this audited by Ernst & Young. So here again we are offering highly secured product or highly secured range of products.

Moving onto the next slide, this is quite a key slide in the sense what the slide provides is information about what is it that the banks look for when they are changing technology platform. From a bank's point of view, changing of technology platform is a risky proposition. It is risky because there have been many cases of the change not being successful. There have been many cases where the customers and the vendors or the banks and the vendors have been locked into conflict. In some cases it has even ended up in the courts or in arbitration. So, basically from a bank's perspective it is the technology platform that is extremely important. This is the platform which will touch most of the people in the bank, it will touch the customers. So it needs to be absolutely perfect, and while changing it there are four major risks that the customer or the bank needs to really look at.

Let me start first with the vendor risk. Basically what the bank needs to be sure about is that the vendor is: a). financially strong and is capable of investing in the product for long period of time. This is absolutely necessary because banking is going to change, banking continues to evolve on an ongoing basis, and no product as I said will ever be complete. So, is the vendor able to attract the talent? Is the vendor financially viable enough to recruit good quality people? So, vendor viability becomes an important part in the evaluation of the vendor or the change with the new platform that they are looking at. The other part of the vendor is - is he focussed on this particular line of business? Here again, because you know they need a commitment that he may be viable and financially strong, but is he committed to growing his particular business. Now, on both these accounts, we are fortunate to be part of Infosys, where our vendor risk is pretty low because as Infosys we are strongly focussed on BFSI segment and the product is an integral part of this focus. Equally, in terms of financial viability, we are easily one of the strongest, if not the strongest company. The next risk is product risk, which is to look at whether the product is functionality wise is it rich? Is it scalable? Is it proven? Has it been implemented successfully? Now, here again the data will show that our product range is functionally rich, it is scalable, it has been proven on the ground, it has been working with many banks in India, outside India in 21 different countries day in and day out without any breakdown or any of the issues getting thrown up. The next risk that the banks look at is the technology risk. Is the technology proprietary? Will it lock the bank into a proprietary technology which will make it difficult to connect with other technology platforms? Is the technology state of the art? Is the technology available in the market place and the technology expertise available in the market place on a large scale.? Now, each of these parameters again, our product range stands out pretty well. We are on open systems. Our core banking system is web enabled and web paradigm is here to stay, it has grown stronger and stronger. All the top-notch vendors, IBM, Sun, HP have invested tremendously in this particular paradigm. So, it is not a proprietary technology that we are using, it is something that will enable the bank over a period of time to ensure that it is able to source the skill sets from the market at an affordable price because they are available in fairly big ways and sit in an industry standard technology that we are using. The last risk that they look at is the implementation risk. Here again, I will not labor the point. It is one of the strong features we believe that we have. Implementation includes empowering, implementation includes making sure that the bank is able to support the installation on its own after we have walked off or after the implementation is over, because as I said once, the real moment of truth is when the product is implemented well. You can have all the three risks well covered, you can have a good vendor, you can have a good product, you can have the state of art technology, but if you are not able to implement it well and implementation means as much about people as about technology itself And if you are not able to implement it in different markets and within market in different segments then you know you are not able to give full value to the bank. So, in all these four risks, which the banks evaluate, we are well placed. I have given you data to prove that we are pretty strong in all these four areas and therefore we believe that we have compelling, interesting, and an extremely effective value proposition to offer to the market. Thank you.