



## INFOSYS ANALYST MEET

AUGUST 18, 2011

### FINANCIAL SERVICES AND INSURANCE

#### CORPORATE PARTICIPANTS

**Manish Tandon**

*Infosys Limited – Head – Business IT Services, FSI*

#### INVESTORS

**Viju George**

*JP Morgan*

**Diviya Nagarajan**

*UBS*

**Manish Tandon**

Thanks, Shibu for the opening remarks and thanks all of you for braving this weather and being here. I can promise you that the prognosis for FSI in Infosys is better than the weather outside. I am going to talk about some of the stuff that we are doing in FSI which makes this prognosis actually better.

FSI is the largest operating unit within Infosys. We service about 200 global financial institutions, we have over 25 years of experience, we work out of 22 global development centers, over 30,000 associates, over 70% of revenues come from Americas and about 12%-13% from Europe (excluding Finacle). As you can see, we have the scale and muscles to make a difference in the market.

As far as revenue growth is concerned we have done pretty well. In FY11, the growth rate of about 33%. We have always wanted to work with the top clients in each of our subsegments and our top clients have always wanted to work with us. As you can see from our client profile, 6 of the top 8 US banks are our clients, 4 of the top 6 European banks are our clients, so on and so forth. You can see that we are well spread globally across the geographies and we are very well positioned to provide end-to-end solutions to our clients across the globe.

Shibu in his remarks talked about the 3 key service offerings and we in FSI are geared towards making sure that we get a significant portion of our clients' budgets that they are spending on IT Services, on Transformation and on Product Platforms, and Solutions. If you look at the revenue split, about 70% of our revenues come from Business IT services, about 25% from Consulting and System Integration and about 5% or so from Product Platforms and Solutions.

You would have read that Infosys has been rated as one of the top 15 most innovative companies and we continue to want to innovate for our clients and with our clients. The areas that we are focusing on from an innovation perspective are Mobility, Social Media Solutions, Cloud and Services, and of course, Finacle continues to be our flagship product in this space.

From pricing perspective, the traditional models are time & materials and fixed fee. About 65% of our overall revenue is time and material and about 35% or so from fixed price. We are seeing increase in traction on value-based variable pricing model. About 5% of our revenues are coming from these value-based pricing models.

What is happening in the FSI space? Incidentally, this data is from a report, which was published on 12<sup>th</sup> July and as we all know, the world has changed a little bit post that. As far as the analysts predictions are concerned, they are predicting good growth in the FSI sector spending. This is across sub-verticals like banking, securities and insurance. They are saying that the spending would be up to about \$700 bn which is about 20% growth over the next four years. We are talking about a CAGR of about 4% which is pretty good. They are saying that banks both retail, wholesale and insurers will continue to spend in these areas. If you break down these numbers, from a services perspective also, as you can see the growth is happening and it is slightly more robust than the overall numbers that are shown here.

As I said, this report was published on 12<sup>th</sup> July and the world has changed a little bit post that. As you all know, the recovery has been very shaky, very weak, the GDP growth rates both in US and Europe continue to inch along rather than gallop, the unemployment rate continues to hover around 9%. The credit off-take continues to be weak which means consumer spending is not picking up as much as people would like to see it despite very, very low interest rates and in fact, negative interest rates in some cases.

With that said, what is also happening as an aftermath of the financial crisis of 2008-2009 is that there is a plethora of regulations out there. Perhaps the mother of all regulations is the Dodd-Frank Act. We have also seen that Basel-III is going to have a very profound impact on profitability of banks. There have been changes in the accounting standards and various new and old regulatory agencies are exercising their muscle. Banks and financial institutions continue to be relatively cautious in their spending. But where there is a change, there is an opportunity. There is opportunity for people who are smart and nimble enough and we in FSI intend to take advantage of the opportunities that this environment is presenting to us.

What we are doing from a differentiation perspective is that we are sub-segmenting the market and we are emphasizing that to our clients. We are investing in these subsegments to make sure that we can advise our clients on the changes that are happening, we can demonstrate that we are aware of the challenges and we have answers to some of their problems and we continue to invest in building key capabilities and accelerators which will help our clients get the solutions to their business problem faster, cheaper and better.

What I am going to do in the next few slides is talk about each of these subsegments. What are the key trends that we are seeing in these subsegments, what is our response to those and some of the case studies that we want to highlight as far as these subsegments are concerned.

If you look at Securities Trading and Processing area, with prop trading gone from financial institution portfolio, they have realized that they need to move away from the 'risk' business and focus more on the 'flow' business. They need to create newer instruments and offerings around getting their clients to trade more and they need to change their focus on risk to make it single counterparty view of the risk instead of looking at counterparty risk at an LoB level. The second area that we are seeing in this space is that because clients want to focus on emerging markets, they need greater agility in being able to launch newer offerings. What we are seeing is modularization of the technology and process investments. We continue to see greater emphasis on operational efficiency. Perhaps one of the best case studies in this area would be what we are doing for an investment bank in the Middle East where due to regulatory reasons, they had to hive off their investment banking division and we have been working with them since 2008 in defining their entire roadmap of process and technology strategy. We started with the basics, getting the regulatory thing, AML, KYC kind of things in place and then we are working with them on things like rolling out multi-asset trading place platform and so on. This is a 4-5 year journey with them and this is the kind of transformational work that Shibu talked about which we are doing in this space. We have assisted several large investment banks also in redefining their collateral management platform. The stuff that I talked about on taking a single counterparty view of risk, we are doing it for several large investment banks.

Moving on, in Wealth Management again, the client or the customer is the new mantra. There are 2 or 3 things happening. One, banks want to be able to do more with their wealth management clients, offer them more services. Second is the clients themselves are changing, they desire to remain connected. Previously the wealth management clients used to give off the money and forget about it but now the new wealth management clients are more focused. They want to have more and more touch points with you. They want to remain connected on an ongoing basis. Same is the case with the advisor network. They have to be in a position to service these wealth management clients who are much more connected and demanding. We are doing again some very interesting stuff in this space. We are cross leveraging certain industry learnings from other industries to bring to bear on the banking sector. For example, the retail industry is much more consumer-centric than the banking industry. We are taking a few of our learnings and accelerators that we have developed in that sector and bringing them to bear on some of these engagements here. We are also offering a lot of mobile services for these wealth management clients. Mobile is a very, very high investment area for us and it is a very real need that we see out there as far as our clients are concerned. Again, a case study that I would like to highlight here is perhaps an

example of taking something very mundane which is out there and if you understand the business problem of the clients, then you can take something very mundane which has been around 10-15 years and create a solution for the client needs. The first case study reference here is again for an investment bank where we created a reporting engine for them. Reporting engine is something that I used to do it 15 years back. But the key here was to bring in the technology so that you can create personalized reports for individual clients. That was the business problem and we were able to bring the technology to bear, to solve this age-old problem and bring values to our clients.

Payments in cards - again, there is a lot of regulation and a lot of demand in this area. There are so many banks worldwide that are unplugging their payment platform and putting a new payment platform but the big stuff here is around mobile payment and again we have done a lot for our clients in the areas of defining their mobile payment strategy, be it in terms of security and authentication or be it in terms of giving them some new product ideas to take to the market.

Governance risk and compliance – big-big focus area for us. It is a focus area for banks also and hence it is a focus area for us. Other reasons why it is a focus area for us is that the spending in this area is non-discretionary. If an IT budget is there, everything else will be cut but the spending in this area achieves or gets higher precedence. Here again I have given for example things compliance with Dodd-Frank Act. One of the things is having a centralized counterparty for OTC trading. We have partnered with leading investment banks in complying with this OTC-CCP provision of the Dodd-Frank Act. We have done a lot of work with several large financial institutions on Anti-Money Laundering, KYC, trade surveillance etc. Now what we are doing is bringing all our organizational capabilities together to do what we are calling a Compliance Center of Excellence for our clients where we design their compliance algorithm, we test them on a pilot basis and we implement them for the banks on an ongoing basis.

The last area is insurance and although we have clubbed it together as insurance, what is happening in life insurance, property & casualty versus health are 3 very different things. Perhaps I will talk a little bit more about healthcare because healthcare reform as you know, in the last two years it has been in the news quite a lot. We have invested in the McCamish platform and we have also created IP around Health Exchanges, Social Media and Mobility. We have also created IP around ICD 9 to10 conversion, HIPAA 4010 to 5010 conversion so on and so forth and we are able to create a very compelling value proposition in this space for our clients.

Finally, it is just not about doing projects and putting case studies as far as making an impact and making a difference to our clients is concerned. It is also about packaging this IP and knowledge, that we have gained over the years working across several clients, across several geographies to make sure that we can create solutions and accelerators that can get our clients solutions to their problems in a much faster and cheaper way and in a more quality fashion than if we were to do bespoke application development. Interestingly, we are not just interested in selling these things as products, we in FSI are using these things as key differentiators in the market to help us differentiate against both local and global competition.

Net-net, we think we have the scale in FSI, we have the global presence, we have an end-to-end suite of offerings and skills, we understand our clients business, we have the right strategy and we are very confident that we will continue to do well in the FSI sector as in the past.

I will stop here and leave the floor open for any questions that you might have.

---



**Viju George**

Can you characterize first the activity levels currently in the environment? Are you seeing activity levels in the BFSI sector particularly slowing down as we speak or are you getting any signals checks from your clients on any of the near-term spending patterns? Thank you.

**Manish Tandon**

I would characterize the situation as we saw it in the commentary that we gave in the last quarter's results which is that at least in FSI we are seeing short-termism being prevalent. Clients are not taking long-term decisions. Clients are willing to spend but they are not willing to sign up for a \$100 mn deal for 5 years, instead they are willing to spend a million a quarter with us. We have not seen project cancellations as yet. We have seen conservatism in spending. For example, a client would say that why do not you move a little bit more work offshore for us instead of doing more work onsite. We are not seeing project cancellations but we are seeing conservatism in spending.

**Viju George**

Let me rephrase this? In the last one month, since your earnings call, have you seen any levels of activity dipping or are you saying it is just the same as that time?

**Manish Tandon**

I think that is what I tried to answer that the activity levels have been constant. They have not dipped. They were not very robust even before that. We have not seen activity levels dipping. We have seen conservatism in spending which in some cases will work to our advantage. As I told you, there clients who are saying that instead of operating at 70% offshore, why don't you think of operating at 80% offshore. So some of this actually will work to our advantage overall.

**Viju George**

Thank you.

---

**Diviya Nagarajan**

Thanks for the presentation. You spoke about governance and compliance related spending. How is this activity level? How much of your client budget today is being spent on this area and how is this different from how it used to be in the past?

**Manish Tandon**

If you look at the Dodd-Frank Act, it is a huge act with huge implications. In fact one of the reasons why at least in FSI we are seeing some amount of short-termism is that the implications of Dodd-Frank Act have still not been fully understood by the FSI sector and hence they are holding on to their budgets not knowing what else is coming down the pipe. So lot of activity is happening because of regulation and compliance. I would not be able to give you an exact figure of what percentage of spending is going there but if you look at traditional bank IT spend, 60-65% is keeping the lights on and 35% is doing new stuff. I think that of this 35% if I were to put a number out there, I would say at least 30-35% is going towards regulatory compliance issue.

Okay, thank you. Thank you for your time.

---