

# Cognizant and the Western European Banking Sector

## European IT Opportunity: Financial Services

INSIGHT

#FI11N

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### FINANCIAL INSIGHTS OPINION

This Insight deals with the first Cognizant European Analyst Day, held in London on July 11, 2006.

Financial Insights believes that European banking institutions will increase their use of offshored IT and BPO services. In this context it is relevant to analyze the players that are gaining momentum in this marketplace.

Cognizant is a company headquartered in the U.S. with Indian origins and delivery capabilities that is showing notable results in the mentioned competitive arena. The most important are:

- Cognizant has already established a good customer basis among the biggest Western European banking institutions
- Cognizant is not only serving European clients but is also building delivery capabilities in Europe, through acquisitions and organic growth
- Cognizant invests heavily in building internally a strong industry knowledge, which is correctly recognized as the main issue in order to tackle the financial services industry
- Cognizant has established a strategy for further growth in Europe, taking into consideration major constraints such as cultural and language barriers.

Financial Insights believes that Cognizant is well positioned for further growth despite the fact that its global presence and geographical differentiation is today still quite weak (87% of revenues come from the U.S. and the vast majority of delivery capabilities are located in Asia). Another constraint that Cognizant will have to take into consideration is the fact that cost reduction is no longer the main focus of European banks, which are instead moving their attention to revenue generation. In those countries in which cost cutting is still a major issue, such as Germany or Italy, the cultural clash could be stronger. In addition, in these countries the fragmentation of the banking market could be another difficulty since small banks often do not reach the minimum critical mass to justify an offshoring project.

## **IN THIS INSIGHT**

This Insight reviews the announcements and messages of the first Cognizant European Analyst day held on July 11, 2006, in London.

Cognizant executives illustrated their growth strategy in the European region, their differentiating factors, and the results already achieved in this marketplace.

Financial Insights presents its view on the path that this U.S.-based company, with Indian origins and delivery capabilities, is taking within the Western European banking industry.

## **SITUATION OVERVIEW**

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### **Cognizant in the World: A General Overview**

Cognizant Technology Solutions is a global provider of IT services. Despite being headquartered in the U.S., the heart of Cognizant resides in India, where it also has its origins and the vast majority of its delivery capabilities. Cognizant is a public company listed on the NASDAQ stock exchange (CTSH) and is a member of the NASDAQ-100 index.

Cognizant has grown extremely quickly in the last few years and today can be considered one of the big Indian information technology companies. Revenues for fiscal year ended on December 2005 accounted for \$ 885 million and the company has 24,300 employees.

From the U.S. Cognizant derives the biggest slice of its revenues; in 2005, 87% of Cognizant revenues came from North America, 12% from Europe and the remaining 1% from Asia.

For what regards the revenues split by industry, Cognizant most important sector is the financial services, from which it derives the 50% of its revenues. The second industry is healthcare (20%) followed by manufacturing retail and logistics (19%).

The IT services that Cognizant offers to its clients are focused on software development, application integration, and maintenance services. An additional area on which Cognizant is investing and that is expected to grow fast is enterprise consulting.

**TABLE 1**

## Cognizant at a Glance

Area	Data
Headquarters	U.S.
Business focus	IT services
Delivery centers	India (7), China (1), U.S. (2), Europe (1), Canada (1)
Revenues FY 2005	\$885 million
Employees (2005)	24,300
Revenues geographic split	North America 87%, Europe 12%
Revenues industry split	Financial services 50%, healthcare 20%
Ownership	Public — listed on the NASDAQ stock exchange (CTSH)

Source: Cognizant and Financial Insights, 2006

### The Offering for the Banking Sector

Cognizant offering for the banking industry covers the following areas:

- **Retail banking.** Cognizant retail banking services deals with the following topics:
  - Branch banking: Account opening and maintenance, retail investment services, and branch network strategy
  - Deposit products: Cash and deposit processing and volume allocation
  - Teller services: Maintaining teller banking information, ATM fraud detection, and processing of overdrafts
  - Online banking: Account management, EBPP, and investment
  - Customer care: Datamarts (customer value management and retail profitability)
- **Consumer lending** including mortgages, auto loans and education loans
- **Cards and payments.** In this segment, Cognizant covers all the main products (credit, debit, private-label, stored value, and smart cards) providing services to all the involved business entities (issuers, acquirers, third-party processors, ISOs, payment solution providers). The covered process areas are: account acquisition, transaction processing, and account management.
- **Wholesale banking.** Cognizant's wholesale banking practice covers commercial lending, treasury/cash management services, trade finance, and messaging and payment solutions.

- **Risk management.** Cognizant offers a range of solutions in the risk management arena covering credit risk, operational risk, and market risk.
- **Corporate services.** In this area the Cognizant primary focus is on benefits administration.

Cognizant BPO offering for the commercial banking industry includes:

- **New account processing** (covering banking, trade, loans, and credit cards across applications processing, account opening, documentation, and funding).
- **Transaction processing** (covering payment processing, fund transfer banking transactions, and mortgage investor services).
- **Account monitoring** (covering collateral management, unapplied cash, credit balances analysis, account reconciliation, and overdraft monitoring).
- **Reconciliation** (of receivables, unallocated payments, and credit balances), customer support (covering issue resolution, loan or balance servicing, credit line revisions, and investment broker support).
- **Collections** (bankruptcy management, risk analysis, and data analytics).

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### **Cognizant Characteristics**

During the first Cognizant European Analyst day held on July 11, 2006 in London, the company presented its strategy for growth.

Cognizant approach to differentiate with respect to competition is to provide a quality service that puts the client at the center of the stage. Cognizant believes it can serve its clients providing more value add and therefore a higher return on investment.

Cognizant wants to reach this goal through a number of initiatives that are described in the following paragraphs.

### **Reinvestment Strategy**

Cognizant invests a large amount of money in discretionary investments.

Cognizant margin stays at around 19%–20% of its revenues. Cognizant declares it is lower with respect to those of its competitors (estimated by Cognizant at around 26%–29%) because of the reinvestment strategy for which it dedicates a part of the money to improve the depth of its services.

### **Attention Towards Industry Knowledge**

The high discretionary investments allow Cognizant to investing in industry knowledge.

One of the ways to achieve this objective is hiring MBA graduates. Cognizant heavily hires from the main Indian schools of management. In addition, Cognizant hires industry skilled employees with different expertise levels.

Combining industry knowledge with a long-lasting technological background is expected to provide high value to Cognizant customers.

### **Culture of Meritocracy**

Cognizant declares career paths are driven by merits. This brings more responsibility and satisfaction within the company's employees.

Cognizant states its employee turnover rates are lower with respect to competition.

### **Transparency**

Cognizant pursues a strategy of sharing knowledge and information both internally among its employees and externally with its customers.

Internally, it provides to employees more occasions for learning and speeds up project delivery.

Externally, it provides customers with a sense of feeling in control and a better understanding of the state of the art of the project.

### **Global Model**

Cognizant is working in order to achieve a global model. The company wants to serve customers worldwide, with delivery capabilities in all continents, leveraging on a global platform and on a global workforce. It is still far from reaching such a challenging objective, but is working in this direction. To date, Cognizant has projects in about 45 countries worldwide and has implemented globally integrated projects for large clients.

Of course, Cognizant does not forget that one of the advantages it can offer resides in the cost savings it can generate for its clients and

therefore the company will always maintain the vast majority of its employees in India and in other countries with low labor costs.

## **FUTURE OUTLOOK**

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### **Cognizant in Europe: An Area of Strong Growth**

In the past three years, growth in Cognizant's European business has been good. Indeed the CAGR of European revenues from 2003 to 2005 was 61%, compared to 55% worldwide. Still this growth has not represented much change in the geographic mix of Cognizant's revenue (Europe represented 11% in 2003 and 12% in 2005), but this has been mainly due to the fact that Cognizant has grown very rapidly in general, and not to a lack of growth in Europe.

Cognizant plans to accelerate growth in Europe, which will be sustained by a proportional growth in headcount.

Today the company has around 800 employees in the old continent (supported by three-times as many offshore employees). It is present in the United Kingdom, Germany, Switzerland, France, and the Netherlands and is managing projects in around 20 cities across Europe.

The majority of Cognizant's European business comes from the U.K., while continental Europe will continue to be an area of heavy investment in 2006 as a growth opportunity for the short-term.

A major step in this direction was the acquisition of Infopulse in December 2003. Infopulse is a Netherlands-based IT services firm specializing in the banking and financial services industry, the acquisition of which has added clients as well as industry expertise and local knowledge to Cognizant's capabilities.

One of the main points for Cognizant to achieve strong growth in Europe is how to overcome the barrier of different languages and cultures and therefore how to reach customer proximity.

Cognizant's approach consists of establishing a deep relationship with customers in order to be aligned with their organization. Cognizant's aim is to combine the intimacy of onshore with the efficiency of offshore global IT delivery.

### ***References in the European Banking Industry***

A sample of large U.S.-based, pan-European and country-specific banks compose Cognizant's customer base, including JPMorgan Chase and Credit Suisse First Boston.

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