KPMG

IT ADVISORY

Knowledge Process Outsourcing

Unlocking top-line growth by outsourcing "the core"

ADVISORY

AUDIT ▪ TAX ▪ ADVISORY

At a glance

- Knowledge Process Outsourcing (KPO) enables clients to unlock their top-line growth by outsourcing their core work to locations that have a highly skilled and relatively cheap talent pool. We consider this to be the single most important factor that differentiates Knowledge Process Outsourcing from its predecessor, Business Process Outsourcing (BPO).
- KPO is about "intellectual arbitrage". This differentiates KPO from IT Outsourcing (ITO) or Business Process Outsourcing (BPO), both of which emphasize cost arbitrage. KPO is characterized by niche offerings, highly skilled staff and a relatively small scale. It cuts into the traditional "core competencies" of many organizations.
- Knowledge processes are fundamentally different from business processes, with clear differences in process complexity, skill sets and scalability.
- There is a good mix of both third-party and captive structures in the KPO industry at present. KPMG expects hybrid multi-sourcing models of KPO to emerge in the near future. They will likely consist of captive units managing relationships with third-party KPO providers.
- Organizations with experience in outsourcing IT and business processes will likely have a shorter learning curve when entering into KPO.
- Acquiring the necessary skill sets, attracting talent, protecting intellectual property and managing conflicts-of-interest will likely be the major challenges facing the KPO industry over the next three years.
- We foresee a significant shift in boundaries between "outsourceable" and "non-outsourceable" activities.
- Activities that are analytical skills-intensive are expected to be increasingly outsourced going forward as KPO providers prove their execution capabilities. Activities that require high domain expertise will likely be at the lagging end of the outsourcing curve as service providers make concerted efforts to acquire these skills.
- Decisions about outsourcing may be accelerated to preserve and increase competitive advantage.
- "Boutique" providers will likely leverage KPO to create new services and offerings.
- The KPO industry's staff qualifications and skill-set requirements are significantly different from those of the BPO industry. This requires KPO providers to develop specialized recruitment and retention strategies.
- The location selection for KPO should take into account the nature of knowledge process work, skill sets, and supporting educational and certification organizations which are expected to produce a supply of talent in the selected location.
- India is currently the leading country providing KPO services. However, other countries have the potential to capture significant KPO market share, by better leveraging the depth and maturity of existing skill sets, and in some cases, their non-English language capabilities.
- Within the KPO industry, legal and compliance departments are currently under resourced and inadequately empowered. This has implications for managing insider trading, conflicts-of-interest, intellectual property and professional indemnity liabilities.

Contents

Foreword

Egidio Zarrella

Global Partner-in-Charge, IT Advisory

The Knowledge Processing Outsourcing (KPO) industry has come of age. Independent researchers estimate the annual value of KPO will reach at least US$10 billion[1] by 2010. Not surprisingly, the financial services sector is leading the KPO charge.

To appreciate what is happening in the world of KPO, picture this: a Wall St equity research firm has made the investment decision to not spend US$250,000 a year to cover a specific stock listed on the New York Stock Exchange. The reasoning behind not investing is that the revenue generated by covering this stock would total no more than US$200,000. As a result, this Wall Street equity research firm would in fact lose money if they covered this specific stock.

Now, take a moment to imagine how the situation would change if the same Wall Street equity research firm could obtain the same high quality analysis of the stock for a cost of US$100,000 a year. It now becomes a viable investment decision to cover this stock.

These types of decisions are now a reality. KPO is the key. In our example, the Wall Street equity research firm will generate an additional US$100,000 in revenue, by outsourcing the analysis of the stock in question to a captive or third-party KPO provider. It gets even better. As more financial model development and even report writing is offshored, US based analysts are free to spend more time developing relationships and communicating their insights directly to investors, in the process boosting the organization's top line revenues.

In this study, KPMG examines leading KPO providers in the financial services space, the kind of work these providers are undertaking, and the geographic locations most likely to attract KPO operations.

This study looks at the financial services KPO space which is driving the KPO evolution. Along the way we aim to show that KPO is a business phenomenon in its own right, not merely an elaboration of business process outsourcing.

Of course, the KPO industry still faces inevitable teething problems. Based on our study we have identified three immediate challenges for the industry:

- Ongoing shortages of skilled resources
- The declining competitiveness of India-based KPO providers as the Indian Rupee continues to appreciate against the US Dollar
- Legal and compliance departments within KPO providers that are under-resourced and inadequately empowered

Many senior executives within the financial services sector remain skeptical of the potential of KPO. I trust this study will help them to develop a more informed and balanced view of this important topic.

1 ASSOCHAM, A study on job opportunities in emerging sectors, June 2007

Pradeep Udhas

Global Partner-in-Charge, Sourcing Advisory

The best offshoring strategies are not based solely on extracting financial gains from labor arbitrage. It is critical that any offshoring is accompanied by a paradigm shift in the delivery of services to achieve optimal business models, otherwise, companies run the risk of simply shifting the existing legacy inefficiencies offshore.

It is a timely warning. Offshoring in financial services is growing in both strategic and operational significance. Shareholders of financial institutions, especially in the current environment, demand a relatively flat expense base with continuing productivity improvement. The response is to continuously analyze business operations to improve efficiencies. Offshoring and associated sourcing strategies are playing a key role in achieving these objectives.

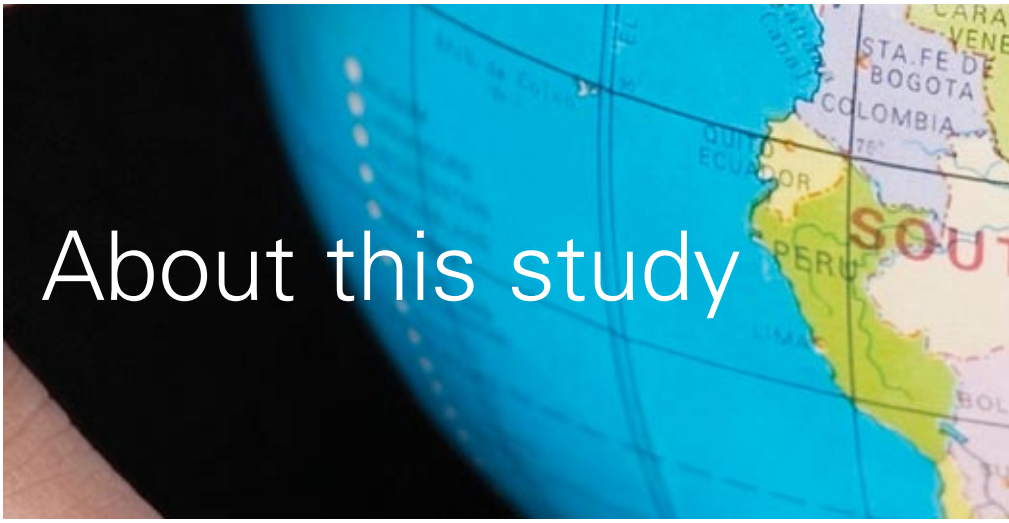
The evolution and maturity of the business process outsourcing sector has given birth to a new wave of global outsourcing in the form of KPO, also known as Knowledge Services Outsourcing.

Success in offshoring business process operations has encouraged many multinationals to start outsourcing key business processes and high-end knowledge work. Cost savings, operational efficiencies, access to a highly talented workforce and improved quality are all expectations driving the offshoring of high-end knowledge based processes. However, without a measured and strategic approach to KPO, organizations run the risk of remaining at the low end of the outsourcing value chain where labor arbitrage benefits are being eroded daily.

KPO offshoring — whether to India, or anywhere else — also raises issues concerning the protection of intellectual property and the management of conflicts-of-interest.

This study defines many of the practices that financial services organizations follow in their efforts to maximize their benefits from KPO and offshoring. This study highlights the key processes and behaviors required to help optimize performance.

I hope this report stimulates readers to find new ways to help optimize their business models to continue to deliver value to shareholders.



About this study

This is a research-based briefing paper written by KPMG that looks at the KPO phenomenon in the context of the global financial services industry. It analyzes financial services KPO offerings on multiple dimensions.[2]

Our study starts with an examination of offshoring strategies in the banking and finance sector and the emergence of the KPO phenomenon.

It then classifies the financial services industry into five KPO domains in accordance with their approach to KPO.

It considers potential locations for major financial services KPO activity, evaluating a number of potential locations in terms of their availability of talent, relative compensation costs, infrastructure costs and government incentives.

Finally, the study concludes with some of our thoughts on how KPO is likely to play out over the next three years.

2 Swamy & Associates have been co-researchers and contributors to this report

Methodology

The study followed a three-stage methodology to analyze the five KPO themes forming the scope of the study.

Pre-evaluation – Initial primary research by circulating a KPO background questionnaire to qualified captive and third-party service providers.

Evaluation – A thorough domain-specific questionnaire was used as a background for in-depth discussions during field trips to qualified KPO service providers.

Analysis – The information assimilated in the first two phases was analyzed and the five themes identified in the executive summary were examined to identify emerging trends in the global financial services' KPO industry.

Terminology

Throughout this document, "KPMG" ["we," "our," and "us"] refers to KPMG International, a Swiss cooperative that serves as a coordinating entity for a network of independent member firms operating under the KPMG name, and/or to any one or more of such firms. KPMG International provides no client services.

Continued Research

This paper forms part of the KPMG publications that seek to address the challenges of Sourcing. It builds on KPMG's thought leadership position, and we invite you to contribute to further research by contacting one of our professionals listed in this paper.

For more information on our previous publications in this area, please feel free to get in touch with one of the contacts listed in this paper.

Executive summary

Outsourcing and offshoring continue to develop and mature as important business strategies. While organizations are still trying to master Information Technology Outsourcing (ITO) and grapple with Business Process Outsourcing (BPO) strategies, they are now faced with a new industry trend: Knowledge Process Outsourcing (KPO).

At the outset it is important to recognize that KPO, also referred to as "Knowledge Services", is different from the more traditional outsourcing offerings and approaches. It cuts into the traditional "core competencies" of many organizations. Moreover, while cost reduction seems to have been the prime motivator of the ITO and BPO waves, "intellectual arbitrage" seems to be the big KPO buzzword.

Various sources of market research predict the KPO industry to be worth anywhere between US$10 billion to US$17 billion by the year 2010. While the level of optimism on industry growth varies, few doubt the fact that the industry will grow at a staggering rate. The financial services sector accounts for a major proportion of the KPO industry. Assuming a conservative growth of the global KPO industry, KPMG expects the financial services KPO industry to be worth in excess of US$5 billion by the year 2010. The predominance of the financial services sector in its outsourcing of knowledge processes has led us to examine the KPO phenomenon with respect to this sector.

Market researchers predict the KPO industry to be worth anywhere between US$10 billion[3] to US$17 billion[4] by 2010.

The KPO phenomenon: is it for real?

This study seeks to examine the existence of a KPO industry that is distinct from the well-established BPO industry. It also sets out to define the factors that separate the two. To do this, we tested five themes that we believe are central to the KPO concept. These themes and their corresponding findings are summarized in Figure 1.

The global financial services industry has been at the forefront of each of the three waves of outsourcing moving from ITO to BPO, and now to KPO. In effect, KPO represents the latest step, in a continuous multi-decade process of value creating strategies, with respect to a typical financial institution's back and middle offices.

There are a number of factors driving the financial services' KPO phenomenon:

- The existing capabilities of ITO and BPO captives and third-party vendors to handle outsourced work
- The availability of high quality and often certified talent (as opposed to sheer numbers) in offshore locations
- Moves to extend sourcing strategies beyond traditional comfort zones
- The relatively standardized nature of the analytics involved in KPO activities
- Global recognition of standards, qualifications, skills and experience required to perform analytical functions
- The continuing push towards global sourcing by many banking and insurance organizations, in the march for greater efficiency and improved economies of scale
- Improved remote project management capabilities, owing to an increased sophistication in telecommunications and other enabling technologies

3 ASSOCHAM, A study on job opportunities in emerging sectors, June 2007
4 Evaluserve, A 'win-win' situation, May 2005

Knowledge processes are fundamentally different from business processes.

Key KPO questions	Findings
What factors (if any) differentiate the Knowledge Process Outsourcing (KPO) industry from the Business Process Outsourcing (BPO) industry?	Knowledge processes are different from business processes in terms of the value proposition to the client, which leads to a clear demarcation in process complexity, the amount of intellectual intervention in the process, the skills required and the ability to scale. While business processes are essentially process-driven and rule-based, knowledge processes involve judgment. By outsourcing their core operations to KPO providers (third-party or captive), KPO clients enhance their top line revenues by being able to make different investment decisions and take on more work than would otherwise be the case.
Which of the two traditional outsourcing models: captive or third-party service providers will likely dominate the industry over the short to medium term?	We foresee the emergence of hybrid "multi-sourcing" models, which will likely consist of captive units managing relationships with one or more third-party service providers. Attracting talent is a critical success factor. While captives are relying on their global brand names to attract candidates, the ability of third-party service providers to better manage career aspirations gives them a recruitment advantage.
Is it essential for financial services organizations to have IT Outsourcing and Business Process Outsourcing strategies in place in order to successfully implement Knowledge Process Outsourcing?	No. While experience in outsourcing IT and business processes will likely shorten the learning curve for organizations outsourcing knowledge processes, there is low process-centricity in knowledge-based work compared with ITO or BPO. This allows organizations who have not historically outsourced IT and business processes to move straight into knowledge-process outsourcing.
What are the significant barriers that are expected to impact the scalability and growth potential of the KPO industry over the short to medium term?	Availability of resources, the maturity and depth of skill sets, the ability to attract and retain talent to provide high-end knowledge process services, the protection of intellectual property and the conflict-of-interest management mechanisms appear to be the largest bottlenecks to the KPO industry over the next three years.
What is likely to be the geographic footprint of the KPO industry over the next three years?	The nature of knowledge-process work entails a set of parameters markedly different from those used for assessment of locations for ITO and BPO services. Depth and quality of skills, industry recognized certifications and qualifications, and the choice of languages seem to be more important drivers than cost alone. This means that countries other than India are in a prime position to provide KPO services.

Figure 1 – Key Findings

KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

What constitutes KPO in the financial services industry?

The financial services industry can be examined in terms of five domains that are characterized differently in accordance with their approach to KPO.

- Insurance and actuarial
- Equity research and investment banking
- Corporate credit, structured and project finance
- Group-wide shared function
- Retail banking and marketing

Specific KPO activities can be linked to individual domains. These activities are of varying complexity as shown in Figure 2.

Domain	High complexity	Moderate complexity	Low complexity
Insurance and actuarial	• Company valuation • Profit/capital management • Capital adequacy/solvency calculation • Long-term liability modeling • Integrated reserving and pricing • Product design, profit testing	• Customer domain and distribution channel analysis • Claims modeling and estimation • Asset/liability modeling • Expense analysis and benchmarking • Product line projections • Discounted cash flow modeling	• Product and channel profitability analysis
Equity research and investment banking	• Update of valuation models • Creation and support for Mergers & Acquisitions (M&A) stand-alone valuation models • New idea generation for M&A deals	• Update and maintenance of product models	• Presentations and pitch books for institutional investors • Preparation of thematic industry reports • New company initiation reports
Corporate credit, structured and project finance	• Feasibility analysis • Cash flow modeling • Credit quality analysis • Loss protection calculation • Stress testing • Scenario modeling • Fair value reporting • Asset-pool performance	• Market research for fixed interest, index linked, credit interest rate swaps and asset-backed markets	• Presentation and graphics • Library, knowledge management and general research
Group-wide shared function	• Product profitability analysis • Framework development • Shareholder return analysis • Capital management analytics • Risk management support	• Budgeting analytics • GAAP reporting support • SOX 404 support • Activity based costing	• Competitor analysis • Sector analysis
Retail banking and marketing	• Fraud analytics • Delinquency analysis • Attrition modeling • Propensity modeling • Product profitability analysis • Credit scoring • Underwriting algorithms	• Strategic customer or domain analysis	• Market research support

Figure 2 – Financial services KPO domain activities and complexity

KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Decisions about outsourcing will be accelerated to preserve and increase competitive advantage.

Geographical footprint of the financial services KPO industry

Our research suggests a positive-correlation between sourcing maturity and geographic diversification. A number of demand side, supply side and macroeconomic drivers will aid the process of the geographical expansion of the KPO industry.

Although India remains the number one KPO destination, our research suggests other countries possess the necessary characteristics which qualify them as potential financial services KPO destinations over the next few years. Figure 3 summarizes some of these potential locations investigated as part of this research, please note that our location analysis does not rate countries.

Country	Current Availability of Talent	Potential Availability of Talent	Compensation Cost Savings	Infrastructure Cost Savings	Political Risk	Overall
India					BBB	
Canada					AAA	
Australia					AA	
Singapore					AA	
South Africa					A	
Ireland					AAA	
Wales					AAA	

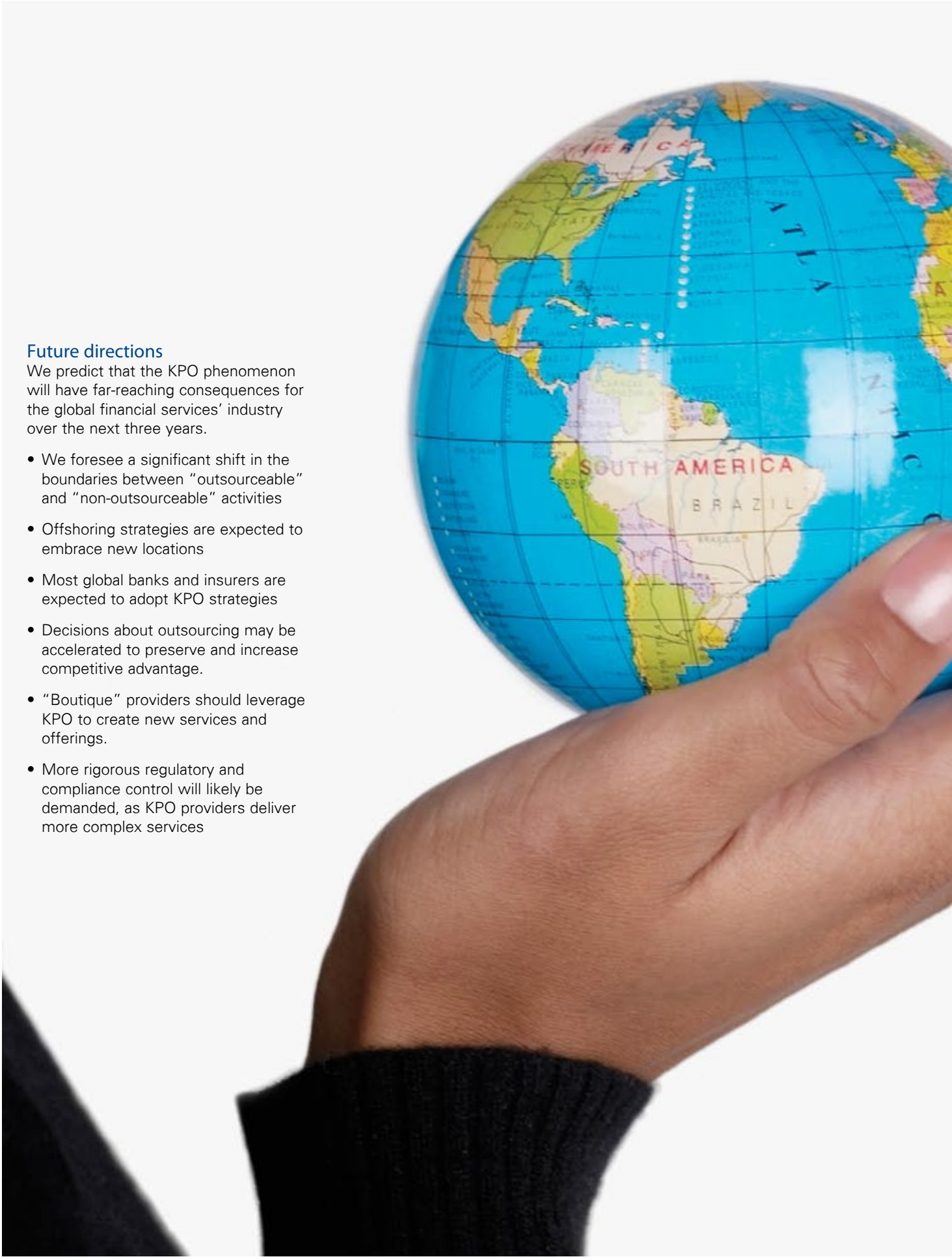
Parameter is most favourable

Parameter is least favourable

Figure 3 – KPO characteristics in key financial services KPO destinations

KPMG, Knowledge Process Outsourcing, February 2008

Political risk rating from Economist Intelligence Unit, "AAA" indicates least political risk and "D" indicates highest political risk



Future directions

We predict that the KPO phenomenon will have far-reaching consequences for the global financial services' industry over the next three years.

- We foresee a significant shift in the boundaries between "outsourceable" and "non-outsourceable" activities
- Offshoring strategies are expected to embrace new locations
- Most global banks and insurers are expected to adopt KPO strategies
- Decisions about outsourcing may be accelerated to preserve and increase competitive advantage.
- "Boutique" providers should leverage KPO to create new services and offerings.
- More rigorous regulatory and compliance control will likely be demanded, as KPO providers deliver more complex services

The KPO phenomenon: myth or reality?

There is a KPO industry that is distinct from the BPO industry with factors clearly separating KPO from BPO. Though the lines of separation are sometimes blurred, the difference between KPO and BPO has been clarified in this research.

Parameter	KPO	BPO
Primary value proposition	Generating revenues (bolstering top- line).	Cost arbitrage process improvements and process efficiency via learning curve and economies of scale across one or more clients.
Staff skill sets	Advanced studies and industry recognized certifications such as Chartered Financial Analyst (CFA), Chartered Accountant (CA), Actuarial Studies, Master in Statistics, Engineering and Master of Business Administration (MBA).	Undergraduates in commerce and finance.
Billing rates	US$10 to US$45 per hr.	US$4 to US$15 per hr.
Process complexity	High complexity, judgement based work.	Basic processes involving standard procedures and templates.
Process quality management techniques	Standard project management applications supplemented by in-house modeling and documentation controls.	Robust Six Sigma driven quality techniques with focus on accuracy of output.
Staff retention policies	• Equity and equity-linked incentives • Technical excellence and globally accredited certifications such as CFA and Fellow of Institute of Actuaries • Lateral movement across various industry groups • Professional growth into client relationship management path	Focus is on monetary incentives such as annual bonuses and increments. However, some BPOs have started focusing on advanced education via MBA programs to retain staff.
Regulatory issues	• Strict conflict-of-interest management particularly with respect to insider trading • Focus on intellectual property (IP) ownership and management issues	• Focus is on Data Protection and Privacy law issues relating to customer data • Compliance requirements such as SAS 70
Scalability driver	Staff capabilities and expertise.	Staff numbers, volume and accuracy of output.
Typical resource cost	US$15,000 to US$40,000 (in India) per FTE.	US$4,000 to US$10,000 (In India) per FTE.
Control over IP	Key controls required over IP protection.	IP is generally not an issue.
Common destination(s)	India	India, China, Vietnam, Philippines and Eastern Europe.
Sample activities	Equity research – initiation of uncovered stocks and valuation modeling.	Finance and Accounting outsourcing – accounts receivables and payables, HR.

Figure 4 – Key differences between KPO and BPO operations

KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

The KPO industry faces a severe skills shortage. This is demonstrated by both churn rates and salary inflation.

By definition, KPO is knowledge intensive while BPO involves common processes with standard procedures and templates. However, the intensity and complexity of KPO work varies, demanding different skill sets. See Figure 5.

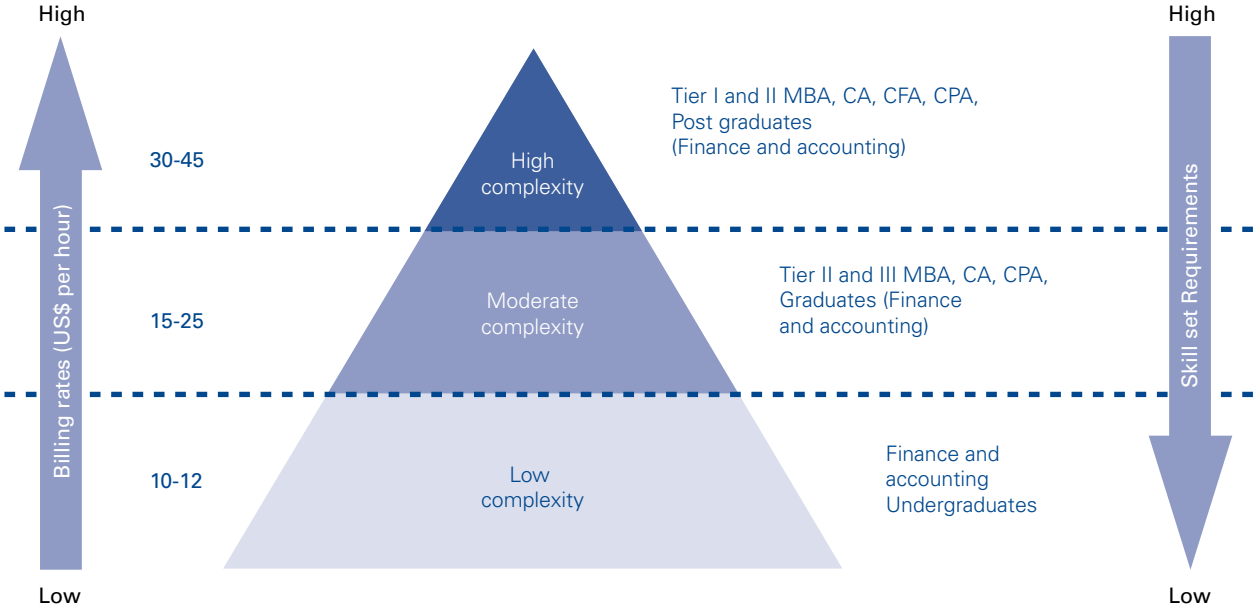


Figure 5 – Different skill-sets across KPO activities of varying complexity
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

The knowledge intensive nature of KPO work is also reflected in its higher business value as compared to say, a rule-based payroll processing transaction. This manifests in the fact that KPO staff are more difficult to find, take longer to train and are harder to replace, and are therefore in high demand. Figure 6 places sample sourcing activities in perspective on the Knowledge Intensity – Business Value graph.

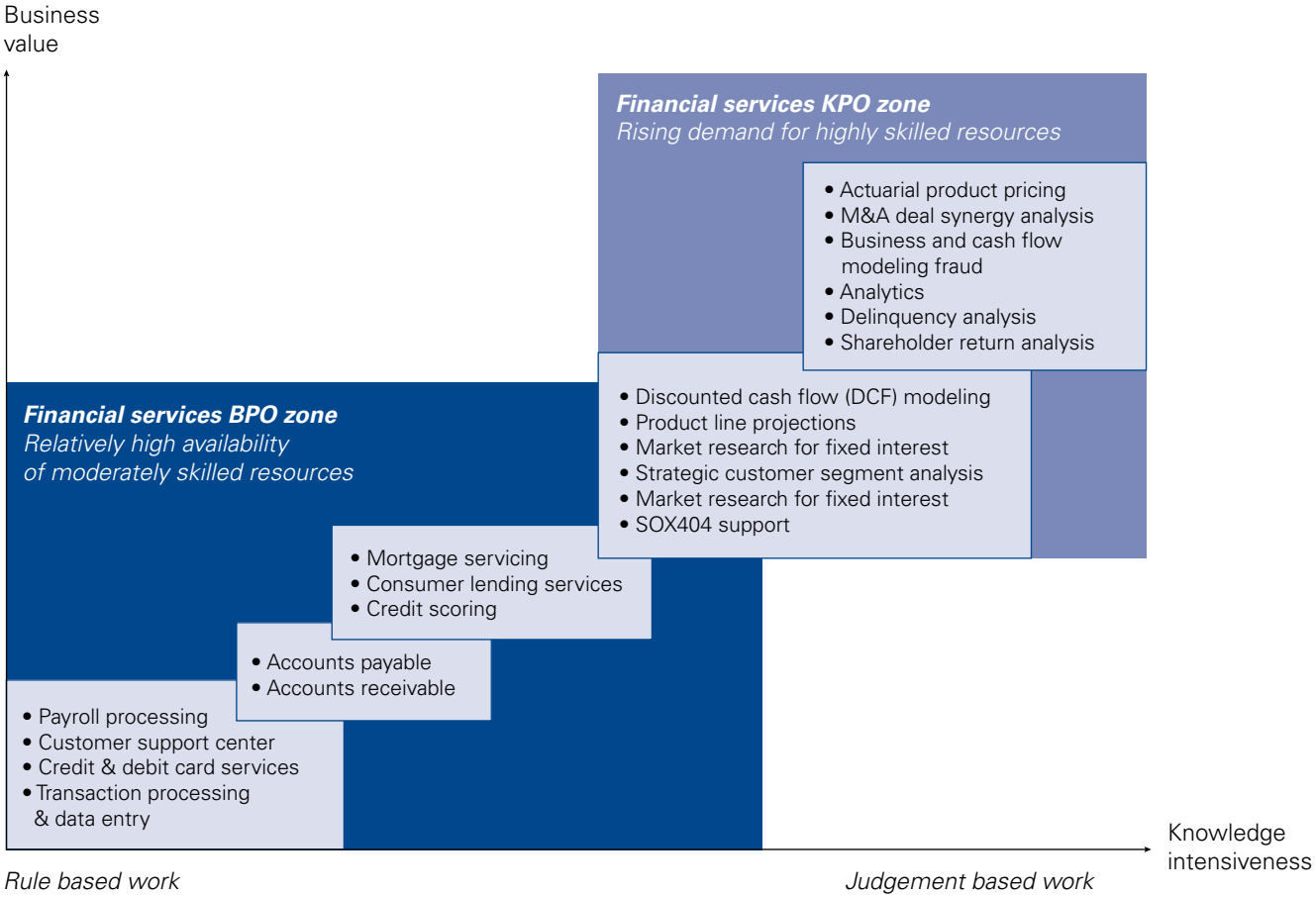


Figure 6 – Sample sourcing activities
KPMG, Knowledge Process Outsourcing, February 2008

Skill-sets sought by the KPO industry include financial analysis and statistical analysis skills (including actuarial skill-sets). Financial analysis skill-sets drawn on in the KPO industry are those of Chartered Financial Analysts (CFAs), Chartered Accountants (CAs) as well as Engineer-MBA and Engineer-CFA combinations. Statistical analysis practitioners are generally masters' level graduates in statistics or operations research. Our research shows that actuarial skills are rapidly gaining currency in the KPO industry. At least one major KPO service provider is developing a specific actuarial competency, setting up in-house actuarial training to encourage more staff to embrace the actuarial career path.

Regardless of such arrangements, the KPO industry faces a severe skills shortage. This is demonstrated by both churn rates (now about 25 percent per annum) and salary inflation (typically around 30 percent per annum). However, salary inflation at providers' home locations is not a critical issue because of similar salary inflation in client organizations' home markets. Salary inflation is also less of an issue in KPO, since KPO by definition is about knowledge arbitrage and access to high-end talent.

Skill retention

Nearly all of our surveyed KPO providers nominated skill-set retention as a critical issue. It is a more critical concern with KPO providers than with BPO providers, reflecting the more demanding KPO learning curve. Familiarizing new people with the complexities of a client's methodologies and operations is time consuming, and includes establishing sound personal relationships with a client's staff. So, it is not surprising that KPO providers are placing a strong emphasis on retention strategies. Typical retention strategies are shown in Figure 7.

Incentive	Eligibility	Impact
Equity and equity linked options	Middle and senior management.	Very high – given pre-IPO (initial public offering) nature of most KPOs.
Technical focus (leads to staff acquiring advanced globally accredited certifications)	2 to 5 years experience and relatively junior analyst staff.	High – as the company is seen to be committing to developing its staff into globally recognized professionals.
Promotion into relationship management roles	3 to 7 years experience.	High – as the company is seen to be committed to all-round professional growth.
Annual bonuses (20% to 25% of base salary)	All staff.	Low – has become industry standard.
Sign-on bonuses (10% to 20% of base salary)	Staff from tier 1 graduate, post-graduate and professional programs.	Low – has become industry standard.
Incentives such as overseas trips and on-shore client work	About 25% of staff in captives and 5% in third-parties.	High – as staff normally want to move from back office roles to front-end client facing roles.

Figure 7 – Retention Strategies at KPOs

KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Operational structure

The key motivation of transferring knowledge intensive work to high-skill, and to-an-extent low-cost providers, is the same across both captive and third-party KPO providers. However, it is important to note that there are significant differences in the two KPO operational structures. These differences are depicted in Figure 8.

We believe a critical influence in determining the sustainability of the KPO industry is the "expectation gap" among staff of KPO providers. While captives can offer would-be employees the attractions of a global "brand name", third-party providers may be in a better position to manage career aspirations. We predict the emergence of hybrid "multi-sourcing" models consisting of captive KPO units managing relationships with third-party service providers.

Captives offer staff the opportunity to work with a global brand name, whereas third-party providers may be in a better position to manage career aspirations.

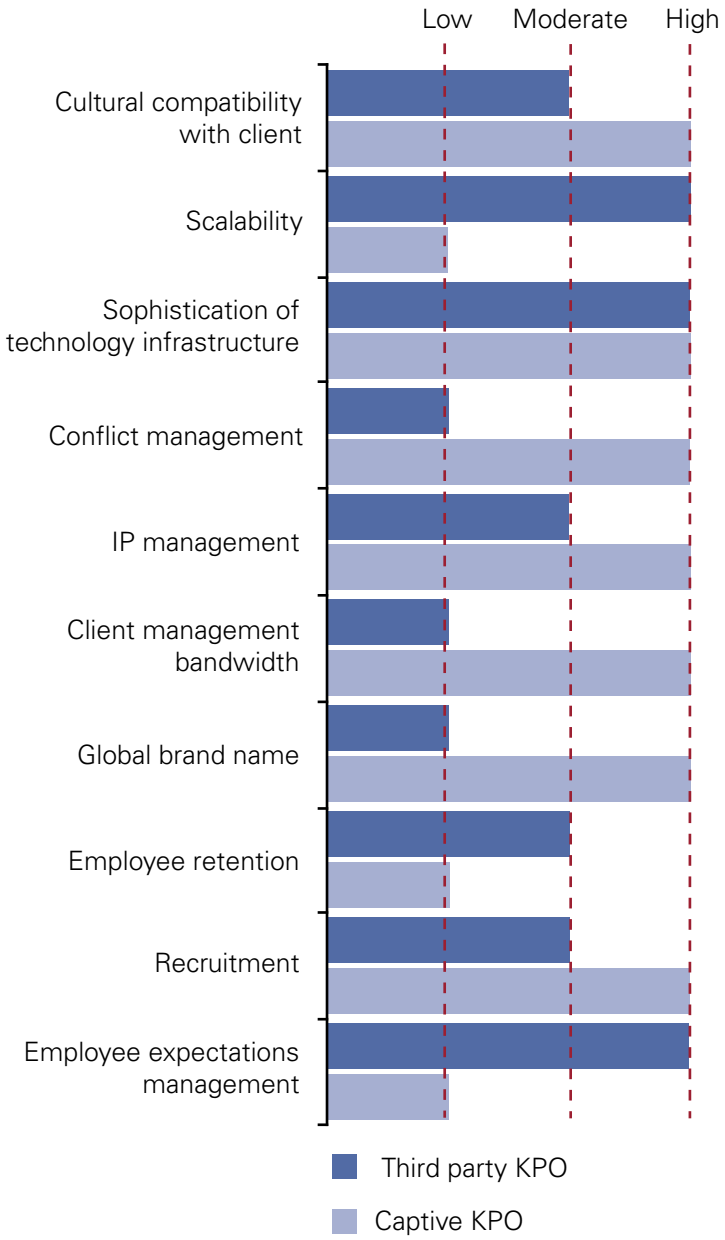


Figure 8 – KPO Structure comparison

KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Intellectual property and conflict management

Not unexpectedly, management of intellectual property (IP) and conflict-of-interest issues are more demanding in KPO than in BPO, where data protection and privacy concerns dominate. Several significant issues are likely to emerge over the coming three years:

- Conflict-of-interest management issues concerning violations of insider trading rules, particularly when the same regulatory restrictions (and therefore culture) vary by country
- KPO analyst certification – Most KPO providers servicing the equity research domain lack staff possessing necessary certifications (for example, Series 7 certification)
- Formal qualification assessments, certifications and periodic competency reviews will likely be introduced
- Debate over intellectual property ownership and management of financial and statistical analysis models are likely to increase as ownership rights between service providers and receivers become blurred

Geographic diversification

We expect KPO organizations to expand to geographic delivery locations beyond India, which is their present location of choice. The two main factors currently driving KPO location strategies are the ability to tap into specialized industry and technical skills, and multi-lingual capabilities.

A majority of the KPO providers studied, plan to acquire industry and technical capabilities to help them sell higher-value KPO propositions to their financial services' clients. We suspect diversification strategies will initially be based on English-speaking locations within the Indian subcontinent (for example, Chennai, Colombo) or other potential KPO hot spots (for example, Canada, Australia, Wales, Singapore, South Africa).

Growth challenges

The inability to scale rapidly would have a big impact on the KPO industry's growth prospects. Attracting and retaining staff with appropriate skill-sets will differentiate KPO providers performing demanding and highly complex work from the high-end BPO providers. As the KPO industry grows, so should the demand for the limited talent pool.

The decline of the US Dollar relative to the Indian Rupee is likely to depress KPO earnings for Indian KPO providers. This combined with growth constraints in the hunt for talent, will likely shift the focus from India to alternative locations.

Finally, KPO providers' legal and compliance departments — particularly those concerned with insider trading, conflict-of-interest management, intellectual property management and professional indemnity liabilities — are often severely under-resourced and inadequately empowered, especially among third-party providers. Given the different regulatory and legal constructs across geographic borders, this presents challenges for KPO providers to keep abreast and comply with the different regulatory and legal requirements of their client or parent companies.

The two main factors currently driving KPO location strategies are acquiring access to specialized industry and technical capabilities, and developing multi-lingual resources.

The rise of the financial services KPO

Outsourcing strategies have progressed from being at the periphery of the enterprise to being at the heart of the business.

KPO represents the third wave in the outsourcing and offshoring of processes by organizations across the globe.

IT outsourcing strategies became prominent during the 1980s when several global institutions began setting up separate IT systems maintenance and application development establishments. Captive establishments belonging to organizations such as GE and Citibank were followed by third-party service providers. Many of these third-party operators — including Patni Computer Systems, Infosys Technologies, HCL, TCS and Wipro Technologies — originated in India. Some have now become multinationals.

BPO gained momentum in the mid 1990s. BPO focused on relatively elementary and standardized processing, administrative and support activities, and voice based activities such as inbound and outbound call centers. A feature of the BPO wave was the way in which global groups such as GE and British Airways set up captive BPO operations. Many of these captives transitioned to third-party providers as their capabilities grew.

More recently, the focus has shifted to so-called "high-end" activities — operations that were once considered core to an organization's competitive advantage. This is the essence of KPO. Outsourcing strategies have progressed from being at the periphery of the enterprise (IT infrastructure and application maintenance) to being at the very heart of the business (middle office functions involving complex analytics).

KPO					Intellectual arbitrage allows outsourcing of core processes	Repeat initial successes by developing robust knowledge management methodologies
BPO			Cost arbitrage	Emergence of Quality certifications like CPOC	Focus on business domains Focus on developing robust knowledge management methodologies	Multi-geography strategies
ITO	Cost arbitrage	Global Delivery Model comes of age with changing telecom scenario	Emergence of quality certifications (CMM, ISO) Focus on knowledge management	Focus on business domains enabling access to complex business-facing IT systems	Geographical diversification by setting up delivery centers in multiple locations	Evolve to provide end-to-end consulting services
	Mid 80s	1990 - 1994	1995 - 1999	2000 - 2004	2004 - 2007	2008 - 2010

Infancy	Growth	Maturity

Figure 9 – Offshoring/Outsourcing evolution: The emergence of Knowledge Process Outsourcing
KPMG, Knowledge Process Outsourcing, February 2008

At the same time as it outsourced operations, the financial services' industry consolidated and offshored many activities to low cost environments such as India, Eastern Europe and more recently South America.

Off shoring Scoping matrix	Retail banking	Wealth management, life and general insurance	Institutional, investment and business banking
IT, infrastructure and application support (ITO)	• Core banking systems	• Life policy systems maintenance and application development	• Loan accounting and equity / Fixed Income trading systems
	• Application development and maintenance • Remote infrastructure management • Package implementation and support • Database administration, data mining and warehousing solutions • Middleware development and support • Testing services		
Product based transaction processing and customer contact centers (BPO)	• Mortgage and personal loan origination, processing and servicing collections • eDisputes processing • Credit card processing • Consumer finance • Cash management / Fund transfers and reconciliations	• Insurance claims administration and payment • Policy underwriting • Insurance agency management • Fraud detection • Recoveries • Trial balance analysis • Brokerage operations • Commissions administration	• Project finance documentation • Support FX, currency ops and derivatives settlement • Trade finance and LCs – advice and settlement • Corporate finance • Risk management • Securities processing • Custody operations and Trade accounting
	• Inbound/outbound contact center • Customer query handling • Data entry, indexing and content management • Customer background verification and finalization • Loyalty retention (customer care program) • Customer statement and other periodic reporting • Regulatory requirements/mandate related support and administration • Payment processing		
Analytics outsourcing activities (KPO)	• Mortgage and personal loans • Portfolio pricing • Data warehousing • Data-mining • Marketing analytics	• Fund performance analysis • Reporting and accounting • Actuarial support • Product pricing including Dynamic Financial Analysis (DFA) models • Financial model validations	• Equity research and M&A analytics support (valuation and related financial modeling) • Credit proposal analysis, preparation and documentation, portfolio analytics

Figure 10 – State of play in global financial services outsourcing
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Drivers of financial services KPO

Global financial services organizations continue to consolidate and establish shared service captive centers for KPO activities. Indian BPO leaders are expected to leverage their global service delivery centers as a way to rapidly attract KPO clients across multiple geographies.

Our study has identified six key drivers behind the rise of KPO:

- ITO and BPO vendors are demonstrating their capabilities in a manner that is increasingly difficult to ignore
- A growing awareness of the increasing quality of education systems in favored offshore locations
- A realization of the relatively standardized nature of the analytics involved in typical KPO activities, their underlying methodologies and software platforms
- The ever increasing global harmonization of standards, qualifications, skill sets and experience requirements for undertaking analytical functions
- A seemingly unstoppable push towards global sourcing strategies at most major banking and insurance organizations
- Technology and telecommunication developments, including advances in information security, have enabled the globalized delivery of services, and has reduced the reluctance to outsource and offshore

Technology and telecommunication developments, including advances in information security, have enabled the globalized delivery of services and has reduced the reluctance to outsource and offshore.

KPO domains within financial services

Within the financial services sector, KPO is being deployed in several important financial service domains.

Figures 11 to 15 represent the KPO domains, the type of KPO services on offer within each domain and the KPO skills required to perform the services.

Analytical Skills	Low	Medium	High
High		Update of valuation models	Creation and support for M&A standalone valuation models New idea generation for M&A deals
Medium		Update and maintenance of product models	
Low	Presentations and pitch books for Institutional investors Preparation of thematic industry reports New company initiation report		

Domain Skills

Figure 11 – Insurance and actuarial domain

KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Actuarial work demands a detailed understanding of a client organization's products, systems and processes. This knowledge should be coupled with the ability to undertake complex statistical analysis. Activity in this domain covers life and general insurance, investment management and financial analysis.

Activities that are analytical skills-intensive will likely be increasingly outsourced going forward, as captives and third-party service providers prove their execution capabilities. Activities that require high domain expertise will likely be at the lagging end of the outsourcing curve as service providers make concerted efforts to acquire these skills.

Analytical Skills	Low	Medium	High
High	Company valuation	Profit/Capital management	Capital adequacy/ Solvency calculation Long-term liability modeling Integrated reserving and pricing Product design, profit testing
Medium	Customer domain and Distribution channel analysis	Claims Modeling and Estimation Embedded and appraisal values Asset/Liability Modeling Expense analysis and benchmarking Product line projections Discounted cash flow modeling	
Low	Performance reporting		

Domain Skills

Figure 12 – Equity research and investment banking domain
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

The Equity research and investment banking KPO domain currently represents one of the fastest growing area of analytics offshoring.

Analytical Skills	Low	Medium	High
High		Feasibility analysis	Business and Cash flow modeling Credit quality analysis Loss protection calculation
Medium		Market Research for Fixed interest, index linked, Credit interest rate swaps and Asset-backed markets	Stress testing Scenario modeling Fair value reporting Asset-pool performance
Low	Presentation and graphics Library, Knowledge Management and General Research		

Domain Skills

Figure 13 – Corporate credit, structured and project finance domain
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Corporate credit, structured and project finance analysis is often seen as a core competency of banks and other financial intermediaries. Nevertheless, KPO is entering this space, particularly in a decision-support role.

Analytical Skills	Low	Medium	High
High		Fraud analytics Delinquency analysis Attrition Modeling Propensity Modeling Product profitability analysis	Credit scoring Underwriting algorithms
Medium		Strategic customer domain analysis	
Low	Market Research support		

Domain Skills

Figure 14 – Retail banking and marketing domain
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Retail Banking and Marketing analytics is another KPO domain exhibiting strong growth, both in scope and in the number of service providers building dedicated expertise in this space.

Analytical Skills	Low	Medium	High
High		Product profitability analysis	Framework development Shareholder return analysis Capital management analytics
Medium		Budgeting analytics GAAP reporting support SOX 404 support Activity based costing	Risk management support
Low	Competitor analysis Sector analysis		

Domain Skills

Figure – 15 Group-wide shared function domain
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Group-wide shared functions appear amenable to KPO, perhaps being seen as a logical next step from the extensive BPO work already undertaken in the area of shared services.

Generally, none of these domains can yet be classified as having reached KPO maturity. Figure 16 represents our estimate of the current position in this regard.

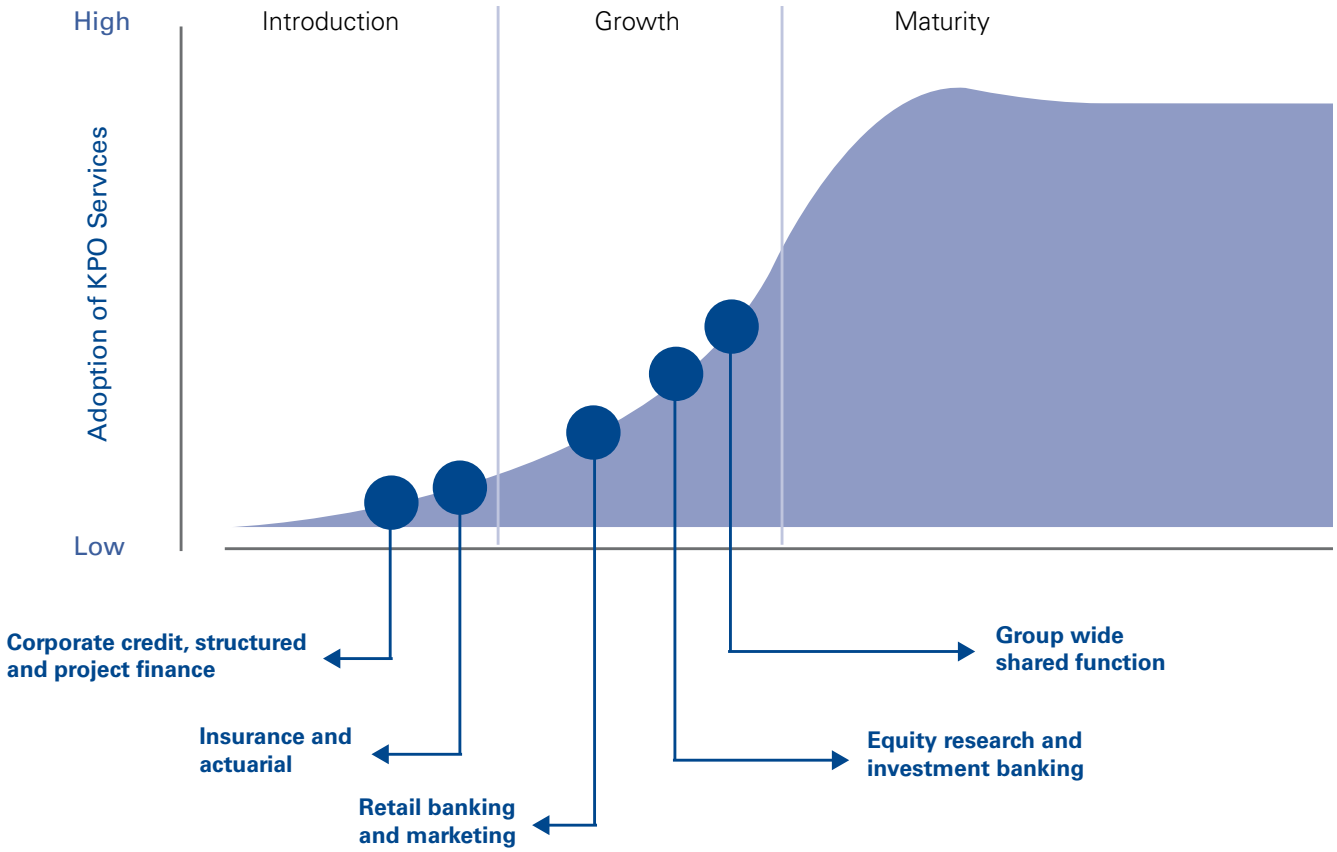


Figure 16 – Financial services KPO domain maturity
KPMG, Knowledge Process Outsourcing, February 2008

KPO's geographic footprint

The observed behavior of the earlier ITO and BPO waves offers clues to the future of KPO.

Our research suggests a positive correlation between sourcing maturity and geographic diversification.

Both the ITO and BPO outsourcing waves radiated from India. At first glance, much the same appears to be happening with KPO. We have extensively researched the geographic footprint of the KPO industry. Our work discloses a number of interesting trends.

Global expansion on the cards

The research suggests a positive correlation between sourcing-maturity and geographic diversification. Global delivery models and accelerated delivery models have become buzz words among ITO and BPO providers. KPO is likely to follow the same route.

Several factors are likely to propel geographic diversification. Demand side drivers are expected to lead to more KPO destinations being established.

Demand side drivers	
Skills/ capabilities	KPO is all about knowledge arbitrage. India, the dominant KPO destination, is facing a shortage of skilled professionals. Financial institutions should explore countries with an adequate pool of skilled finance resources.
Language	Countries that possess the depth and quality of KPO skill sets and non-English linguistic capabilities, are well positioned to commence KPO offerings.
Business continuity	High systems and applications availability are a critical requirement of the financial services Industry. KPO providers may need geographical spread to provide adequate business continuity.
Responsiveness	KPO providers having near-shoring and on-shoring capabilities for their clients are deemed more responsive. Competitive pressures are expected to drive KPO providers to set-up delivery centers closer to client-locations.
Risks	Financial institutions are normally wary of using one provider for all services unless part of an internal captive operation. The nature of KPO work lends itself to a multi-sourcing strategy, using multiple vendors to deliver specific activities.
Regulatory constraints	Clients cannot abdicate their regulatory and legal compliance responsibility. Some regulatory constraints prohibit the transfer of certain work offshore. This is expected to force the leading KPO providers to expand their geographical footprint to become more local to clients, and become more intimate with their clients' regulatory and legal constraints.

Figure 17 – KPO demand side drivers

KPMG, Knowledge Process Outsourcing, February 2008

KPO providers are not expected to just have delivery centers in a single country. To maintain business continuity, to meet linguistic needs or local regulatory constraints, KPO providers are expected to diversify globally.

On the supply side, skills availability, risk diversification and language considerations are emerging as important factors in locating KPO operations. Figure 18 summarizes these factors.

Supply side drivers	
Skills shortage	The KPO industry appears to be driven by access to the breadth and depth of talent. The demand-supply gap for qualified resources in India, currently the dominant KPO destination, is expected to force KPO providers to find new delivery locations with depth and quality of talent required for KPO activities.
Risk diversification (hedging)	Service providers cannot provide services solely from one single location or country. In order to maintain business continuity during adverse circumstances, KPO providers have to diversify globally to reduce their risk exposure.
Language	KPO providers are expected to expand to non-English speaking locations globally, to support non-English speaking clients.
Global delivery model	KPO providers having near-shoring and on-shoring capabilities are deemed more responsive. Competitive pressures are expected to drive KPO providers to set-up delivery centers closer to the client-locations.
Regulatory requirements	Some regulatory requirements prohibit the transfer of certain work overseas. In order to tap into this extra business, KPO providers are expected to set up new global delivery centers.

Figure 18 – KPO Supply side drivers
KPMG, Knowledge Process Outsourcing, February 2008

Figure 19 summarizes the main macro-economic factors affecting KPO location.

Macroeconomic factors	
Appreciating Indian Rupee	KPO providers based in India earn in US Dollars and expend in Indian Rupees. The appreciation of the Indian Rupee with respect to the US Dollar affects the KPO providers' profitability. As a result, KPO providers are expected to look at using global delivery models across multiple geographies to hedge against exchange rate fluctuations.
External Macroeconomic shocks	There is always a risk of external shocks to a particular economy which can have unforeseen and unexpected repercussions on service delivery. KPO providers with a diversified geographical footprint are expected to be better equipped to absorb such shocks.

Figure 19 – KPO Macroeconomic factors
KPMG, Knowledge Process Outsourcing, February 2008

Cost differentials within countries, can be as important as differentials between countries.

Selecting a KPO location

Several factors need to be considered when selecting a potential KPO destination.

Availability of talent

The availability and depth of professional and technical talent is prime factor in determining the KPO location. Another critical factor is industry support for professional training and certification and acceptance of relevant qualifications such as CAs, CPAs, CFAs and MBAs. The attractiveness of any location from a KPO perspective is closely correlated to the quality and quantity of the available workforce.

Compensation costs

KPO providers should consider historic salary growth rates and likely trends over the next three to four years. Although the distinguishing feature of KPO is "knowledge arbitrage" rather than "cost arbitrage", compensation costs for core skills remain a key consideration, and cost arbitrage opportunities exist while the industry is still relatively immature.

Infrastructure costs

Measuring infrastructure costs are an important consideration. Cost differentials within countries can be as important as differentials between countries. For example, rising costs in so-called "Tier 1" locations in India have seen providers exploring the potential of "Tier 2" locations within the same country. However, these secondary locations often lack the necessary skills. Factors important in choosing BPO locations do not necessarily apply to KPO decisions. For example, high telecom costs in South Africa make it a poor choice for call centers, but such costs may be only a minor consideration in setting up a KPO operation.

Support for advanced finance education

Professional bodies such as those of Chartered Accountants and Actuaries tend to be more active in places that recognize these qualifications and offer appropriate support infrastructure. There can also be difference in the qualifications and professional bodies supported in particular countries.

Government incentives

The existence of government incentives impact on the competitiveness of potential KPO locations. In India tax incentives for Software Export Zones have contributed to the growth of the IT-ITES industry in that country. Following the same model, governments in Eastern Europe, Latin America and South Africa are beginning to offer appropriate revenue and capital incentives to attract foreign organizations, and support start-up initiatives. Government incentives need to be assessed carefully in conjunction with taxation considerations, and issues concerning the repatriation of profits.

Geopolitical risk

A stable geopolitical environment is expected to help businesses to grow and flourish. The knowledge intensive nature of KPO work demands continuity, and therefore geopolitical risk becomes a key decision factor in assessing KPO locations.

Potential KPO destinations

KPMG's analysis of the countries considered as part of this study shows that outside of India, both Canada and Australia have the levels of talent to support a financial services KPO industry. China, South Africa and Singapore could also become key KPO locations if the supply of professional and technical talent can be increased. Some countries in Eastern Europe and Latin America could develop as important non-English speaking KPO centers. Countries offering attractive personal tax regimes, superior lifestyles and physical security are also well placed to attract professional and technical talent from less favorable locations.

KPMG has studied several representative locations in different parts of the world to assess their attractiveness as potential centers for financial services KPO activity. Each location was evaluated across seven parameters. Please note that this is not a location ranking exercise, nor is it meant to be a comprehensive list of potential KPO locations.

The attractiveness of any location from a KPO perspective is closely correlated to the quality and quantity of the available workforce.

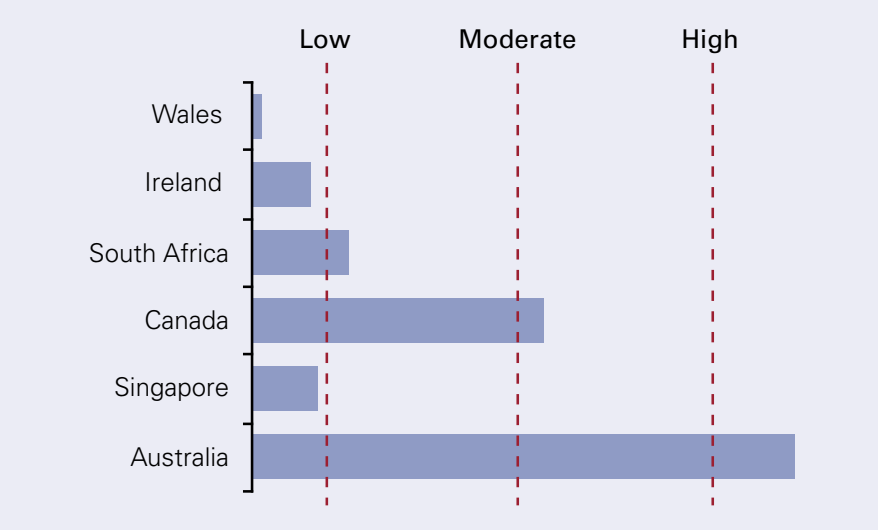


Figure 20 – Current availability of talent
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Figure 20 tracks the number of graduates in disciplines relevant to financial services KPO domains for the 2005-06 year (latest figures available) together with employable qualified members of relevant professional bodies.

The "pipeline availability of talent" (Figure 21) is the cumulative number of students enrolled in relevant graduate and professional courses in the three-year period leading up to 2006.

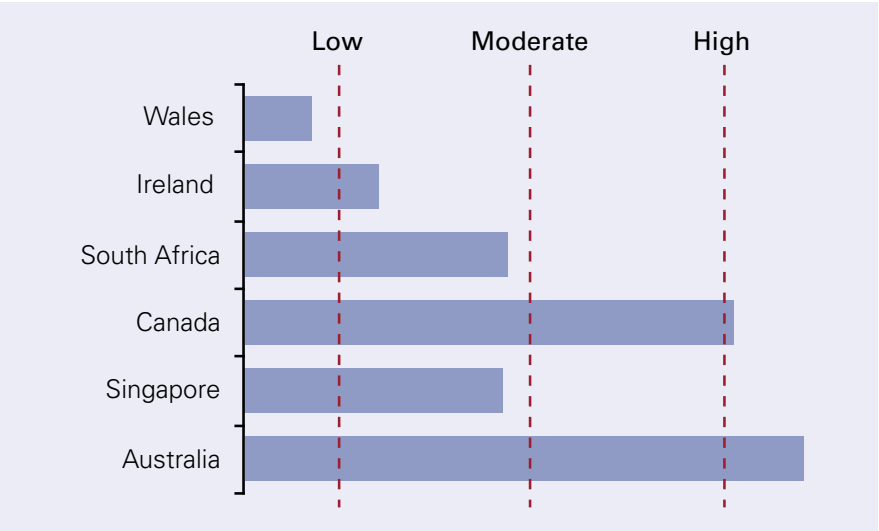


Figure 21 – Pipeline availability of talent
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Figure 22 tracks the compensation given to a new graduate in relevant disciplines. It includes mandatory superannuation or pension fund contributions by employers, but excludes non-cash benefits, bonuses and employee stock options.

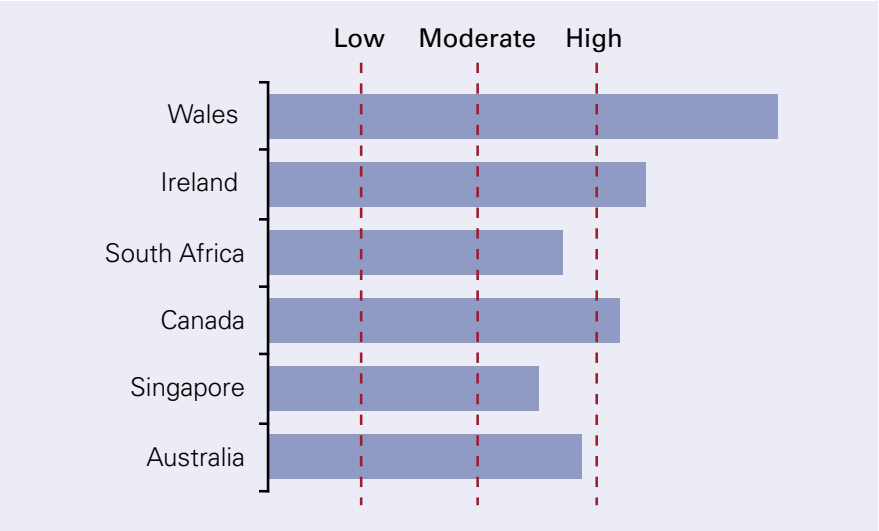


Figure 22 – Salary comparison for inexperienced resources
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

The average salary for experienced resources covers the part of the relevant workforce with more than two years of post-qualification experience after graduation from an appropriate university or professional course. Salary includes mandatory employer superannuation or pension fund contributions, but excludes non-cash benefits, bonuses and employee stock options.

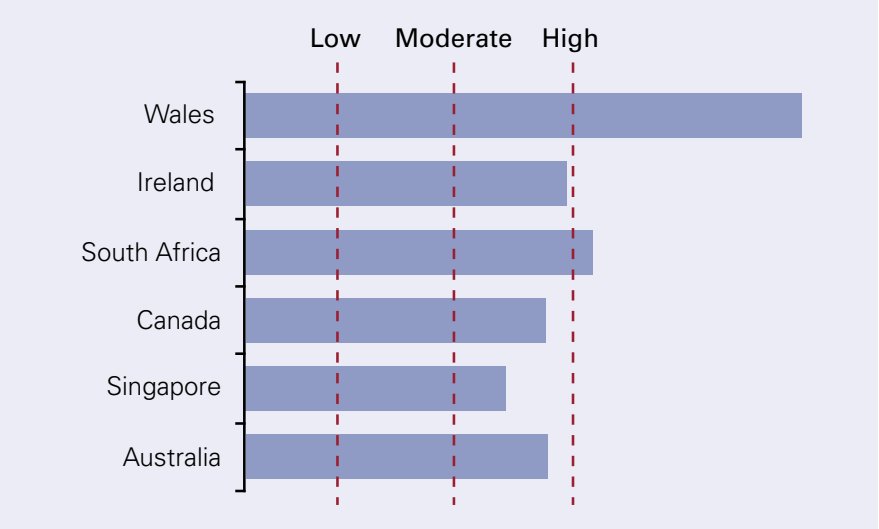


Figure 23 – Salary comparison for experienced resources
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Figure 24 depicts year-on-year compound growth for the past three years in average salaries for the relevant skill sets.

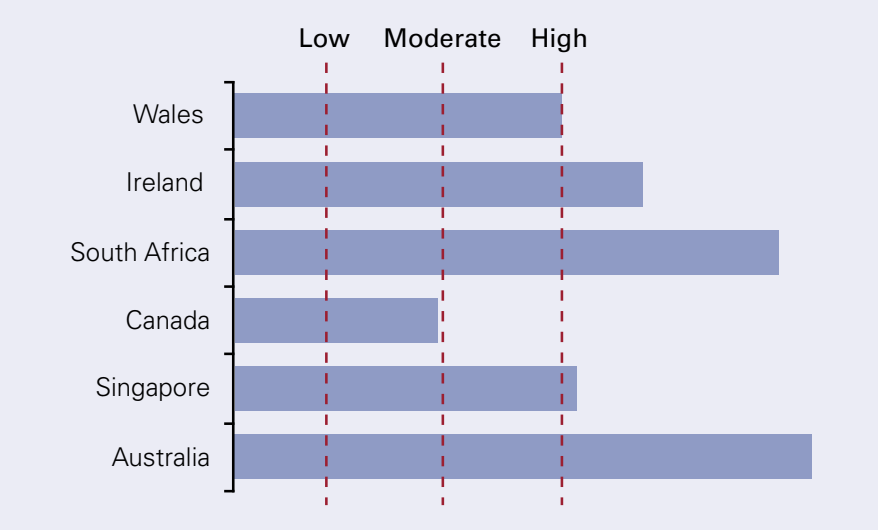


Figure 24 – Relative salary growth
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Government incentives cover fiscal and non-fiscal incentives offered by federal and state/provincial governments for support of organizations in general, including incentives directed specifically at the financial services sector.

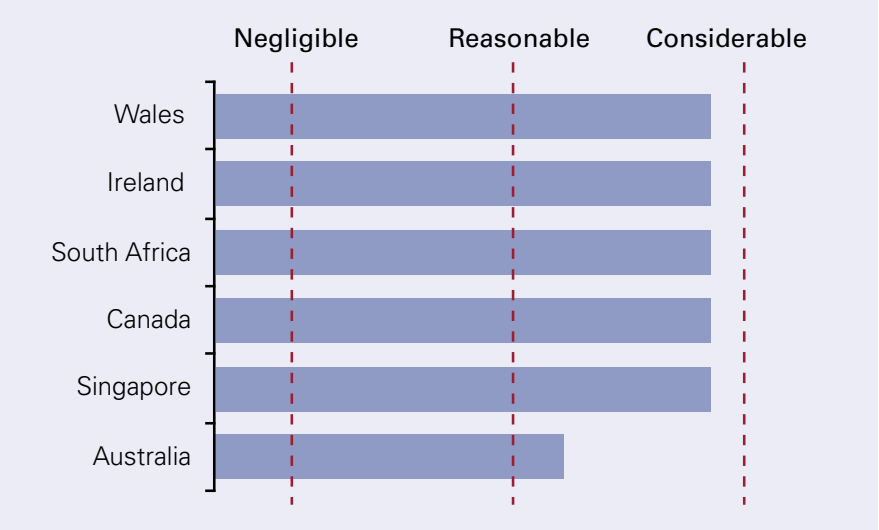


Figure 25 – Relative government incentives
KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Like the ITO and BPO players before them, large KPO providers will likely move to multi-location delivery centers.

Figure 26 shows the infrastructure costs based on rentals (US$ per square foot per annum), telecommunications (peak period three-minute call to the US in US$) and electricity (US$ per kilowatt hour).

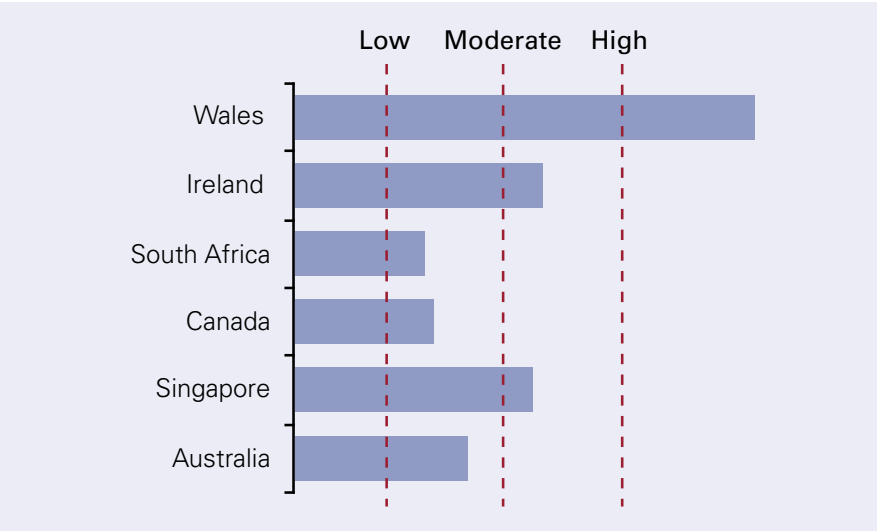


Figure 26 – Relative infrastructure costs

KPMG / Swamy and Associates, Knowledge Process Outsourcing, February 2008

Short-term forecasts

KPMG believes that in the short to medium-term India will remain the prime location for KPO activity. Delivery centers are likely to follow an interlinked, inter-dependent, global, "web-like" structure, similar to the one developed for the ITO and BPO sectors. Language considerations are expected to be a prime factor in establishing KPO centers outside of India.

Like the ITO and BPO players before them, large KPO providers are expected to move to multi-location delivery centers. Research providers such as Evalueserve (China and Chile) and Amba Research (Sri Lanka) have already established centers outside of India. Potential benefits include reducing one-country dependency, developing multi-lingual capabilities and the better matching of client time zones.

Some global financial institutions have their captive units outside of India. These financial institutions are expected to set-up KPO centers outside of India, primarily for supporting activities in language other than English, and for services which they believe could be served better or cheaper outside India. Some Greenfield locations outside of India could be promoted by local companies wanting to tap into the growing opportunities in KPO.

Implications for global banks and insurers

KPO significantly enhances the client service organization's ability to generate top-line revenue.

We foresee some important implications of the KPO phenomenon on global banks and insurers

There may be a significant shifting of boundaries between "outsourceable" and "non-outsourceable" activities
While the older variants of outsourcing (ITO and BPO) dealt with the back office processes and the IT applications powering the back-office processes, the KPO industry now directly influences the front office of almost every major division of a global financial services institution. As the KPO industry moves from basic and moderate complexity work to high complexity work, the boundaries separating the "core activities" of a global institution from the "non-core activities" are likely to be redrawn. However, it is unlikely that the client-facing relationship management activities will be "non-core".

There may be a significant top-line revenue impact at most global banks and insurers
KPO significantly enhances the client service organization's ability to generate top-line revenue. Our research supports the fact that this expectation of increased top-line revenue benefits from the KPO activity was a prominent factor for offshoring across all the five domains of the financial services industry.

The outsourcing decision-making process is expected to accelerate
The key decision-maker during the ITO wave was typically the CIO. This altered during the BPO wave when the decision-making seems to have shifted to the COO, or divisional General Managers in charge of operations. Often, the institutions would create a new function to assist on sourcing matters (for example, global sourcing strategy). The KPO wave is likely to accelerate this trend by making the divisional business leaders take the lead in the outsourcing decision-making, and the utilization of the global sourcing group solely on contractual matters. In essence, the outsourcing decision now is no longer an IT or an operational decision, but a key business decision driven by the divisional head, or even the Board of Directors to produce top-line benefits.

Boutique financial services organizations are expected to leverage the KPO wave

Smaller financial services organizations, particularly "boutique" investment banks and consulting firms, are expected to gain significant leverage out of the KPO phenomenon. Already, a significant number of boutique M&A advisory organizations and niche consulting organizations do business with (outsource to) some of the third-party KPO providers covered in our study.

A higher level of regulatory and compliance control is expected to be implemented as KPO providers start delivering more high complexity financial services work

Outsourcing compliance to date has largely meant data protection and privacy act related legislation governing the access and usage of customer data. However, these compliance and regulatory processes appear to be inadequate in coping with the requirements of the KPO industry.

The regulatory and compliance divisions within global financial institutions along with the regulators (for example, the Financial Services Authority (FSA) of the UK and the Securities Exchange Commission (SEC) in the U.S.) are expected to reassess the implementation of the agreed norms for monitoring compliance.

Conclusion

The most important distinguishing feature of KPO seems to be that it enables the client organizations to increase their revenues. It is a growth enabler. It stretches existing professional and technical capabilities further.

The BPO model of offshoring typically seeks to enhance the bottom line through cost arbitrage. KPO demands a more specialized skills base than BPO. It leverages intellectual property and capacity rather than costs.

The financial services sector has been an early and successful adopter of KPO. Our study has isolated several key themes relevant to the development of the KPO industry:

- The KPO industry has come of age. Clients are recognizing that process complexities, higher billing rates and skilled resource requirements differentiate KPO from BPO
- The KPO industry must adopt recruitment and retention strategies that reflect its qualification and skill-set requirements. KPO staff are typically difficult to find, take long to train and are hard to replace
- The regulatory focus with BPO is on compliance — with KPO it is on safeguarding intellectual property and managing conflicts-of-interest
- Compared with captive operations, third-party KPO providers have an edge in sustainability through their ability to better manage staff career aspirations. However, we predict the emergence of hybrid, multi-sourcing KPO models in which captive operators are primarily concerned with managing relationships with third-party providers
- India is expected to remain a preferred location for KPO activity, but more organizations are expected to look for alternative locations for additional delivery centers, both from a customer and service provider perspective. English-speaking locations are expected to continue to be preferred over non-English-speaking ones — however, the non-English speaking destinations may find favor with KPOs supporting non-English speaking clients

Location analysis

- Choosing a location for financial services KPO operations is mainly driven by the availability of appropriately qualified and experienced professional staff. To date, India has continued to dominate the KPO market. Other countries such as Australia, Canada and Singapore have a chance to capture some of these services. It is likely that India-based operators will establish delivery centers in other countries to enhance their service offerings
- There are a few limitations on the potential growth of the KPO industry over the next three years. Issues that can potentially hamper that growth include skill set shortage, a declining US dollar and compliance and regulatory pressures

Clients are recognizing that process complexities, higher billing rates and skilled resource requirements differentiate KPO from BPO.

Appendix 1
Profiling the KPO providers

This study has been developed through interviews and inputs from some of the key captive and third-party KPO providers in the financial services industry. The following table summarizes the information provided by the participating KPO organizations. We would like to acknowledge their time and contribution to this study.

KPO provider	Key facts		Description	Employee retention strategies
Anonymous – captive of a large multinational bank	Operating structure	Captive	This KPO provider is the Global Services arm of a large multinational bank with a strong focus on supporting the various lines of business of the group worldwide. The captive undertakes KPO work in multiple domains such as Equity Research Production, Client Analytics, Strategic Credit Trading and Compliance Risk Assessment. Half of its revenue is generated in Europe, whereas the remaining 50% are evenly spilt by North America and the Asia Pacific.	1. Paying by market performance 2. Focus on employee learning and growth 3. Appropriate working environment for employees
	FTEs	85		
	Founded in	2001		
	Key delivery center(s)	Mumbai, Chennai, Gurgaon – India		
Aranca	Operating structure	Third party	Aranca is a global end-to-end provider of financial and business research services and valuation services. It undertakes KPO work in multiple domains such as Equity Research, Investment Banking, Business Intelligence and Research, and Company Valuation. 50% of its revenue comes from the UK and Europe, 40% from the U.S. while the rest of the world only accounts for the remaining 10%.	1. Challenging career and steep growth prospects 2. Competitive rewards scheme 3. Opportunities for movement across industry groups and business lines 4. Employee stock options for middle and senior management
	FTEs	180		
	Founded in	2003		
	Key delivery center(s)	Mumbai – India		
Copal Partners	Operating structure	Third party	Copal Partners is an independent investment banking KPO with its focus on Equity Research and Investment Banking, Fixed Income, Credit Research, Structured and Project Finance, Wealth Management, and Corporate Strategy/Business Development and Strategy Consulting services. 45% of its revenues come from Europe while 27% and 28% come from the U.S. and Asia respectively.	1. Long-term career development 2. Opportunities for developing new product skills, geographic movement, new vertical alignment and leading client engagements 3. Employee Stock Options for middle and senior management
	FTEs	525		
	Founded in	2002		
	Key delivery center(s)	Gurgaon – India		
Evalueserve	Operating structure	Third party	Evalueserve is one of the earliest KPO service providers with considerable skill sets in a variety of financial services domains. The company undertakes financial services KPO work in multiple domains such as Equity Research and Investment Banking, Retail Banking and Marketing Analytics, and Business intelligence and value added research. 50% of its revenue comes from the UK and Europe while 40% comes from the U.S.	1. Competitive salary package along with bonus system, ESOP's, medical insurance, medical reimbursement 2. Professional growth 3. Recreation trips in India and abroad for teams
	FTEs	1800		
	Founded in	2000		
	Key delivery center(s)	Gurgaon – India Valparaiso – Chile Shanghai – China		

KPO provider	Key facts		Description	Employee retention strategies
Genpact Analytics	Operating structure	Third party	Genpact today is an end-to-end provider of Analytics solutions across verticals. Genpact Analytics offers KPO work in multiple domains such as Business Opportunity Assessment, Customer Acquisition, Customer Growth and Retention, Risk Mitigation, Supply Chain Optimization and Operations Improvement. It also has a strong Primary and Secondary Research practice. Genpact Analytics has a strong and deep presence in BFSI, Manufacturing and Life Sciences industry verticals. Servicing some of the top names in these industries. They have extensive expertise in use of advanced analytical tools and methodologies. This is coupled with a Six Sigma rigor in project execution vision to deliver Business Impact through insightful analysis. 75% of its revenue is generated in North America, 23% in Europe.	1. Apply Six Sigma principles and technology to track, analyse and support retention process 2. Tools like HITP (High Impact Touch Point) and MTCPM (Multi-Tiered Career Progression Model) in place 3. Lateral movements, Relationship/Client management roles and Education at Work programs
	FTEs	2250		
	Founded in	1998		
	Key delivery center(s)	Gurgaon, Kolkata, Hyderabad and Bangalore – India		
HCL	Operating structure	Third party	HCL KPO operates as a horizontal service line cutting across various industry verticals. It is a third party KPO embedded inside a large captive BPO provider to support global clients. HCL commenced its KPO activity in 2003 and it undertakes work in multiple domains such as Retail Banking and Marketing Analytics, Strategic Financial Management, and Equity Research.	Strong focus on lateral and vertical movement within the large HCL BPO group
	FTEs	110		
	Founded in	2003		
	Key delivery center(s)	Chennai, Noida, Bangalore – India		
HP DSAS	Operating structure	Captive/Third party	HP's KPO department (HP Decision Support and Analytics Services) operates as a division embedded within HP's BPO activities in India. HP DSAS undertakes work Retail Banking and Marketing Analytics, Strategic Business Intelligence and Financial Management, and Equity Research.	1. Strong focus on lateral and vertical movement 2. Focus on in-house training and knowledge management
	FTEs	500		
	Founded in	2005		
	Key delivery center(s)	Chennai, Bangalore – India Shanghai – China		
Infosys Technologies	Operating structure	Third Party	Infosys BPO (formerly Progeon Limited) is the Business Process Management subsidiary of Infosys Technologies Limited (Infosys). Infosys was founded in 1981, and is a global consulting and software Services Company recognized for its quality, values and corporate governance. Infosys BPO was started as the business outsourcing subsidiary of Infosys Technologies in 2002. Knowledge services was started in 2004 as the KPO division of Infosys BPO to provide high end research and analytics services to its clients. Infosys has recently added Legal Services to their service portfolio.	1. Provide challenging work and opportunity for their employees 2. Provide a clear defined career path to its employees 3. Dedicated Human Resources department to focus on employee satisfaction
	FTEs	430		
	Founded in	2004		
	Key delivery center(s)	Bangalore, Pune, Chennai, Jaipur & Gurgaon – India Brno – Czech Republic Hangzhou – China Manila – Philippines Mexico Poland Bangkok – Thailand		

KPO provider	Key facts		Description	Employee retention strategies
Inductis/EXL	Operating structure	Third party	Inductis is a wholly owned consulting and KPO subsidiary of EXL, a publicly listed third-party BPO service provider. The company undertakes KPO work in multiple domains such as Insurance and Actuarial, Equity Research and Investment Banking, Retail Banking and marketing analytics, and Strategic financial management. 90% of its revenue comes from the U.S. while the UK accounts for the remaining 10%.	1. Rapid career growth. 2. Lateral movement within the broader EXL Service organization 3. Support for further technical and educational qualifications
	FTEs	260		
	Founded in	2002		
	Key delivery center(s)	Gurgaon – India, New Jersey - US and Singapore		
Nett Positive Analytics	Operating structure	Third party	Nett Positive Analytics is a "Start up" KPO provider that focuses on the retail banking and marketing domain. It has clients in Europe, Australia, U.S., Asia and Africa. It also offers managed CRM services where clients can outsource the delivery of CRM activities to Nett Positive.	1. Strong focus on equity and equity-related incentives as the company is in the start up mode and hence has a significant value potential
	FTEs	20		
	Founded in	2007		
	Key delivery center(s)	Bangalore – India		
Think Equity India	Operating structure	Captive	Founded in May 2006 by organic funding from promoters, Think Equity India undertakes Equity Research and Corporate Finance support work. The company has strong staff retention strategies and gets 100% of its revenues from the U.S.	1. Strong focus on quality and complexity of work 2. Attractive pay structure 3. Lavish work environment 4. Mentoring for long term career growth
	FTEs	20		
	Founded in	2006		
	Key delivery center(s)	Chennai – India		
WNS including Marketics	Operating structure	Third party	WNS Group (includes the recent Marketics acquisition) is an integrated BPO organization with a KPO practice that focuses on market research, financial research and business research. WNS was founded in 1996 as a British Airways captive. Private Equity organization Warburg Pincus acquired a majority stake in WNS in 2002. WNS Group undertakes KPO work in the domains such as Equity Research and Investment Banking, Business Intelligence and Research, Retail Banking and Analytics, Market Research and Data Analytics. 62% of its revenue comes from the UK and Europe and 37% from the U.S.	1. Technical/ specialization tracks 2. Lateral movement into industry and operational groups 3. Promotions into management roles
	FTEs	1300		
	Founded in	1996		
	Key delivery center(s)	Mumbai, Pune, Gurgaon, Coimbatore and Bangalore – India		

KPMG's global sourcing contacts

For further information on issues raised in the paper or for discussion sourcing advisory please contact:

Egidio Zarrella
Global Partner-in-Charge
IT Advisory
Sydney, Australia
+61 2 9335 7590
ezarrella@kpmg.com.au

Pradeep Udhas
Global Partner-in-Charge
Sourcing Advisory
Mumbai, India
+91 22 3983 6205
pudhas@kpmg.com

Brett Hall
ASPAC Leader
Sourcing Advisory
Singapore
+65 6411 8335
bretthall@kpmg.com.sg

Mark Bownas
EMA Leader
Sourcing Advisory
Budapest, Hungary
IT Advisory
+36 (1) 8877122
mark.bownas@kpmg.hu

Kalpana Ramakrishnan
Americas Leader
Sourcing Advisory
Los Angeles, United States of America
+1 714 850 4355
kramakrishnan@kpmg.com

Kumar Parakala
Global Chief Operating Officer
IT Advisory
Sydney, Australia
+61 2 9355 7820
kparakala@kpmg.com.au

Michael Smart
Australia Leader
IT Sourcing Advisory
Sydney, Australia
+61 2 9335 8868
michaelsmart@kpmg.com.au

Richard Bhanap
EMA Leader
IT Sourcing Advisory
London, United Kingdom
IT Advisory
+44 (0) 20 76941953
richard.bhanap@kpmg.co.uk

Acknowledgements

This research report would not have been possible without the commitment and contributions of the following individuals.

KPMG IT Sourcing Advisory Leaders
Egidio Zarrella (Global), Pradeep Udhas (India), Mark Bownas (Hungary), Kalpana Ramakrishnan (US), Kumar Parakala (Global), Michael Smart (Aust), Anish Zaveri (India)

KPMG Advisory Team
Sukalp Sharma (Aust), Julia Wonner (Aust), Nimish Thaker (India), Sidharth Tewari (India), Anoop Vijaykumar (India), Devesh Bhatt (India), Andrea Wang (Global), Rebecca O'Keeffe (Aust), Sarah Mitchell (Aust), Amit Tandon (India), Aditi Mehra (India), Vandana Ramani (India) and Priyanka Saraf (India).

Swamy & Associates
We acknowledge the co-research and contribution of Sri Annaswamy and Mohit Sharma from Swamy & Associates, a Sydney based outsourcing and advisory company in this report.

kpmg.com

February 2008. VICN00457ITA.