High performance. Delivered.

Interorganizational Systems

Alternative Sourcing Strategies for the Financial Services Industry

University of Münster

Münster, June 2005

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What is high performance?

<u>Fortune 100</u>

First “biggest”/”best” list was the Fortune 100 (1917)

In the 70-year anniversary issue Foster/Kaplan analyzed the company performance of this first list

Net Results 70 years later

- of the 100 “sure things” of 1917, 62 were dead in 1987
- of the 38 “survivors”, only 18 were still among the 100 biggest companies
- those 18 had underperformed the stock market by 20 percent (between 1917 and 1987)
- Just 2 had actually outperformed the market over that period (Kodak and GE)

<u>S&P 500</u>

S&P 500 (introduced by Standard & Poor’s 1957)

Net results 40 years later

- of the 500 companies, 426 were were dead
- of the 74 “survivors”, only 12 outperformed the market during that period

<u>Foster’s 1000</u>

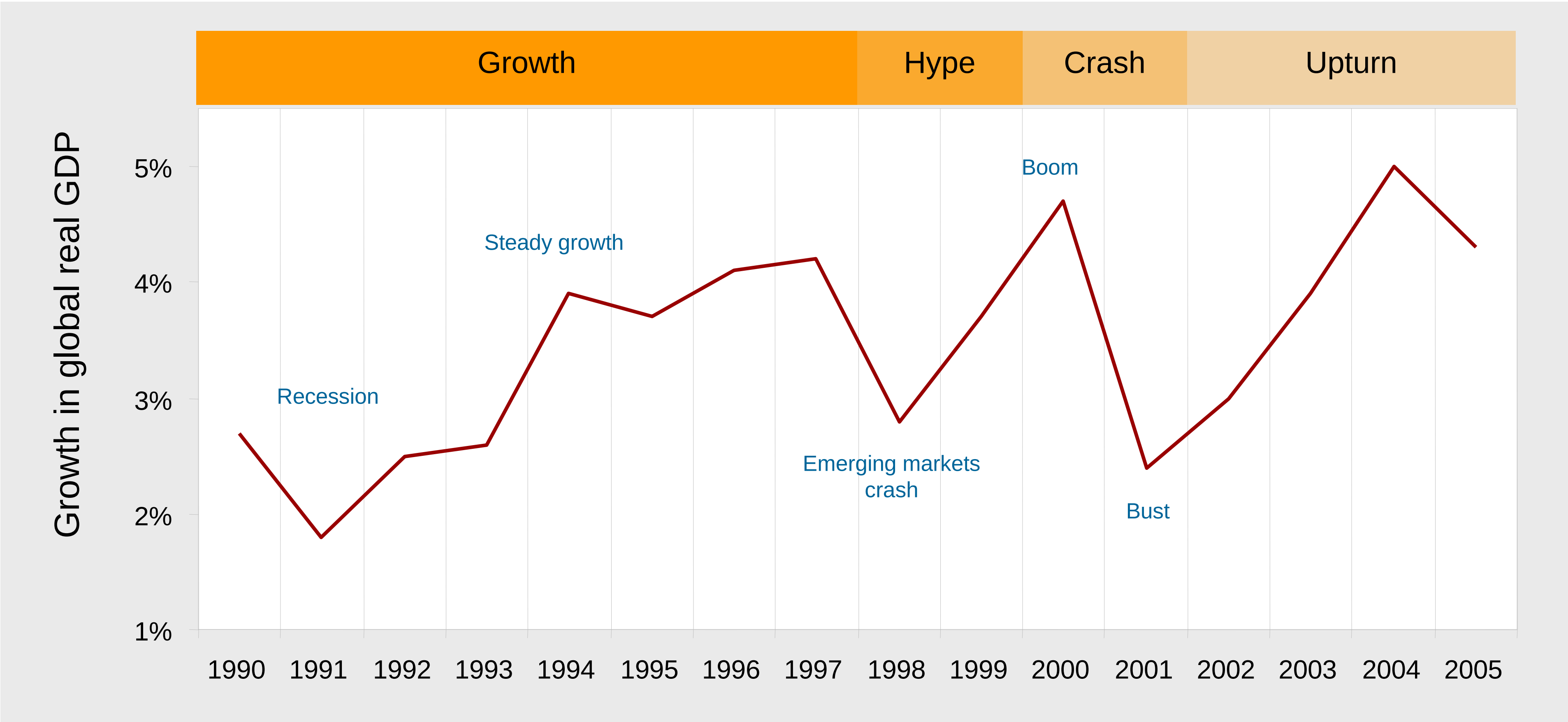
Foster analyzed 1,000 U.S. companies over 40 years and found no long-term survivor that managed to outperform the market

Source: Re-imagine, Tom Peters

The 1990s were a rollercoaster ride for the global economy

Economic growth

Growth in global real GDP (% annual change, 1990 to 2005)



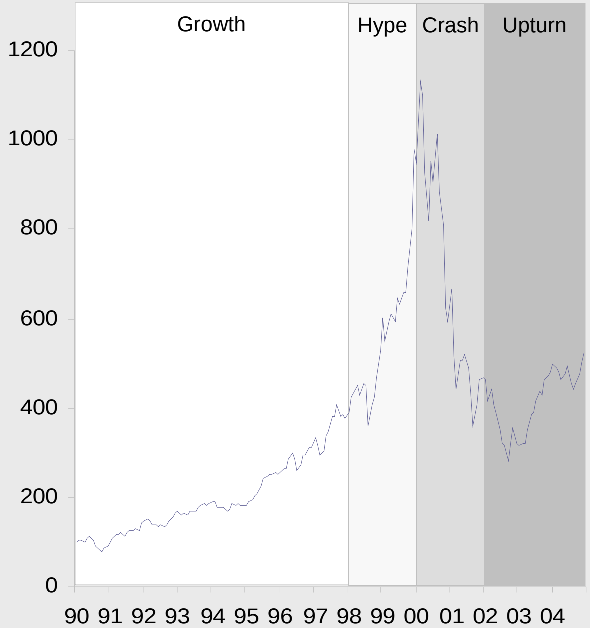
Source: IMF, Accenture Research.

The rollercoaster was particularly wild in investment markets

Selected Stock Performances (1990-2004)

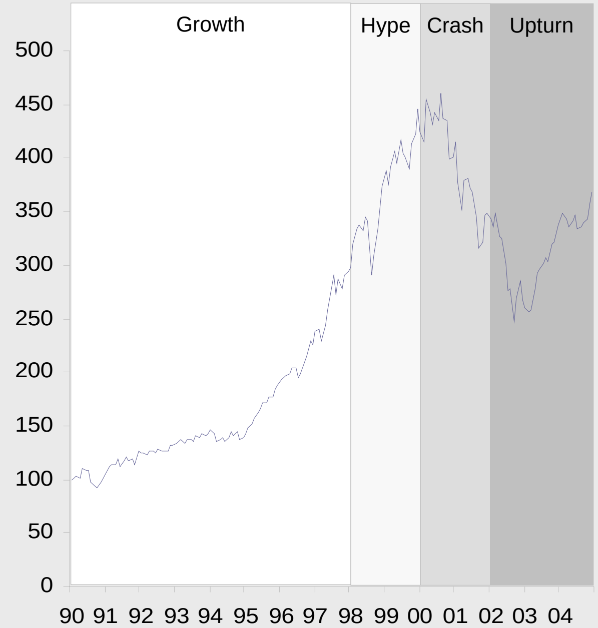
NASDAQ

Stock indices performance since 1990 Dec 1990 = 100



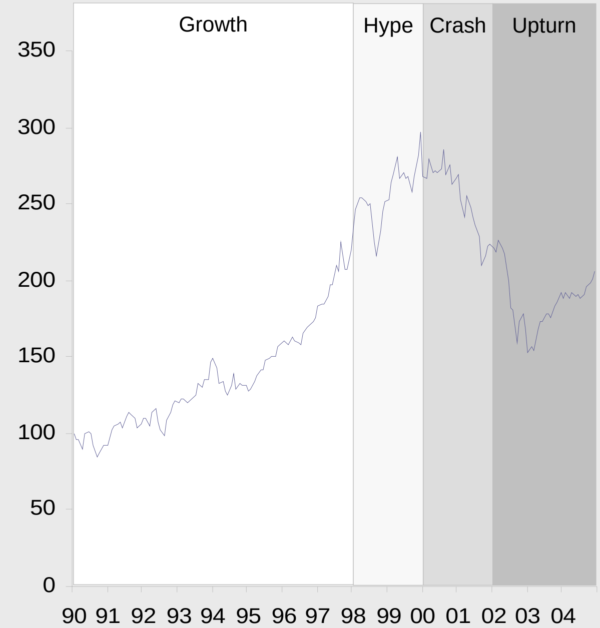
S&P 500

Stock indices performance since 1990 Dec 1990 = 100



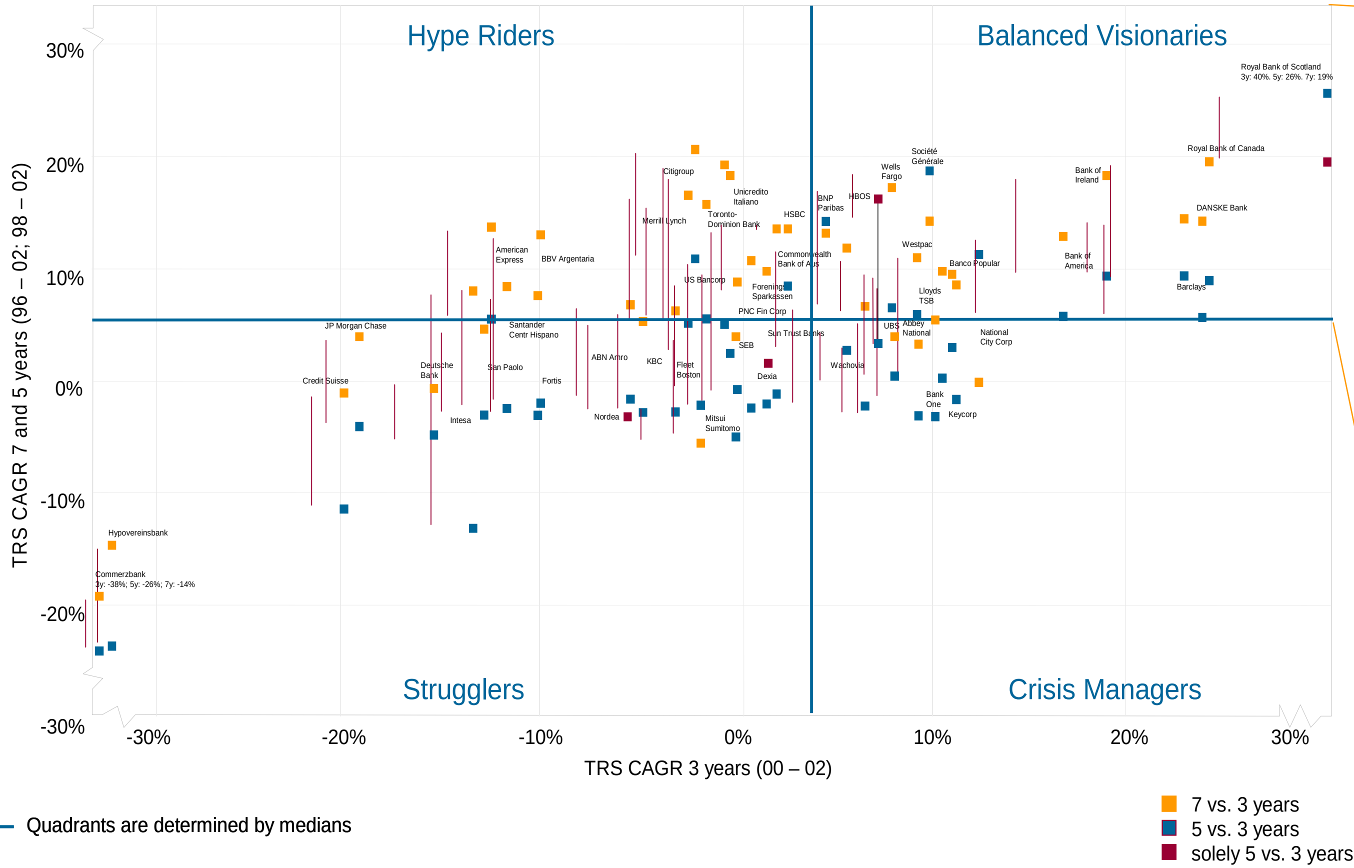
FTSE UK 100

Stock indices performance since 1990 Dec 1990 = 100



Source: Bloomberg, Accenture Research.

Accenture has identified 12 banks delivering a sustainable high performance

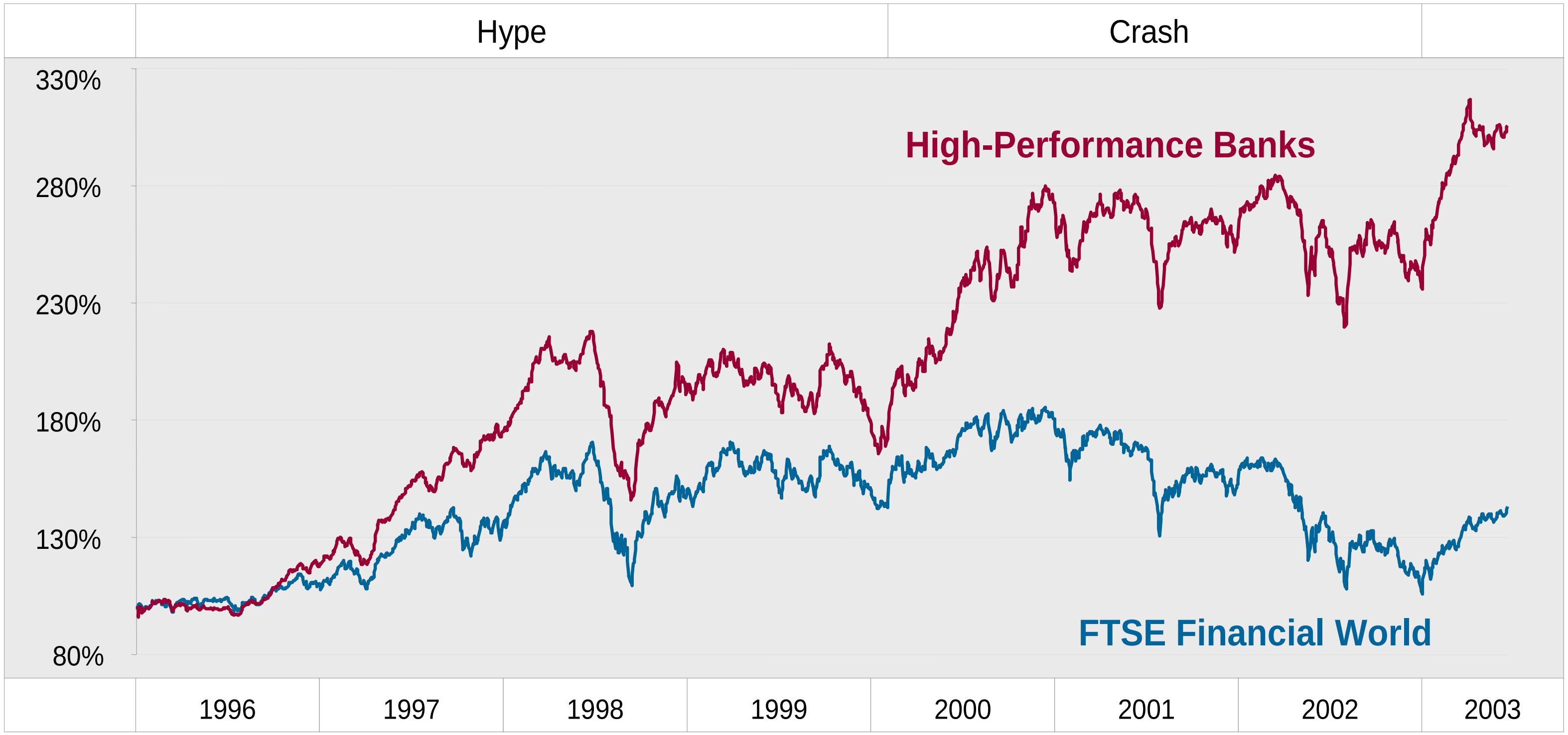


12 High Performance Banks

Company	TSR CAGR 7 y.	TSR CAGR 5 y.	TSR CAGR 3 y.
Royal Bank of Canada	19.4%	9.2%	23.8%
Royal Bank of Scotland	19.0%	26.3%	39.8%
Bank of Ireland	18.3%	9.6%	18.6%
Wells Fargo	17.1%	7.1%	7.6%
HBOS[1]	17.1%	3.3%	5.8
DANSKE Bank	14.2%	5.8%	23.5%
Société Générale	14.1%	18.6%	9.5%
Barclays	13.5%	8.8%	22.0%
BNP Paribas	13.1%	14.9%	4.2%
Bank of America	12.8%	5.9%	16.4%
Westpac	10.8%	6.1%	8.9%
Banco Popular	9.4%	3.6%	10.7%

Note : TRS represents capital appreciation as well as dividend reinvestment over a period of time; Spread = Return on Equity – Cost of Equity
Source: Bloomberg, Factset, Accenture Analyse

The high performance banks consistently outperform their peers



Base Jan 1996 = 100

Source: Bloomberg, Factset, Accenture Analyse

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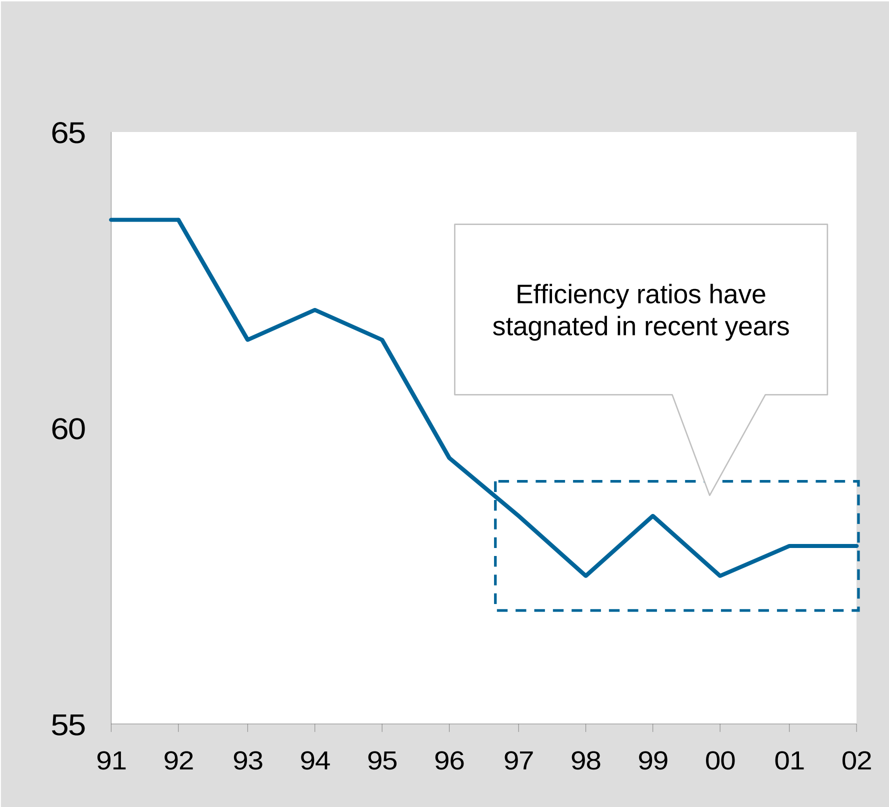
FS Growth and Strategy

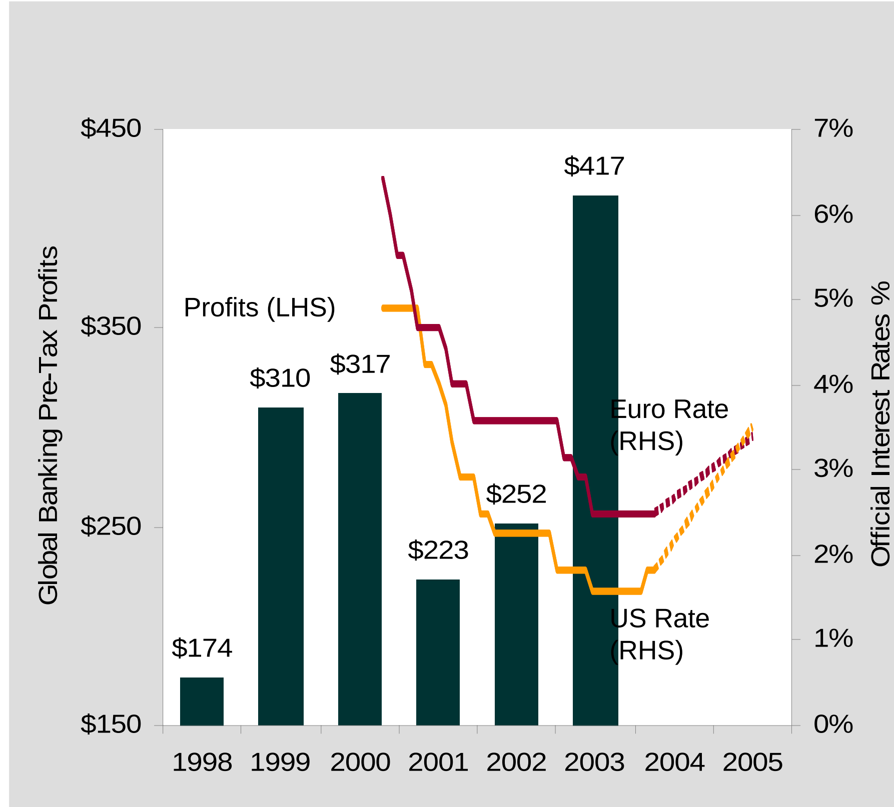
With Stagnating Industry Efficiency Metrics and a Subsiding Credit Boom, Banks will Need to Confront this Cost of Complexity

Bank Efficiency Ratio
100 largest U.S. banks, 1991-2002



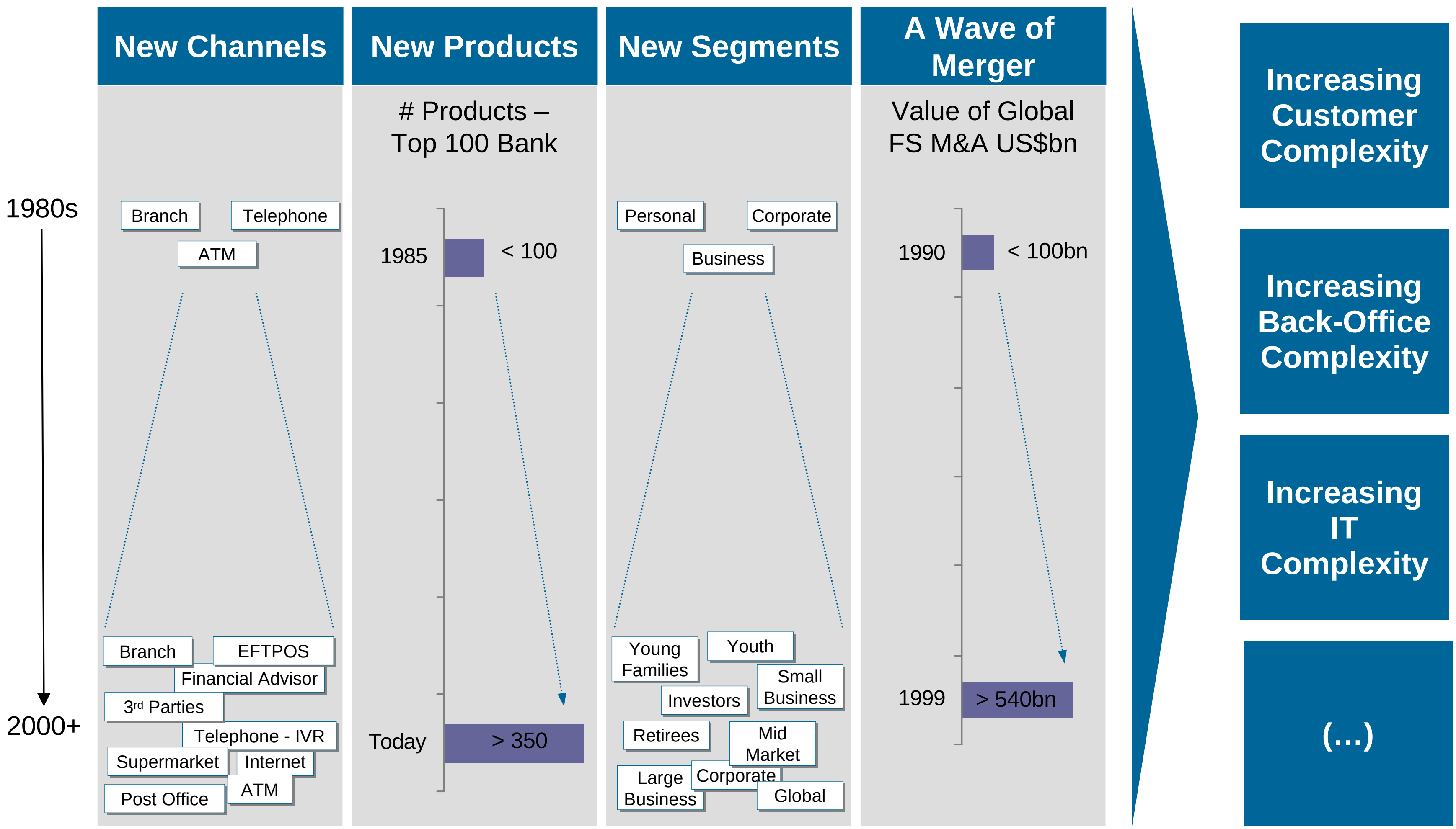
Source: SNL Financial; Operations Council Research

Global[1] Banking Pre-Tax Profits (US$B) versus Official Interest Rates



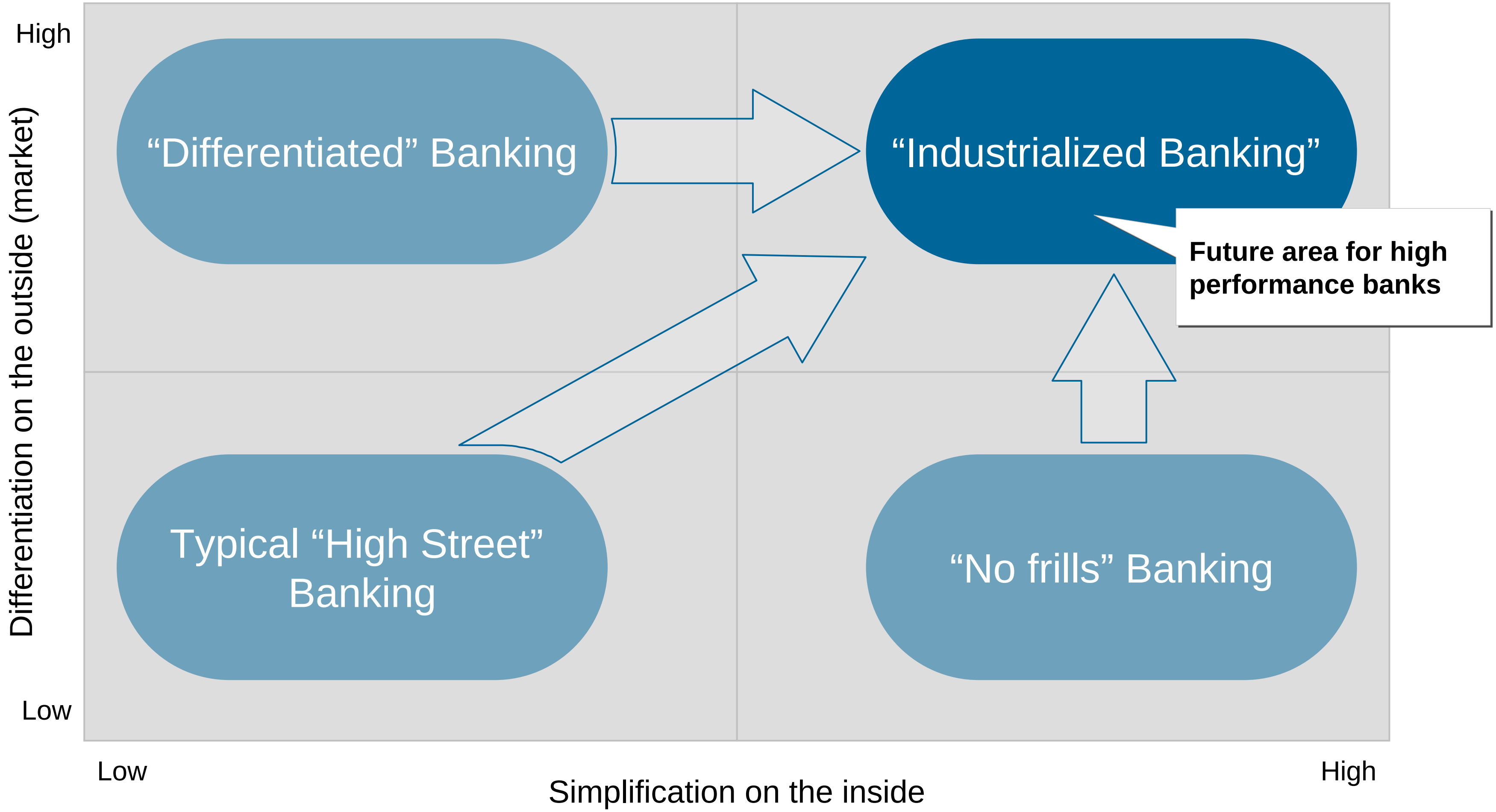
Note: [1]Global 1000 banks; Solid lines are official interest rates.
Source: The Banker, Bank of England, Bloomberg

The high performance banks are facing the same complexity increase in their business as their competitors



Source: Accenture Research.

In contrast to their peers, high performance banks focus on intelligently balancing differentiation and simplification



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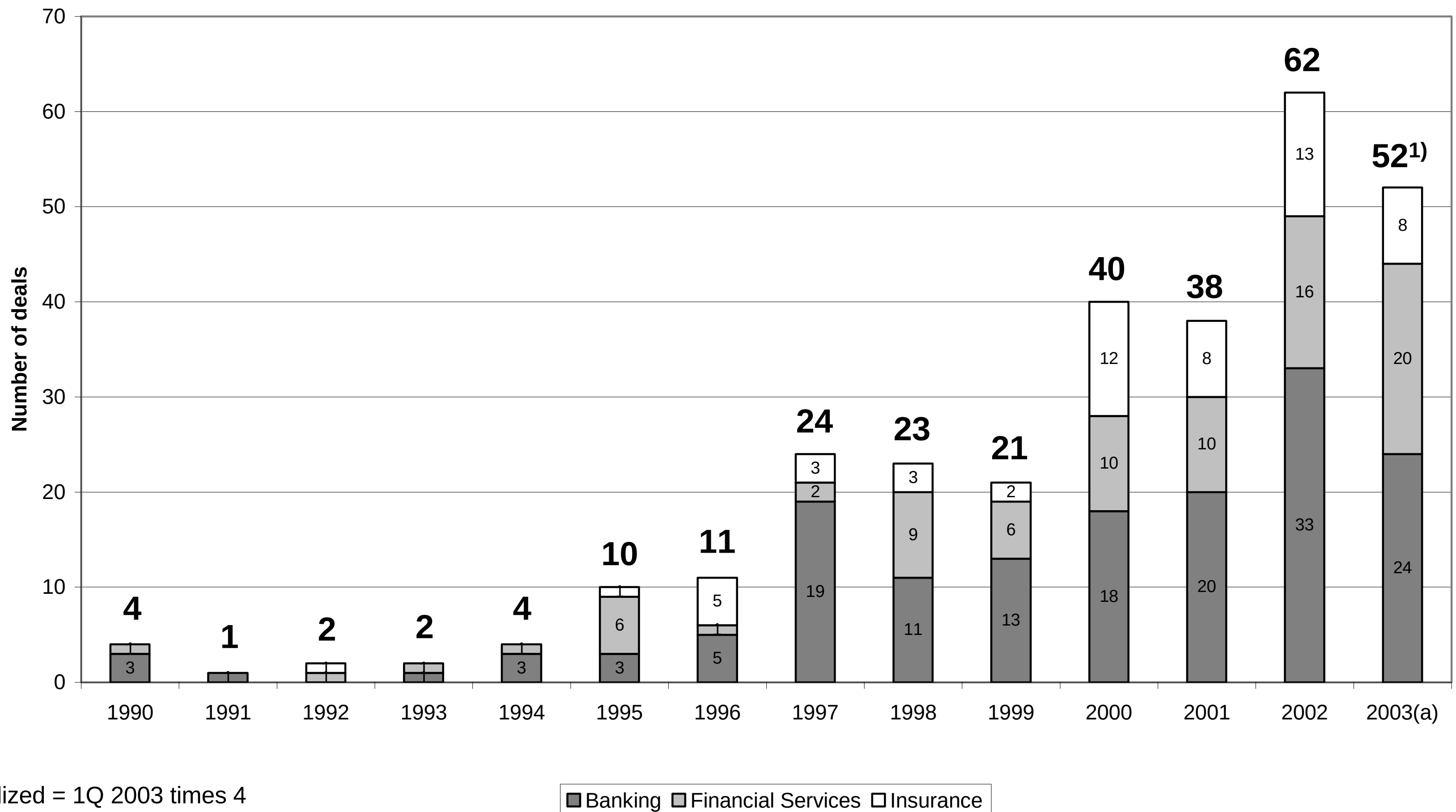
Over the last 10 years Outsourcing has become a major trend in Financial Services

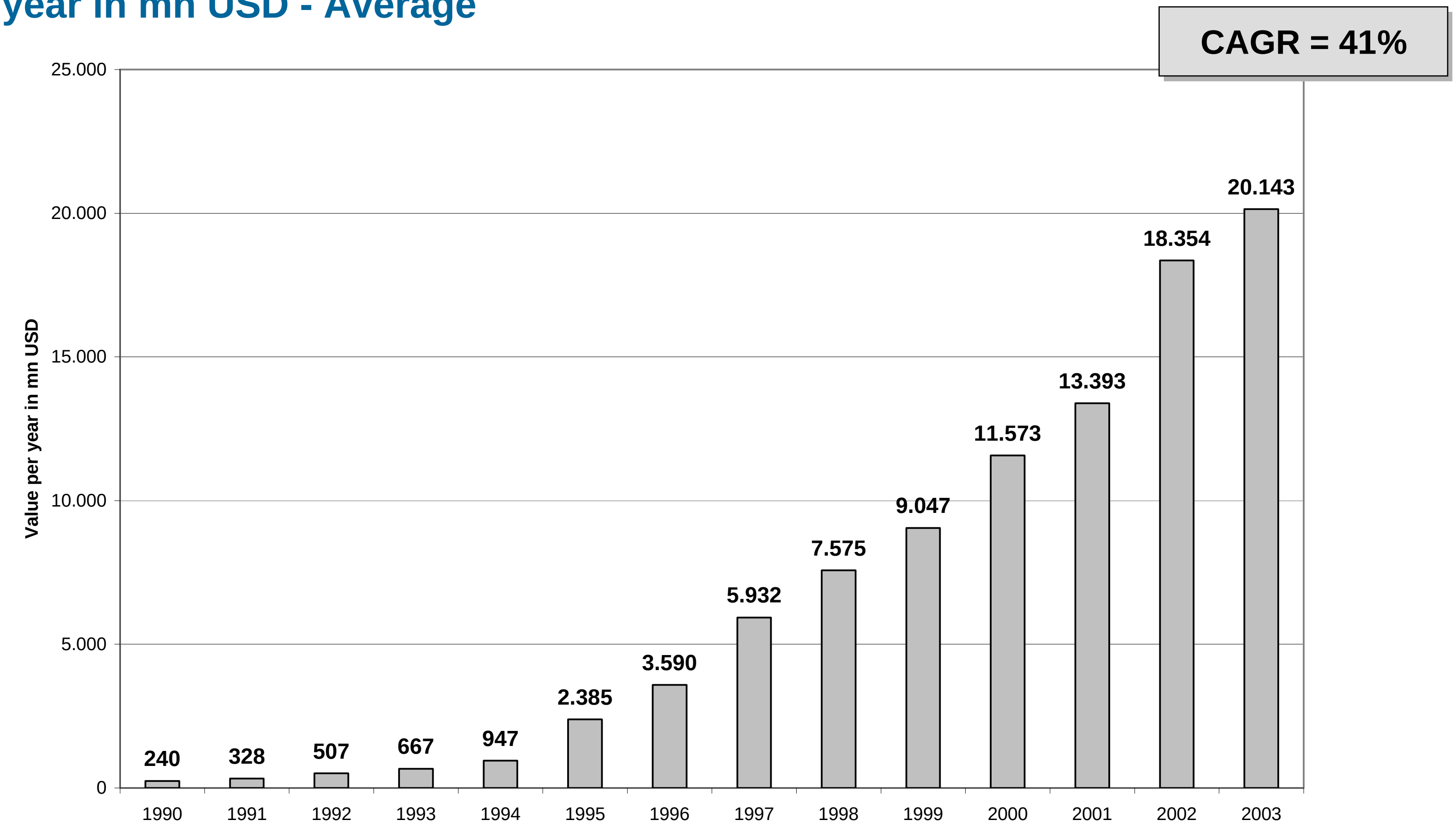
Number of deals per industry group



1) Annualized = 1Q 2003 times 4
Source: E-Finance Lab, March 2004

The growing annual fees for Outsourcing services are an indicator for a decreasing depth of the Financial Services value chain

Value per year in mn USD - Average



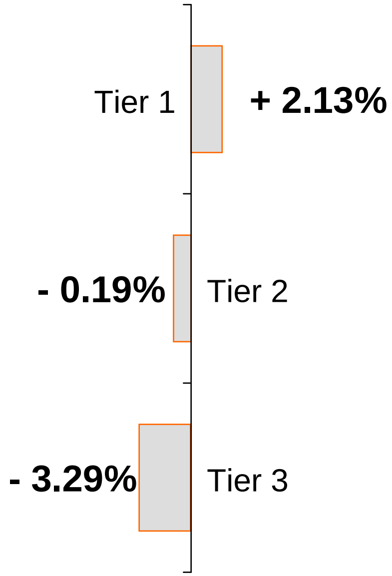
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Annual growth rate	**n/a**	**36%**	**55%**	**32%**	**42%**	**152%**	**50%**	**65%**	**28%**	**19%**	**28%**	**16%**	**37%**	**10%**

Note: Data for non-disclosed deals based on average deal value 1990-2003 (USD 631mn), development based on the average deal length of 8 years
Source: E-Finance Lab, March 2004

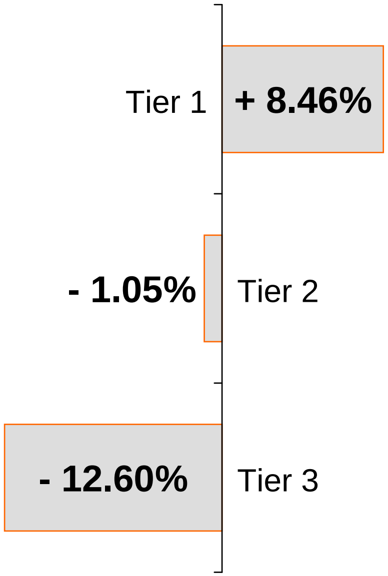
Capital markets react sensitive to outsourcing announcement

Cumulated Abnormal Return, 20 days prior to 20 days after event date

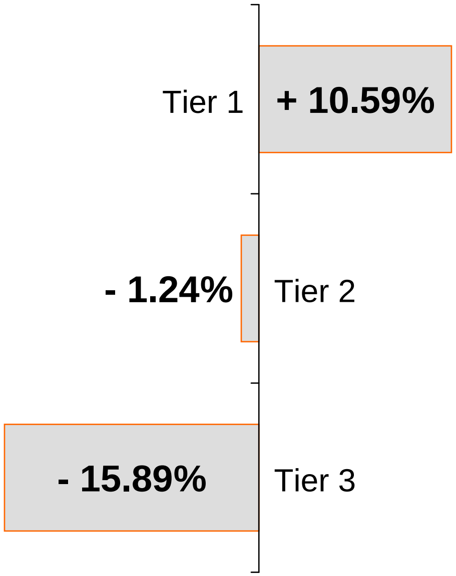
Outsourcer (N=90)



Insourcer (N=90)



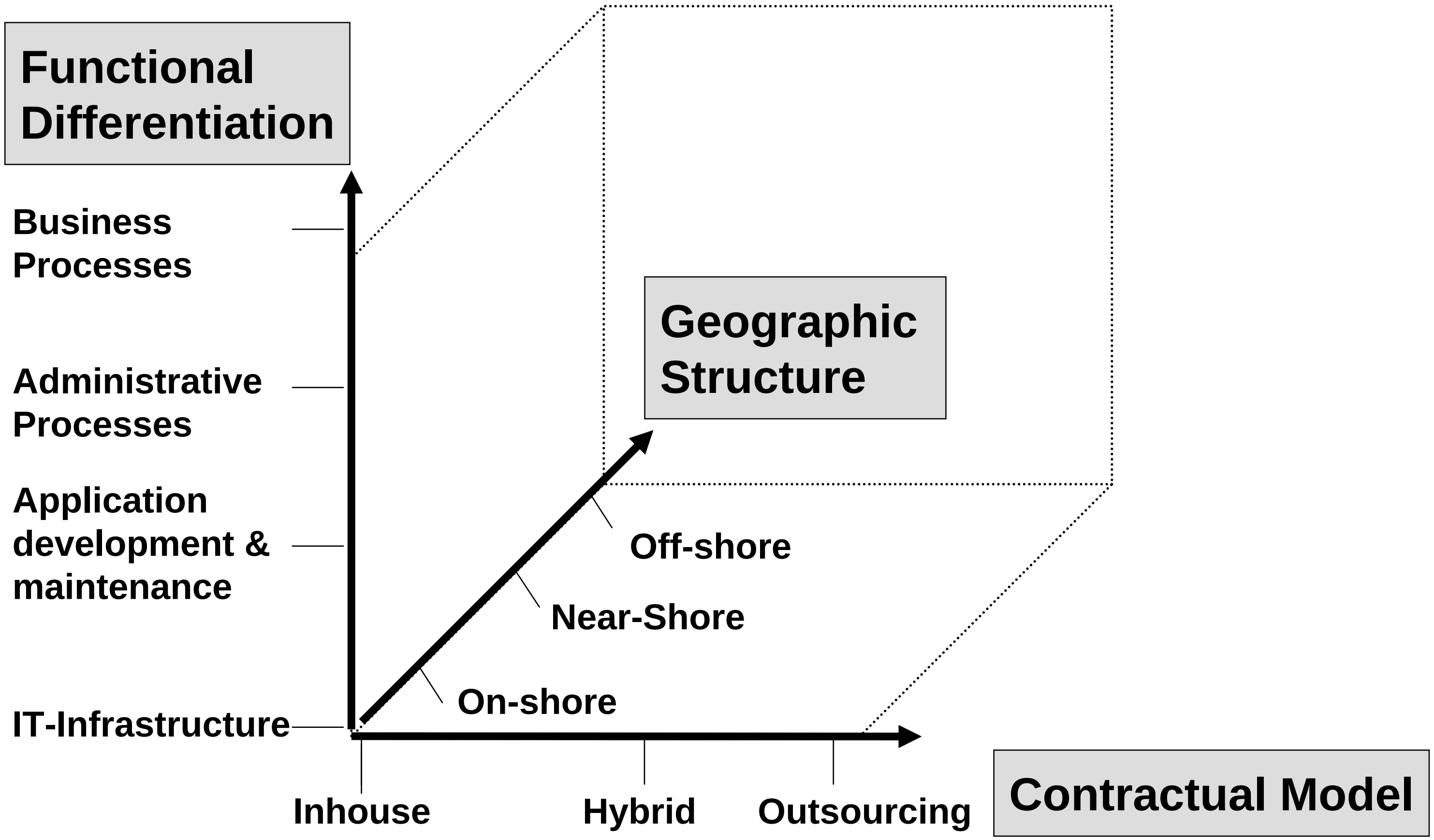
Couple (N=90)



Source: E-Finance Lab, March 2004

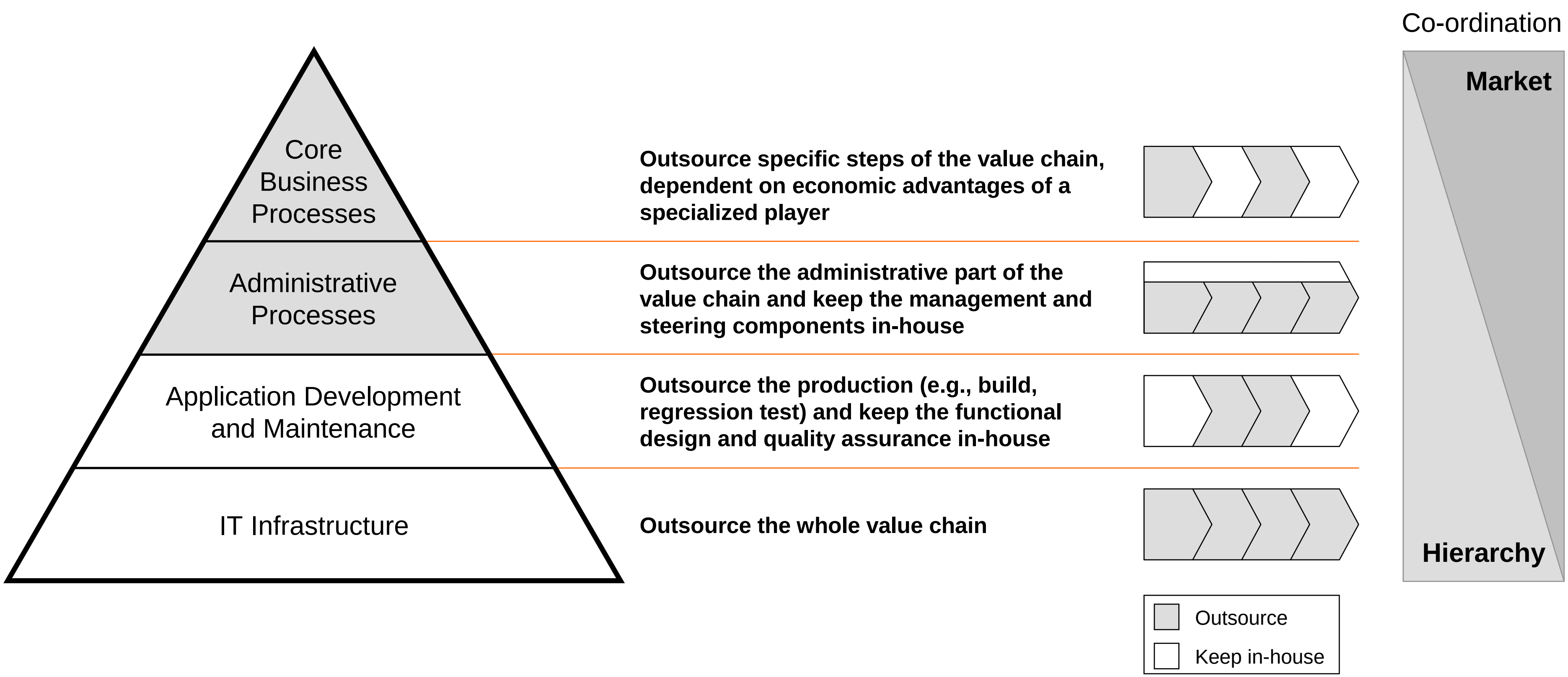
Successful sourcing strategies have to reflect a complex decision framework

Strategic course of actions for financial services companies



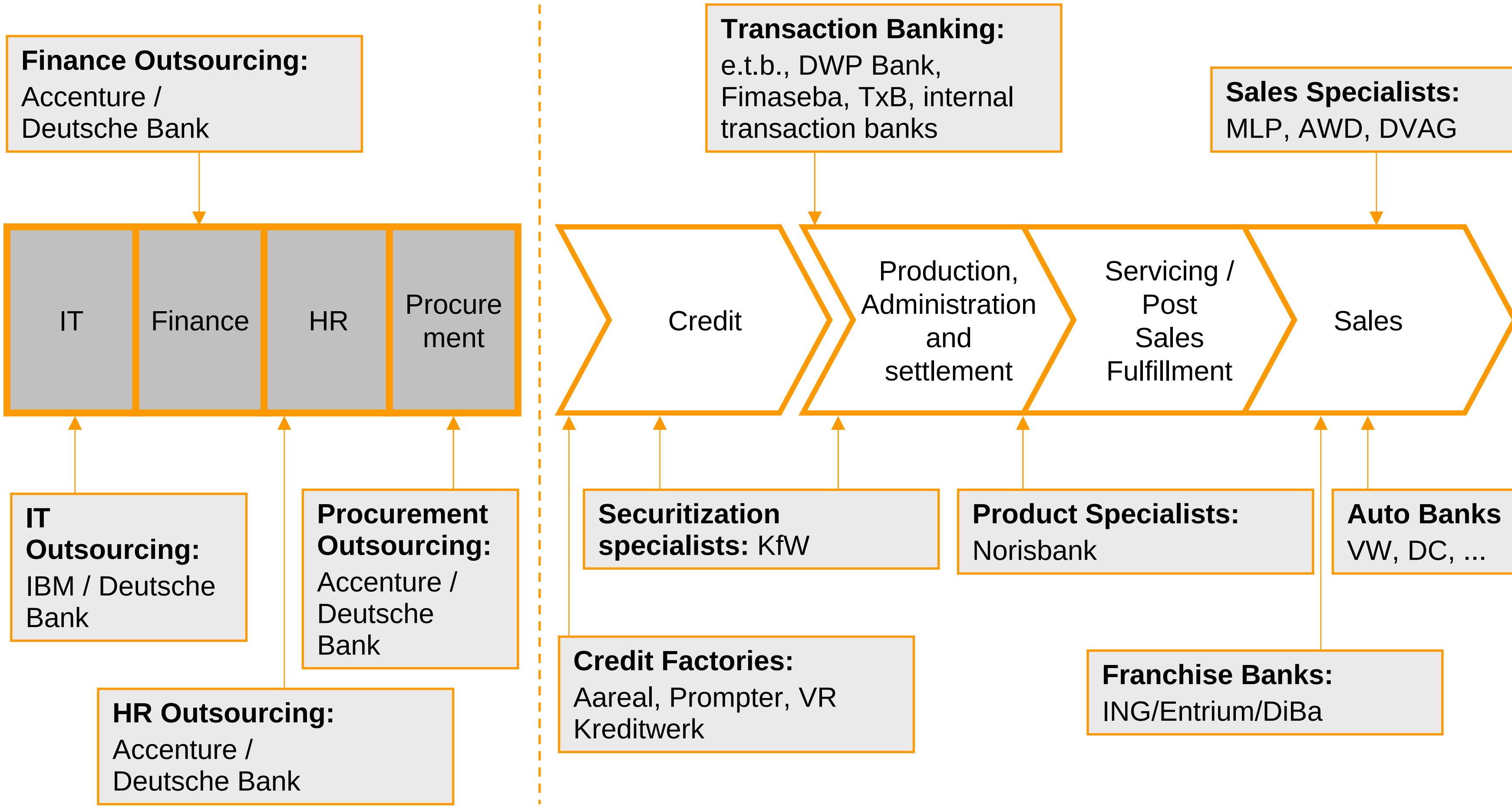
Because of the specific characteristics of the 4 functional areas different sourcing and co-ordination approaches are advantageous

Sourcing and co-ordination approaches



Professional Services Firms and spin-offs are changing the financial services back-office landscape

Outsourcing landscape



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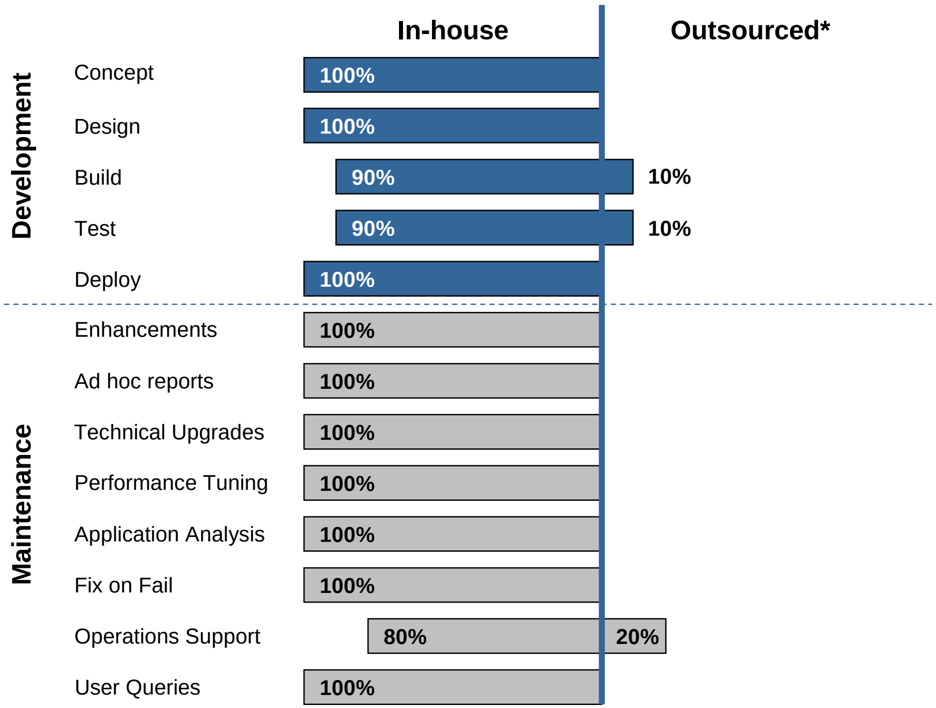
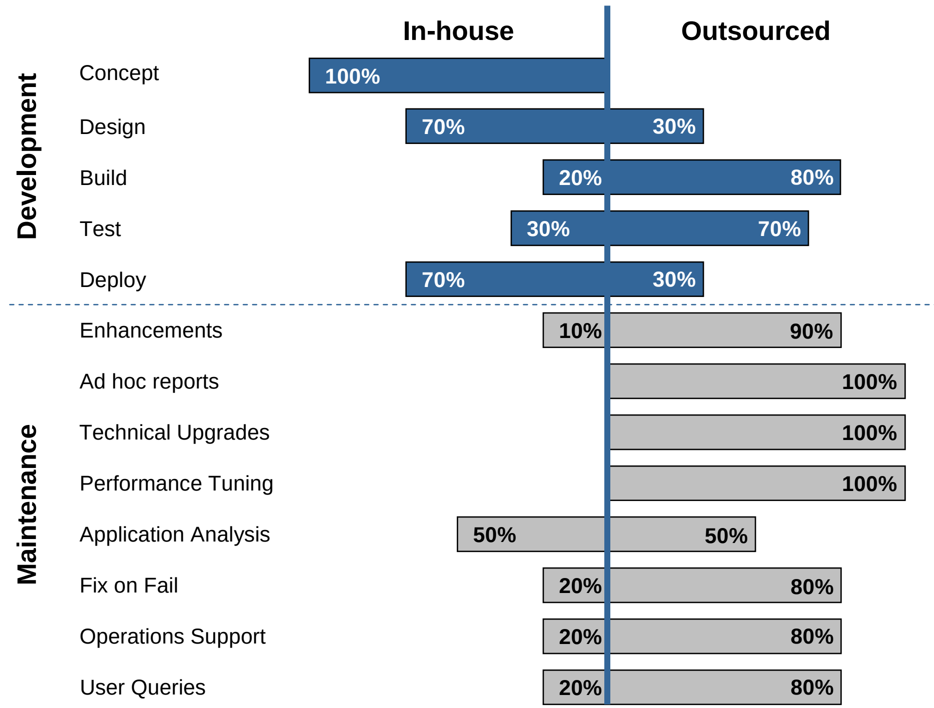
Alternative sourcing allows our clients to concentrate on delivering higher value activities to the business...

EXAMPLE

Current Split of work



New Split of work

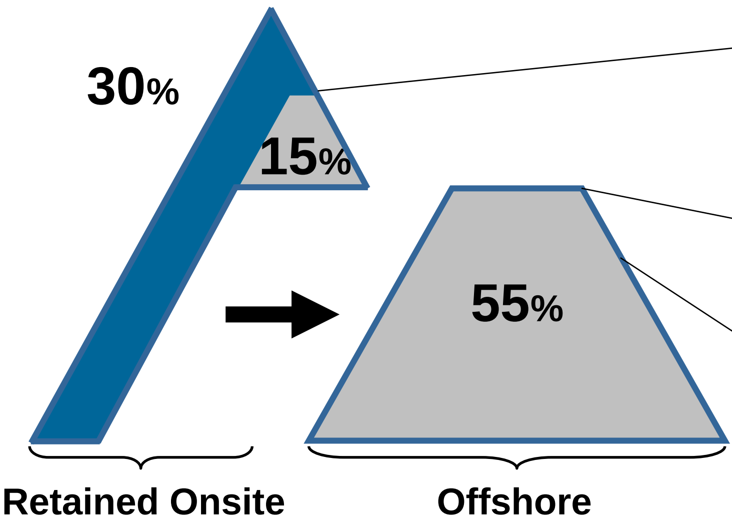


* Figures for 'outsourced' does not include long-term “body shopping” personnel

We use our on-shore and off-shore development factories to significantly reduce the client's IT costs

Geographic sourcing strategy

EXAMPLE



On-shore (i.e., Germany)

Workforce can be deployed on-site or in a solution development center (e.g., Kronberg, Hof).

Typical net savings on outsourced cost base

10-20%

Near-shore (e.g., Spain, Ireland, Czech Republic)

Near-shore centers provide high level of service, low labor costs, stable political environment and a good accessibility.

Typical net savings on outsourced cost base

40-60%

Off-shore (e.g., India, Philippines)

Off-shore centers provide a skilled workforce, lowest labor rates and excellent infrastructure.

Typical net savings on outsourced cost base

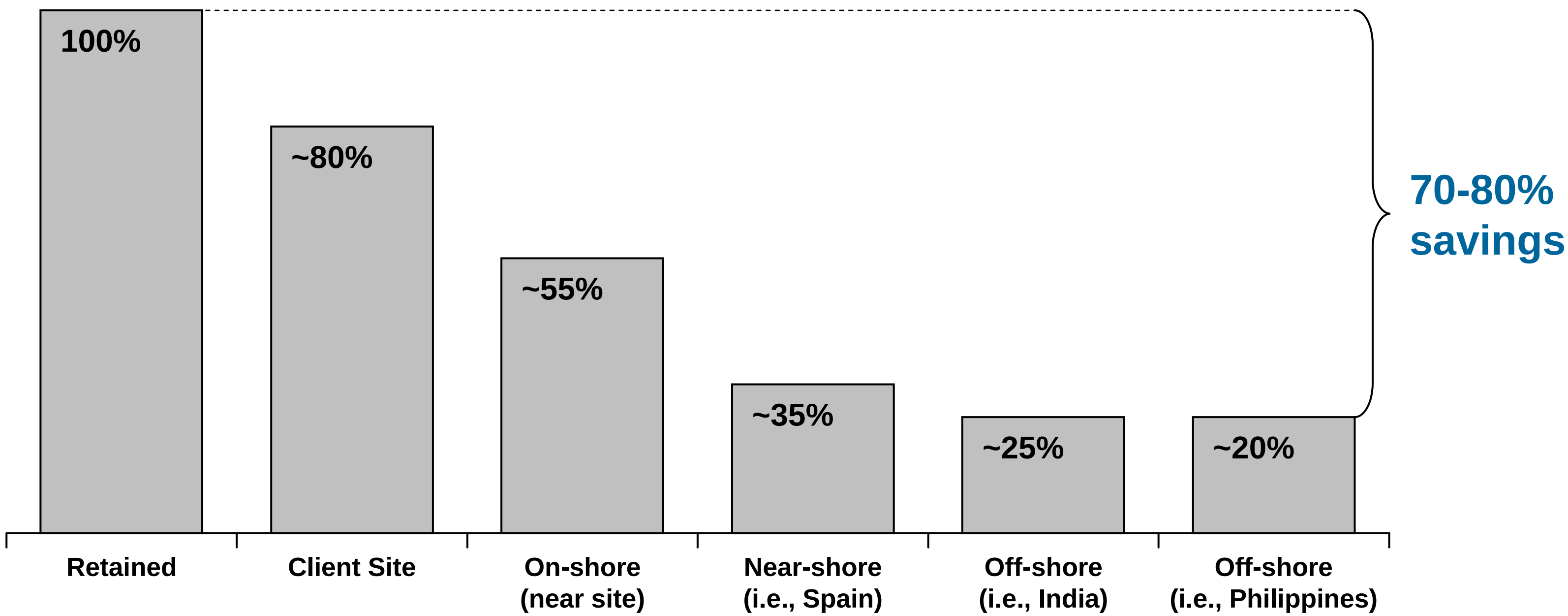
50-70%

Note: For further details, please see pricing model for distributed development workforce.

Mainly these savings are based on “labor arbitrage”

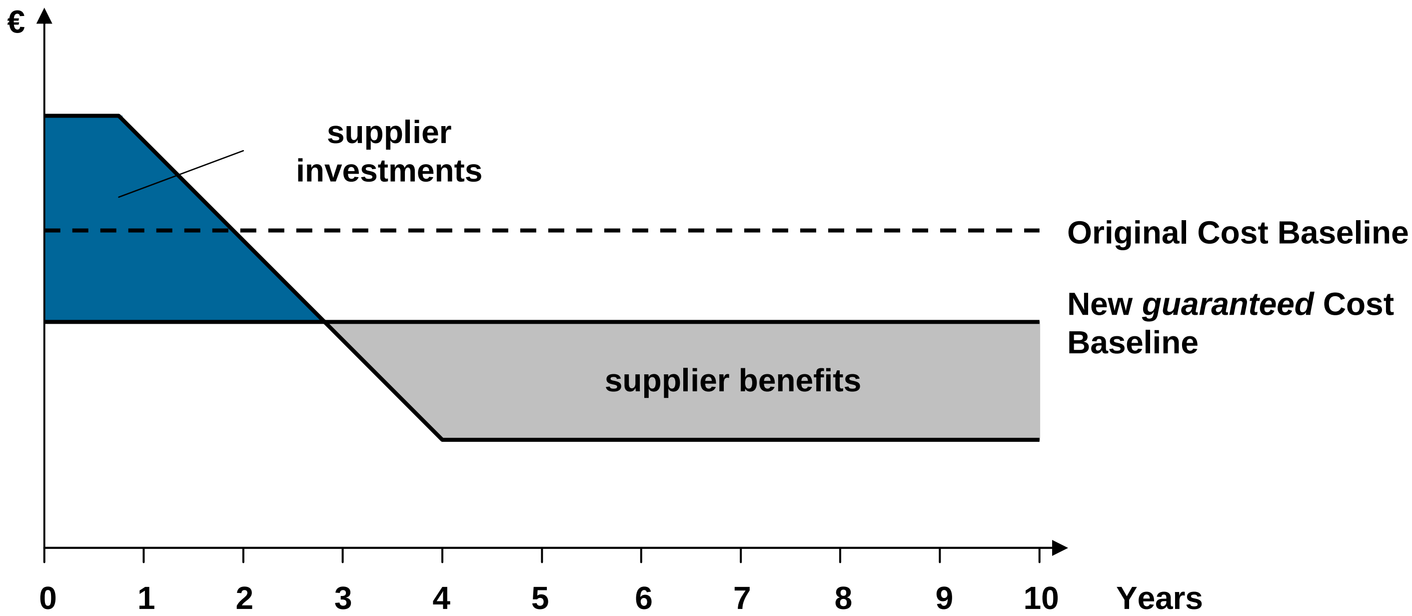
Comparison of Costs per Day (in %)

INDICATIVE



The main challenge for a deal shape is the typically high upfront investment, and the revenue recognition under accounting standards (US GAAP, IAS etc.)

A typical sourcing deal structure



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Important success factors of outsourcing in per cent

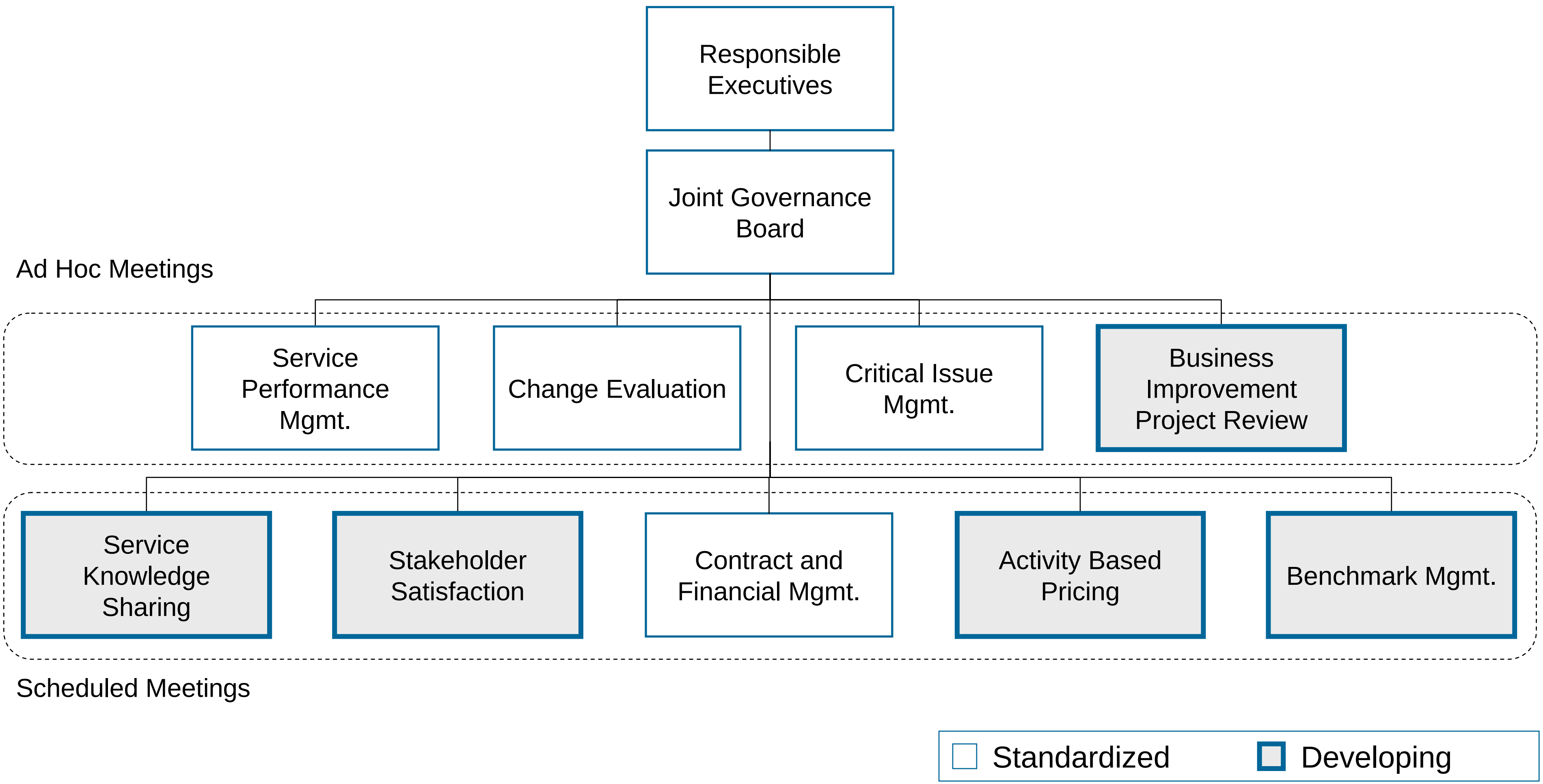
	Kein und geringer Vorteil	Sehr hoher und hoher Vorteil
Erhöhte Kostenflexibilität bei Kapazitätsschwankungen	9	73
Zugang zu spezialisierten Ressourcen (IT, Personal, etc.)	10	70
Leistungssteigerung im Kerngeschäft	12	62
Erschließung von Kostenpotentialen	15	56
Verbesserte Kostenplanbarkeit	18	54
Zugang zu innovativem Technologie- und Methoden-Know-How	16	53
Stärkere Unabhängigkeit von internen Know-how- und Leistungsträgern	21	50
Dauerhafte Sicherstellung des technologischen „State of the Art“	21	43
Modernisierung der IT-Infrastruktur bzw. der PC-Umgebung	27	42
Erhöhte Reaktionsgeschwindigkeit	27	42
Zugang zu innovativem Management-Know-how	24	40
Geringeres bzw. geteiltes Risiko	25	38
Schnellere Durchsetzung von Veränderungsprozessen	19	37
Leistungssteigerung in den ausgelagerten Bereichen	26	37
Abwicklung technol. Pilotprojekte ohne großes Risiko	27	35
Erhöhte IT-Sicherheit	31	34
Erschließung von Wachstumspotentialen	32	29

Important risk of outsourcing in per cent

	Kein und geringes Risiko	Sehr hohes und hohes Risiko
Hohe Abhängigkeit vom externen Dienstleister	11	72
Hohe Kosten eines Dienstleisterwechsels	18	54
Know-how-Verlust in den ausgelagerten Bereichen	18	54
Verschlechterung des Betriebsklimas durch Arbeitsplatzabbau	19	54
Komplexe Integration der Prozesse mit langen Vorlaufzeiten	9	53
Falsche Dienstleisterwahl durch intransparenten Outsourcing-Markt	25	50
Keine präzise festgeschriebenen Service Level Agreements	20	47
Nicht eingehaltene Service Level Agreements	20	45
Unterschiedliche Kulturen von Kunde und Dienstleister	22	45
Eingeschränkter Datenschutz/eingeschränkte Datensicherheit	31	40
Qualitätsverlust in den ausgewählten Bereichen	27	39
Zu wenig Outsourcing-Wissen im eigenen Unternehmen vorhanden	26	37
Mangelnde strategische Kompetenz des Dienstleisters	27	36
Hoher admin. Aufwand in Relation zu den erzielten Kosteneinsparungen	35	27
Unklare Arbeitsrechtliche Gesetzgebung	43	22
Geringe Kostenflexibilität bei Kapazitätsschwankungen	41	20

Governance definitions are generally too narrow to fit the scope of BPO

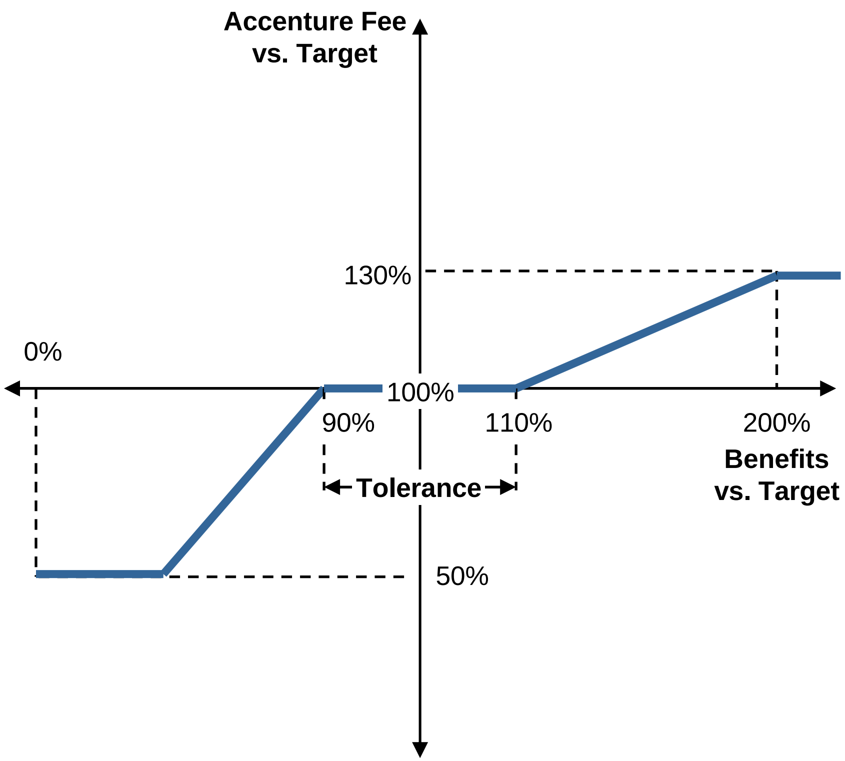
Governance



Accenture will place its fees at risk and align its rewards to the clients success measured by a balanced scorecard

Share of Risk and Reward

ILLUSTRATIVE



Balanced Scorecard Components

Financial Performance

The performance against operational budgets for both ‚core‘ and ‚discretionary‘ spend, and the achievement of target cost savings

Delivery Performance

The service performance, and the successful on-time delivery of the transformation program

Business/IT Alignment

An assessment of how closely the service provided by IT matches the business need, including customer satisfaction

Process Excellence

Internal operating efficiency including the processes, tools and methodologies employed

Operational Excellence

The extent to which human capital is developed, including skills and experience improvement and cultural change

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Questions

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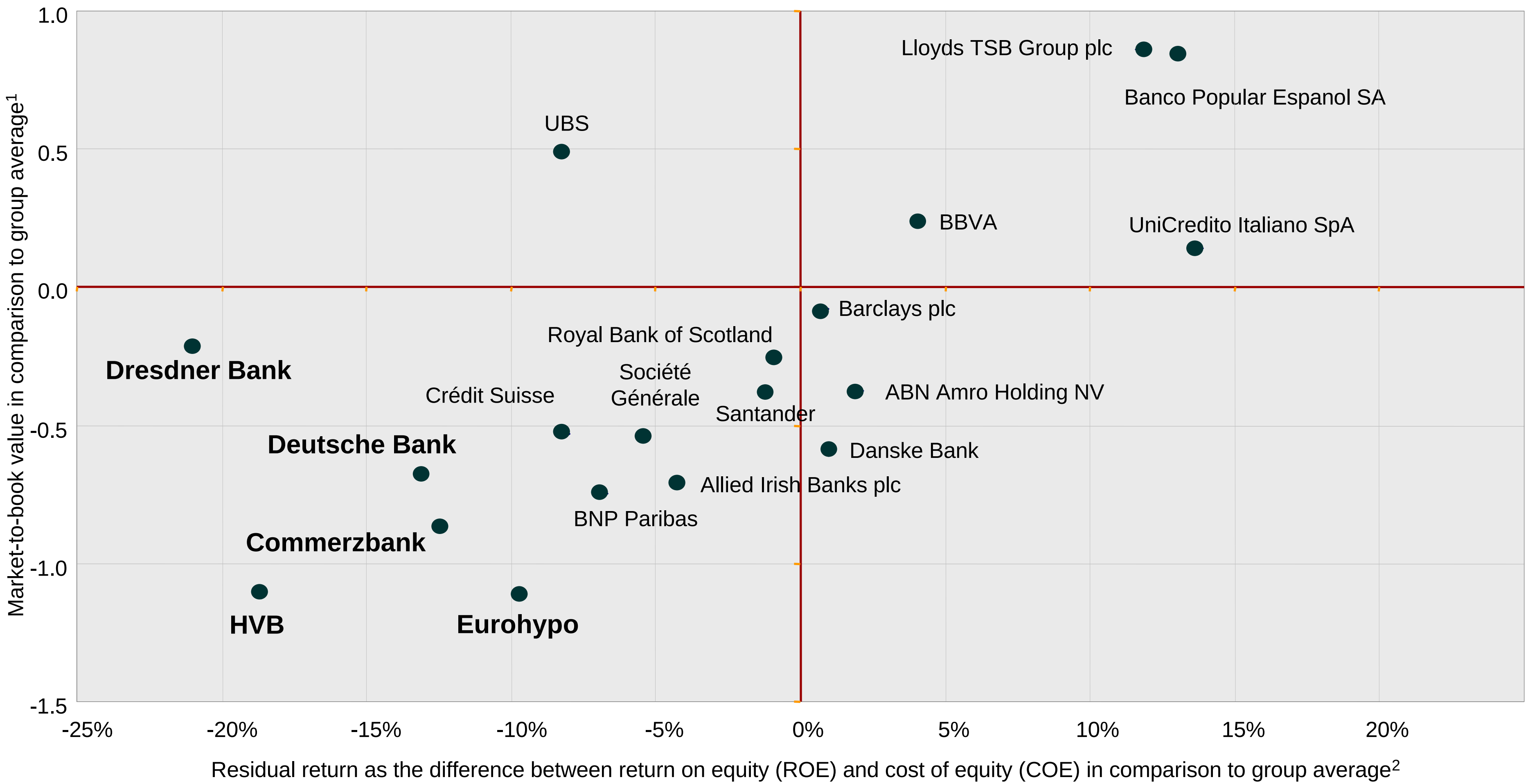
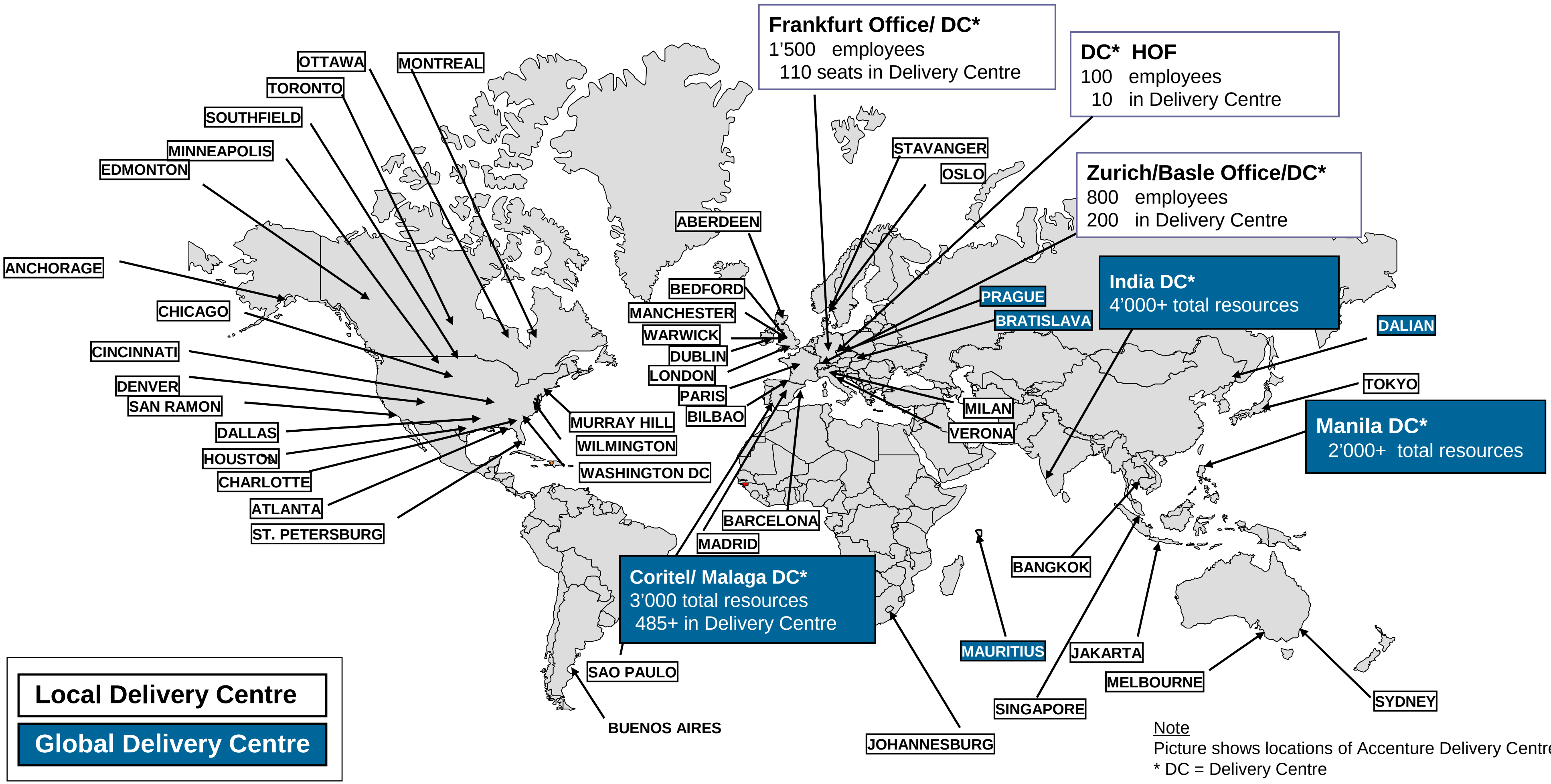
German banks however continue to suffer comparatively low performance

Market-to-book and Residual Return of Major European Banks 2003



Notes: 1) Average MTBV of the peer group = 2.0, 2) Average Residual Income of the peer group = 6.4%. Peergroup: Leading European Banks

Accenture’s Global Delivery Centre Network

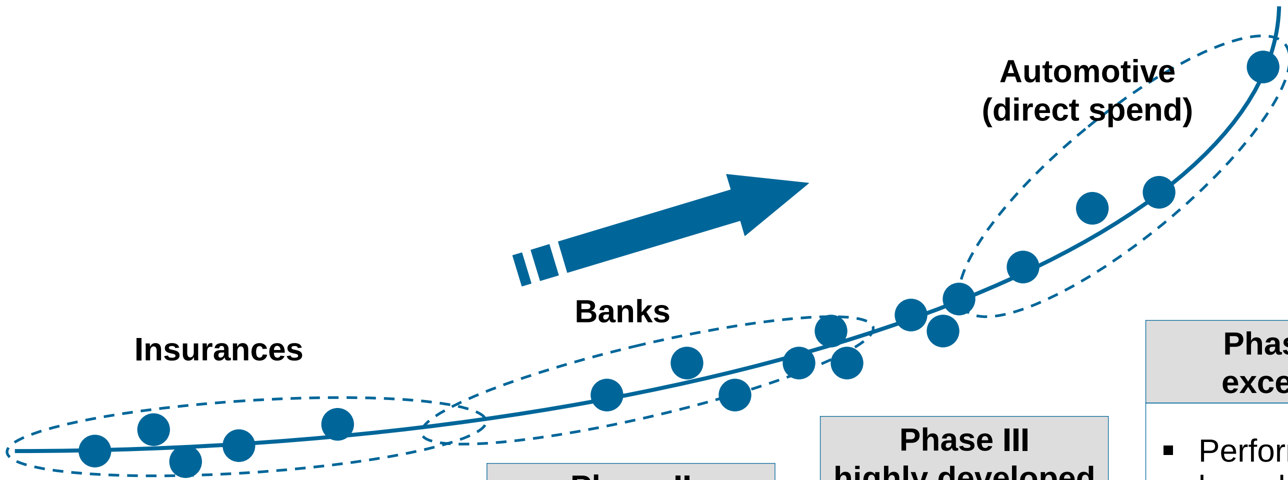


Note
Picture shows locations of Accenture Delivery Centres
* DC = Delivery Centre

… and therefore have neglected when compared with other industries

Procurement Maturity Curve

ILLUSTRATIVE



Phase I rudimentary

- Little spend control
- Heavily decentralized
- Transaction focused

Phase II fundamental

- Majority of spend controlled
- Focus on major suppliers negotiations
- Start to manage demand

Phase III highly developed

- "Right size" supply base
- Multi-geo teams
- Start to manage full procure-ment value-chain

Phase IV excellent

- Performance based suppliers
- High stakeholder influence
- Optimize (P2P) operations

Source: Based on Procurement Organization Maturity Curve by Gene Richter

The Allianz Group can save up to EUR 350-500mn p.a. – unleashing potentially EUR 4,500-6,600mn in value through best-in-class procurement

The impact of procurement on your performance

INDICATIVE

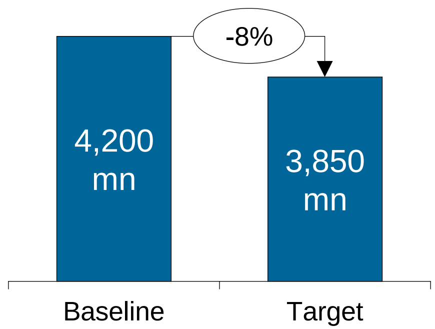
Situation

Current situation

Target situation

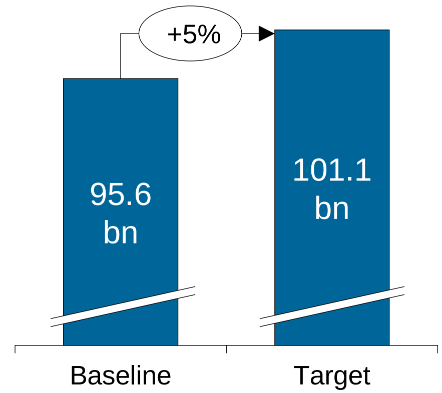
Impact

Total Addressable Spend (TAS)



Value

Net income increase



- Allianz Group probably has strongly decentralized and fragmented procurement
- Current focus in sourcing on negotiations

- A typical procurement project saves 8-12% of the TAS
- Allianz Group has an estimated spend volume of EUR 4,200mn which equals EUR 350-500mn savings potential

- This equals a net income increase by EUR 4,500-6,600mn (5-7%)
- This would represent a Market Cap. increase of EUR 3,900-5,800mn (11-16%)

Note: All numbers rounded, for details and calculation please refer to appendix

Many Financial Services are well on the way to successfully maximizing the financial value of procurement…

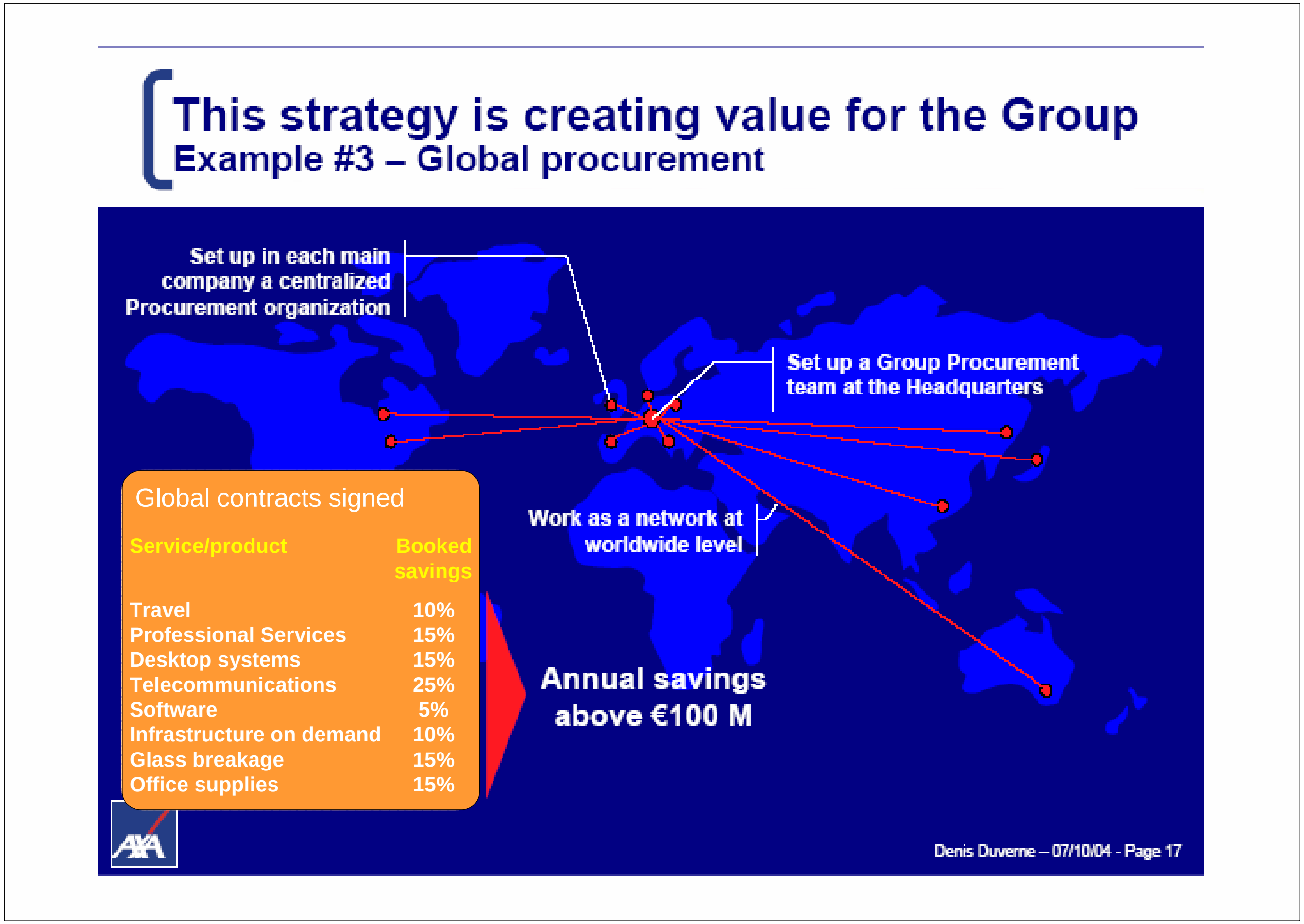
Case studies (1/2)

	Société Générale[1]	Large Austrian Bank[1]	Leading Canadian Bank[2]
Profile	Total Assets: EUR 540.4bn Employees: 88,000 ROE: 16.2% CI: 67.6% Total Addressable Spend: EUR 2.8bn	Total Assets: EUR 128.6bn Employees: 37,650 ROE: 13.7% CI: 64.2% Total Addressable Spend: EUR 1.0bn	Total Assets: EUR 180.0bn Employees: 36,630 ROE: 19.3% CI: 69.4% Total Addressable Spend: EUR 1.0bn
Situation	▪ Application of best practice Strategic Sourcing ▪ Implementation of adequate procurement policies ▪ Enablement of sourcing abilities	▪ Launch of key savings initiatives ▪ Establishment of group-wide procurement organization ▪ Set up of procurement processes	▪ Development of high impact purchasing strategies ▪ Building of category expertise ▪ Redesign of procurement processes end-to-end
Impact	Spend savings >10%[3]	Spend savings >10%	Spend savings 10%
Value[4]	Net income increase: 317 (+2%)	Net income increase: 287 (+8%)	Net income increase: 314 (+4%)

[1] Source: Annual Report 2003; data as of 31st December 2003
[2] Source: Annual Report 2003; data as of 31st October 2003
[3] >10% savings of EUR 1.0bn (amount in project scope)
[4] In EUR mn p.a.
Note: All numbers rounded, for details and calculation please refer to appendix

… and aggressively communicate a success story to the financial markets

Case Study (2/2)



Source: AXA presentation to Merrill Lynch, 7 October 2004, Denis Duverne (CFO, Member of AXA Management Board); available at www.axa.com

To realize the full benefits of procurement you need to manage all components of the value chain

Value Chain

	Strategic Sourcing	Order Management	Accounts Payable
Value Levers	▪ Demand management ▪ Selection process ▪ Negotiation and contracting	▪ Ease of use ▪ Process automation ▪ Process standardization	▪ Invoice 3-way matching ▪ System integration ▪ Process streamlining
Impact	End-to-end MIS maximizing sourcing efficiency across the full value chain		
	▪ Spend transparency ▪ Eliminated gold standards and unnecessary demands ▪ Proactive contract management and streamlined vendor universe	▪ Minimized maverick buying through ease of access and use ▪ Increased process compliance (especially in Accounts Payable) ▪ Shared infrastructure	▪ Increased invoice accuracy/efficiency ▪ Improved use of payment terms ▪ Minimized error handling through straight-through processes
Value	Identify and realize cost reduction of 8-12%	Enrich order information minimizing manual effort	Ensure sustainability of achieved savings through efficiency increase