



Société Générale Securities Services

Trends in Business Process Outsourcing

in the Financial Markets



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**Wider.
Closer.
Simpler.**

Agenda

■ The Past

- ▶ History
- ▶ Drivers for outsourcing

■ The Future

■ New Frontiers

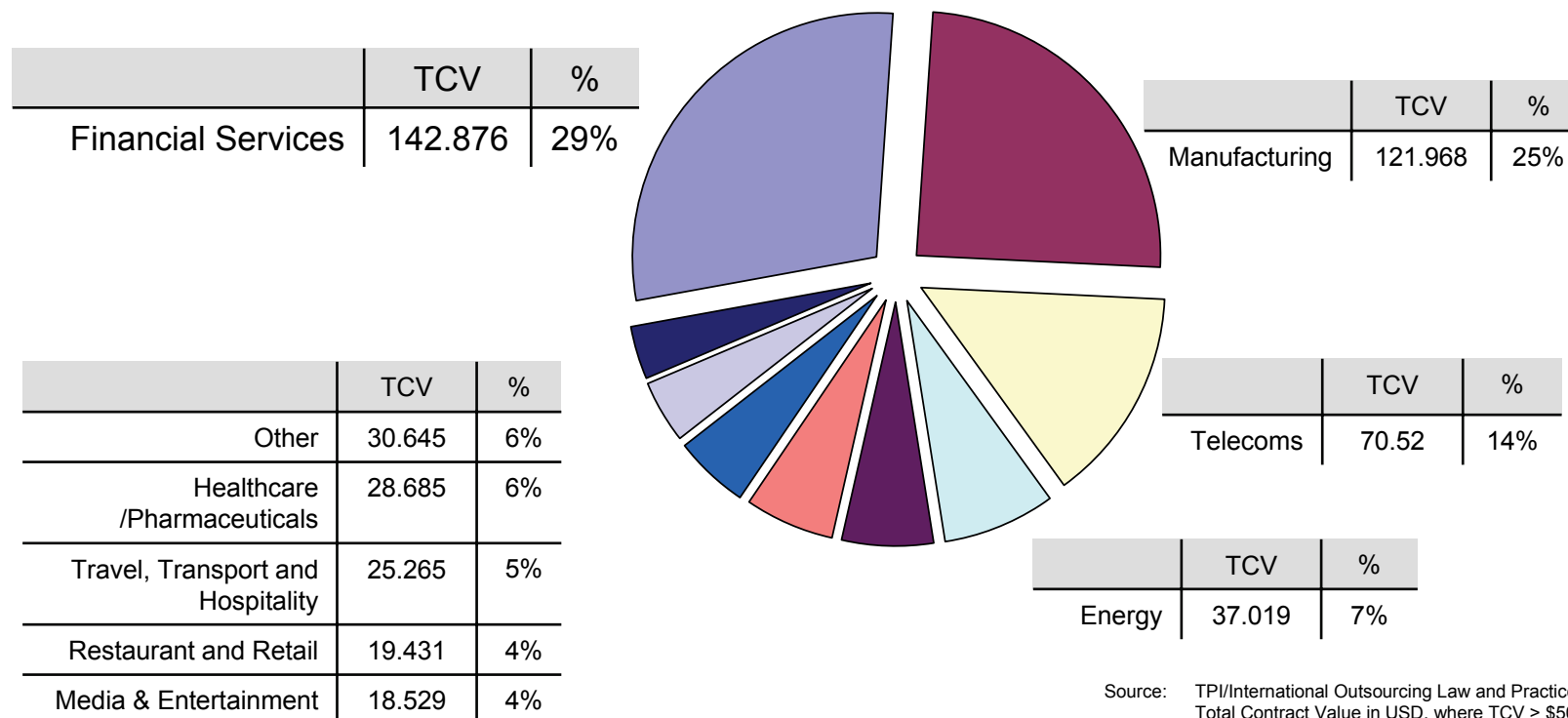
■ Wrap-up

History

■ Overview

- ▶ Financial Services has been at the vanguard of outsourcing

Largest Users of Outsourcing by Industry 2002 - 2007



Source: TPI/International Outsourcing Law and Practice (March 2008)
 Total Contract Value in USD, where TCV > \$50million
 2007 partial year

History

■ Information Technology

- ▶ Outsourced and/or off-shored Application Development is mature and is the norm within Financial Markets
- ▶ Big ticket Infrastructure Management deals have occurred, however these are not the norm

■ Support Services

- ▶ Outsourcing non-industry specific support functions is maturing
 - Human Resources
 - Basic Finance, Accounting and Administrative services (e.g. payroll, expenses)

US Outsource Levels in the Financial Services Industry 2007

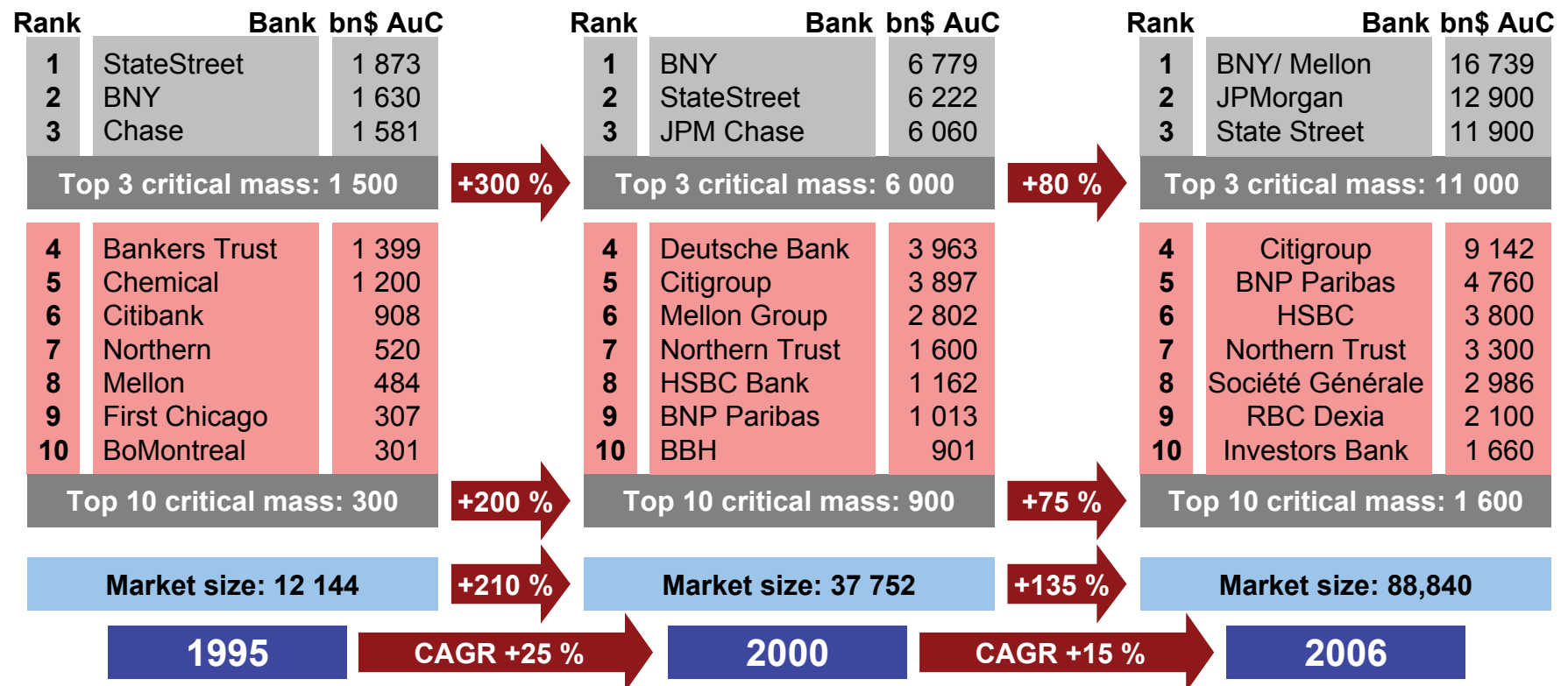
Function	Outsourced	In progress	Total
Information Technology	73%	16%	89%
Human Resources	31%	7%	38%
Call Centre & CRM	44%	16%	60%
Finance, Accounting and Administration	21%	10%	31%
Procurement	16%	14%	30%

Source: EquaTerra Market Study 2006, updated 2007

History

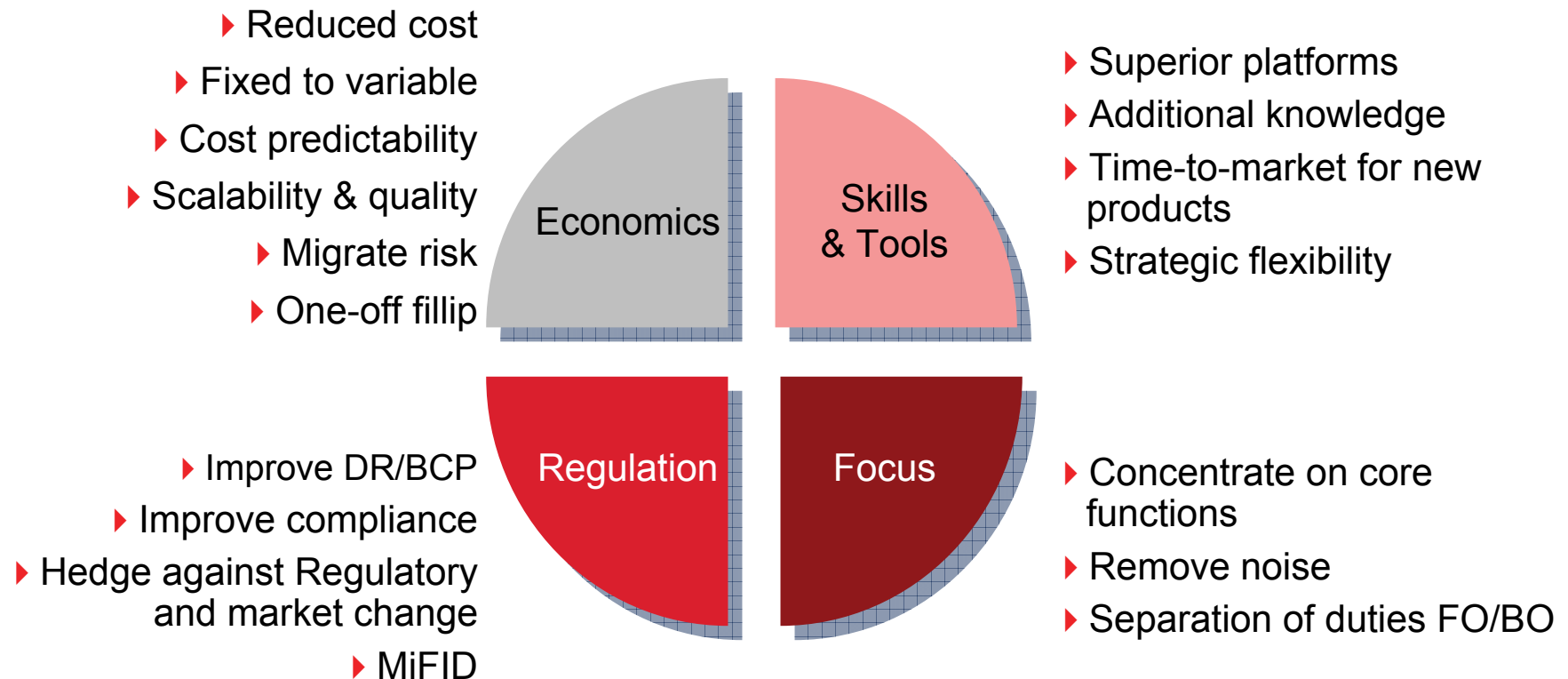
■ Asset Management

▶ Custody and Back-office services have been at the forefront of outsourcing

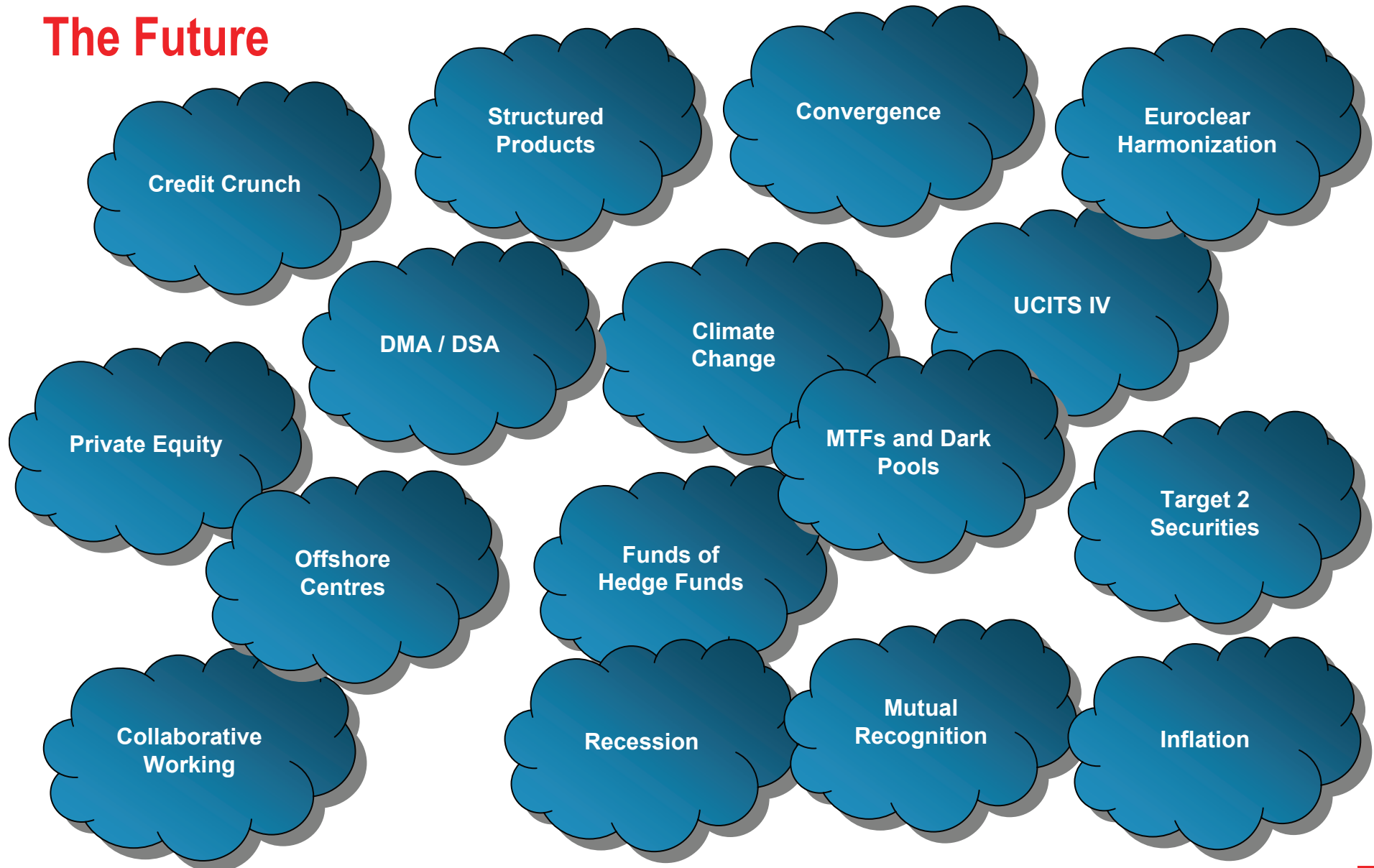


Source: BCG, globalcustody.net, Buttonwood

Drivers for Outsourcing



The Future



New Frontiers

■ The next wave of BPO

- ▶ Asset Management
- ▶ European Transaction Processing
- ▶ US Clearing and Settlement
- ▶ Front Office Trends
- ▶ Outsource versus Off-shore

Asset Managers

■ Middle Office

- ▶ Scope for continued outsource of middle offices
- ▶ Possibilities for air-lift and air-lift payments dwindling

■ Demand for Derivatives Capabilities

- ▶ UCITS III & IV and increasing complexity of holding are forcing Asset Managers to support structured products and derivatives
- ▶ Added demand is creating critical mass for entrants
- ▶ Investment Banks are looking at leveraging their Structures Product Middle Offices as service providers

■ Second Generation

- ▶ First round of deals are now reaching end point
- ▶ Through M&A larger asset managers are looking to consolidate providers
- ▶ Optimum service model is emerging
 - Best-of-Breed for skills based solutions
 - One (or two) suppliers for commoditised services

Sell-side Transaction Processing

■ Commoditised settlement in main European markets

- ▶ Commissions will continue to be eroded
- ▶ Cost will become increasingly key
- ▶ Firms will need to lock-in economies of scale through outsourcing or correspondent clearing models

US Experience Concentration in Clearing Pre & Post DTCC

Number of Firms	1997	2007	Change
Clearing and Carrying Firms	130	25	-80%
Broker Dealers	5600	5000	-9%
Clearing ratio	43:1	200:1	365%

Source: Security Industry Association

■ Trading fragmentation and market expansion

- ▶ Bundling of clearing and back-office solutions to remove MTF and exchange complexity
- ▶ Requirement to support capital flows to/from developing markets (Russian, CIS, Middle East)
- ▶ Private client stockbrokers and wealth managers will need to provide international coverage

US Clearing and Settlement

■ US Outlook

- ▶ Significant cost pressures experienced over the last 5 years will continue
- ▶ Fully disclosed clearers and ASPs moving to provide BPO services
- ▶ Requirement to add-on efficient international capabilities
 - Global custody models will be too expensive

Front Office Trends

■ Execution Services

- ▶ Further widespread outsource of execution and market connectivity
 - Direct Market Access (DMA)
 - Direct Strategy Access (DSA)
- ▶ DSA aggregators which allow further abstraction of the execution process

Front Office Trends

■ Knowledge Process Outsourcing

- ▶ Ability to perform advanced, knowledge based processes off-shore is generating competitive advantage
- ▶ Business-specific context and knowledge is a key success factor

Example Functions Subject to KPO

	<ul style="list-style-type: none"> ▶ Equity research ▶ Credit research ▶ Financial modelling 		<ul style="list-style-type: none"> ▶ Knowledge management ▶ Credit research ▶ Equity research 		<ul style="list-style-type: none"> ▶ Research ▶ Investment banking ▶ Credit analysis
	<ul style="list-style-type: none"> ▶ Investment research ▶ Analytics ▶ Financial modelling 		<ul style="list-style-type: none"> ▶ Analytical services ▶ Risk modelling 		<ul style="list-style-type: none"> ▶ Mathematical modelling ▶ Financial research & modelling ▶ Portfolio analysis
	<ul style="list-style-type: none"> ▶ Investment Banking research 		<ul style="list-style-type: none"> ▶ Investment Banking research 		

Source: Press search, web review interviews,

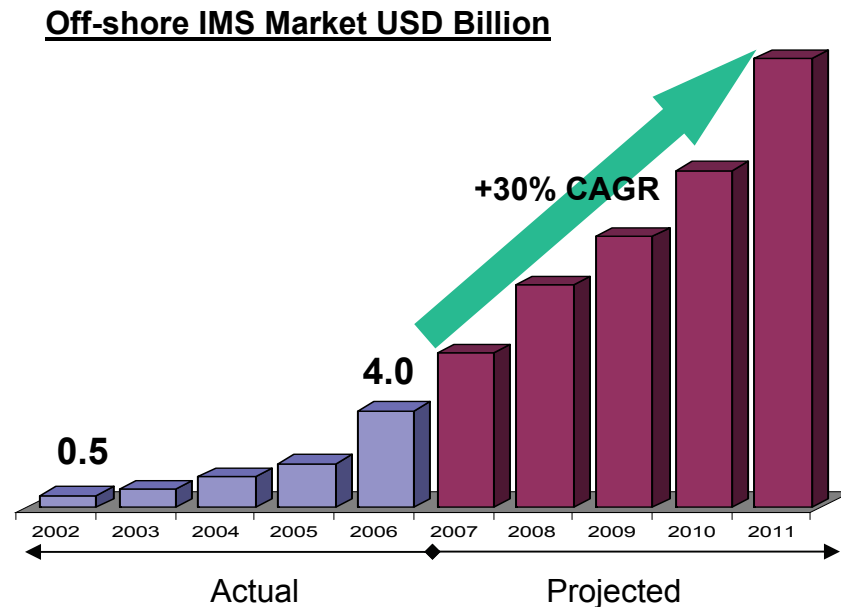
Outsourcing versus Off-shoring

■ Complementary

- ▶ Outsourcing and Off-shoring are not the same
- ▶ Outsourcers will need to leverage off-shore capabilities to be price competitive
- ▶ Financial Market's captives may move to local vendor portfolio managers

■ Infrastructure Management Service

- ▶ Seen to be a substantial growth area
- ▶ As services become commoditised off-shore outsourcers will dominate this market



Wrap-up

■ Outsourcing heat map

	Wealth Management	Hedge Funds	Asset Management	Boutiques	Brokers	Investment Banks
Front Office		Financial Modelling and Analysis - KPO				
	Execution – B2B	Execution – DMA/DSA				
Middle Office			Middle Office - BPO	Introducing Broker Arrangements		
		Hedge Fund Administrations	Derivatives and Structured Products MO - BPO			
Back Office	End-to-End - BPO			Securities Back Office – BPO Fully Disclosed Correspondent Clearing		
		Prime Brokers	Transfer Agency - BPO Fund Accounting - BPO	Specialist Derivatives Back Office - BPO		
Finance & Accounting				Securities Back Office – BPO Fully Disclosed Correspondent Clearing		
Custody		Global Custodians		Local Agents & Multi Direct Custodians		

CONTACT

Philippe Robeyns

Head Investment Banking Service

Société Générale, Securities Services

Tel: +44 (0)20 7762 4701

Email: Philippe.Robeyns@sgcib.com

**SELL SIDE
SALES**

Mark Newby

Head Sales - Investment Banking Service

Société Générale, Securities Services

Tel: +44 (0)20 7676 6657

Email: Mark.Newby@sgcib.com

**BUY SIDE
SALES**

Eric Dickinson

Head of UK Sales and Product Development - Investor Services

Société Générale, Securities Services

Tel: +44 (0)207 676 6925

Email: Eric.Dickinson@sgcib.com