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Cognizant/UBS 'Captive' Deal to Boost Mainland Europe Offshoring

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UBS's sale of its Indian “captive” frees up cash for UBS and gives Cognizant domain expertise and a foothold in mainland Europe. Increased competition will push other mainland European banks toward offshoring.

NEWS ANALYSIS

Event

On 15 October 2009, Cognizant Technology Solutions, a U.S.-based IT services company with most of its staff in India, announced an agreement to acquire the captive provider India Service Centre (ISC) for $75 million from the UBS Group financial services firm. ISC adds 2,000 staff to Cognizant and a five-year services deal worth up to $442 million.

Analysis

This deal will strengthen Cognizant's end-to-end capability in the capital markets, an area on which it had focused through application development and management. Until now, Cognizant had a relatively small business process outsourcing (BPO) presence. Acquiring ISC will enable Cognizant to add BPO, knowledge process outsourcing (market research), IT operations (ITO) and remote infrastructure service management to its offerings, and will more than double Cognizant's BPO staff for banking. The success of this deal depends on how quickly Cognizant can:

- Integrate its new capabilities with its current internal assets. The company has initially allocated nine to 12 months for integration while it cross-trains staff and builds an inventory of intellectual property. The physical facility remains dedicated solely to UBS.
- Leverage its enhanced capability for other investment bank customers. Its domain expertise in banking is now divided among investment banking (45%), wealth and asset management (45%) and loan and mortgage processing (10%).

TCS and Wipro at Citibank and WNS at Aviva were similar recent deals between service providers and financial services firms' offshore IT facilities with comparable 5:1 ratios for contract value to price paid. But the Cognizant/ISC deal is a pioneer for capital markets in mainland Europe, which have typically been slower to offshore, particularly through third-party outsourcing. The economic downturn has increased banks' urgency to free up capital and gain access to variable costs, but the state of an individual bank's finances will determine the marketplace supply of other "captives."

Formerly, supply in this market exceeded demand. Buyers were pessimistic about growth in the financial services market and the effect of threatened protectionist legislation. However, Gartner's recent interactions with India-based IT providers suggest to us they are now keen to identify potential sellers. Captive sales like this one need not become commonplace to change competitive dynamics and increase mainland European banks' need to embrace offshoring.

RECOMMENDATIONS

- **Organizations considering captive sales:** Make or update strategic plans for outsourcing noncore, "overflow" and support operations; evaluate alternative delivery options such as multitenanted utilities. Review your sourcing strategy annually on the basis of business need and market changes.
- **Prospective Cognizant customers:** This deal adds end-to-end BPO capability for investment banking and leverages Cognizant's ability to combine ITO and BPO. Expect a relatively quick return to stability, as growth in the wake of this deal is likely to be organic.

RECOMMENDED READING

- "Sales of Banks' Captive Centers Set to Stall After Latest Deal"— In November 2008, Gartner discussed the market implications of Citigroup's sale of its interest in India-based Citigroup Global Services to Tata Consultancy Services. **By Peter Redshaw and Vittorio D'Orazio**
- "Aviva's Sale of Offshore Operations Hints at Emerging Trend"— In July 2008, Gartner identified the insurer Aviva's sale of its offshore operations as part of a trend in the sale of captive centers. **By Cathy Tornbohm, Kimberly Harris-Ferrante and Peter Redshaw**

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