

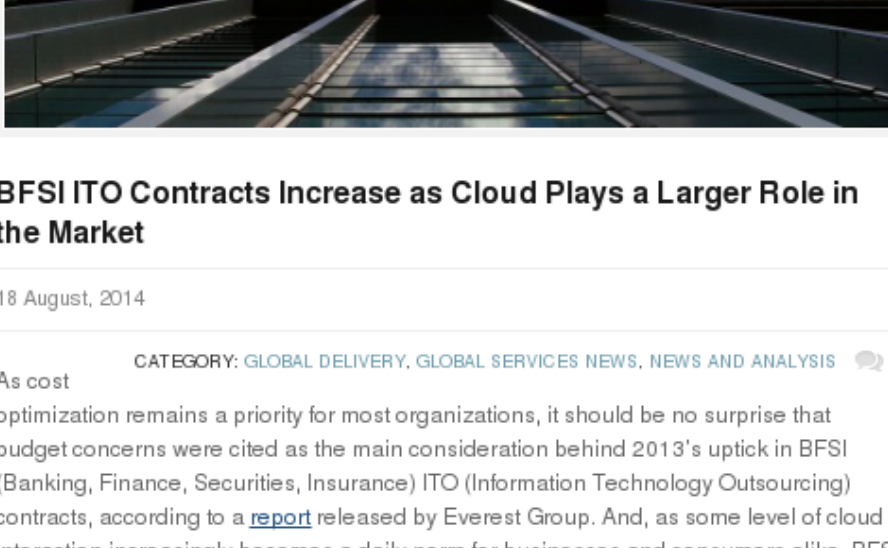


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> BFSI ITO Contracts Increase as Cloud Plays a Larger Role in the Market



BFSI ITO Contracts Increase as Cloud Plays a Larger Role in the Market

18 August, 2014

CATEGORY: GLOBAL DELIVERY, GLOBAL SERVICES NEWS, NEWS AND ANALYSIS

As cost optimization remains a priority for most organizations, it should be no surprise that budget concerns were cited as the main consideration behind 2013's uptick in BFSI (Banking, Finance, Securities, Insurance) ITO (Information Technology Outsourcing) contracts, according to a [report](#) released by Everest Group. And, as some level of cloud interaction increasingly becomes a daily norm for businesses and consumers alike, BFSI and other industries have also explored a hybridization of IT outsourcing implementation strategies.

BFSI IT budgets remained relatively unchanged in 2013 and influenced the rise in contracts, explains Jimit Arora, Vice President at [Everest Group](#). "The dual mandate for CIOs, or the philosophy of reinvestment, where because IT budgets are largely flat, clients are looking at ways to economize (drive greater efficiencies in their legacy environment), and use those savings to invest in transformational next-generation IT (e.g., digital, cloud)."

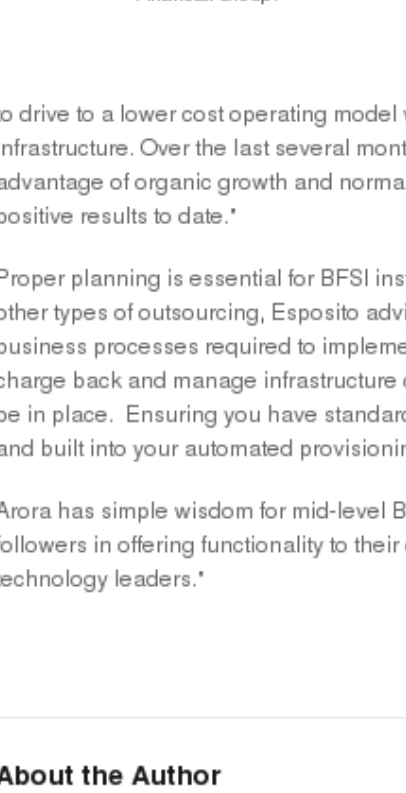
"Regional banks need to be fast followers in offering functionality to their clients otherwise customers will follow the technology leaders."

Although cost efficiencies have long been a corporate concern, ITO contracts have particularly increased since 2012 as organizations, notably mid-level and regional BFSI institutions who may have earlier been reluctant to make significant infrastructure investments, realize its increased need in the digital technology age. Arora believes the growth is currently taking place as the industry sees, "more competitive pressures and more demanding customer profiles (Millennials, digital lifestyles emerging) across geographies, thereby driving investment in capturing the customer's mindshare and enhancing their experience. Organizations need to invest in IT to jump on to the digital bandwagon otherwise risk losing revenue."

The rapid adoption of cloud and other innovations have also contributed to ITO's recent contract growth as Arora notes, "In the last 18 months, hyper-rationalization has resulted in increased activity and we see a number of financial institutions seeking to consolidate their IT infrastructure and making use of new technologies such as cloud to reduce upfront CAPEX, assessing functionality overlaps and identifying opportunities to retire and consolidate apps..Beyond this we are also seeing a lot of industry focus on automation practices (code re-use, test automation, etc.)."

Despite its integration, cloud-based contracts have not yet gained a significant margin in the worldwide ITO industry as Arora finds that Everest's research, "suggests that between 10-15% of the global services contracts have some cloud solution." However, he concludes, "clients are no longer debating the 'if' but rather the 'when' and 'how' of their cloud strategy. Enterprises are realizing that different workloads have different characteristics, and are creating strategies which combine the different infrastructure options. In most organizations we will see the following environment emerge: some workloads stay in the traditional on-premises model, some workloads move to a 'private' cloud, some workloads move to a 'public' IaaS cloud [and] some workloads are 'SaaS-ified.'"

The "cloud mentality," Arora says, has shifted the tone between BFSI institutions and their ITO service providers. "The big change we see in ITO because of this is that clients expect the workloads to behave differently and hence want flexible contracting (ala Cloud) even in their traditional model. Consequently, expect shorter contracts without minimum revenue / volume commitments, and vendor churn becomes common as termination for convenience becomes easier in the absence of minimums."



"The Hartford's goal is to drive to a lower cost operating model while providing a more agile and resilient infrastructure," says Mark Esposito, CTO & Senior Vice President of The Hartford Financial Group.



Jimit Arora, Vice president at Everest Group says that "Clients are no longer debating the 'if' but rather the 'when' and 'how' of their cloud strategy."

As IBM's SoftLayer, Microsoft's Azure and Amazon's Cloud Drive popularize and their services become increasingly accessible to organizations of differing capacities, mid-level BFSI institutions are exploring some level of cloud computing integration into their IT strategy. Mark Esposito, Senior Vice-President and CTO for [The Hartford Financial Services Group](#), says the insurance institution chose to sign a six year service agreement with IBM that includes the implementation of a private cloud infrastructure to drive efficiencies as well as economize. "The Hartford's goal is

to drive to a lower cost operating model while providing a more agile and resilient infrastructure. Over the last several months, we have ramped up our migration and taken advantage of organic growth and normal server and storage refresh cycles with very positive results to date."

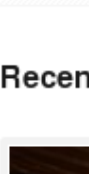
Proper planning is essential for BFSI institutions considering a transition to the cloud or other types of outsourcing, Esposito advises. "It is important that companies focus on the business processes required to implement cloud capabilities. How you provision, price, charge back and manage infrastructure consumption are critical processes that need to be in place. Ensuring you have standard design patterns defined in your service catalog and built into your automated provisioning technology will enable agility and lower cost."

Arora has simple wisdom for mid-level BFSI institutions. "Regional banks need to be fast followers in offering functionality to their clients otherwise customers will follow the technology leaders."

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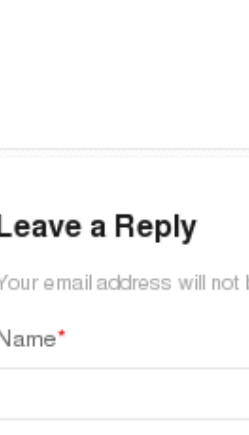
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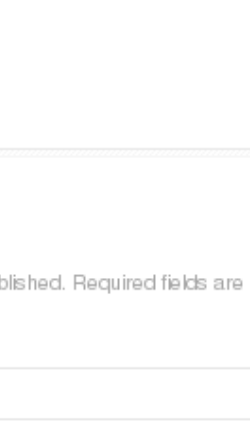
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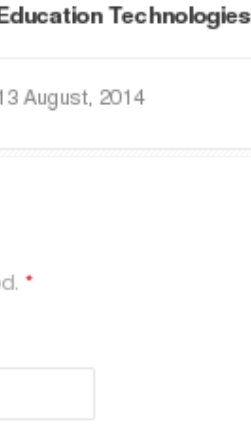
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