Spotlight on South Africa As an Emerging Global Sourcing Location

Webinar

January 8, 2009

Objective for today

Share key findings from Everest's study on South Africa's BPO capabilities in Financial Services (FS)

- Current capabilities and potential for growth
- Comparison with other offshore destinations

Presenters

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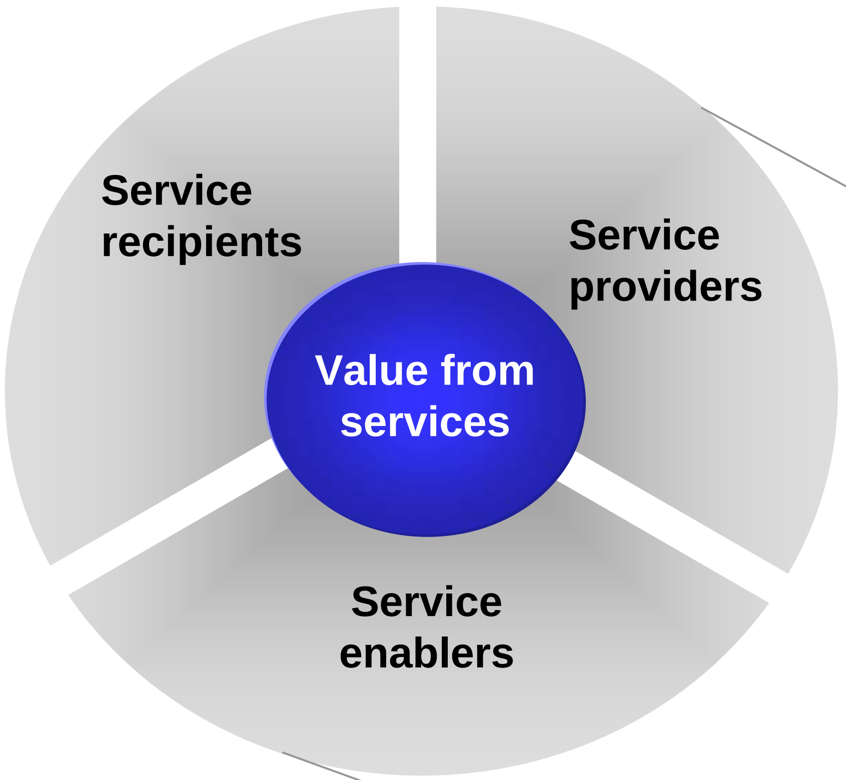
Agenda

- **Introduction and context**
- South Africa’s BPO capabilities in Financial Services: Key study findings
- Q&A and Conclusion

Everest overview



Everest provides

- Information (data and tools)
- Insight (research)
- Advice (consulting)

Overview of key South African government and industry organizations relevant to BPO

the dti Department: Trade and Industry REPUBLIC OF SOUTH AFRICA	Represents the Government and participates in the BPO Sector Support Programme through its Strategic Competitiveness Unit, situated in the Enterprise and Economic Development Division (EIDD). http://www.dti.gov.za/
BUSINESS TRUST Together, we make a difference.	Developed the BPO Sector Support Programme to enable public and private sectors to work together to establish South Africa as a preferred BPO destination. Target to create 100,000 jobs, thereby reducing unemployment and poverty. http://www.btrust.org.za/
BPeSA Business Process enabling South Africa	National coordinating body representing the interests of the BPO industry. Has 4 regional arms in Gauteng, the Western Cape, KwaZulu-Natal and the Eastern Cape. http://www.bpesa.org.za/

Overview of the study

Objective: Provide investors with a level of fine-grained information to support the business case for investing in Financial Services BPO in South Africa

Key outputs :

Focus of today

	Description
FS BPO capability report	▪ Report that highlights South Africa's capability and potential • Overview of global BPO opportunity • Current FS BPO service delivery landscape • Potential for growth in FS BPO • South Africa's value proposition and tradeoffs
Databases/ tools to support marketing	▪ Investor tools: Return on Investment (ROI) model ▪ Databases of information about SA BPO market • Costs of operation • Talent pool • Process-level capabilities in FS

Study conducted by Everest Group along with Letsema Consulting

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- Introduction and context
- **South Africa's BPO capabilities in Financial Services: Key study findings**
  - **Summary**
  - **Current FS BPO service provider landscape**
  - **Potential for growth in FS BPO**
  - **South Africa's value proposition and tradeoffs**
- Q&A and Conclusion

Key messages

1. The Financial Services (FS) sector continues to be the largest demand driver (~45%) for the offshoring industry. The sector has significant growth potential for offshore BPO (addressable opportunity of ~US$250 billion), despite the current crisis. As FS majors grow their offshore footprint, they are looking beyond the leading offshore destinations.

2. The FS-focused BPO industry in South Africa has established significant scale: ~11,000 employees in service providers (suppliers and offshore captives) and an additional 65,000-75,000 in domestic captives of South African FS companies.

3. The service provider community has established credible delivery across industry sub-verticals and functions (front and back-office), delivering robust cost benefits, meeting client quality and service level expectations, and delivering additional benefits beyond labor arbitrage.

4. Current offshore activity in FS BPO is nascent (~2,900 jobs). However, there is significant potential for growth driven by four key factors:
   - Large experienced talent pool with service delivery and domain skills in the domestic FS industry
   - Sizeable talent pool with specialized skills (e.g., actuaries)
   - Narrowing of operating cost differences between South Africa and other low-cost destinations
   - Availability of scalable, high quality English skills, at a low cost

5. Some risks do exist, especially around telecom infrastructure, crime and the prevalence of HIV/AIDS. However, experience of multinationals in South Africa suggests that these risks can be managed by making appropriate investments.

6. South Africa can play multiple roles for investors in the FS space
   - Offshore destination for high-quality English language front-office work
   - Offshore destination for complex FS back-office work
   - Near-shore scalable destination for sub-Saharan Africa
   - Risk diversification option for India/Philippines

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The service provider BPO industry in South Africa employs ~30,000 people overall

EXAMPLES

Key facts about the South African service provider[1] BPO industry

- Employment: ~30,000 jobs overall, ~8,000 offshore jobs
- Growth: 33% per year
- Key client geographies: UK, U.S., Africa
- Key client verticals: FS, telecommunications, retail
- Key service segments: Front-office customer service and sales, Industry-specific back-office services
- Delivery footprint: eight locations; key ones being Johannesburg, Cape Town, and Durban

Key global suppliers

- Accenture
- IBM
- CSC
- Sykes
- Deloitte
- TeleTech
- Teleperformance

Key South African suppliers

- Merchants
- Direct Channel
- Dialogue Group
- CCN

Key offshore captives

- Shell
- Budget Group (Fusion Outsourcing)
- Pruhealth
- Carphone Warehouse
- Lufthansa (Global Telesales)

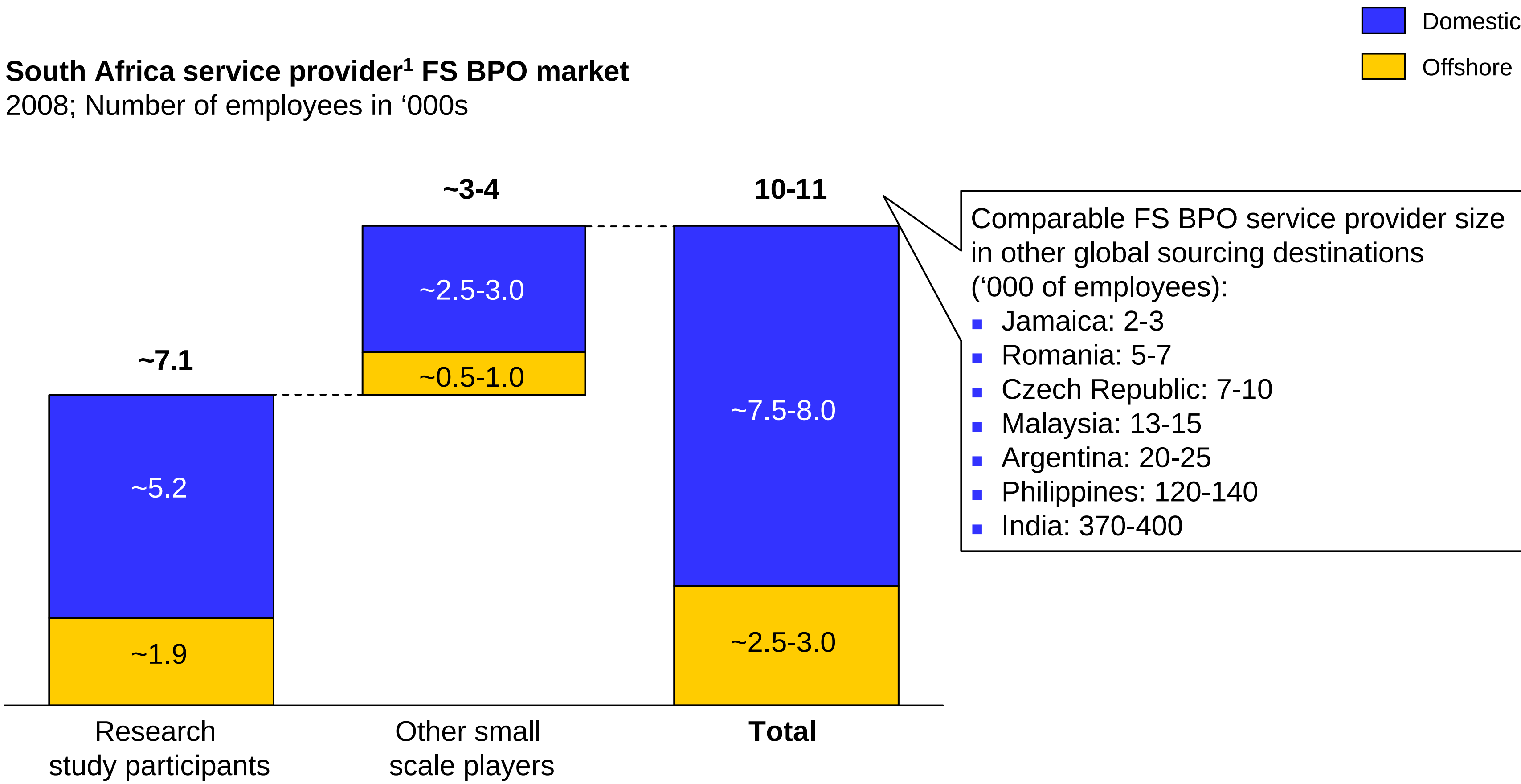
The BPO programme has a target of creating 100,000 direct and indirect offshore jobs. Several public and private sector initiatives are in place to attract more offshore business

1 Includes suppliers and offshore captives

Sources: C3 Africa study; Deloitte Calling the Cape study; Everest-Letsema analysis; Business Trust Quarterly Report Mar 2008; the dti

The Financial Services BPO service provider industry in South Africa employs ~11,000 people; this market size is comparable to other emerging offshore destinations

South Africa service provider[1] FS BPO market
2008; Number of employees in '000s



Comparable FS BPO service provider size in other global sourcing destinations ('000 of employees):

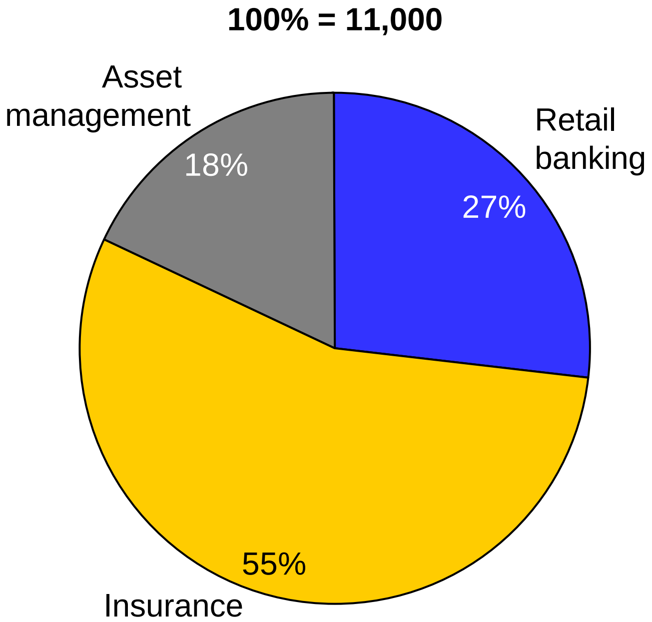
- Jamaica: 2-3
- Romania: 5-7
- Czech Republic: 7-10
- Malaysia: 13-15
- Argentina: 20-25
- Philippines: 120-140
- India: 370-400

1 Includes suppliers and offshore captives
Sources: Questionnaire responses; Everest-Letsema analysis

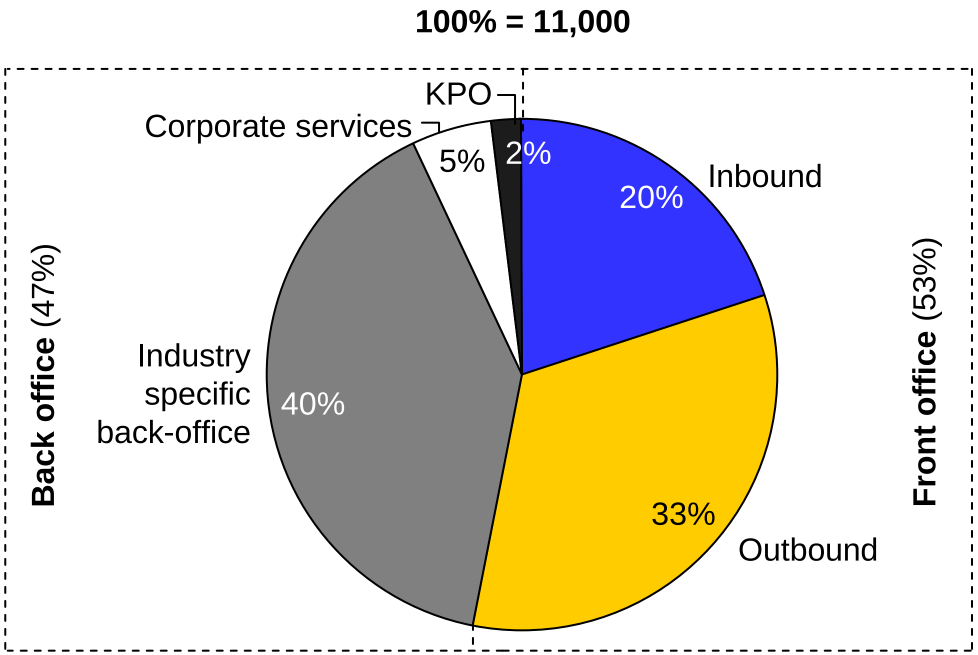
Services provided cut across multiple sub-verticals and BPO functions

SERVICE PROVIDERS = SUPPLIERS AND OFFSHORE CAPTIVES

FS BPO employee split by sub-verticals
Number of employees



FS BPO employee split by BPO functions
Number of employees



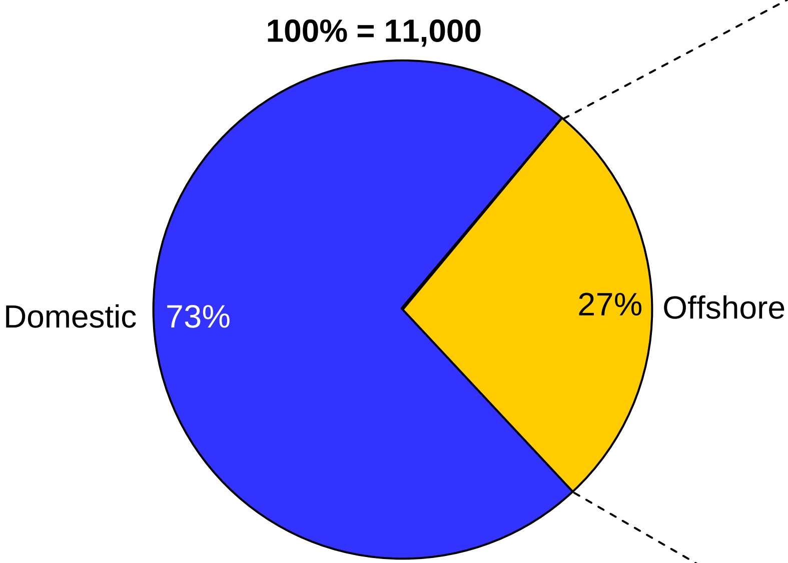
- All three sub-verticals are being served; with Insurance being the largest
- Significant back-office work also exists, in addition to front-office
- Over 60 clients being served across each type of BPO function

Sources: Questionnaire responses; Interviews with leading service providers

While the primary focus has been on the domestic market till date, offshore activity is also emerging

SERVICE PROVIDERS = SUPPLIERS AND OFFSHORE CAPTIVES

FS BPO Employee split by client geography
Number of employees



Offshore FS BPO landscape

- ~2900 employees
- ~26 offshore clients
- ~50% of service providers have active offshore clients
- Offshore activity mostly in Insurance and asset management
- Offshore activity driven primarily by local suppliers and offshore captives
- Most functions served at some level
  - Front office (inbound and outbound)
  - Corporate services (F&A)
  - Industry Back-office (insurance and asset management)

27% of Financial Services BPO employees in service providers do work for offshore clients

Sources: Questionnaire responses; Interviews with leading service providers

There is evidence of complex, high end back-office work being delivered from South Africa for offshore clients

SERVICE PROVIDERS = SUPPLIERS AND OFFSHORE CAPTIVES

Examples of complex back-office services being delivered for offshore clients

Global supplier	Global investment bank	Insurance major
▪ Scale: 160 FTEs • Insurance BPO: 120 FTEs • Analytics: 40 FTEs ▪ Target: 100% offshore (U.S., UK) ▪ Scope • Life Administration • Legacy transformation • Actuarial modeling • Product development	▪ Scale: 500 FTEs ▪ Target • Predominantly domestic and some offshore • Clients include AMCs and other trading entities ▪ Scope • Investment management • Trade processing • Funds accounting • Accounting, Tax and regulatory compliance	▪ Scale: 430 FTEs ▪ Target: 100% offshore (UK) ▪ Scope: End-to-end insurance operations, comprising • Front-office • Back-office, including: – Quotation – Underwriting – Policy pack production – Broker support services – Premium collection & admin. – Financial management

There are examples of early successes in delivering complex back-office work for offshore clients, especially in insurance and asset management

Sources: Questionnaire responses; Interviews with leading service providers

The report provides details on process-level capabilities of service providers in South Africa

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INSURANCE EXAMPLE

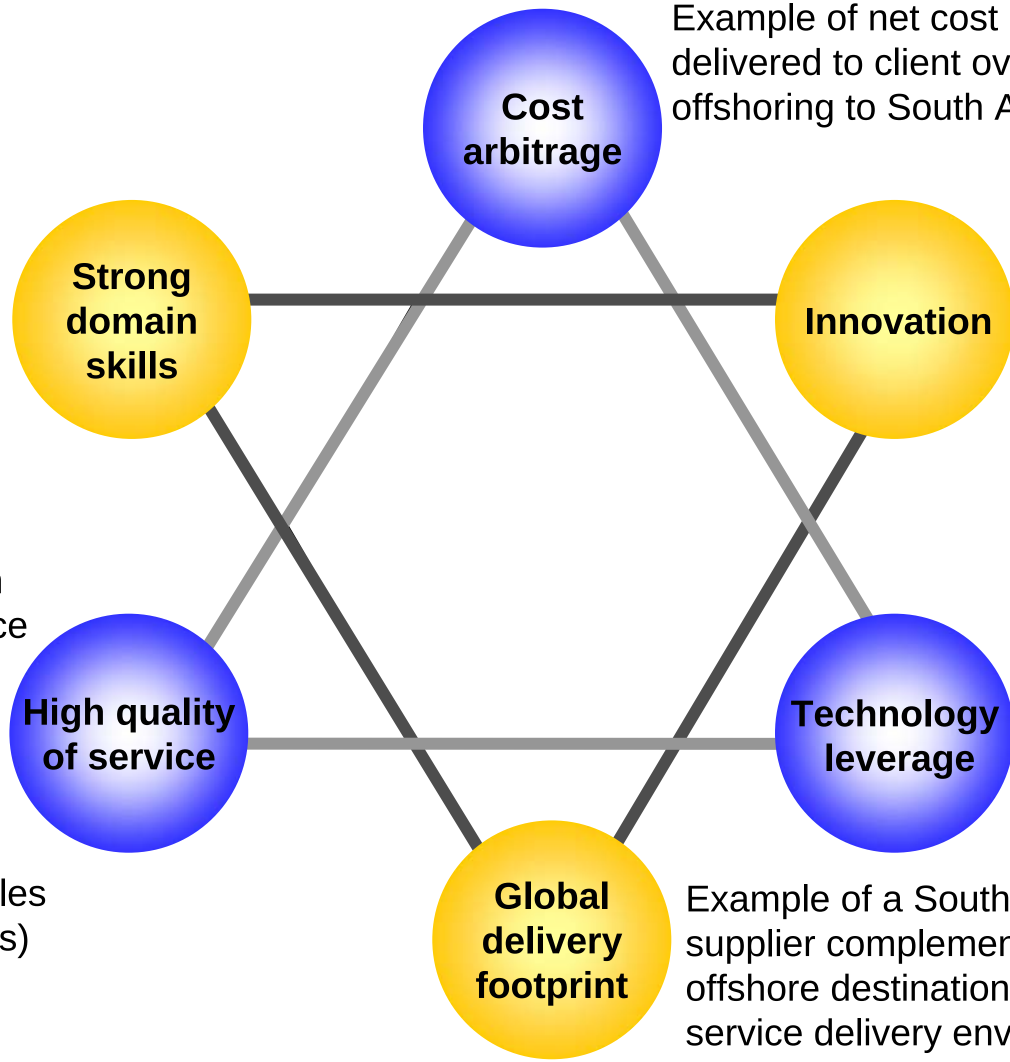
✓ Service being provided ■ Key success area

Processes	Product development	Business origination	Policy servicing and reporting	Claims processing	Health Insurance specific processes
Sub-processes	✓ Actuarial data processing	✓ Proposals, illustrations	✓ Policy servicing – financial	✓ Claims requirement gathering and data capture	Plan design
	✓ Actuarial analysis and review	✓ Agent and broker management	✓ Policy records management	✓ Claims management	✓ Eligibility services
		✓ Regulatory and compliance management	✓ Eligibility enquiry and verification	✓ Claims review and investigation (adjudication)	✓ Revenue cycle management
		✓ Initial policy creation		✓ Claims adjustment & disbursements	✓ Denial management
		✓ Underwriting		✓ Fraud detection & management	✓ Healthcare collections
		✓ Premium collection and accounting		✓ Claims litigation, recovery/subrogation	✓ Medical records management
		✓ Policy issuance			
		✓ Member enrollment and management			

- ~95% of outsource-able insurance back-office processes being supported
- Similar details available in the report for retail banking and asset management

Note: Includes suppliers and offshore captives focused on FS
Sources: Questionnaire responses; Interviews with leading service providers

Several examples and case studies demonstrate that service providers in South Africa are delivering value beyond labour arbitrage



Example of net cost advantage delivered to client over time by offshoring to South Africa

Example of BPO work supporting sophisticated products, complex processes

Unique value proposition delivered to client (e.g., supporting new or faster product development)

Example of high Quality of Service delivered as compared to baseline (e.g., Improved FCR, CSAT, reduced TATs, higher sales conversion ratios)

Technology leveraged to drive process transformation

Example of a South African supplier complementing other offshore destinations in a global service delivery environment

Source: Interviews with leading service providers

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South Africa has strengths in terms of its talent pool in the domestic Financial Services sector

Large talent pool with service delivery and domain skills

1 BPO experience in domestic captives

- Large scale and operating like BPO entities
- Employ 65,000-75,000 people
- Distinctive capabilities (e.g., in process efficiency, Six-Sigma)

2 Specialized skills and qualifications

- Universities
- FS-focused training institutes
- Significant scale in terms of niche skills (e.g., actuaries)

3 Experienced pool with domain skills

- Domestic FS products and regulations similar to developed markets
- Advanced technology usage
- Ability to relate to products based on personal ownership

2 Analysis of specialized skills and qualifications in South Africa

BPO experience in domestic captives

Specialized skills and qualifications

Experienced pool with domain skills

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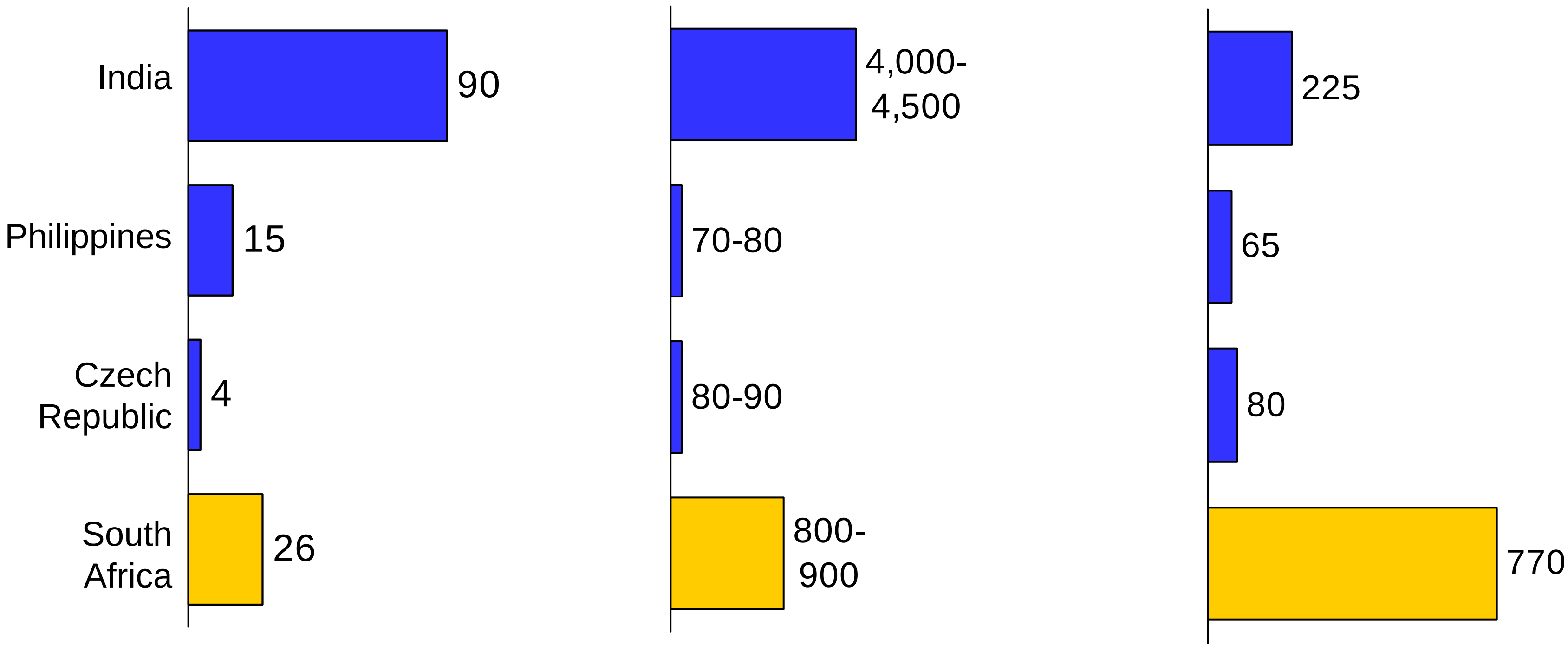
Number of Chartered Accountants
2007; ‘000s

Number of CFA charter holders
2008; Total number

Number of qualified actuaries
2008; Total number



While not the largest in every domain, there are clearly pockets of niche skills in meaningful scale (e.g., in actuaries)

Sources: EIU Master country database, Industry reports, Internet Research, Everest-Letsema Analysis

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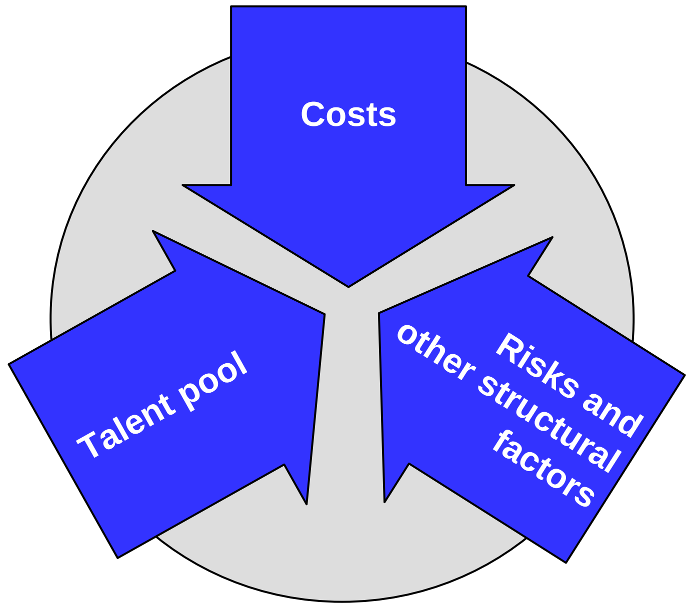
The report compares South Africa with other offshore destinations across three broad factors that most companies trade-off in making location decisions

- Fully loaded operating cost (including salaries, real estate, telecom, etc.)
- Granular views to costs as applicable to the type of BPO function
  - Front-office
  - Transactional FS back-office (e.g., claims processing)
  - Complex FS back-office (e.g., actuarial modeling)
- Total cost of ownership (factoring in impact of attrition, quality, etc.)



- Multiple views reflective of organizational pyramid for front and back-office work
  - Entry-level pool
  - Language skills
  - Specialized skills
  - BPO Experienced pool
  - FS Industry experienced pool

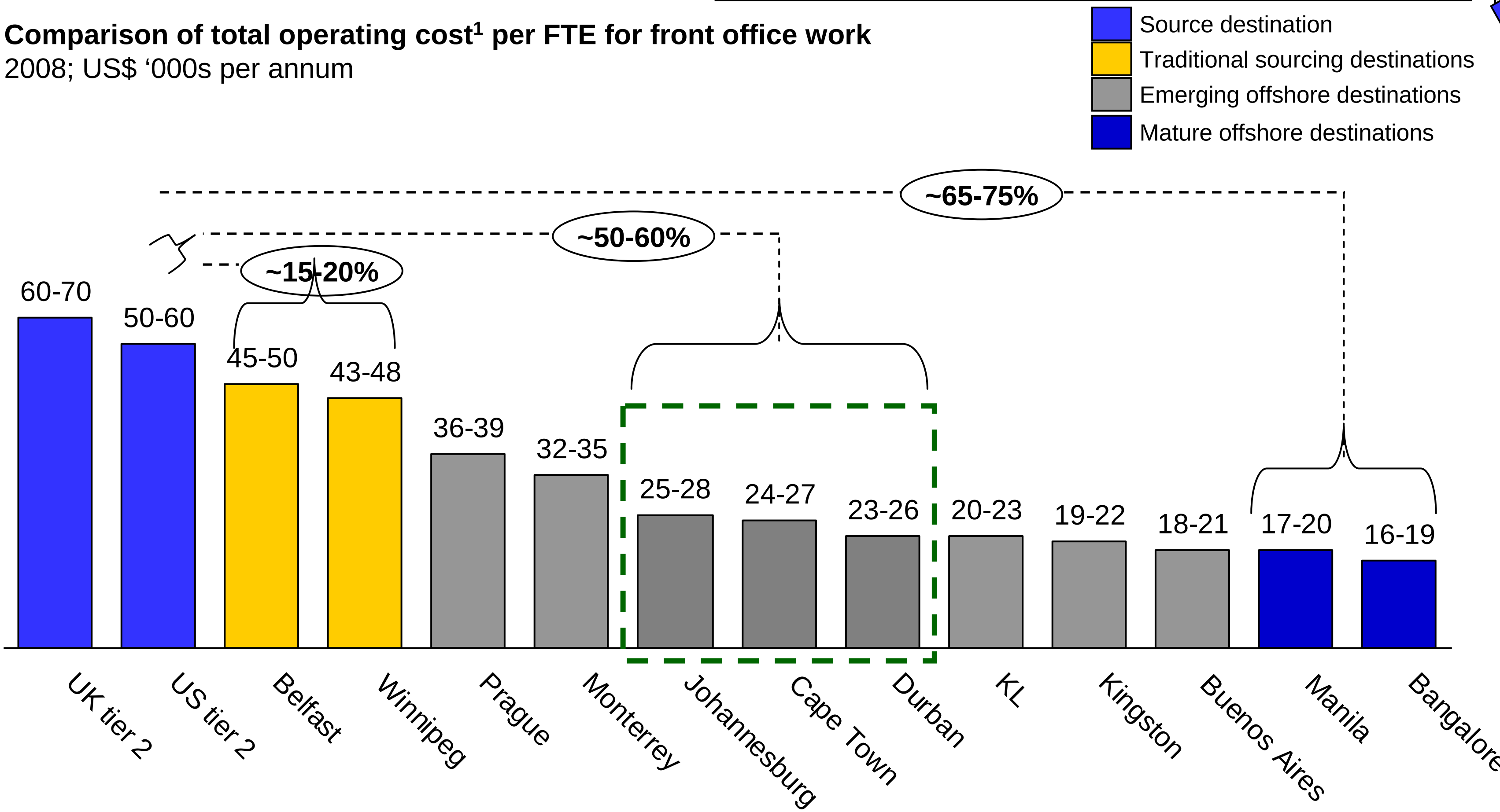
- Quality of life
- Telecom and other infrastructure
- Crime
- Political stability
- Macroeconomic environment
- Legal and regulatory

Note: FS stands for Financial Services

Savings potential from South Africa is significant, though it is not the lowest cost destination

MARKET AVERAGES FOR CUSTOMER SERVICE

Comparison of total operating cost[1] per FTE for front office work
2008; US$ '000s per annum



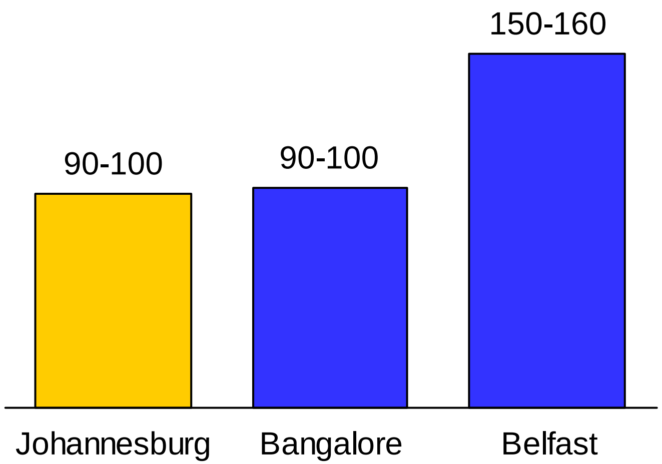
1 Ongoing costs only; excludes margins/markups, centralized corporate overheads, initial investment, set-up costs and travel costs
Note: Exchange rate used – 1 ZAR = 0.1306 US$ (Calculated based on daily closing averages during Jan'08 to Oct'08)
Source: Everest Research Institute (2008)

For certain types of specialized FS processes, costs in South Africa are already comparable with other low cost locations

MARKET AVERAGES FOR COMPLEX BACK-OFFICE

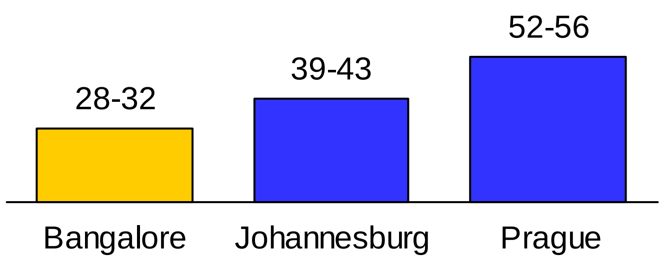
Total annual operating cost[1] per FTE for actuarial work
2008; US$ '000s per FTE

ACTUARIAL EXAMPLE



Total annual operating cost[1] per FTE for fund administration
2008; US$ '000s per FTE

FUND ADMIN EXAMPLE

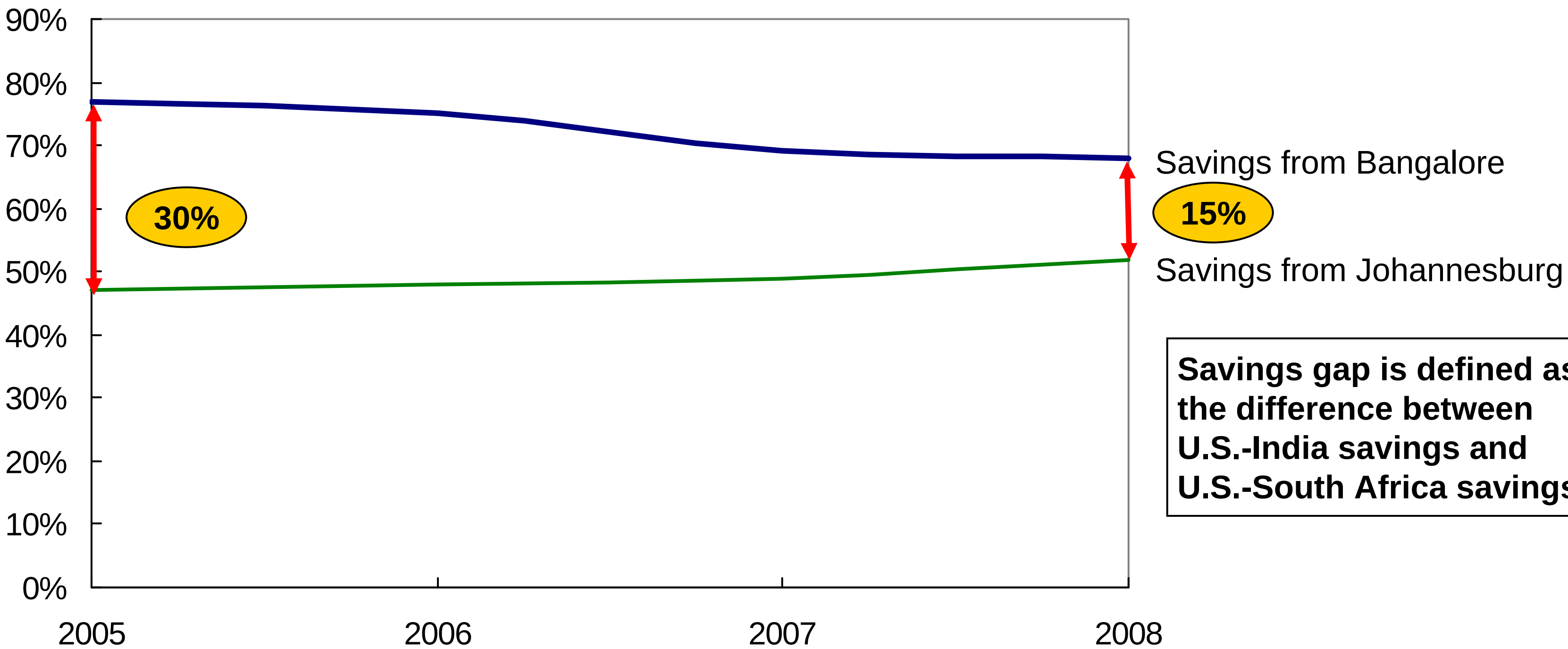


- While costs in South Africa are similar to India for actuarial work, they are higher for fund administration work
- These differences across types of processes are largely a function of the availability of the required talent pool
  - South Africa has ~3 times the number of actuaries compared to India
  - However, India has a larger pool of skilled graduates (e.g., Mathematics, Commerce, Engineers) that are typically employed for fund administration work

1 Ongoing costs only; excludes margins/markups, centralized corporate overheads, initial investment, set-up costs and travel costs
Note: Exchange rate used – 1 ZAR = 0.1306 US$ (Calculated based on daily closing averages during Jan'08 to Oct'08)
Source: Everest Research Institute (2008)

The savings gap between South Africa and other low-cost destinations is narrowing

Savings gap between South Africa and India relative to U.S. – Tier 2 locations
Percentage

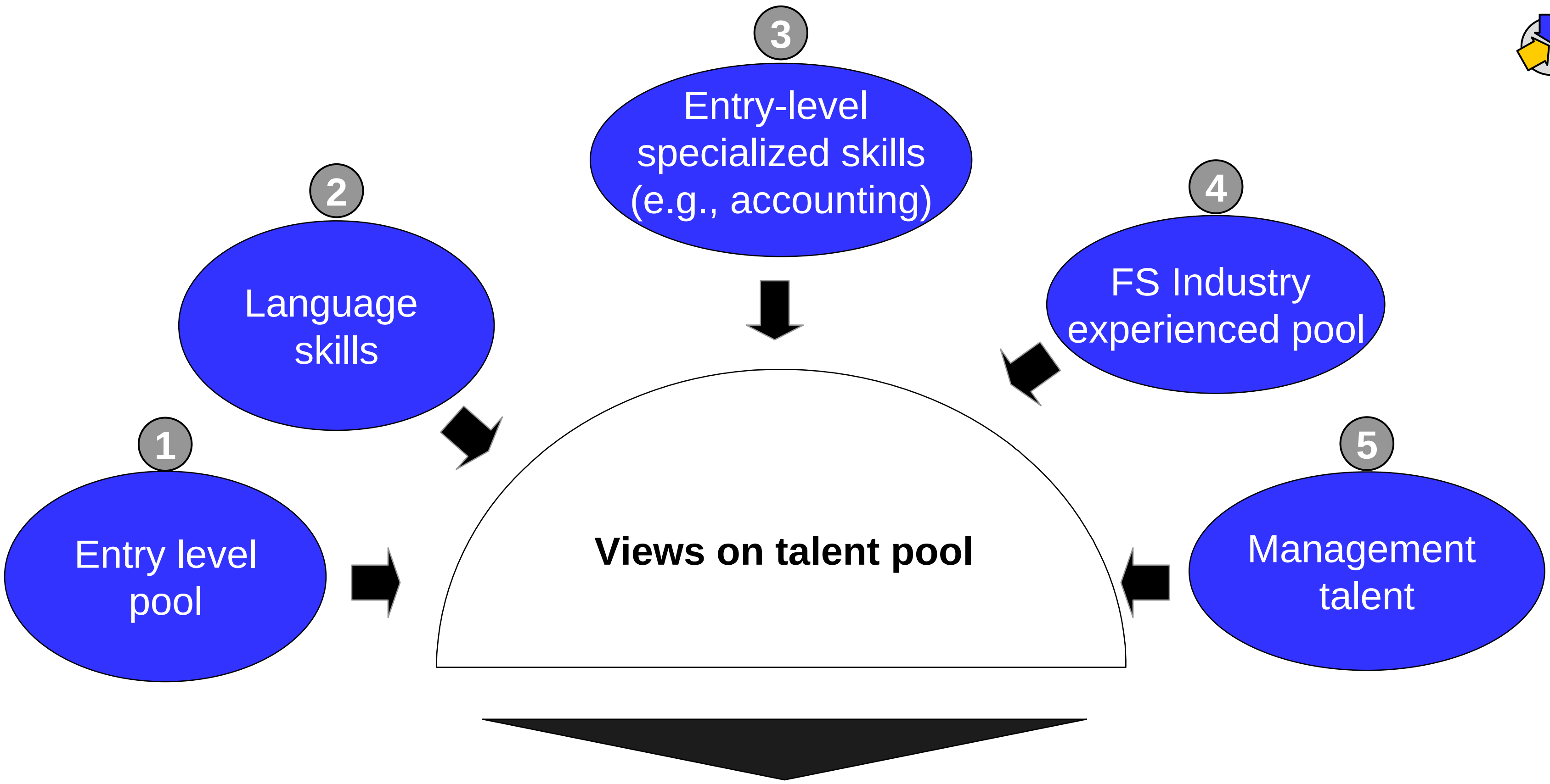


Savings gap is defined as the difference between U.S.-India savings and U.S.-South Africa savings

- Key drivers of narrowing savings gap
  - Favorable currency movements in SA
  - Lower inflation in SA
- Given these, this gap could further narrow significantly over the next 3-5 years

Sources: Everest Research Institute Analysis (2008), oanda.com

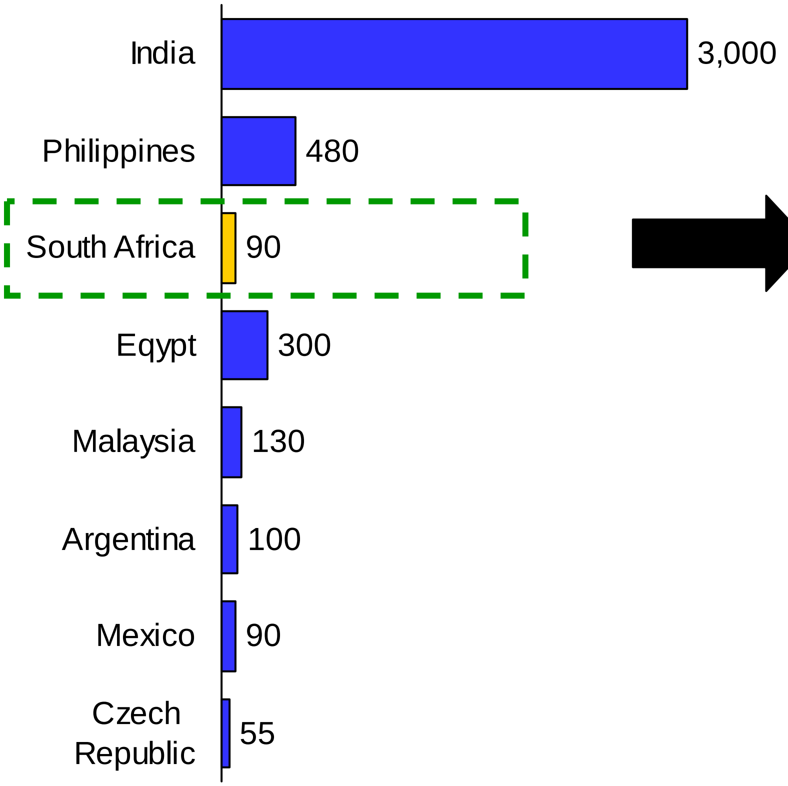
Multiple relevant views on talent have been considered for this comparison



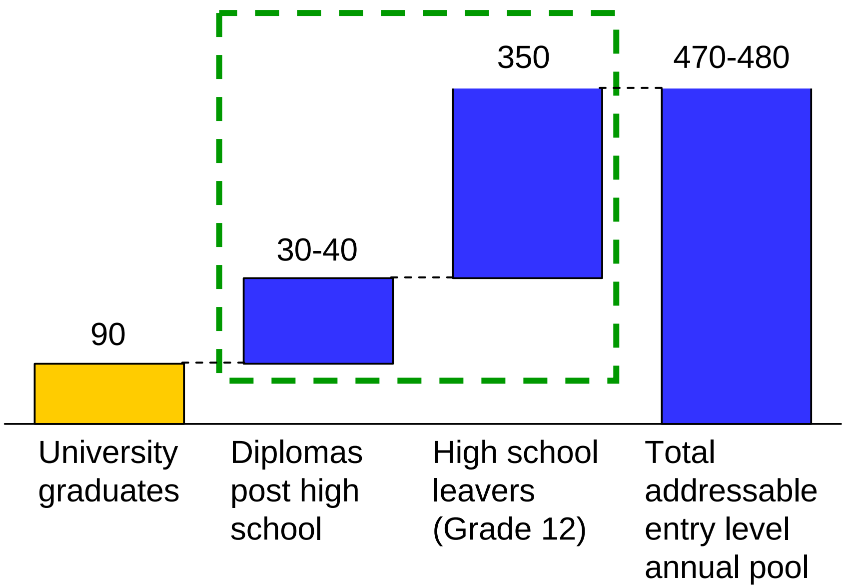
Relevant views reflective of organizational pyramid for FS BPO, both for front-office and back-office work

Entry level talent comparison

Number of university graduates[1] per annum
2008; '000s



South Africa: Total annual entry level pool for BPO
2008; '000s



South Africa clearly does not have the scale of university graduates other populous countries have. However, South Africa high school leavers (like in other developed countries) have been proven effective in BPO operations

1 University graduates include all non-technical graduate degree programs (excludes engineering and IT graduates)
Sources: Investment briefs; Education sector reports; University interviews, Everest Research Institute Analysis (2008)

2 English language skills comparison

● High proficiency of language skills
○ Low proficiency of language skills

	English proficiency/Accent similarity with international geographies (U.S., UK)	Comments
India	◑	Large English speaking population; however some concerns around accent
Philippines	◕	Large pool; strong affinity with U.S.
Egypt	◔	Only 10-20% of the pool is fluent in English
South Africa	◕	Strengths in English accent similarity and cultural affinity with UK
Mexico	◔	Mostly Spanish skills, only 5-10% of the pool has fluent English speaking skills
Argentina	◔	Mostly Spanish skills, only 5-10% of the pool has fluent English speaking skills
Czech Republic	◔	English skills only in major cities (e.g., Prague), mostly European language work

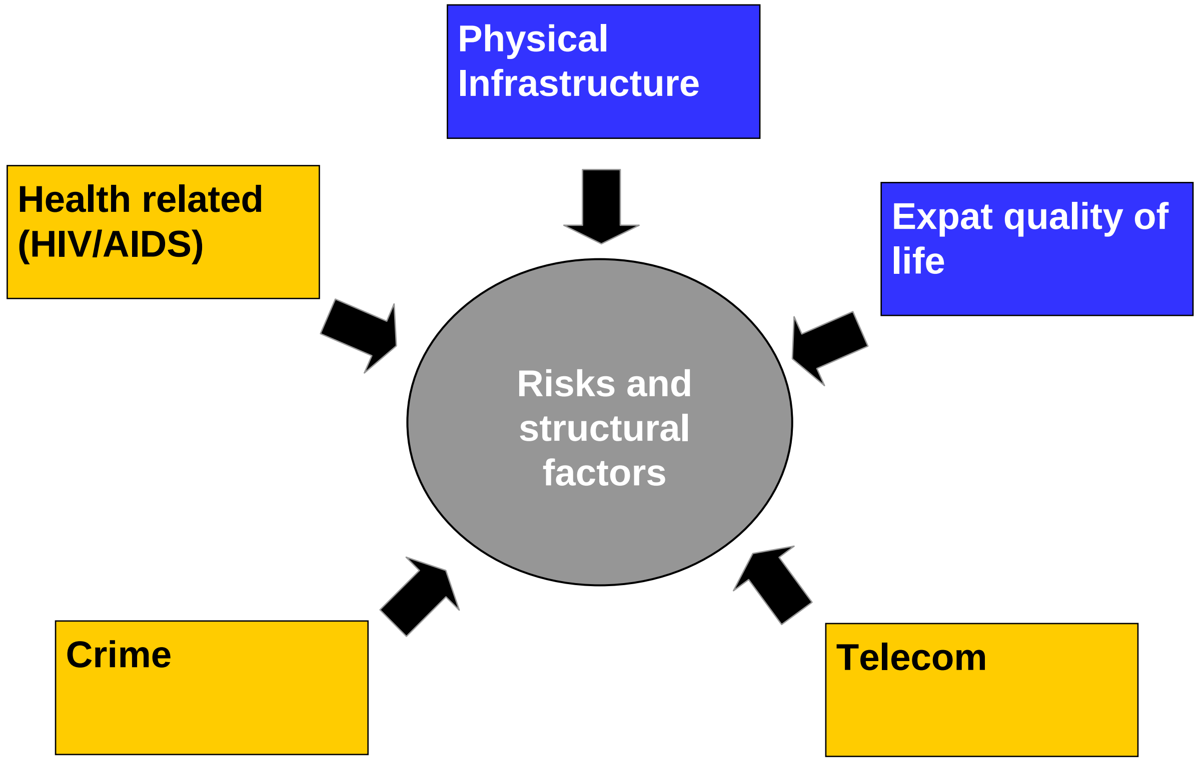
South Africa is one of the few offshore destinations that can provide good quality English skills

Note: These estimates are representative of a country; however, there could be significant differences across cities
Source: Everest Research Institute Analysis (2008), Interviews with recruiters, investment agencies and BPO suppliers

Risks and structural factors: Key dimensions

Strengths

Concern areas



- Clear advantages in terms of its physical infrastructure and expatriate quality of life
- However, some real concerns around telecommunications, crime and prevalence of HIV/AIDS
- Steps are being taken to address the telecom issue. Telecom tariffs have fallen by ~47% year on year over the past few years. Proposals are under discussion to reduce tariffs even further
- Companies need to make appropriate investments in addressing crime and HIV/AIDS related concerns

South Africa could have different roles to play in the global sourcing delivery network

Rationale / Key drivers

1 Offshore destination for high-quality English language front-office

- Large talent pool with good quality English skills
- Accent and cultural affinity with international geographies
- Savings gap with leading offshore destinations narrowing

2 Offshore destination for complex FS back-office work

- Large FS experienced talent pool
- Advantages in certain niche skills
- Costs for certain types of complex work on par with leading offshore destinations, savings gap narrowing for other types

3 Near-shore scalable destination for sub-Saharan Africa

- Opportunities to serve sub-Saharan operations of domestic FS companies
- SA offers larger talent pool, more evolved BPO industry and better infrastructure compared to rest of sub-Saharan Africa

4 Risk diversification option for India / Philippines

- Investors looking to diversify beyond India/Philippines
- SA is one of the few alternatives that can provide good quality English language skills at low-cost

Recap of key messages

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5. Some risks do exist, especially around telecom infrastructure, crime and the prevalence of HIV/AIDS. However, experience of multinationals in South Africa suggests that these risks can be managed by making appropriate investments.

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Availability of the report and the Investor tool

The Report:

- This Report is available in soft copy on The Business Trust (http://www.btrust.org.za) and the Everest Research Institute (http://www.everestresearchinstitute.com) websites, where it can be downloaded free of charge.
- An Executive Summary of the Report is also available on these websites

Investor Tool (ROI Model):

- An investor-focused "ROI (Return on Investment) Model" that helps investors assess the level of savings from South Africa is also available on The Business Trust website, as an Excel workbook
- The Tool also incorporates the BPO investment incentives (Capex Grant and Training Grant) to demonstrate how investors can offset their costs through these incentives.

For further information on South Africa's BPO program, please contact:

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Thank you/Q&A

- All attendees will receive a thank you email today with a link to request the webinar presentation.
- To inquire about Everest Group and Everest Research Institute services, please contact us at **info@everestgrp.com** or **info@everestresearchinstitute.com**
- Thank you for attending today!

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- Click the question mark (Q&A) button located on the floating tool bar in the bottom right of your screen. This will open the Q&A Panel
- Next, type your question in the rectangular space at the bottom and click the Send button
- Please be sure to keep the default set to “send to all Panelists”

Get the answers today that lead to tomorrow’s success

Everest Research Institute has the resources, experience, and capabilities to provide companies with the strategic intelligence, analysis, and insight that are crucial to making the right decisions in today’s outsourcing marketplace.

With the vision of our leadership team, the personal commitment, and indeed, the passion of our professionals to deliver real value to our clients, our organization is unsurpassed in its ability to guide your company’s future success.

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