NEAT EVALUATION FOR ATOS:

Digital Banking Services

Market Segment: Overall

Introduction

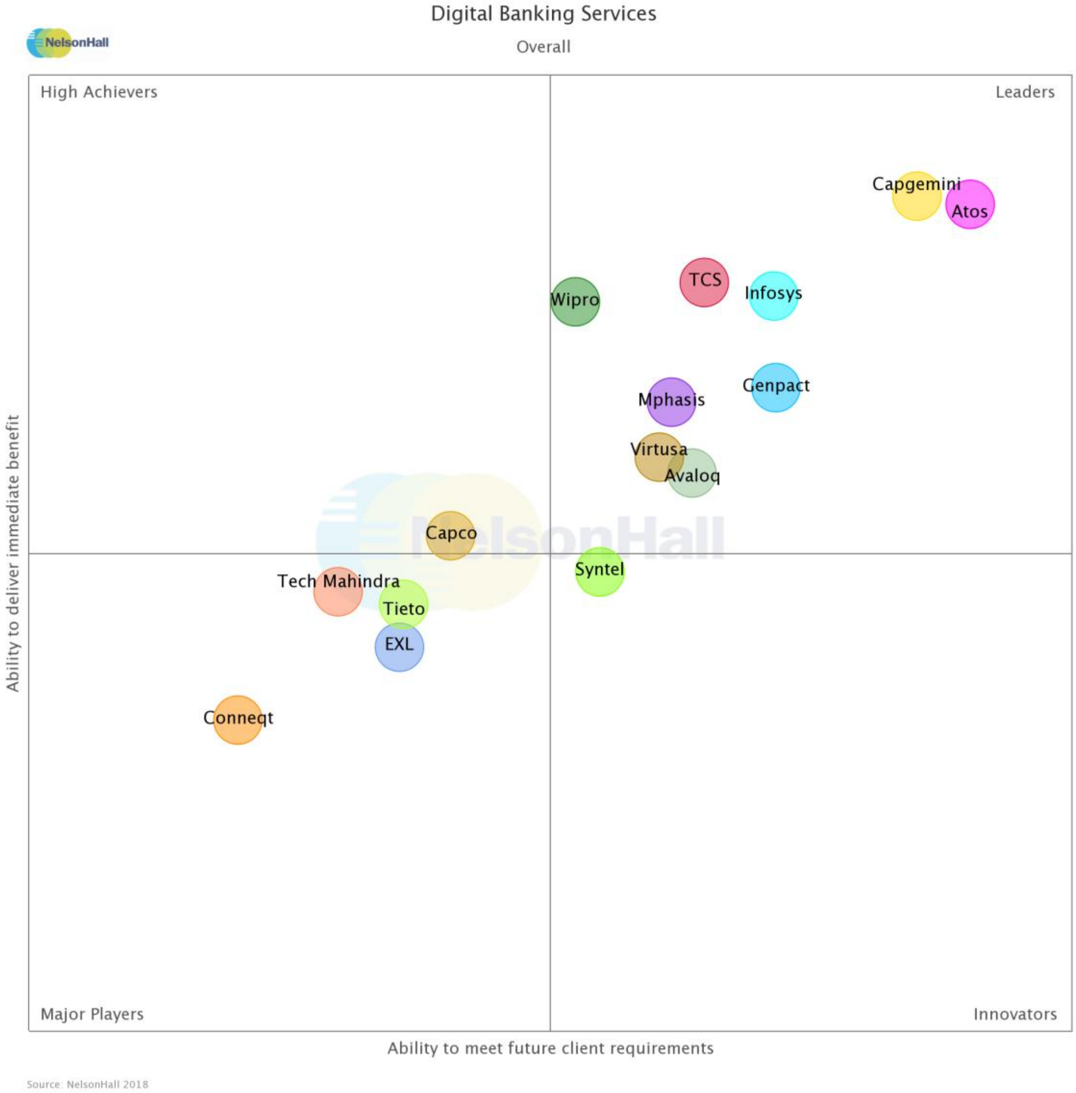
This is a custom report for Atos presenting the findings of the NelsonHall NEAT vendor evaluation for *Digital Banking Services* in the *Overall* market segment. It contains the NEAT graph of vendor performance, a summary vendor analysis of Atos in digital banking services, and the latest market analysis summary for digital banking services.

This NelsonHall Vendor Evaluation & Assessment Tool (NEAT) analyzes the performance of vendors offering digital banking services. The NEAT tool allows strategic sourcing managers to assess the capability of vendors across a range of criteria and business situations and identify the best performing vendors overall, and with a specific focus on SaaS/BPS, professional services, retail banking, capital markets, and on supporting new digital banking models. Evaluating vendors on both their 'ability to deliver immediate benefit' and their 'ability to meet client future requirements', vendors are identified in one of four categories: Leaders, High Achievers, Innovators, and Major Players.

Vendors evaluated for this NEAT are Atos, Avaloq, Capco, Capgemini, Conneqt, EXL, Genpact, Infosys, Mphasis, Syntel, TCS, Tech Mahindra, Tieto, Virtusa, and Wipro.

Further explanation of the NEAT methodology is included at the end of the report.

NEAT Evaluation: Digital Banking Services (Overall)



NelsonHall has identified Atos as a Leader in the *Overall* market segment, as shown in the NEAT graph. This market segment reflects Atos' overall ability to meet future client requirements as well as delivering immediate benefits to digital banking services clients.

Leaders are vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high capability relative to their peers to meet client future requirements.

Buy-side organizations can access the Digital Banking Services NEAT tool (Overall) here.

Vendor Analysis Summary for Atos

Overview

Atos has delivered services to the banking industry since its inception in 1997. Atos began with the merger of Axime (the primary shareholder was Bank Paribas) and Sligos; itself formed in 1970 through the merger of Cegos Informatique and Sliga, Crédit Lyonnais' data processing subsidiary.

Over time Atos has grown its retail banking services delivery capabilities through multiple acquisitions, including:

- Odyssée: January 2000, financial services consultancy
- Worldline: 2004 Atos creates a division (Worldline) from its continental European payment processing capabilities. It acquires Indian payments processor, Venture Infotech, in 2010. In 2014, it did an IPO of Worldline shares, retaining ~75% ownership
- Canopy (2012): Atos entered into a joint venture with EMC and VMware to create a cloud hosting and services entity named Canopy. In 2015 Atos acquired all of Canopy and today all its cloud and hosting services are delivered out of Canopy
- Bull (2014): Atos completed the acquisition of Bull, expanding the Atos' private managed cloud, cyber-security, big data, and data center capabilities
- Xerox ITO (2015): Atos completed the acquisition of Xerox ITO, expanding its North American cloud operations with Xerox's virtual machine and storage business, which operated out of North America data centers
- Equens & Paysquare (2016): completion of the acquisitions of the payments processors Equens and Paysquare
- Engage ESM (2017): Atos acquired Engage ESM, a ServiceNow Gold Services partner, enabling Atos to offer enterprise and emerging customers an enhanced portfolio of cloud based service-management solutions
- InTouch (2017): Worldline and Total signed a technology, commercial, and financing agreement with African fintech InTouch. Worldline and Total will support the deployment acceleration of the "Guichet Unique" platform in eight African countries (Senegal, Ivory Coast, Cameroon, Burkina Faso, Guinea (Conakry), Mali, Morocco, and Kenya)
- DRWP (2017): Worldline acquired Digital River World Payments, an online global payment service provider
- MRL Posnet (2017): Worldline acquired MRL Posnet to obtain a terminal management platform, enabling cost efficient deployment and management of new terminals. MRL PosNet processes payment transactions on behalf of 18 Indian banks, through the management of ~100k payment terminals
- Diamis (2017): reinforcement of Worldline's Account Payments division through the acquisition of Diamis.

In 2013, Atos began its digital banking services capabilities by establishing a partnership with Backbase, a vendor of customer experience software that delivers: portal, mobile, content, targeting, and forms in a single platform. The partnership was a reseller partnership, but it allowed Atos to start delivering a large amount of digital banking implementation services to clients, especially banks. The initial implementation was for a Middle Eastern bank, one of the largest Islamic banks in the world.

Atos accelerated its digital services initiatives by merging its consulting, application management and system integration units into a single service line, Consulting & System Integration (C&SI) in 2014.

In Q4 2016, Atos established a three-year strategy to focus on digital transformation across all industries, including BFS, a major focus for Atos.

Atos' digital banking services have 6.7k FTEs. Employees by service line include:

- Consulting: 5%
- Design and develop: 70%
- BPS: 25%

It delivers services for digital banking from many centers including India, Poland, and multiple onshore locations. Atos anticipates growing digital banking services staffing levels in existing centers in response to client demand.

Atos has 150 digital banking services, clients, out of 250 banking clients, including 12 of the largest 20 banks in the world. Atos' clients for digital banking services are institutions headquartered in:

- Europe: 70%
- North America: 20%
- APAC: 10%

Clients include:

- Retail banks: 75%
- Capital markets firms: 20%
- FinTech firms: 5%

Clients targeted by tier include:

- Tier one institutions: 70% primary focus
- Tier two and other: 30% secondary focus, the primary focus of Worldline.

Financials

Atos' digital banking services revenues were an estimated $335m in calendar year 2017.

Strengths

- Large portfolio of proprietary IP with key technologies: loan origination and management, data management, payments, fraud detection, cybersecurity, and cloud delivery
- Strong data center footprint in Europe
- Close relationships with many leading digital product vendors
- Aggressive acquisition approach has demonstrated commitment and enables Atos to grow its digital services capabilities.

Challenges

- Lack of mid-tier bank clients and startup client engagements
- Needs to raise the profile of North American and APAC businesses.

Strategic Direction

Atos targets tier one and global banks in all geographies for its digital banking services. It uses digital services as a key differentiator to attract new business. Atos has developed a set of key digital services it is promoting to clients including:

- Industry-specific services:
  - Worldline payments: Currently new offerings include instant payments, PSD2, and open banking
  - Cybersecurity: key offerings address transaction security and fraud mitigation
  - Blockchain: including smart contracts and payments
  - Loan utility
  - Branch management and CX
- Digital workplace: collaboration to create and implement digital platforms, including CX and omnichannel delivery
- Codex: analytics and data management
- Canopy: cloud and platform reinvention and management.

Atos works with a large group of digital product vendors and industry groups to develop and commercialize solutions for its banking clients. It has also grown its capabilities via acquisition to access technology and clients to grow its digital services business. It intends to continue to grow its digital banking services inorganically as opportunities occur.

It is now beginning to productize its digital offerings to speed the adoption of services for tier one clients. Productization of offerings has occurred first in payments with its Worldline offerings. Its next large growth area for productization will be in lending.

Digital Banking Services Market Summary

Buy-Side Dynamics

The digital banking services market is established with global banks, while lower tier banks are just beginning to undertake widespread adoption. Drivers include:

- Revenue generation to offset margin declines, pulling in customers by accommodating their preferences
- Cost: need to achieve operations cost reduction (~40%-80% savings) at all volumes without re-platforming
- Variabilize costs to allow successful entry into previously subscale markets (product or geographic markets)
- Compliance: required changes in open banking, transaction execution (payments and trades), and data management (privacy).

The primary client profile is:

- Current: Tier 1 banks remain the primary adopters (80% revenue) and fintechs/regionals (20% revenue)
- Future: expand into regional banks, exchanges, specialist firms, and services vendors (i.e., custodians and payments vendors)
- Future, global banks: support cloud delivery, industry shared services, and open banking.

Clients are buying service bundles including:

- Consulting (12% overall), design and deployment (70%), and operations support (18%)
- Internal bank operations deployment (80%) and external delivery (20%) (of which BPS is 60% and cloud 40%)
- Design and deployment: key are valid use cases and commit to step in and maintain the solution if the ISV fails
- Emerging: consulting (10.5%, decreased share), design and deployment (70.5%), and operations support (19.0%, increased share)
- Emerging: internal bank operations deployment (40%, decrease) and external delivery (60%, increase). BPS (20%, decrease) and cloud and XaaS (80%, increase)
- Emerging: enable open banking and real-time payments by establishing business process consortia.

Consulting is well understood and increasingly uses a fixed price model. Two years ago, fixed price was 20% of contracts. D&D contracts are priced entirely on a per FTE model, where technology is emerging and complex. D&D, where technology is well understood (often proprietary), is moving to fixed price. Projects often billed by milestone achievement. Subscription pricing is evolving into a preference for transaction pricing to mitigate the client risk of volume swings. Non-transaction based services, such as cybersecurity remains monthly fee focused.

There are other significant drivers for decisions to seek third party support from vendors. The top drivers for banks are:

- Poor revenue growth has impeded banks' ability to develop scale economies. Banks need to increase their customer base to amortize costs over larger revenues. They also need to harvest greater value from their legacy customer base. Low margins and revenues indicate that aggressive cost reduction is required to remain solvent. New customers are primarily non-banked consumers (i.e., young, less wealthy). Delivery costs must be much lower for new customers to be profitable.
- New offering development: high cost of entry and variation across low volume markets drives the need for low cost execution.
- New market penetration: Compliance necessitates high standardization of execution across and within market.

Market Size & Growth

Digital banking services is a growing market with high adoption by tier 1 banks in mature markets, and low adoption by mid/small tier banks. Current adoption is from global banks, with single product tower engagements. Vendors are delivering elemental processes focused on trialing technology.

NelsonHall estimates the size of the digital banking service market to be ~$7,215m in 2017, and that it will grow at 10.0% per year in the period 2017 to 2022.

The digital banking services market starts with consulting services, which accounts for ~12% ($890m) of client spend and is growing at 7.0% over the forecast period. Design and deployment accounts for ~70% ($5,085m) of client spend and is growing at 10.0% over the forecast period. Operations support is moving rapidly from an emerging to established market status, with ~18% of client spend ($1,240 m). Operations support will grow 12.0% per year over the same period.

Success Factors

Key success factors for clients include:

Digital ecosystem development:

- Vendor ecosystem: identify services vendors with knowledge of client's operations environment and business issues. Select vendors for each capability with complementary skills. Minimizing the number of vendors within each capability set is key to reducing bottlenecks
- Key vendor attributes: employees with industry expertise and digital technology experience. Vendors should have compliance expertise, centers of excellence, relevant API libraries, consulting and development capabilities.

Execution:

- Redefine external/internal operations split: ability to create required proprietary operations from standardized components (both SaaS operations and BPaaS operations)
- Share overhead: internal operations using standardization and SSCs, external operations with cloud delivery

- Time to market: standing up digital initiatives faster than direct competitors and Fintech startups.

Vendor selection:

- Scale and breadth of delivery, both labor and cloud, across many geographies
- Breadth of partnerships, functionality, roadmap, implementation framework and financial strength
- Vendors need to participate in industry councils (both business and technology) and product client advisory boards
- Preferred vendors should have widest pool of IT services providers supporting them.

Challenges

The key challenges faced in digital banking services include:

External challenges:

- Global banks are sole adopters of customized single solutions. Today regional banks and global banks are moving to productized, cloud delivered solutions covering multiple geographies and product silos
- Regulations: compliance has been the primary challenge for the past five years. Now regulations will drive business model change (i.e., open banking, instant payments, etc.)
- Immature technology and fragmented vendor landscape: vendors must be monitoring the changing vendor landscape and provide BCDR services where vendors fail. New emerging technologies (e.g., blockchain, AI) will continue to require these services to mitigate technology challenges
- Political concerns on labor impacts of robotics and privacy concerns of AI, data, and web
- Access to data from 3rd parties when internal transactional data is limited
- Cybersecurity: as delivery moves to omnichannel, security becomes increasingly hard to deliver and public failures increase management concerns
- Blockchain, AI, and cognitive remain very early stage technologies, far behind omnichannel and RPA in adoption. Key AI functionality to date is focused on customer attitude interpretation via the manipulation of unstructured data. Key blockchain to date is focused on low volume trading cases, but almost no operational deployments.

Internal challenges:

Operational:

- Talent acquisition and retention: digital domain qualifications are in short supply, and highly specialized. Market leadership and learning opportunities at a vendor are key to attracting and retaining talent. Cost of training is high and can only be recovered over many implementations
- Expand the functionality which digital addresses: cost efficiency is very high (~60% cost reduction), but currently applicable to few processes and functionalities, limiting the overall impact on business (<10% of cost base). Vendors need to address the entire operations value chain of each process to deliver a significant impact to operations

- Clients demand customization: engagements have been custom projects with limited opportunity to reuse IP, even within a single global client. Acceleration requires much higher reuse of IP across engagements
- Migration risk: Clients expect the vendor to retain the migration risk of new deployments via pricing schemes
- Process selection: Articulating, curating, and reusing high yield use cases is critical to profitable engagement. Industry knowledge to identify the operations ecosystem of a process is key to maximizing value for engagements.

Automation of processes:

- Cloud/PaaS/systems integration/consolidation: Banks of all sizes increasingly have limited internal staff, requiring support for IT. Vendors looking to grow with this market must be able to deliver automation as-a-service
- Monitoring ISVs, and related industries: Digital banking is experiencing a period of product proliferation. Vendors need to understand both the vendor landscape and industry challenges
- Design thinking: successful implementation of digital requires a redesign of processes. Understanding how humans use the technology is critical to improving usability and satisfaction with processes.

Outlook

Vendors are introducing digital banking services offerings with process automation across channels and data management embedded into the processing services including:

Emerging technology:

- Standardizing offerings and implementation services and rolling out to broader audiences for mature digital technologies (i.e., CUX, mobile, automation)
- Developing cybersecurity, AI, and cloud delivery offerings (CUX offerings more mature, but growing)

Staff training:

- Developing frameworks to standardize approach to evolving technology and APIs/tools to automate tasks
- Partnering with schools and ISVs to train and onboard staff in hard to fill skillsets
- Monitor the fast-evolving digital solution vendor landscape and provide guidance to clients

Solutions:

- Modularizing proprietary IP and creating API libraries for emerging third-party IP.
- Development of sales/marketing initiatives, with focus on omni-channel and social media
- Cybersecurity replaces compliance as primary focus of risk mitigation.

NEAT Methodology for Digital Banking Services

NelsonHall's (vendor) Evaluation & Assessment Tool (NEAT) is a method by which strategic sourcing managers can evaluate outsourcing vendors and is part of NelsonHall's *Speed-to-Source* initiative. The NEAT tool sits at the front-end of the vendor screening process and consists of a two-axis model: assessing vendors against their 'ability to deliver immediate benefit' to buy-side organizations and their 'ability to meet client future requirements'. The latter axis is a pragmatic assessment of the vendor's ability to take clients on an innovation journey over the lifetime of their next contract.

The 'ability to deliver immediate benefit' assessment is based on the criteria shown in Exhibit 1, typically reflecting the current maturity of the vendor's offerings, delivery capability, benefits achievement on behalf of clients, and customer presence.

The 'ability to meet client future requirements' assessment is based on the criteria shown in Exhibit 2, and provides a measure of the extent to which the supplier is well-positioned to support the customer journey over the life of a contract. This includes criteria such as the level of partnership established with clients, the mechanisms in place to drive innovation, the level of investment in the service, and the financial stability of the vendor.

The vendors covered in NelsonHall NEAT projects are typically the leaders in their fields. However, within this context, the categorization of vendors within NelsonHall NEAT projects is as follows:

- **Leaders**: vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high capability relative to their peers to meet client future requirements
- **High Achievers**: vendors that exhibit a high ability relative to their peers to deliver immediate benefit but have scope to enhance their ability to meet client future requirements
- **Innovators**: vendors that exhibit a high capability relative to their peers to meet client future requirements but have scope to enhance their ability to deliver immediate benefit
- **Major Players**: other significant vendors for this service type.

The scoring of the vendors is based on a combination of analyst assessment, principally around measurements of the ability to deliver immediate benefit; and feedback from interviewing of vendor clients, principally in support of measurements of levels of partnership and ability to meet future client requirements.

Exhibit 1

'Ability to deliver immediate benefit': Assessment criteria

Assessment Category	Assessment Criteria
Offerings	Digital banking consulting
	Process modelling in support of digital banking
	Development & implementation services for digital banking
	Ability to drive new digital banking models
	Breadth of application of digital banking
	Digital banking support for retail banking processes
	Digital banking support for core banking processes
	Digital banking support for capital markets processes
	Ability to digitalize KYC
	Ability to incorporate digital within BPS
Delivery	Scale of digital delivery capability
	Blockchain delivery capability
	Extent of partnerships in support of digital banking
	Degree of proprietary IP in support of digital banking
	Digital payments delivery capability
	U.S. delivery capability
	U.K. delivery capability
	Continental Europe delivery capability
	Rest of EMEA delivery capability
	APAC delivery capability
	LATAM delivery capability
	Use of pre-existing digital banking templates
	Digital banking change management capability
	Maturity of digital banking delivery model
	Digital banking governance capability
Presence	Overall digital banking presence
	In retail banking
	In capital markets
	U.S. presence
	U.K. presence
	Continental European presence
	Rest of EMEA presence
	APAC presence
	LATAM presence

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Benefits Achieved	Level of cost savings Error reduction Cycle time reduction Improved CSAT Improved compliance Increased revenues Improved digitalization of banking processes Introduction of new digital banking products

Exhibit 2

'Ability to meet client future requirements': Assessment criteria

Assessment Category	Assessment Criteria
Service Innovation	Perceived suitability to meet future digital banking needs Perceived suitability to develop new digital banking models & processes Ability to apply automation to banking processes Service culture Innovation & creativity
Level of Investments	In digital banking services overall In support of retail banking In support of capital markets In own tools & platforms to support digital banking In news systems of engagement for the banking sector In blockchain-related services
Market Momentum	Digital banking services market momentum

For more information on other NelsonHall NEAT evaluations, please contact the NelsonHall relationship manager listed below.

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Sales Enquiries

NelsonHall will be pleased to discuss how we can bring benefit to your organization. You can contact us via the following relationship manager:

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