

Case

A Case Study on the Acquisition of UBS India Service Centre by Cognizant – Issues and Concerns

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Abstract

The present case on the acquisition of UBS India Service Center by Cognizant is based on secondary sources compilation. This case is presented as a narrative for students to gain an insight about the deal. The case is analyzed by the author by presenting the impact of this acquisition, and issues pertaining to pre and post acquisition.

“IT and BPO services provider Cognizant has acquired UBS India Service Centre Private Limited (UBS ISC), the India-

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based captive service provider to the UBS Group, for around \$75 million on 16 October, 2009.” www.efytimes.com

Introduction

UBS and Cognizant have entered into a multi-year services agreement under which Cognizant will provide a range of business process outsourcing (BPO), knowledge process outsourcing (KPO), IT, and remote infrastructure management services to UBS divisions around the globe to facilitate them to lessen time-to-market, increase service delivery, and improve productivity, operational efficiency, and quality.

The UBS Indian Service Center (UBS-ISC) with a strength of 2,000 associates and their well-built capabilities in investment banking, wealth management, asset management, research, and remote IT infrastructure management will help Cognizant reinforce its business and knowledge process capabilities. Also, it shall intensify its financial services domain knowledge, and augment its capabilities to provide integrated services across consulting, technology, and outsourcing.

“We welcome the highly talented and experienced professionals of UBS ISC to Cognizant. This acquisition deepens our relationship with UBS and extends our leadership position in financial services,” said Francisco

D'Souza, President and CEO, Cognizant. *“This acquisition builds on our long-standing strategy of delivering sharply focused business solutions and enhanced value to our clients in the financial services and capital markets industries.”*

“Cognizant’s broad banking and financial services expertise and its cultural fit with UBS complement the competencies provided by the India Service Center today, while providing technology capabilities that expand the services we can buy from India and support our cost savings, efficiency and flexibility objectives,” said Ulrich Körner, Group Chief Operating Officer of UBS AG.

About Cognizant

Cognizant is a top provider of information technology, consulting, and business process outsourcing services. Cognizant’s single-minded passion is to devote itself to global technology and innovation know-how, industry expertise and worldwide resources to working together with clients to make their businesses stronger.

It began in 1994 as the technology arm of The Dun & Bradstreet Corporation; it became the fastest global IT services company to reach a \$1 billion run-rate (under 12

years). Today, with over 50 global delivery centers and more than 64,000 employees as of June 30, 2009, Cognizant combines a unique onsite/offshore delivery model infused by a distinctive culture of customer satisfaction. A member of the NASDAQ-100 Index and S&P 500 Index, Cognizant is a Forbes Global 2000 company and a member of the Fortune 1000 and is ranked among the top information technology companies in Business Week's Hot Growth and Top 50 Performers listings.

Its customers are primarily Global companies located in North America, Europe and Asia. Their core competencies include Technology Consulting, Complex Systems Development and Integration, Enterprise Software Package Implementation and Maintenance, Data Warehousing, Business Intelligence and Analytics, Application Testing, Application Maintenance, Infrastructure Management, and Business and Knowledge Process Outsourcing (BPO and KPO).

Cognizant's business is organized around four vertically-oriented business segments:

- Financial Services (Banking and Insurance)
- Healthcare and Life Sciences

- Manufacturing, Retail and Logistics and Hospitality
- Other, which includes Communications, Information, Media and Entertainment and High Technology.

The key service areas, IT Consulting and Technology Services, and Outsourcing Services are delivered to its clients across four business segments in a standardized, high-quality manner through a Global Delivery Model. These service areas include:

- **IT Consulting and Technology Services**
 - Business and Knowledge Process Consulting
 - IT Strategy Consulting
 - Technology Consulting
 - Application Design, Development, Integration and Re-engineering, such as:
 - Complex Custom Systems Development
 - Data Warehousing / Business Intelligence (BI)
 - Customer Relationship Management (CRM) System implementation
 - Enterprise Resource Planning (ERP) System implementation

- Software Testing Services
- **Outsourcing Services**
 - Application Maintenance, such as:
 - Custom Application Maintenance
 - CRM and ERP Maintenance
 - **IT Infrastructure Outsourcing**
 - **Business and Knowledge Process Outsourcing (BPO/KPO)**

Cognizant India

Cognizant India is an export oriented company with 40 development and delivery facilities at Chennai, Pune, Bangalore, Kolkata, Hyderabad, Coimbatore, Mumbai, Gurgaon and Cochin. As of December 31, 2009, Cognizant had outstanding fixed capital commitments of approximately \$35.9 million related to our India development center expansion program.

Since 2007, India has grown extensively as a market and is currently the largest in the Asia-Pacific. The engagement portfolio in India spans a mix of end-to-end outsourcing as well as niche skill based projects. Some key accomplishments of the region are:

- Complex end-to-end systems integration of varied enterprise IT environments
- Portals and Content Management Solutions
- SAP, ERP Implementation and support
- Clinical application support
- Implementation and support of enterprise data warehouse, business intelligence and corporate performance-management solutions

UBS-Union Bank of Switzerland

Headquartered in Zurich and Basel, Switzerland, UBS is a global firm providing services to private, corporate and institutional clients. Its strategy is to focus on international wealth management and the Swiss banking business alongside its global expertise in investment banking and asset management. In Switzerland, UBS is the market leader in retail and commercial banking. UBS is present in all major financial centers worldwide. It has offices in over 50 countries, with about 38% of its employees working in the Americas, 34% in Switzerland, 15% in the rest of Europe and 13% in Asia Pacific. UBS employs more than 70,000 people around the world. Its shares are listed on the SIX Swiss

Exchange, the New York Stock Exchange (NYSE) and the Tokyo Stock Exchange (TSE). The operational structure of the Group comprises the Corporate Center and four business divisions: Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management and the Investment Bank.

In the early 1990s, the two Swiss banks that came to form the current UBS, Swiss Bank Corporation (SBC) and Union Bank of Switzerland, were commercial banks operating mainly out of Switzerland. The 1998 merger of SBC and Union Bank of Switzerland brought together these two leading Swiss financial institutions, creating a leading global wealth manager and improving the new firm's chances of becoming a global bulge bracket investment bank and a leading global institutional asset manager.

In aspiring to be a leading client-focused bank, UBS is concentrating on:

- further strengthening its position as a leading bank for high net worth and ultra high net worth clients around the world

- continuing to be a leading firm across all client segments in Switzerland
- being a top tier bank in growth regions where we choose to operate.

UBS India Service Centre (UBS-ISC)

The India Service Centre (ISC) in Hyderabad is UBS's first dedicated offshore centre and serves the requirements of all business groups in all regions. It offers wealth management, investment banking and securities and asset management services as well as high end research capabilities through business processing and information technology to enabling functions that include HR, Legal and Communications. The UBS ISC currently employs approximately 2,000 associates, two-thirds of whom are engaged in KPO/BPO services. Around 50% of the UBS ISC comes from Europe and rest from US and Asia Pacific.

The Deal

UBS, the biggest bank by assets in Switzerland, has sold its Indian back-office captive to multinational services firm Cognizant Technology Solutions in 2009 for around USD75

million along with a five-year outsourcing contract worth up to USD 442 million.

The USD 442-million outsourcing contract bundled with this deal includes work beyond back office and knowledge process outsourcing and could involve application development and IT hardware management as well.

UBS and Cognizant have entered into a 5 year services agreement under which Cognizant will provide a range of business process outsourcing (BPO), knowledge process outsourcing (KPO), IT, and remote infrastructure management services to UBS divisions around the globe to enable them to reduce time-to-market, expand service delivery, and enhance productivity, operational efficiency, and quality. The acquisition has been funded from the company's cash reserves.

UBS's profound capabilities in wealth management, investment banking, asset management, research, and remote IT infrastructure management will aid Cognizant to strengthen its business and knowledge process capabilities, deepen its financial services domain knowledge, and enhance its

capabilities to provide integrated services across consulting, technology, and outsourcing.

Cognizant which has primarily focused on IT services, in the past, tried their hand on establishing a BPO business but never seem to have fully engaged in building it out. This could be an appealing expedition into the BPO space with a captive acquisition and committed revenues and give Cognizant a BPO Platform to scale on. Cognizant which has a large percentage of their revenues coming from financial services firms could use this bolt on acquisition to expand their service offerings to their existing IT clients.

UBS supposedly hired Deloitte to look for a potential buyer of their BPO operations in Hyderabad, India and Krakow, Poland. Like many other captives, UBS seem to be looking to get out of running their own operations in India and handing the workings to a vendor. UBS had spun out its analytics group into a management buyout firm – Verity Knowledge Solutions where UBS was going to have a stake in the firm.

A number of firms were looking to buy out the UBS centres including Infosys, Wipro, WNS, and Genpact. Divesting non-core captive operations is a strategy adopted by banks such as Citigroup and UBS for focusing better on their core

operations and also gain better outsourcing rates by bundling such transactions with a multi-year contract.

An upfront payment also helps them unlock value from non-core assets. Citibank sold its Indian back office business to TCS for around USD505 million in October last year and Citi Technology Services for around USD127 million to Wipro in December last year. Both these transactions came with assured outsourcing business of around USD3 billion together for these vendors.

While around 2,000 employees of UBS India captive unit in Hyderabad will move to Cognizant as part of this transaction, the bank's captive operations in Poland has not been included in this deal.

The economic downturn had 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, acquiring captives would help service provider build scale and revenues at a time when

new costumers are hard to come by. Such deals also help get industry specific capabilities. Also the balance of negotiations is expected to go in favor of service providers with growing maturation of the third party outsourcing industry in general and coverage of specific industry.

Though Cognizant managed to acquire UBS-ISC, it could not lay its hands on its Investment Banking division, which is now Verity Knowledge Solutions (Verity). It is an affiliate of UBS, providing financial services such as investment banking and wealth/asset management to private, corporate and institutional clients. Verity took over the investment banking analytics outsourcing operation of UBS in 2009. Since then the Company has grown to approximately 350 employees. Verity's services include financial analytics, modeling and data research, competitor intelligence research, library services (info centre) and presentations and editorial services for investment banking clients globally.

For UBS, the sale of the India Service Centre marks the next stage in the development of the UBS offshoring and outsourcing strategy. In recent years, the availability and maturity of third-party outsourced services has grown significantly. UBS has therefore decided to adopt a buy rather

than a build strategy for its outsourcing needs. This will take advantage of the scale and expertise of third parties to improve efficiency, while reducing costs and increasing flexibility.

Meanwhile, the Poland Service Centre, based in Krakow, will continue to be owned by UBS and will expand to deliver services formerly provided by the India Service Centre that cannot be provided by third parties for legal, regulatory or business reasons.

Impact

- This acquisition helps us consolidate Cognizant's position, expand service offering and take their solutions to a wider geography.
- The acquisition gives Cognizant a good presence in the European market besides giving it BPO (business process outsourcing) capabilities, both of which were areas that the company needed to strengthen.
- This outsourcing transaction will improve UBS' efficiency and flexibility .
- Cognizant has significant revenues coming from the US whereas the USB ISC (India Service Centre) has

more than half its revenues coming from APAC and Europe regions. So, this helps in diversifying the revenue base,

- A report by Deutsche Bank said the deal was reasonably priced, through which Cognizant would acquire highly skilled employees. Cognizant will absorb UBS India Service Center Pvt. Ltd's nearly 2,000 associates in Hyderabad. It highlights Cognizant's ability to expand with existing clients and captives tend to have margin leverage potential related to improved span of control opportunities.

The success of this deal depends on how quickly Cognizant can,

- Integrate its new capabilities with its current internal assets. The company had initially allocated nine to 12 months for integration while it cross-trains staff and builds an inventory of intellectual property. The physical facility remained 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%)

Issues Pertaining Pre and Post Acquisition

- Hive off of Investment Banking Division into a separate entity 'Verity Knowledge Solutions' to meet confidentiality and legal requirements
- Employee turnover; as many people from Investment Banking division quit UBS on the fears of Brand Dilution
- Cognizant sees excess capacity at ISC and will leverage this to grow the relationship with UBS. It may, in time, leverage the center to service other clients
- From a customer perspective having an integrated service provider is a positive if the provider is truly integrated
- It remains to be seen if UBS other existing vendors Wipro and Infosys will see any negative impact on their revenues from the bank.

Conclusion

Cognizant has managed to consolidate its operations in BPO/KPO sphere with UBS acquisition, but with increased restrictions on BPO activities, resistance from US authorities and increased clampdown on UBS activities in the US, there is a possibility of bottlenecks in the business. Considering the

recent economic downturn, the asset valuations are on the downside. The price paid to acquire UBS ISC seems like a nice buy but the RoI will depend on how successfully the processes can be integrated and how soon does the economy revive, to justify the expectation of future stream of revenues.

The loss of Investment Banking unit to Verity Knowledge Solutions can result in huge opportunity costs due to increased consolidation and privatization activities spurring out of recovery process in the economy. The actual results of the success of acquisition will only come out in due course of time.

Recommendations

- Organizations considering captive sales: Make or update strategic plans for outsourcing noncore, “overflow” and support operations; evaluate alternative delivery options such as multitenant 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

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