

Tech Offshoring Off the Beaten Path

By **Maria Trombly** | [Securities Industry News](#) | September 6, 2004

September 6, 2004 - In the pursuit of the international offshoring dollar, India looms largest, followed by Western Europe. Other countries barely show up on the radar screen. But the global strategic picture is gradually beginning to shift.

Of all the newcomers, China, of course, exerts the greatest gravitational pull. Yet Eastern Europe, Russia, Latin America, Southeast Asia, Israel and South Africa are also attracting their share of securities industry players, who are more willing than ever to span the globe in search of the ideal climate for technology offshoring.

Take Prebon Group, Ltd., for example. It used to outsource work to India, until it ran into problems there.

"We dealt with one of the large Indian outsourcers--one of the very largest, in fact--and it was very difficult and took a great deal of extra effort to get our needs across," said Jim Hilton, head of Prebon's business planning and product management operation.

The main complaint? "We had to teach them about our industry," Hilton explained. The Indian company had good general-purpose programming skills, but they lacked specific knowledge about securities.

A little over two years ago, Prebon decided to search for smaller vendors with special expertise more directly relevant to its needs. Among those in the running were Exigen Group, based in San Francisco, and London-based Ideal Data Systems.

As it turned out, however, both of these firms ventured off the beaten path to find the members of their development teams--in Exigen's case, Latvia and Russia; in Ideal's, Turkey. These were places where Prebon might never have thought to look. "We didn't make a deal with [the foreign] companies because of their locations," Hilton said.

Because Prebon does business in the U.S. and the U.K., it was more convenient to contract with a company doing business in the same time zone as Prebon's employees, but drawing upon a wider pool of talent. "They have people with significant knowledge about the industry," Hilton said. "I have to say, in both of these cases, it worked out very well." The two companies worked on the development of strategic products, he added, and said that he would recommend them to other securities firms.

In fact, Exigen, with employees scattered throughout the former Soviet Union, does a great deal of its business in the capital markets arena. One of the larger Russia-focused software outsourcing firms, Exigen has about 1,000 employees--600 in Latvia, 100 in Russia, and 200 in the United States. The rest are located in Lithuania, Canada and in the Asia-Pacific region.

The company is working on several securities industry projects, including a process-reengineering project for a tier-one broker-dealer, said capital markets general manager Dirk Manelski. "We have been working for over a year on reengineering their front-office function--the ways trades get brokered, prices get distributed, trades interact with the back office," he said. "Now we're analyzing their back office for cost reduction, the front office for product flexibility."

According to Manelski, low wages was one factor that made Russia and the Baltics attractive, but by no means the only one. "[The cost of labor] is less and less the driver I see today," he said. "It's more that I need to transform this process or this technology, and I need to bring it to a lower cost point. That requires a much stronger discipline, a stronger set of methodologies, to execute on that."

To address this issue, Exigen is developing strong domain expertise in the financial services sector--the source of about a third of the company's 300 customers. In addition to Prebon, customers also include AIG, ING Advisors Network and Prudential Securities. "The capital markets industry is particularly extreme in its use of arcane technologies, business knowledge and regulations," Manelski said.

Other vendors go head-hunting for experienced staff in an effort to extend their capabilities to meet the demands of the securities industry.

For example, New York-based DataArt Enterprises, which employs 150 people in St. Petersburg, Russia, 20 people in New York and 6 in London, has hired employees who previously worked at Goldman Sachs, DLJ and other U.S. financial institutions, said Alexei Miller, the company's director of project management. Many of the Russian employees earned their wings working in the U.S., Miller said. "Now that Russia presents a good number of employment opportunities in terms of security, income and professional growth, for many people this is a perfect scenario to go back home."

Wall Street firms are following three different paths to these out-of-the way destinations: some go directly into the field in search of particular skills and talents; others are led by managers with ties to attractive offshoring destinations. Many, however, start by contracting with global outsourcing firms who specialize in leveraging geographical diversity.

Tata Consultancy Services (TCS), for example, is mainly known for its army of Indian programmers and the depth of its financial services expertise. But India was not enough for this global giant. "We have very significant efforts in establishing our global delivery platform in many countries," said TCS vp Anatoly Altshuler. The company has a development center in Budapest, for example. "It's not very large, still just over 100 people, but that's now our anchor in Eastern Europe. We are also developing a strong center in Toronto, Canada for 'near-shore' outsourcing, and to support our Canadian clients."

The company also opened a center in Uruguay a couple of years back. "This is still a relatively small operation--about 100 people, mostly local hires, mainly banking-industry oriented," said Altshuler, who added that securities industry customers are generally not yet interested in Latin America for outsourcing. What they are interested in, however, is leveraging TCS's Latin American presence for analysis and intelligence. "It is expensive for them to move into the financial markets there," explained Altshuler, "so they are trying to use us for that kind of research."

In fact, many companies use offshoring as a way to dip a toe into a new market. For example, China--where TCS is also in the process of building a significant presence--has the potential to become a huge financial marketplace. By moving software development projects there, firms can start to learn their way around a new culture, make connections with government officials and future regulators, and develop in-house management talent with strong in-country expertise.

And, like India, China also boasts a vast and still growing, tech-savvy population and relatively low wages. That isn't the case in Eastern Europe, where wages are low but the population bases are comparatively small.

And TCS isn't the only company to look to specific regions for very specific types of projects. For example, one global investment bank--a client of the New York-based Paaras Group--uses India to do generic software development, Spain to address European requirements and Russia for derivatives software development. That's because Russia has an abundance of rocket scientists who are available to do very high-end mathematics, said Paaras Group managing partner Suresh Gupta.

South Africa is also popular with some of his clients, Gupta said, particularly European banks. "They like South Africa because they have similar time zones," he said. "And South Africa, particularly Capetown and Johannesburg, has enough IT professionals that they feel comfortable that it is a good place to go."

Many are also drawing on expatriate technology managers that originally emigrated from emerging economies to major financial centers. In the mid-90s, for example, Credit Suisse First Boston had a team of Egyptian IT managers, said Peter Lowes, national practice leader for outsourcing advisory services at New York-based Deloitte Consulting. Through that connection, the company ended up outsourcing its client-server securities applications to a 200-person offshore development center in Cairo. And though Lowes knows of no other securities firms still using Egypt for offshoring, he said that this kind of approach is not unusual. "When there's a strong management connection to a country, it reduces risk."

In fact, one way to predict where the next outsourcing wave is likely to happen, Lowes said, is to look at the ethnic make up of New York City programming agencies, the companies that send temporary contract programmers to Wall Street firms. A few years ago, these programming agencies were full of Brits and Indians, Lowes said. In the last eight years, however, Chinese and Russians have made a strong showing. "It's a good gauge of where the skill sets are," he said. "These people are not only talented, but smart enough to get over here. And for every one who makes it to the U.S., chances are there are another 10 back home."

Eventually, these immigrants get into a position where they can make outsourcing recommendations, and use that position to link networks of contacts in their countries of origin to other global talent pools and markets.

One problem with going to a small country, however, is that it's possible to completely exhaust its resources, Lowes noted. JP Morgan Chase created just such a problem when it moved into Glasgow, Scotland a few years ago.

"It's been a great success for them, with very high quality and a good price point," said Lowes. "If you're first into the market, you can sometimes get a great deal. But they've basically absorbed all the computer scientists in Glasgow. Now, there's nobody there to hire unless you steal people away from JP Morgan Chase."

On the other hand, if a firm only needs 20 or 200 developers, then a small-scale destination might be appropriate, he said. "And they are going to be hungry for your business."

Outsourcing Ports of Call

Thailand

DST Systems, a major mutual fund processing company, has been doing offshore development work in Bangkok through its DST Catalyst subsidiary. "Thailand is a popular destination for offshore services," said Deloitte Consulting's Peter Lowes. "On a cost basis, it's comparable to India, the infrastructure is better and, in general, it has very good English language skills. The only reason it's not hot is that it's not that big." As a result, Lowes said, firms moving projects to Thailand can expect to have more control.

South Africa

"South Africa is often overlooked because they don't do a good job marketing themselves," said Lowes. "But they could do a good business if they get themselves organized. They're in the same time zone as the U.K., English is the primary language and they have strong securities industry expertise."

Israel

Israel is better known for producing software companies than outsourcing firms, and boasts a number of small middleware vendors that serve the securities industry. As those companies are acquired by metropolitan firms, they then become, in effect, offshore "insourcing" centers. For example, SunGard recently bought Mint, an Israeli software company, said Lowes. "Now that company, Mint, is doing offshore development for SunGard."

Global Village

Emerging economies are making inroads on India and Western Europe as centers for IT outsourcing to U.S. securities firms.

Czech Republic

Lots of software development centers are springing up in the Czech Republic, one of the biggest success stories in Eastern Europe. IBM, among others, is betting on the country.

Ukraine

In an attempt to address their industry's marketing problems--too many small start-up firms and too few visible players--a group of Ukrainian software companies has banded together to form the Ukrainian Software Consortium, a 600-person, 26-company coalition that has opened an office in Menlo Park, Calif.

Singapore

"Singapore is definitely on the map, and a number of my clients are doing stuff in Singapore," reported Suresh Gupta of The Paaras Group. "They can cover some of the Asian markets out of Singapore, and the business atmosphere is very friendly." Huge savings, however, are not to be expected, and Singapore is not a scalable solution, Gupta added.

Malaysia

"Malaysia is on the map, but my sense is that it is looked at more from a back-office point of view rather than software development," said Gupta.

Philippines

The Philippines began to be a popular destination for call centers at almost the same time as India--and for many of the same reasons. It also helps that the Philippines, long home to U.S. military bases, were close to the U.S. culturally, notes Gupta. Once call centers were established, the island nation followed a natural progression to technology outsourcing, Gupta added.

Russia

TowerGroup rates Russia as a country with high offshore outsourcing potential, thanks to its large pool of software and engineering talent and its intense focus on research and innovation. However, the Russian government doesn't seem to be as focused on the services-exporting industry in the same way that the Indian government, or even the Chinese government, is," said Lowes.