Credit Suisse's Journey from Scale to Skill

O&O Conference

Sharm-el-Sheik, November 14, 2009

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Global Head: Operational Excellence
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Key messages

- While other companies have been shaken up by the crisis impacting also their O&O activities, Credit Suisse continues executing on the pre-downturn O&O strategy

- The Centers of Excellence (CoE) initiative has made Credit Suisse one of the O&O leaders in the banking industry in terms of FTE offshored and has delivered significant value to the bank

- However, opportunities exist to further increase the value extracted from the O&O platform by moving from a focus on scale to a focus on skills and competencies

- The journey will involve acting on four strategic thrusts
  1. Drive consolidation of today's activities into competencies
  2. Focus on two delivery models, captive and outsourced, the latter serving as the default model
  3. Optimize the geographic footprint and vendor mix
  4. Institutionalize the usage of SLAs and KPIs and drive continuous improvement

- This evolution is expected to increase the value of the O&O platform by more than 10% over the next three years (and significantly more than that in some areas)

While other adapt to the crisis, Credit Suisse continues executing on the pre-downturn strategy

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citigroup

Citi Completes Sale of Citigroup Technology Services Ltd. (India) to Wipro

Jan 20th, 2009

BT

BT to cut 2,000 jobs from call centre workforce in India

July 16th, 2009
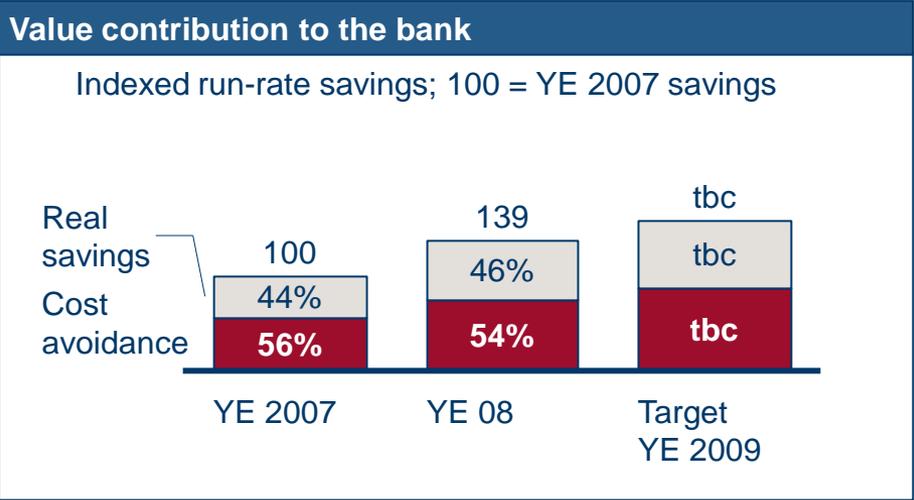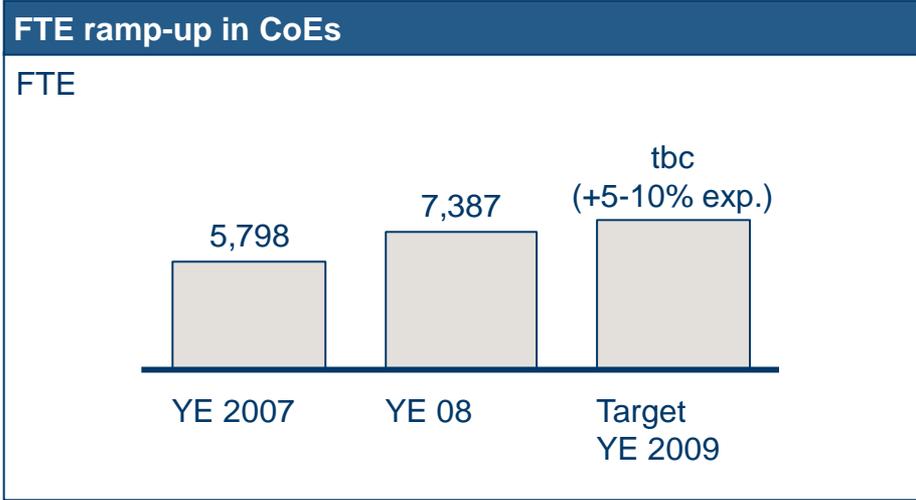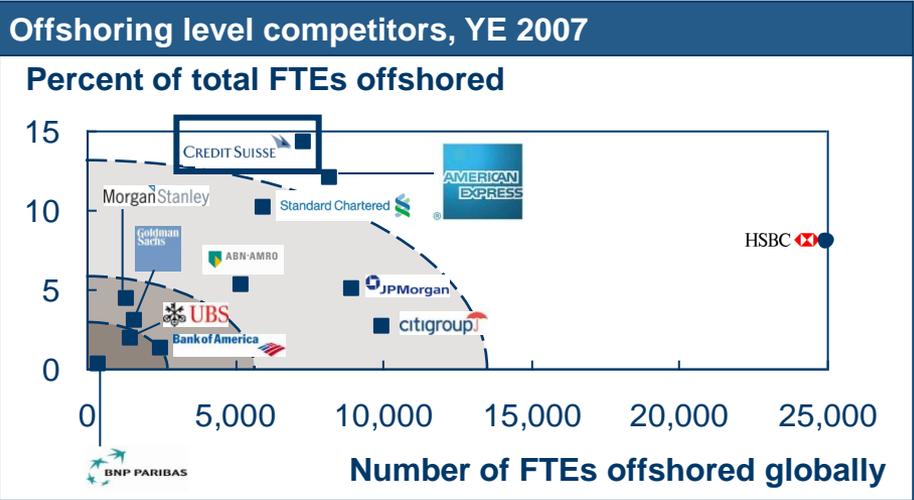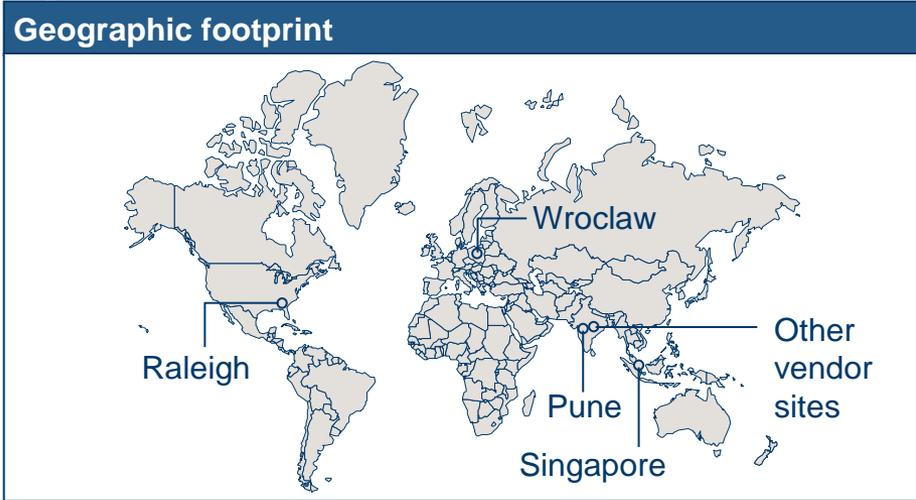
UBS

UBS sells Indian BPO arm to Cognizant

Oct. 16th, 2009

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Nov. 4th 2009:

Credit Suisse opens 5th CoE in Mumbai

(…) "Since establishing the CoE initiative in 2006 we have deployed more than 8,000 roles, or around 15% of our workforce. With the opening of the Mumbai CoE, Credit Suisse will have five CoEs providing support to our operations in more than 50 countries around the world. By 2011, we hope to have over 9,000 roles deployed to our CoE network," said Theuerkauf. (…)

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The CoE initiative has made CS one of the leaders in terms of FTEs offshored as percentage of total FTEs and has delivered significant value

Geographic footprint

Wroclaw

Raleigh

Pune

Singapore

Other vendor sites

Offshoring level competitors, YE 2007

Percent of total FTEs offshored

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AMERICAN EXPRESS

Morgan Stanley

Standard Chartered

Goldman Sachs

ABN·AMRO

HSBC

JPMorgan

UBS

citigroup

Bank of America

BNP PARIBAS

Number of FTEs offshored globally

FTE ramp-up in CoEs

FTE

5,798 — YE 2007
7,387 — YE 08
tbc (+5-10% exp.) — Target YE 2009

Value contribution to the bank

Indexed run-rate savings; 100 = YE 2007 savings

Real savings
Cost avoidance

	YE 2007	YE 08	Target YE 2009
	100	139	tbc
Real savings	44%	46%	tbc
Cost avoidance	56%	54%	tbc

CoE brought new behaviors in the way we work

We now have the opportunity to evolve our initial approach which has prevented capturing the full potential benefits of the initiative

To launch the program and allow it to scale quickly a series of implementation decisions were taken …

- Limited use of end state design as a guide; to allow faster migration few end-to-end processes moved, mostly isolated task/activities

- Choice of location deployment largely left to the business to get their buy-in

- Implementation model mainly based on staff augmentation which was easier to start; limited responsibility/empowerment of remote center for service delivery

- Limited investment during migration phase on performance improvements/process optimization; limited time take to put in place KPIs and SLAs

… which prevented capturing the full potential of the O&O platform

- Difficult to reap scale economies and support growth

- Difficult to leverage skill economies

- Current business case mostly around cost avoidance

- Difficult to create and communicate full transparency on initiative value

- Greater fragmentation of operational processes

- Introduction of risk/complexity due to multiple hand-offs

To extract more value form our O&O platform we have embarked in a journey from scale to skill along 4 strategic thrusts

1 ▪ **Drive the consolidation of activities into competencies,** potentially by relocating services (within regulatory constraints and workflow considerations) to ensure capture of benefits of skill and scale economies

2 ▪ **Focus on two delivery models** – captive and outsourced – to further reduce complexities (co-managed serving as a transitional model only):
  – The **outsourced model** to be used as the default model
  – The **captive model** to be used if specific business, strategic or regulatory requirements exist

3 ▪ **Optimize geographic footprint** of competencies and **vendor mix** (also through secondary deployment) by explicitly accounting for tradeoffs between cost vs. competency and by applying a clear vendor manage-ment strategy to ensure long-term sustainability of business case

4 ▪ **Institutionalize the implementation of SLAs and quality, productivity, efficiency and risk KPIs** to baseline the current performance levels of CoE and **drive process reengineering and continuous improvement** to ensure CoE delivers value beyond cost arbitrage

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Drive the consolidation of activities by clustering similar activities into coherent competencies characterized by a minimal critical mass, homogeneous set of know-ledge, skills, tools and talent to ensure/increase capture of benefits of skill and scale economies and enable development of distinctive functional and process expertise

CoE competencies – BPO

- **Clearing and settlement**
  - Cash clearing and settlement
  - Securities clearing and settlement
- **Reconciliations**
  - Settlement reconciliations
- **Reference data**
  - Reference data
- **Fund administration**
  - Fund accounting
- **Research and analytics**
  - Research
  - Deal support
  - Client strategy
  - Analytics
  - ...

CoE competencies – ITO

- **IT application development and support**
  - Applications - IB
  - Applications - PB
  - Applications - CS
  - Applications - AM
  - Applications - Switzerland
- **IT data center operations**
  - Data center service delivery
  - Data center technology
  - Batch management
  - Data problem management
- **IT end user platforms**
  - End user workplace
  - …

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Captive FTEs
Co-managed FTEs
Outsourced FTEs

Current and target CoE competency footprint
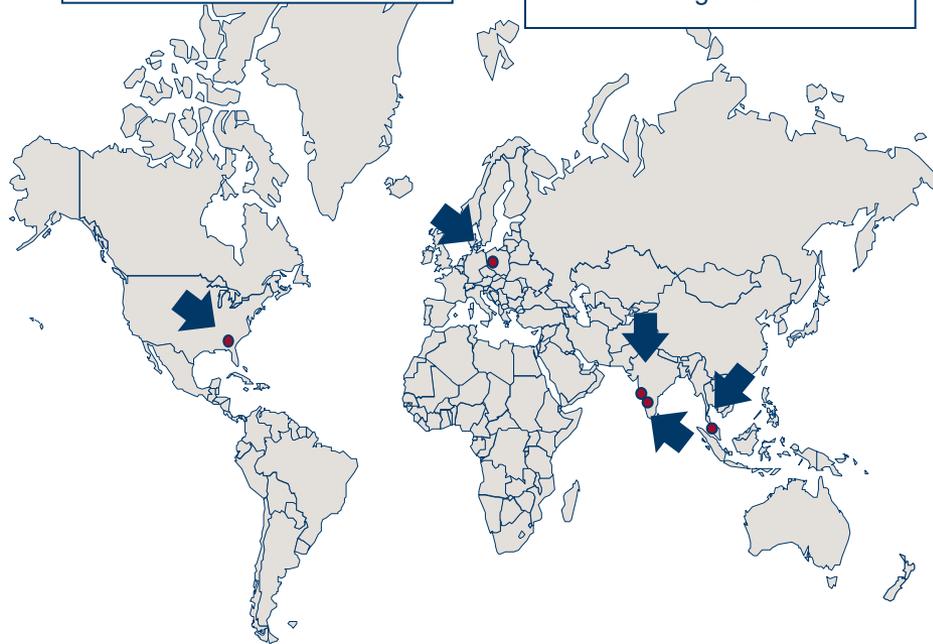
Raleigh (current):   894 / -

Target
- Position valuation and P&L
- Presentations
- IT Application development and support
- IT end user platforms

Wroclaw (current):   145 / 153

Target
- Reference data
- Asset servicing
- Other competencies where European languages are required

Pune (current):   910 / 417

Target
- Legal and compliance
- Financial/Regulatory reporting and analysis
- Financial planning and analysis
- Data management

Singapore (current):   3,376 / -

Target
- Administration
- Position valuation and P&L
- Payment processing
- Risk management
- IT Application development and support
- IT data center operations
- IT end user platforms
- IT Infrastructure and networks

Outsourced (current):   2,073

Target xx
- Administration
- Payment processing
- Clearing and settlement
- Fund administration
- Research and analytics
- Human resources
- IT Application development and support
- IT data center operations
- IT end user platforms
- IT Infrastructure and networks

Mumbai (current):   - / -

Target xx
- Research and analytics
- Potential for BPO competencies

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1 The overall aim is to create a truly integrated model for rightshoring competencies

Focus on two delivery models to reduce complexity, enhance transparency and simplify management of service provision; the future delivery models are

Outsourced delivery model
- CS contracts independent third party to provide a service
- Service provided under the full control and discretion of the third party, which is contractually accountable for service delivery

Captive delivery model
- Services are delivered by a CoE, for which CS fully controls and manages the facility, infrastructure, assets and staff
- CS is fully accountable for talent management and service delivery (including its quality and efficiency)

The long-term default model is outsourced; the captive model should be considered when
- … the process/activity has **strategic importance** for CS
- … the process/activity has **security**-related issues
- … the process/activity is subject to **regulatory constraints**
- … the outsourcing model poses significant **operational risks**
- … the process/activity has strong CS **specificities**
- … the process/activity is **very complex**
- … none of the **available vendors** meet CS requirements

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3 Optimize geographic footprint by applying clear criteria for location selection …

Optimize geographic footprint (also through secondary deployment) by explicitly accounting for tradeoffs between cost vs. competency to ensure long-term sustainability of business case

Key factors driving CoE location selection

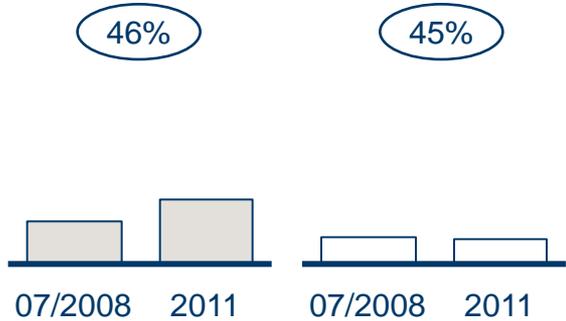|	
Talent	▪ Size, skill level and functional profile of talent pool ▪ Ease of recruitment – projected talent demand vs. availability ▪ Expected attrition rates
Cost	▪ Labor cost and expected wage inflation ▪ Infrastructure cost ▪ Real estate cost ▪ Taxation rate
Interaction with customer	▪ Ability to operate in customer's language when necessary ▪ Understanding/adaptability to foreign working culture ▪ Coverage during customer's business hours
Environment	▪ Infrastructure environment (telecommunications, real estate, transport) ▪ Business environment (government support, regulatory environment, convenience of doing Business, fiscal performance) ▪ Political environment (political stability, security, data protection, country image)
Existing competencies	▪ Existence of related competencies in an established CoE

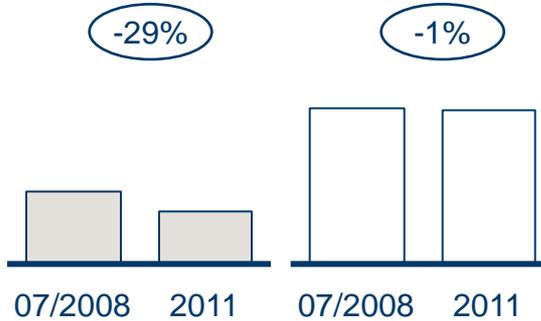# 3 … resulting in a shift towards more value-adding CoE locations

Optimize geographic footprint of competencies (also through secondary deployment) by explicitly accounting for tradeoffs between cost vs. competency to ensure long-term sustainability of business case

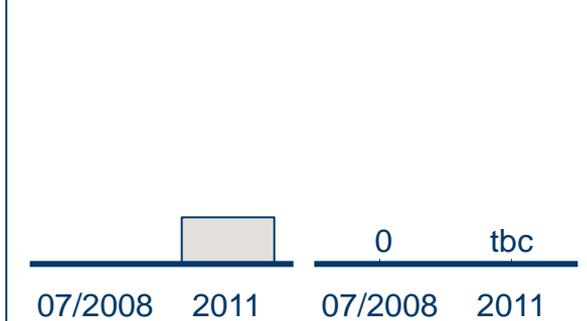**Changes in geographic footprint (effective FTE figures before productivity improvements and consolidation)**
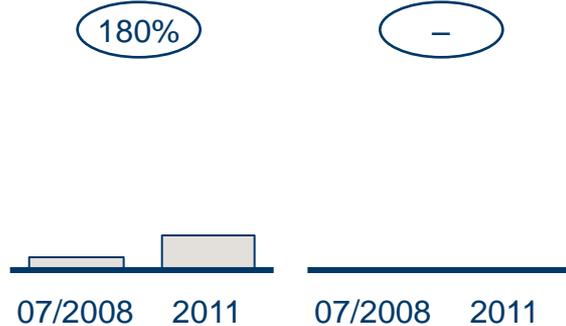

North America (captive)

46%   45%

07/2008   2011   07/2008   2011

Asia location 1 (captive)

-29%   -1%

07/2008   2011   07/2008   2011

Asia location 3 (captive)

0   tbc

07/2008   2011   07/2008   2011

Eastern Europe (captive)

180%   –

07/2008   2011   07/2008   2011

Asia location 2 (captive)

83%   -100%

07/2008   2011   07/2008   2011

Outsourcing

203%   100%

07/2008   2011   07/2008   2011
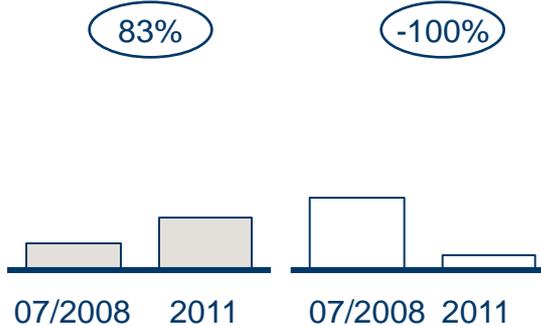
4 # Institutionalize SLAs, KPIs and continuous improvement to achieve real CoE excellence

Institutionalize the implementation of SLAs and quality, productivity, efficiency and risk KPIs to baseline the current performance levels of CoE and drive process re-engineering and continuous improvement to ensure CoE delivers value beyond cost arbitrage

Characteristics

SLAs

- Clear definition of service inputs, service outputs and interface between service-consumer and service-provider
- For outsourced model, definition of service debit/ service credit mechanisms in case of under-achievement or overachievement of SLA targets

KPI

- Specification of a set of meaningful business-relevant measure for quality, productivity, efficiency and risk covering complete scope of service

Continuous improvement

- Implement usage of standard toolkit and methods to continuously improve and control processes
- Mandate similar methodologies to improve service-quality levels delivered by outsourcers

Enablers for …

- … improvement of cost savings from currently deployed resources by achieving real CoE excellence
- … further sustainable expansion of CoE activity

The new CoE strategy will increase the value of our O&O platform by approximately 10% (much more in selected areas)

Legend:
- ■ Impact of new CoE strategy
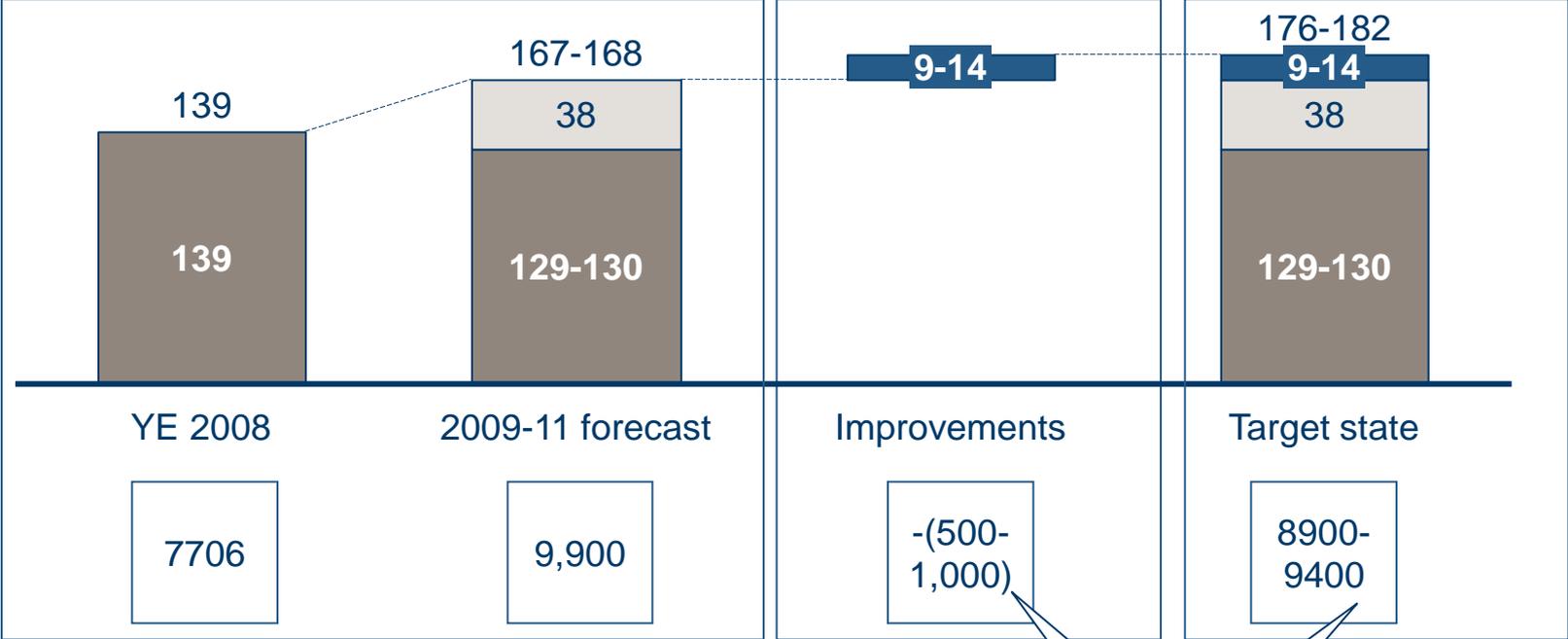- □ New deployments
- ■ Current CoE

Current CoE forecast and aspirational additional primary deployment

Improvements from new CoE strategy

Target state

Estimated yearly run rate savings (indexed; 100 = YE 2007 savings)

	YE 2008	2009-11 forecast	Improvements	Target state
Total	139	167-168	9-14	176-182
New deployments		38		38
Impact				9-14
Current CoE	139	129-130		129-130

Deployed FTEs

YE 2008	2009-11 forecast	Improvements	Target state
7706	9,900	-(500-1,000)	8900-9400

Through productivity and consolidation, 500-1,000 offshore FTEs can be avoided, and the remaining 8,900-9,400 FTEs will still be able to perform workload of 10,000 FTEs

Key takeaways

For those starting …	For those already advanced …

For those starting …

- Start with a corporate target operating model defining
  - What work do you need to do?
  - Who needs to do it, where does it need to be done?
  - Is the work optimized or at least stable in it's performance?
- Use a "fix-then-shift" approach
- Be disciplined and standardize the way you deploy, don't leave it up to individual organizations
- Measure before and after deployments ...
  - Cost/efficiency
  - Quality
  - Productivity
  - Capability
  - Risk

For those already advanced …

- Understand in detail the work performed in your offshore locations
- Drive consolidation of today's activities into competencies
- Focus on two delivery models, captive and outsourced, the latter serving as the default model
- Optimize the geographic footprint and vendor mix
- Determine relevant QP&E[1] metrics to track process and center performance
- Institutionalize the usage of SLAs and KPIs and drive continuous improvement
- Review and optimize migration planning process

1 Quality, productivity and efficiency