

Outsourcing Trade Services

COMMENTATOR OVERVIEW

*Prepared on behalf of ABN-AMRO Bank
By The Brondesbury Group
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1.0 INTRODUCTION

- On behalf of The Brondesbury Group and ABN-AMRO Bank we would like to thank you for your participation in our trade outsourcing study. In return for your help, we have provided you with a comprehensive overview of our findings following the three major sections of the report.
- The overview is arranged in order of those three sections, starting with a summary of outsourcing activities and the impact of outsourcing. This is followed by a summary of service delivery and a high-level look at bank image.
- Throughout the report, we use the words ‘user’ and ‘non-user’. For the purpose of this report ‘**user**’ refers to **ANY** outsourcing bank regardless of the insourcing bank that provides the service. ‘**non-user**’ refers to any bank that does **NOT** outsource trade services now.
- Once again thank you for your help and we trust that this information will be of value to you.

Who Did We Interview?

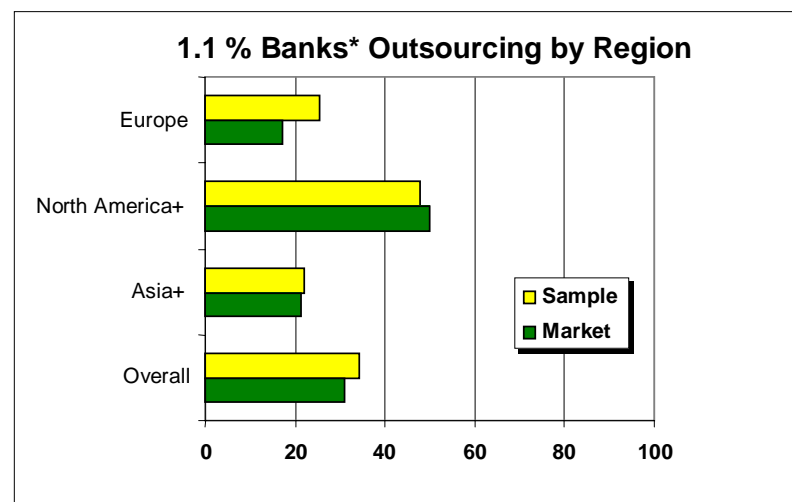
- In total, we conducted 151 interviews with the most senior person in charge of trade with profit and loss responsibility. At the start of each interview, respondents were given the following definition of ‘outsourcing’ to determine whether or not they qualified as an outsourcing bank or not.

“Insourcing banks can provide banks like yours with a wide range of services that replace a portion of your own bank’s international operations. You may think of this arrangement as ‘partnering with another bank’ or outsourcing. Regardless,

outsourcing can be as simple as another bank opening your clients’ LCs in a beneficiary country. It can be more involved like using another bank’s internet software or using its’ back office to process trade transactions. Or at its most involved, another bank can completely handle every aspect of your trade operations and service.”

How Widespread is Outsourcing

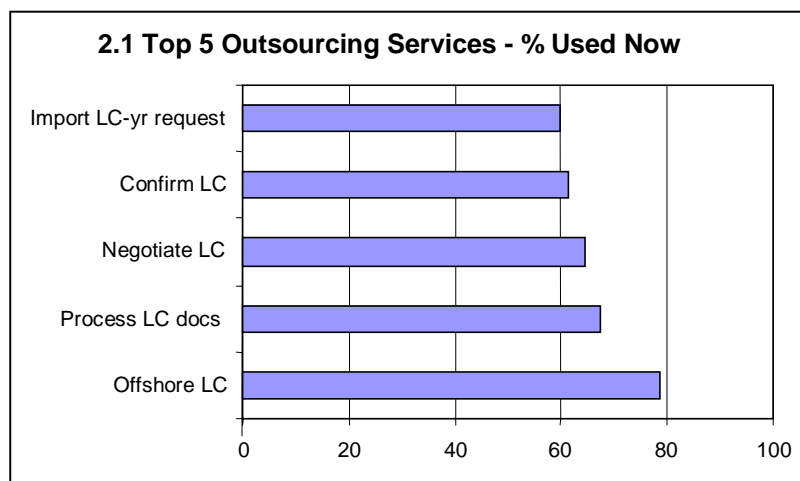
- Overall, about 30% of banks in the \$6 billion and over asset range currently outsource. The North American outsourcing market is more developed than other regions with almost 50% of eligible banks outsourcing now as seen in market column of **Exhibit 1.1**. In this exhibit ‘market’ is an estimate of the real proportion of banks versus the proportion we interviewed (sample). In Europe and Asia, only about 20% of the target market banks are currently outsourcing.



2.0 DEMAND FOR OUTSOURCING

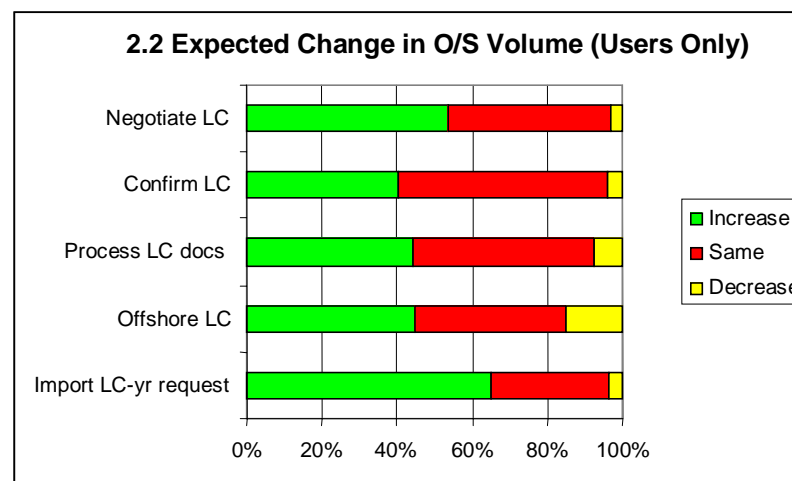
2.1 Outsourcing Activity

- Focusing only on those banks that currently outsource at least some part of their trade services, we find that **offshore issuance of Letters of Credit is the most widely used outsourcing product** by a significant margin (>10%). **Exhibit 2.1** shows the use of outsourcing services. In the top five most widely used products, three products/services are used by more than 60% of user banks: processing & examination of LC-related documents, negotiation of LC documents on behalf of customers, and confirmation of LC's issued to clients by other banks.

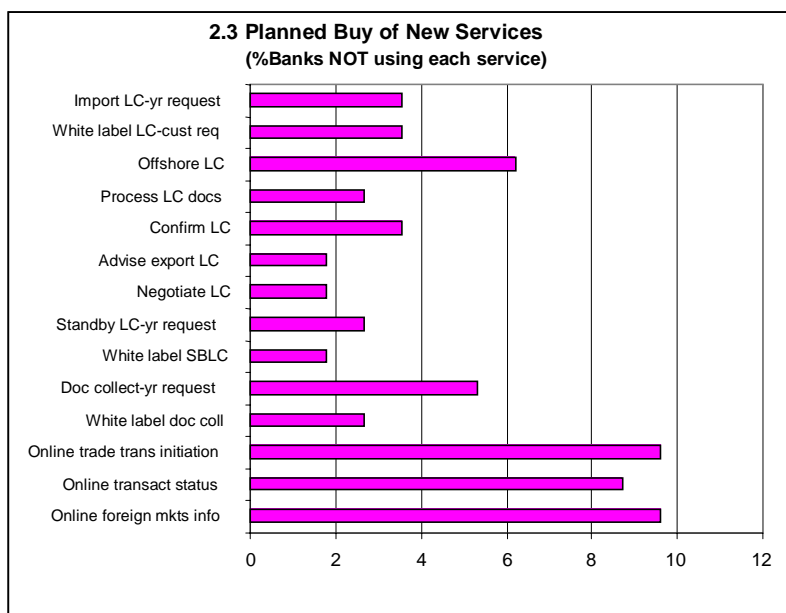


Future Changes

- Most users of outsourcing products plan on continuing to use or increasing outsourcing usage over the next year as seen in **Exhibit 2.2**. On average across products **46% of users plan to increase outsourcing volume**, 50% plan on remaining steady, while only 4% plan on decreasing usage. Looking at the top five most commonly used products, we see that about two-thirds of users plan on increasing the outsourcing use of import LCs. This falls to about 50% for negotiating LCS. Through a mix of increases and decreases, Offshore LC issuance will see net volume growth of 30% among current users.

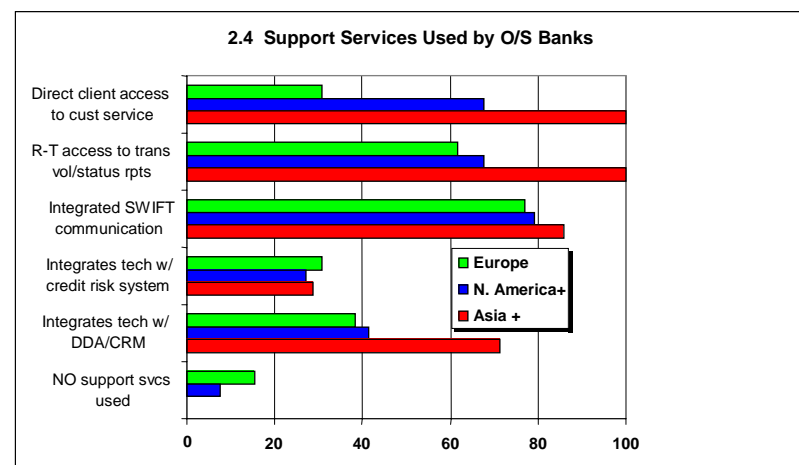


- Approximately 20% of all banks plan on buying new services they are currently not using. From **Exhibit 2.3** we can see that half of new products purchased will be an online trade product. On average, 3% of banks will buy each LC or payment service, while 10% will buy an online service. Although not shown we note that **about 20% of non-user banks plan to start outsourcing some service over the next two years**, while about 10% of banks outsourcing now plan to add new services.



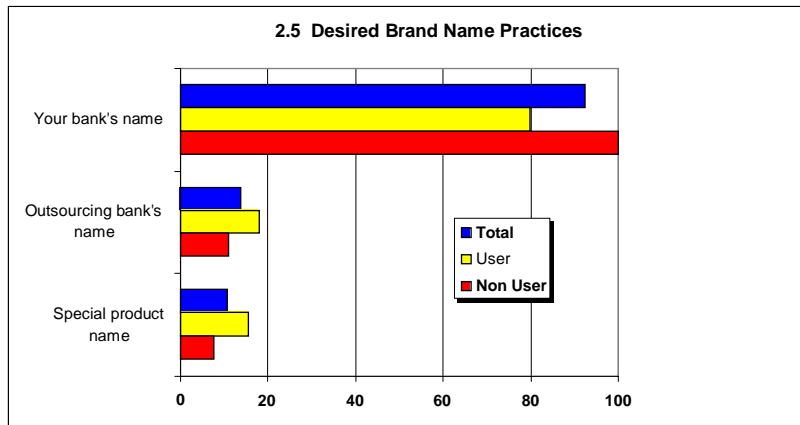
Support Services

- Exhibit 2.4** shows that **support services are used by nearly 90% of user banks**. This falls to 85% in Europe while all user banks in Asia use at least one support service. Overall integrated SWIFT communications are the most widely used support service, used by 80% of users. Integration of technology with credit risk management systems is the least common support product to be used (30%).
- Regionally, direct client access to customer service and real time access to transaction volume and status reports are the most popular support services in Asia, with nearly universal usage. In Europe & North America, integrated SWIFT communications are the most widely used services.



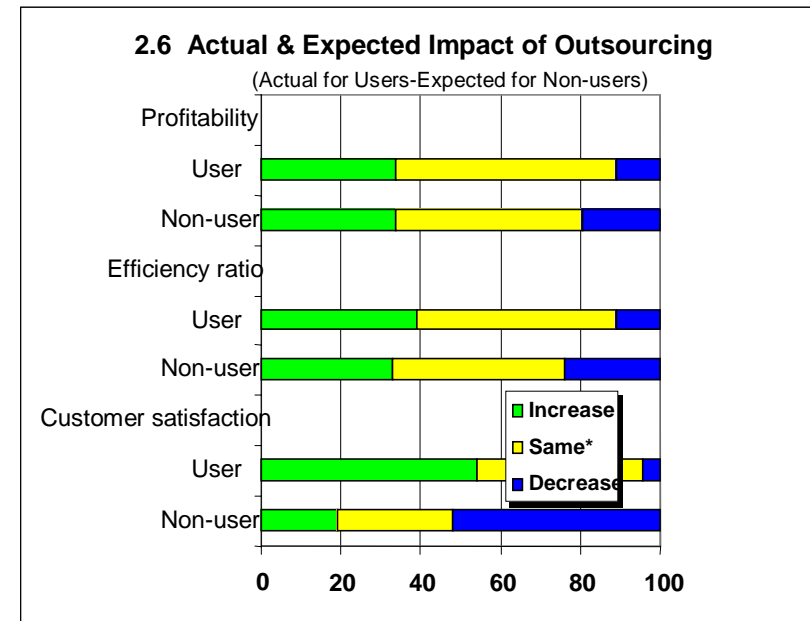
Branding of Outsourcing Products

- The next exhibit deals with the branding of outsourcing products. **Exhibit 2.5** shows the ideal branding practices of both users and non-user banks. Banks were asked to list all options that applied if they preferred to have both their name and the outsourcing bank or product name included.
- From **Exhibit 2.5** we see that banks prefer to keep their own name on outsourced services. This is especially true for non-users, with **every non-user wanting to brand with their own name**. Overall 15% want the outsourcing bank's name included, and 10% want to see the special product name as well.

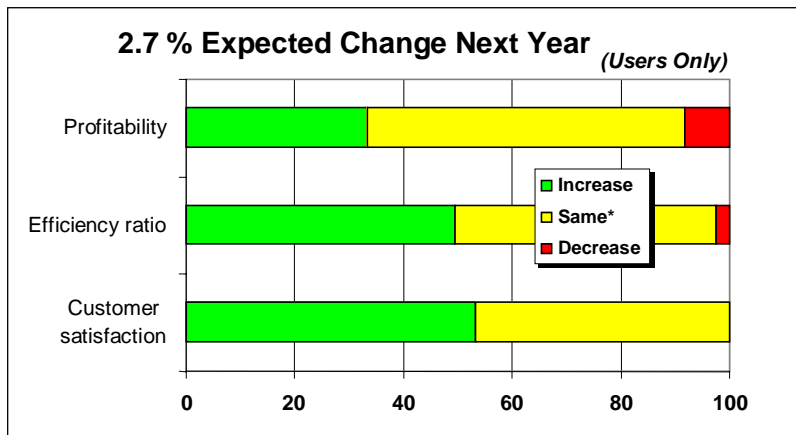


2.3 The Impact of Outsourcing

- There are some significant differences in what non-users expect from outsourcing and what users actually get. Differences are largest for customer satisfaction.
- From **Exhibit 2.6** we see that most those who do not outsource (52%) expect a decline in customer satisfaction with a small proportion (19%) expecting an improvement. On the other hand, only 4% of users report a decline in customer satisfaction while **over half of users (55%) report that clients are more satisfied**.



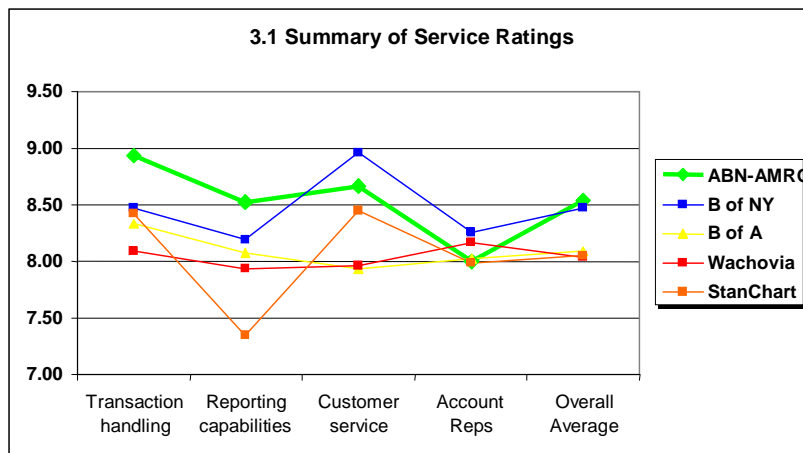
- There are also differences in expectations for Efficiency Ratios. One-third non-users expect outsourcing to improve their efficiency ratio – only slightly less than what user banks report (39%).
- **Exhibit 2.7** shows the changes that users expect over the next year. A majority of user banks expect outsourcing to increase their efficiency and customer satisfaction over the next year. One-third also expect improvements in their profitability against a small group (8%) that expect profitability to decline.



3.0 SERVICE DELIVERY & IMAGE

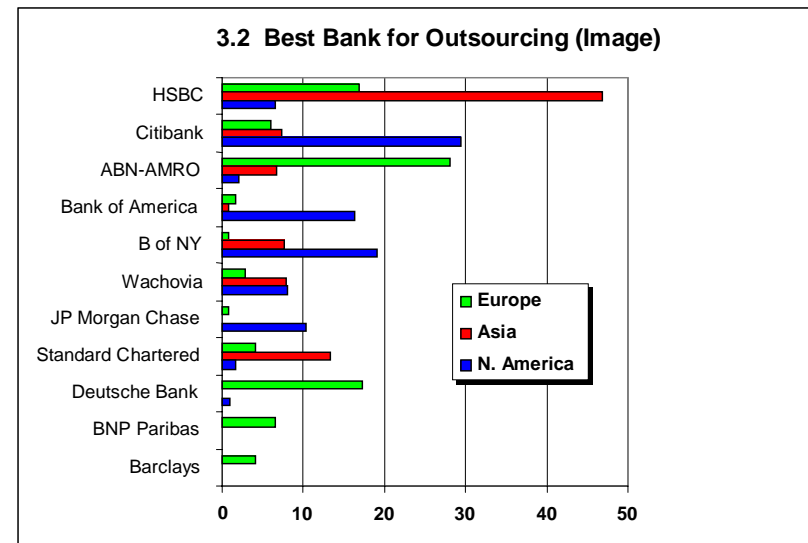
3.1 Service Quality

- Among the top five outsourcing banks by market share, ABN-AMRO is ranked 1st for quality of transaction handling, 1st for reporting capabilities, while Bank of New York is ranked 1st for service to clients and for quality of account representatives as seen in **Exhibit 3.1**. **Overall ABN-AMRO is ranked first for service quality** by a very narrow margin over Bank of New York. Bank of America, Standard Chartered and Wachovia form a second tier with nearly identical overall quality ratings based on different areas of strength and weakness.



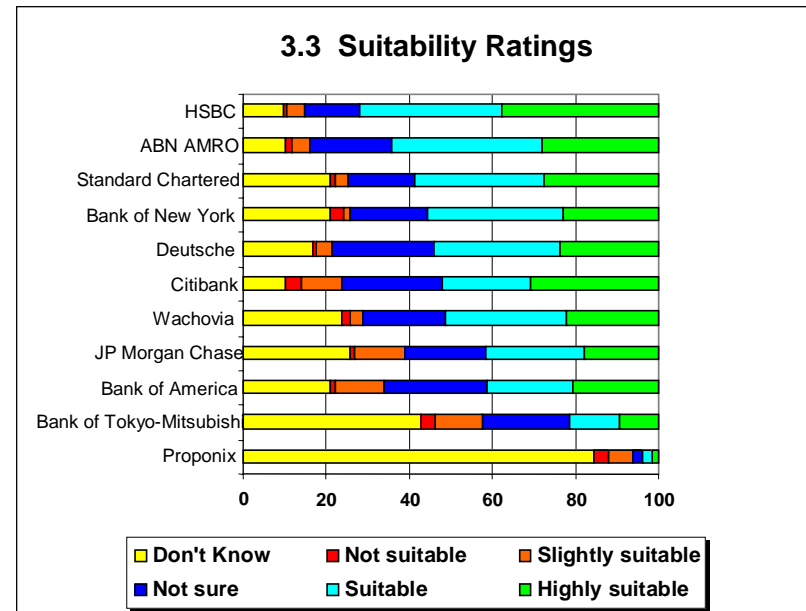
3.2 Top of Mind Image

- 'Top of mind image' is a rating of the FI's that are considered the 'most capable of meeting the trade outsourcing needs' of respondents. Top-of-mind image ratings reflect bank position as a bank rather than as a provider of outsourcing services. **Exhibit 3.2** shows which banks are chosen as top of mind best trade outsourcing bank for Europe, Asia-Pacific, or North America. AAB is rated the most capable outsourcing bank for European needs (27%) followed by Deutsche and HSBC. HSBC has the image of being the most capable outsourcing bank for Asian needs followed by Standard Chartered. Citibank, Bank of New York, Bank of America and JP Morgan Chase lead as best banks for North American needs. Of course, this is based on bank image and not on client service.



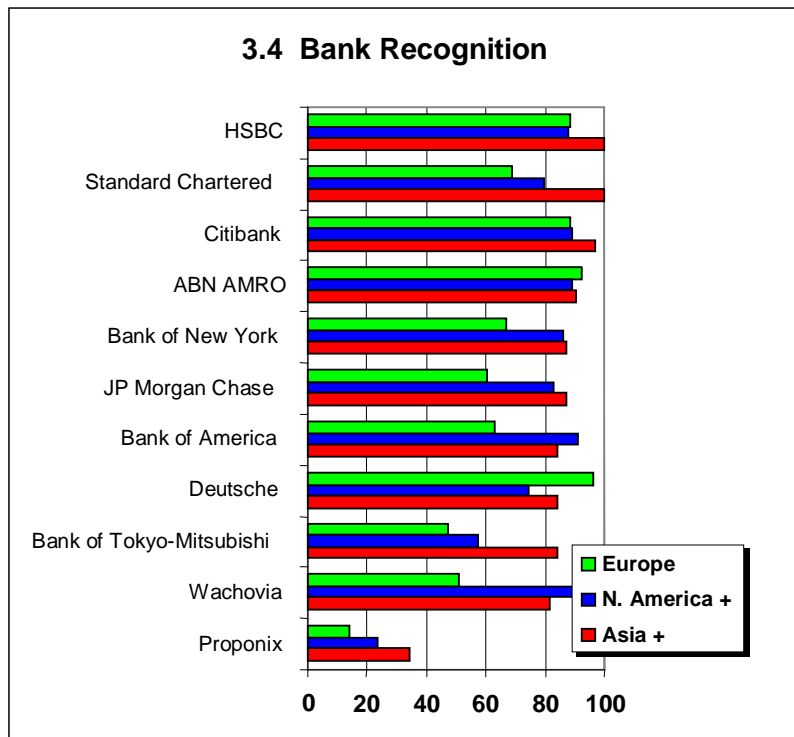
3.3 Bank Suitability

- As respondents you were asked to rate the suitability of a list of financial institutions as a provider of trade outsourcing services to a bank like yours on a scale of 1 to 5 with five being very suitable and 1 being not suitable at all. If the bank wasn't known well enough to rate it, you said 'Don't know'. While top of mind image can be distorted by recent news, advertising, etc, this method provides a more balanced assessment of image. **Exhibit 3.3** shows the suitability ratings for this list of outsourcing banks.
- Using simple ratings of suitability (rating of 4 or 5), HSBC is ranked 1st as a highly suitable outsourcing bank with ABN-AMRO ranked 2nd. Standard Chartered and Bank of New York follow with 59% and 56% suitability ratings respectively. Four banks receive positive suitability comments (4 or 5) from less than 50% of respondents; JP Morgan Chase, Bank of America, Bank of Tokyo-Mitsubishi, and Proponix.



Brand Recognition

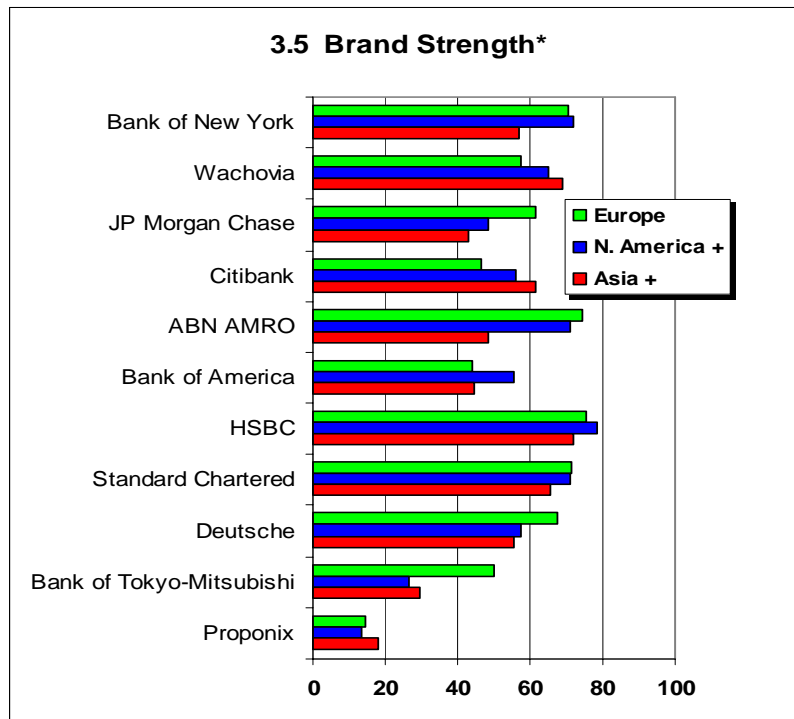
- **Exhibit 3.4** shows how well a bank is recognized regionally. Bank recognition is the percent of respondents that know enough about a bank to rate its suitability as a provider of outsourcing services. From this we find that **HSBC, ABN-AMRO and Citibank are the most well known banks with 90% of respondents able to comment on their suitability.** This falls to 55% for BTM and 15% for Proponix.



- In **Exhibit 3.4** bank recognition is organized regionally. In Europe, Deutsche Bank is recognized (96%) by almost every bank, as are ABN-AMRO (92%) and Citibank and HSBC (88%). Wachovia is only recognized by 50% of banks in Europe.
- In contrast, Wachovia is nearly universally recognized in North America (96%). Six other banks have over 80% recognition in North America, including ABN-AMRO. Among Asian banks, HSBC and Standard Chartered are recognized by all respondents. Citibank and ABN-AMRO are recognized by more than 90% of banks in Asia, and all FI's except Proponix are known to at least 80%.

Brand Strength

- **Exhibits 3.5** shows bank brand strength, which is the proportion of respondents that rate a bank 'high suitability' among those that recognize the bank.



- **Exhibit 3.5** outlines brand strength among banks regionally. **For Europe, HSBC and ABN-AMRO have the strongest brand strength at about 75%.** Citibank and Wachovia have ratings below 60%. In North America, HSBC leads in brand strength followed by Bank of NY, Standard Chartered, and ABN-AMRO. HSBC also leads in brand strength among Asian banks, followed by Wachovia and Standard Chartered..

Final Word

- *On behalf of the ABN-AMRO and The Brondesbury Group, we thank you once again for your help in this Trade Outsourcing Study.*

For Further Information on this project, please contact:

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