

Banking No More an Assured Source of Revenue for IT

Economic uncertainty forces clients to bring down tech costs and curb additional spending

CALM BEFORE THE STORM



Smaller players like State Street and Key Corp also looking to cut costs: Kotak

- **Technology spend** by US banks could be fluctuating

- **Citigroup looks to save \$600 million a year in costs by 2020**

- **Goldman Sachs** focusing on automation

- **Morgan Stanley** to keep budget flat

CHILDE HASSAM, *Idle Hours*

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Bengaluru | Pune: Indian IT services firms, which get over a third of their revenue from banking, could see business turn volatile as large clients look to cut technology costs and curb additional spending amid concerns of economic uncertainty.

Take Citibank, a large client for almost all Indian IT services companies. Mike Corbat, CEO of Citigroup, said talk of a recession had returned but pointed out that the company's investments in technology were yielding greater cost savings.

"Around these (tech) investments that we started a few years ago, we talked about hitting a run rate of about \$500 million to \$600 million of net saves... First quarter, we got \$100 million of that and we think that annualises this year to probably be around \$500 million and increases to \$500 million to \$600 million in 2020," Corbat said at a US analyst conference at the end of May.

Citi spends about \$8 billion a year on technology, its CEO said. But Citi's investments and cost-savings had an impact on companies that provide technology services. Kotak Institutional Equities pointed out that LTI, previously called Larsen & Toubro Infotech, and US-listed Virtusa were both affected by budget restructuring at Citi.

At the conference, Bank of America CEO Brian Moynihan talked about the goal of bringing down capital expenses. Wells Fargo is looking at taking cost out of its technology initiatives, the company said in April. Morgan Stanley expects to keep its technology budget flat at \$4 billion, CEO James Gorman said, even as it changes what it is spending on. Indian IT companies have said

over the past few quarters that their clients have been demanding price cuts and productivity increases in legacy technology projects they have outsourced to them. However, they were willing to spend more money on newer digital projects.

Goldman Sachs, which has an engineering budget of about \$4 billion for 2019, plans to focus on automation, it said in May. Goldman spends about 55% of its budget on run-the-bank initiatives and the rest on technology investments. "Banks

are taking longer to greenlight projects. There are concerns about trade wars and economic growth. It doesn't mean there is an immediate slowdown. Spends are still happening, but there is more caution," a senior executive with a large Indian IT services company said. He added that European banks were more cautious than US lenders.

Indian analysts see the need to view technology spending by financial services firms with caution. "Given the uncertainties in the macro environment and volatility in equity markets, we expect cautious outlook for the vertical to continue in the near term. Technology spends depend on budgetary decisions, which in turn depend on outlook of the revenue environment. In this regard, we expect technology spends of BFS firms to be volatile in the near term," Kawaljeet Saluja, an analyst with Kotak Institutional Equities, said in a note.

Saluja pointed out that Indian IT companies had mostly posted a weak performance in their BFS verticals in the March quarter, mirroring cautious commentary from their clients.

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