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Buying brains offshore

Offshoring in the financial services industry was alive and well during the latest Australian reporting season as senior analysts from India stepped in to help local analysts do their numbers.

In one case, an Indian analyst employed by the Indian investment research group, Irevna, spent the reporting season in Australia attending earnings briefings alongside the local lead broking analyst.

Another analyst from Irevna worked behind the scenes in Chennai providing a local analyst with assistance delving into one of the more complex debt laden entities in the Babcock & Brown group of funds.

A third example from the Irevna files involved an Australian analyst who was able to increase the number of stocks he covered from 16 to 22 backed by an Irevna analyst in India.

These are just a few examples of how the research outsourcing trend is coming to Australia. It is well entrenched on Wall St and in Europe. According to industry estimates about \$US2 billion is being spent each year on outsourced investment research with about 65 per cent of that earned in India. The market is said to be growing at a compound rate of about 32 per cent.

Roopa Kudva, chief executive of India's leading ratings agency CRISIL, which owns Irevna, says the offshoring of investment research is attributable to a number of factors, but the primary one is to allow analysts working on both the sell side and the buy side to be more productive.

She told *Business Spectator* that about half a dozen institutions in Australia were using Irevna's investment services and that number included global investment banks. Investment banks and brokerages had realised that the more time sell-side analysts spent marketing the more brokerage they generated. Fund managers were using Irevna analysts to build models and help deepen their understanding of global companies.

Kudva says demand for outsourced investment research is also being driven by the explosive growth in derivatives transactions. She says the increasing use of derivatives in trading and structured products are requiring much more analysis of complex structures. That often requires analysis by people with degrees in mathematics, physics and engineering – talents that are less costly in India.

Another strong source of work was making adjustments for different accounting policies in different jurisdictions.

The amount saved from using analysts in India depends upon the type of work.

Reviewing and updating research is less costly than building financial models. Kudva says outsourced investment research done by Irevna can be 40 to 60 per cent cheaper than in western countries.

In the half year to June 30, CRISIL recorded a 34 per cent increase in consolidated income and doubled its net profit. CRISIL is increasing staff to cope with demand, including opening an Irevna office in Poland to diversify its talent pool.

That contrasts with the performance of CRISIL's parent Standard & Poor's, which is owned by McGraw Hill. S&P reported a \$US15.2 million charge in the three months to June to cover the sacking of 250 people. Operating profit of S&P fell 25 per cent in the quarter and revenue was down 10 per cent due to the collapse in ratings work for structured finance as well as corporate and financial services companies.

Kudva rejects the suggestion that the increasing use of outsourced investment research will stifle the careers of analysts in western countries. She says anecdotal evidence showed that Wall St analysts who had worked with Irevna over the past few years had improved their career prospects and gained rapid promotion.

The analysts had jumped up the Wall St rankings after being able to spend more time in the market with fund managers, she says. As well, they had improved their management skills through being given the opportunity to work with global teams.

Kudva says it is crucial that analysts working together on different sides of the world build high levels of mutual trust. Once that was achieved the commercial relationship usually moved to a higher level. She says that Irevna was able to build strong relationships with clients because all of its research work remained the intellectual property of the client.

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