Captive ReLease

IFDL Case Study

The Sale and Lease-back of a captive offshore IT Development and Test Centre

brokered by

***e*<u>CODE</u>** — European Centre for Offshore Development Ltd.
1st. Floor, Bldg. A2, Cairo Place
Endeavour Business Park
HAVANT
PO9 1QN
United Kingdom

Tel: +44 (0) 2392 483700
Fax: +44 (0) 2392 483703
E-mail: release@ecode.org.uk
Web: www.captiverelease.com

Client Background

IFDL, Ascentric and Fundsdirect are trading names of Investment Funds Direct Limited.

Investment Funds Direct Limited (Fundsdirect), which was founded in 1982, became the UK's first online fund supermarket in December 1999. As at June 2013, total assets on the platform amounted to £6.16bn.

Ascentric provides a "Wrap", offering a fully integrated online, tax-friendly investment management and dealing platform. Ascentric's wrap platform enables financial advisers to transfer their clients' assets onto a single platform, providing them with the ability to manage their clients' financial needs through a single portal.

In October 2007, a majority holding of Investment Funds Direct Limited was acquired by Royal London Group, the largest mutual life and pensions company in the UK with Group funds under management of £51.1 billion. The Group's businesses serve around 4 million customers and, subsequent to the divestment described in this case study, employ ca. 3,000 people (figures quoted as at June 2013).

Executive Summary

IFDL was seeking to increase the functionality and scalability of its Ascentric platform in order to deliver improved business-user flexibility and greater operational productivity and efficiency.

These goals would be supported by a new software platform using Agile development techniques and processes to support and help grow IFDL's business, implemented by three strategic courses of action:

1) A phased replacement of the existing software platform, "BlueButton", over a two-to-three year timeframe by the development of a more scalable and easily modifiable product-offering, codenamed "Accelerator". This would be partly realised by entering into a 3rd-party Outsourcing agreement with a reputable nearshore vendor to supplement onshore development by the existing UK teams
2) A reduction both in new development for BlueButton and in its eventual technical support as rollout and user-acceptance of new Accelerator software modules come on-stream
3) The divestment of its Indian captive operations to a suitably qualified on– or offshore systems developer capable of supplying IFDL with a continuing and uninterrupted service using the client's former Indian employees under a medium-term managed services Outsourcing agreement.

Our Engagement

e<u>*CODE*</u> was initially engaged to help the client identify a nearshore partner to assist in the design and development of the new Accelerator platform. As BlueButton is very well accepted in the marketplace, any replacement system would need to possess a similar or better 'look and feel' to that of the existing platform; this would have major implications for the new Outsourcing partner in terms of acquiring continuity of design knowledge as rapidly as possible.

Following successful implementation of the first phase, *e*<u>*CODE*</u> was subsequently engaged to assist the client in the divestment of its Indian Captive and to arrange a follow-on managed services agreement with a suitable strategic acquirer, ensuring at the same time that IFDL achieved the most advantageous terms in the ensuing professional services agreement. This engagement is the subject of the Case Study described below.

eCODE was able to secure this contract based on:

- ✓ our deep domain knowledge of the Outsourcing advisory market
- ✓ our credibility as trusted advisors on projects with sensitive HR dependencies
- ✓ our successful track record of delivering key engagements with other clients in similar business areas.

Client's Objectives

IFDL's IT Director sought to achieve the following strategic objectives for the Company in respect to its future success:

- ✓ a commercially and technically scalable solution for improving both the business and the platform
- ✓ the provision of a robust, low-risk solution with a well-respected supplier and having minimal impact on:
    - ♦ Business as Usual
    - ♦ continuity of development support
- ✓ a first-class, assured career progression plan to IFDL's former Indian employees
- ✓ real enhancement of the efficiency and effectiveness of the business' current IT platforms
- ✓ increased flexibility of the cost base in order to boost operational efficiency and improve the bottom line
- ✓ enabling seamless Transition from captive to 3rd-party execution.

eCODE achieved these for IFDL by conducting due diligence on suitable candidate organisations gathered from our extensive database of over 2,600 onshore, nearshore and offshore service providers together with wide-ranging personal contacts, then managing the exhaustive tender process from a compiled long-list of a dozen UK, US, European, Japanese, Antipodean and Indian companies.

Our Methodology

eCODE maintains a continuously updated database of over 2,600 Outsourcing suppliers from across the world and we have performed active Due Diligence on over 300 of them. A mixture of database entries and our own specific contacts within the industry was used in the initial selection process described below.

Phase I: The client firstly entered into an *eCODE* combined Service Brokerage and Non-Disclosure Agreement. In conjunction with Royal London — IFDL's parent company — we then jointly developed, and *eCODE* executed, a number of back-to-back agreements with potential acquirers (PAs) from a long-list of ten such companies which *eCODE* had provided to the client, together with two PAs of his own choosing. An anonymised IEI (Invitation for Expression of Interest) was released to all 12 PAs to solicit pre-proposal supplier summaries on standardised *eCODE* template forms in order to facilitate easy comparison and from which candidate responses could be evaluated. We then advised the client on how best to implement a suitable strategy to shortlist three of these against the client's established base line. The identity of the client was only disclosed to the shortlisted PAs once successfully shortlisted candidates had been decided upon. They were then requested to submit their formal full Proposals.

•**Phase II**: During this phase, *eCODE* assisted the client in final PA selection, negotiations and transition services. Specific activities included:

- ✓ a 40-page, mainly ITIL-based, document drawn up in conjunction with IFDL's Heads of Software Development, Service Delivery and Testing for the technical Due Diligence, together with a smaller document for the commercial Due Diligence
- ✓ facilitation of accompanied client visits to the shortlisted PAs' country headquarters and the development and test centres in which IFDL's staff would be relocated (where this was not co-located)
- ✓ Assistance to both the client and the vendor to develop and implement :
  - ♦ the legal framework
  - ♦ the negotiation strategy
  - ♦ the organisation requirements for vendor management
  - ♦ the Transition Plan.

Once these activities had been completed, the successful PAs were separately invited to take part in a reverse Due Diligence exercise at IFDL's head office in Bath. IFDL deployed and *eCODE* managed a secure physical data room to enable confidential data sharing between the PAs and the client.

Finally, all three PAs were invited to make their full and final presentations to the client. Once this had been done, *eCODE* assisted the client in specifying a SWOT analysis and scoring regime in preparation for the final decision.

PA Profiles

Of the 12 original PAs, three had their principal offices in the UK, with their own captive subsidiaries in Eastern Europe and/or India (one had global offshore locations), three were US companies with captive subsidiaries in India (likewise, one had global offshore locations), one was an Antipodean company with a captive subsidiary in Eastern Europe, one was a Japanese company with global presence and four were Indian companies. Two of the companies were Tier I.

Outcome

Of the original 12 companies, six proved to be very strong contenders, but the company finally chosen was Collabera Solutions — a US-headquartered company with Indian antecedents and multiple offices in Bangalore, one being close to where IFDL's captive had been located.

Once selection was complete, final reverse Due Diligence took place at the captive site, following which the remaining legal, transfer and transition processes were successfully accomplished by IFDL within the allocated 15 week period. This included the successful transfer of all but two of IFDL's Indian staff to the Collabera payroll and their physical relocation to Collabera's nearby offices, the closure of the captive company and its premises and the disposal of the remaining physical assets, including network equipment, servers and desktop computers which were replaced by a VPN (Virtual Private Network) from Collabera to Royal London's offices in Edinburgh.

Special Considerations

It was essential that information leakage be completely contained due to the very high staff attrition rates prevalent in India — especially in hi-tech conurbations such as Bangalore. Realisation that operations were closing could have led to the very real risk of BlueButton support no longer being viable due to knowledge desertion. Only three senior Indian staff were privy to this information.

Hugo Thorman, Managing Director at IFDL commented, "We had a number of exacting objectives to meet during this project. *eCODE* quickly got to grips with our requirements and facilitated an efficient process to completion, importantly ensuring that the impact on our Indian employees was as smooth as possible."