

Wall Street Gets 'Outsourced' as Jobs Shift to Mumbai

Wall Street Gets 'Outsourced' as Jobs Shift to Mumbai, 2006-06-05 15:09 (New York) - By Yalman Onaran (Bloomberg)

JPMorgan Chase & Co. had no analysts in India four years ago. Now, the third-largest U.S. bank has 80. The group accounts for 14 percent of New York-based JPMorgan's research staff and illustrates a growing trend. Niket Patankar, who sells research services to investment banks in less-expensive markets, estimates that India's analyst ranks swelled to 5,700 from 300 in 2002. Merrill Lynch & Co., the second-largest U.S. securities firm by market value, and No. 3 Morgan Stanley employ more than 50 of them.

Securities firms are leaning on India's expanding pool of financial talent for number-crunching so they can afford to keep franchise analysts in New York and London. Wall Street's 2003 settlement with U.S. regulators cut off research departments from the revenue they got for helping investment bankers bring in fees. Now institutional customers such as Fidelity Investments are refusing to pay the inflated trading commissions that subsidized analyst reports for decades.

"We got outsourced" said Tom Larsen, who lost his job in London covering U.K. companies when Credit Suisse Group moved five of the seven analyst jobs in his group to India. "Wall Street is aware that the old model, financed by investment banking, doesn't work any more. So it's trying different new models, including outsourcing".

Larsen, 45, is now a senior policy analyst at the CFA Institute. ***The number of people taking CFA tests in India climbed fivefold since 2002 to 3,178 this year, according to the CFA Institute. U.S. candidates fell by about 25 percent to 30,384. Patankar, co-founder of New York-based Adventivity Inc., predicts India will have more than 20,000 analysts in 2011.*** That would put it ahead of the 15,229 securities analysts working at brokerages and investment banks in the U.S., according to Thomson Financial, a New York-based firm that tracks Wall Street research. The U.K. has 1,228 analysts.

"Research is probably the easiest investment-banking service that can be duplicated in India, where people are just as smart and educated as here," said Nejat Seyhun, a professor of finance at the University of Michigan in Ann Arbor. "Technology has reduced the need for physical presence." The trend mirrors past shifts in industries from computers to automobiles, where companies from Dell Inc. to Ford Motor Co. moved production to low-cost centers such as Malaysia and Vietnam.

Analysts in cities like Mumbai make as little as \$20,000 a year, according to Absolute Return, a hedge fund newsletter. That compares with an average of \$181,000 in the U.S. in 2005, a survey by the CFA Institute found.

Even though they earn less, analysts in India enjoy a higher standard of living. Per capita income in the country is about \$3,000, based on purchasing power, compared with \$40,000 in the U.S., according to data compiled by Bloomberg.

"The multinationals have the best-paying jobs and a great working environment," said Bilandani, who gets paid about 70 percent more than what he would get working for a local bank.

JPMorgan's global head of research, Nick O'Donohoe, said moving some of its research to India helped the firm increase coverage 50 percent in four years to 1,230 companies. Some banks are less sanguine about the

benefits. Citigroup Inc., the biggest U.S. financial-services company, is increasing its research staff in major centers such as New York and London, and opening new offices in Russia and Thailand.

The settlement prohibited analysts from helping to win investment-banking assignments. Until then, research departments used to get as much as a third of the fees when securities firms underwrote stock sales, an implicit reward for appeasing clients with favorable ratings and reports.

New York-based Merrill has added 50 analysts since 2004, mainly to cover China, emerging markets such as Latin America and mid-cap stocks. The firm now publishes reports on 2,840 stocks, up 24 percent during the same period.

Some money-management clients responded by expanding their own research departments. Last year, Boston Co., a unit of Pittsburgh-based Mellon Financial Corp., formed a team of 25 in-house analysts to help its fund managers pick stocks. Boston-based Fidelity, the world's biggest mutual fund company, doubled its staff of analysts to more than 150 in the past 12 months.

Outsourcing isn't the only way Wall Street is responding to the drop in research revenue. Morgan Stanley is shifting jobs from the U.S. and Europe to emerging markets, where there's less competition for information. UBS, Europe's biggest bank by assets, cut its equity research headcount by about 9 percent since 2003.