

A Cisco Systems Capital operating lease gives ABN AMRO's Wholesale Clients division a superb platform for its trading floors and a new approach to IT investments

"THERE'S A STRATEGIC ASPECT TO THIS LEASING ARRANGEMENT. OTHER PRIORITIES CAN OFTEN CREEP IN AND PUSH OUT YOUR EXISTING PLANS, WHEREAS THIS APPROACH COMMITS THE BANK TO MAKING CERTAIN STRATEGIC DECISIONS AT THREE AND FIVE-YEAR INTERVALS. THAT IS A HUGE SAFEGUARD TO AN ABSOLUTELY CRITICAL IT RESOURCE."

Peter Josse, Global Head of Telecommunications and Network Services, ABN AMRO Wholesale Clients

Executive Summary

CUSTOMER NAME

- ABN AMRO

INDUSTRY

- Financial services

BUSINESS CHALLENGE

- ABN AMRO's Wholesale Clients division used Cisco Catalyst 5500s in the local area networks that support its London and Amsterdam trading floors. A rise in business levels meant that an upgrade was urgently needed to continue to ensure efficient delivery of data to traders and clients.

NETWORK SOLUTION

- ABN AMRO selected a bespoke and standardised build of Cisco Catalyst 6500 intelligent switches, financed by a three-year operating lease with a two-year extension and a built-in technology refresh.

BUSINESS VALUE

- The Cisco Systems Capital leasing arrangement means the equipment is off balance sheet which reduces the bank's corporation tax bill. ABN AMRO is also able to take advantage of the net present value of the money it is using to fund the investment. Total savings over the term of the lease are estimated at 15 to 17 per cent.

ABN AMRO is a leading international bank that ranks 11th in Europe and 20th in the world based on tier 1 capital. When business growth led its Wholesale Clients division to replace the infrastructure in its London and Amsterdam trading floors in the middle of a financial year, it needed an innovative and cost-effective financing solution as well as a scalable, resilient and high-performance technology upgrade. A Cisco Systems Capital leasing arrangement for Cisco Catalyst 6500 switches has resulted in estimated savings of 15 to 17 per cent over the term of the lease. The Cisco deal is also aligned with ABN AMRO's long-term strategy to manage its technology investments differently in order to continue raising standards of business performance.

BUSINESS CHALLENGE

ABN AMRO's Wholesale Clients division is one of Europe's largest wholesale banking businesses, with over €6 billion in revenues. A global operation with 10,000 clients, its largest European trading floors are in London and Amsterdam. Both the wide and local area networks (LANs) serving these centres are Cisco based and, between 1998 and 2004, the LANs ran predominantly on Cisco Catalyst 5500 switches.

Like most investment banks, ABN AMRO had reacted to the economic downturn by cutting costs and introducing efficiencies throughout its business. In 2003, Wholesale Clients allocated budgets to upgrade its systems in 2005. However, this planned investment was unexpectedly brought forward by a surge in business activity during the early part of 2004. "We saw a considerable growth in the investment banking market in 2004 which led to increased demands from our traders, particularly around market data," explains Peter Josse, Global Head of Telecommunications and Network Services at ABN AMRO Wholesale Clients.

The impact on the network was potentially dangerous, as traders' use of real-time applications such as the TIBCO-Reuters platform was increasing significantly. The situation was further complicated by the fact that Wholesale Clients delivers content to its traders in a multicast environment, making network traffic profiling and management more difficult. "The traders expect to receive pricing within milliseconds of those prices being in the market," Peter Josse continues. "We were suddenly seeing unprecedented demands in terms of network availability and throughput of market data."



Prepared by Cisco Systems, Inc.

NETWORK SOLUTION

Wholesale Clients acted quickly to replace the LAN infrastructure that supported its London and Amsterdam trading floors. The bank engaged with Cisco, a long-standing strategic partner, to review its requirements and design a new network. While improving performance was a key objective, ABN AMRO also used the opportunity to create and implement a standardised build for the Cisco Catalyst 6500 switches that would power its new LAN infrastructure.

The concept of a standardised build is part of a wider strategy to rationalise the bank's systems and processes to achieve greater efficiencies. Although it requires a slightly higher investment up front, this is expected to achieve much higher savings in the long-term on network support, maintenance and management. It also reduces time to market, or the time and cost to complete IT projects.

Having defined its requirements, the bank now needed to finance an extraordinary capital purchase. This was all the more problematic as it came midway through the year and, therefore, the budget cycle. Making an unplanned capital expenditure of this size would have affected the IT investment programme that was planned for the rest of the year. Another solution was needed.

At the same time, Wholesale Clients was seeking to change its IT purchasing model that was based on a cycle of peaks and troughs. The bank wanted to make its investment forecasts predictable, so that it could manage cash flow more effectively and better control its budgets. It also wanted to fix the end-date for its use of any new technology in order to drive through its IT strategies more efficiently and better structure future technology refresh programmes in line with business requirements.

Wholesale Clients' Cisco account manager brought in colleagues from Cisco Systems Capital, the organisation's financing division. Cisco Systems Capital developed a proposal for a three-year operating lease with a two-year extension. It included a technology refresh at the end of three years, after which the financing for the remaining two years would be reviewed according to the specifics of the upgrade.

"There's a strategic aspect to this leasing arrangement," Peter Josse confirms. "Other priorities can often creep in and push out your existing plans, whereas this approach commits the bank to making certain strategic decisions at three and five-year intervals. That is a huge safeguard to an absolutely critical IT resource."

BUSINESS VALUE

Not surprisingly, there are also substantial financial advantages to the lease. The terms offered by Cisco Systems Capital included a buy-back of all the bank's Catalyst 5500s (some 200). Instead of taking this as a one-off cash injection that would incur tax and other liabilities, Wholesale Clients decided to include it as an offset within the lease. As a result, this is spread over the life cycle of the lease and reduces the level of the bank's repayments over the five-year period.

When Wholesale Clients first looked at the Cisco proposal, some voices within ABN AMRO expressed surprise that financing the equipment using Cisco Systems Capital might be cheaper than using the bank's own money. However, according to Peter Josse, the Cisco deal is much more cost effective than other options they considered.

Firstly, the Cisco leasing arrangement is off balance sheet, which means that the equipment is not one of ABN AMRO's assets. As a result, the assets are not depreciating on the bank's books so it does not incur corporation tax on the depreciated amount of those assets. This arrangement also improves ABN AMRO's key performance indicators. Secondly, the bank found that the net present value (NPV) of total payments over the term was less than if it had financed the equipment purchase itself. The capital sum that the bank might have invested in networking equipment can therefore be made to work harder in other areas.

The combined cost savings from these two factors produced startling results. Peter Josse comments: "When we did an analysis over the five-year period of the deal, we found that the Cisco Systems Capital arrangement allowed us to make savings in the region of 15 to 17 per cent over that period, through tax and NPV alone. Quite simply, it was much more cost effective."

The Cisco Catalyst 6500s went live in the core of the network in London in October 2004, with Amsterdam following in January 2005. Network performance in London immediately rocketed, with switch utilisation going down by around 70 per cent and no problems reported by the users. Four or five peaks in the market shortly after the London deployment had no impact on performance whatsoever.

Peter Josse is particularly pleased with the outcome of this engagement with Cisco. "From an IT point of view, we now have predictable – and advantageous – monthly costs and a strategic plan in place for future technology refreshes. I couldn't have imagined a better result."

TECHNOLOGY BLUEPRINT

ABN AMRO's Wholesale Clients division has installed 200 Cisco Catalyst 6500s in the local area networks that run its trading floors in London and Amsterdam. The core, distribution and access switches are all configured to a bespoke, standardised build that will improve the bank's time to market on new installations and reduce network maintenance and management costs.

The Catalyst 6500 intelligent switches are all capable of supporting 10/100/1000 Mbps Ethernet ports that deliver standards-based IEEE 802.3af compliant Power over Ethernet (PoE). This enables Gigabit enabled workstations to take advantage of higher bandwidth connections at the edge of the network for greater performance and user productivity. The majority of uplinks are now 10 Gigabit Ethernet, allowing for high performance uplinks to central resources as well as consolidated fibre usage and reducing any complexity where multiple Gigabit would have been logically bundled together. The PoE capability also offers increased levels of scalability so that ABN AMRO can continue to deploy new applications or services without additional upgrades.

The Catalyst 6500s also provide Wholesale Clients with a roadmap for future developments. As they are multimedia switches, they can support voice and video traffic as well as data, so may be used as a platform for delivering applications such as IP telephony. Similarly, the PoE capabilities (formerly known as 'inline power') offer a suitable vehicle for a wireless LAN installation where the Catalyst 6500 can power Cisco access points, removing the need for additional AC power.

Each Catalyst 6500 is capable of performing at up to 400 million packets per second (Mpps) throughout the Wholesale Clients' network, delivering sustained performance even under pressure from a rise in the markets. Support for multicast technologies in the Cisco IOS software makes the switches ideal for the real-time environment of the trading floors. Multicast enables data streams to be distributed efficiently to all the banks' traders simultaneously without affecting network performance.

Cisco Catalyst 6500s are fully modular switches, and one module being used by ABN AMRO is the Supervisor Engine 720. This is designed to protect the bank's investment in the switches by increasing slot efficiency, ensuring stable and predictable performance, and providing simplified management and maintenance through the use of common spares and code.



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