

Business Process Outsourcing— Sunrise Sector

Atas Kumar Banerjee
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< EXECUTIVE SUMMARY >

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limits from outsourcing just a few years ago. Industries in the outsourcing country are acting on an economic compulsion, and had they not to outsource, their profits would be in question, and instead of losing some jobs, all the jobs could get lost.

INTRODUCTION



Business Process Outsourcing (BPO) is the act of giving a third-party the responsibility of running what would otherwise be an internal system or service. For instance, an insurance company might outsource their claims processing program or a bank might outsource their loan processing system.

Gartner Dataquest defines *Business Process Outsourcing (BPO)* as the delegation of one or more IT-intensive business processes to an external provider that owns, administrates and manages the selected processes based on defined and measurable performance metrics.

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limits from outsourcing just a few years ago. While in the past, BPO in the financial services industry was limited to back office operations, but more recently BPO providers have expanded their offerings to mid and front office offerings.

Some of the areas where Business Process Outsourcing is prevalent include:

- Banking - Credit card payment processing, cash management, and mortgage origination and lending
- Securities - Trade support and settlement, custody and accounting, and mutual fund account servicing
- Risk management - Internal Audit and Sarbanes Oxley Compliance
- Tax Management - Reporting & Filing, Compliance and Filing
- Consumer and Commercial Finance - Client Invoicing, Loan/ Mortgage Originations and Remittance Processing
- Insurance - Claims processing, Premium Accounting, Investment Analysis and Research
- Others - Payroll, benefits administration and real estate management.

Customers across verticals like Insurance, Banking, Pharmaceuticals, Telecom, Automotive and Airlines have been the early adopters of Business Process Outsourcing. Of the vertical listed above insurance and banking have been able to generate bulk of the savings purely because of the large proportion of processes they can outsource like claims processing, loans processing and client servicing through call centers.

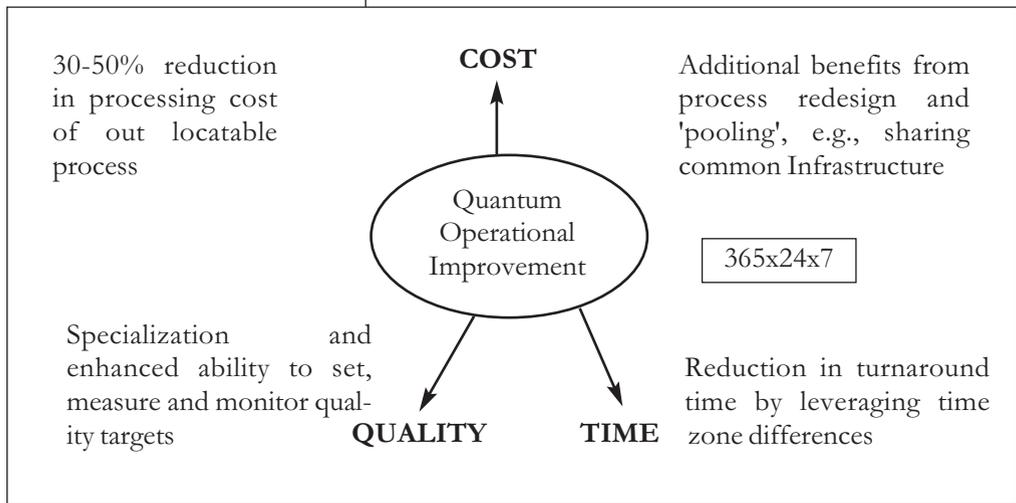
And as outsourcing has grown in usage, it has grown in complexity. The types of deals being done today range from revenue-sharing opportunities with vendors to pay-as-you-go service agreements. Developing and executing these types of deals can get tricky if a company does not take a strategic, comprehensive approach.

WHY BPO?

BPO involves a planned team building of quality people who will work in harmony thus making the company more profitable and competitive. This inflow of quality workforce into the company would eventually result in enormous benefits to shareholders and employees and finally to the ultimate customers. The major reasons to opt for BPO are as follows:

- *Focus on Core Competencies*
Outsourcing helps the firms to utilize its resources, from non-core / less value added activities towards higher value added tasks which require core competence and the company's own expertise. Process management takes a disproportionate amount of management time, which is not desirable as processes are maintenance in nature and are not value-added. Being repetitive and manpower-intensive, processes have a greater justification for being outsourced.
- *Obtain the Benefit of More Specialized Skills*
The world, over the last few decades has become highly technical and people are always looking forward to get specialized people to do various jobs for them. Therefore the mantra all over the world is either to recruit skilled professional persons or more "economically" to hire outsourcing agencies to do jobs for them.

- *Keep Abreast of Market Developments*
Any company would always want to know more about its own market, technological changes in the market both on macro as well as micro economic front. Now, freeing up resources enables it to concentrate more in the same pursuit and to move towards building knowledge management repositories to gain competitive advantage.
- *Reduce costs*
The driving force behind the decision to outsource is cost saving. An outside provider lowers cost structure, which may be the result of labor arbitrage, greater economies of scale or some other advantage based on specialization. This also helps in conversion of fixed costs into variable costs thereby increasing the competitive advantage and reducing cost for the ultimate



Source: NASSCOM client.

UNIQUE PROPOSITION OFFERED BY INDIA

General Electric's Jack Welch cites the 70:70:70 rule - 70% of your processes should be outsourced, 70% of those should be outsourced offshore, and 70% of your offshore outsourcing should be done in India.

The Indian BPO industry has been growing 70 percent a year and is now worth \$1.6 billion, employing 100,000 people. And as McKinsey analysts put it, BPO has to grow only 27 percent till 2008 to deliver \$17 billion in revenues and employment of a million people. According to research firm Gartner, financial institutions increased their spending on business process outsourcing by 9.3 percent in 2002. Gartner also predicts that the number of financial services providers that will use outsourcing as a strategic cost-cutting solution will increase

by 50 percent in 2003.

Labour is India's most abundant raw material. And a demographic segment of that labour force is especially attractive to capitalists in India and North America - English speaking college graduates/Professionals willing to work. The size of the Indian middle class was less than 7 percent of the population in 1980; by 2000, the middle class had tripled in size to 20 percent. Education, hard work, and free trade will make the middle class the majority of the Indian population within a generation.

It is India's economic right to create an export trade based on that raw material and exploit its factor advantage. During the North American IT boom of the 1990's, globalization of IT took the form of moving labour to work. H1-B Visas were debated from the boardroom to Capitol Hill. Public policy and technology advances have enabled the reversal of this trade pattern. Today, we are simply exporting equivalent work to offshore labour.

Major factors that place India in a unique position to cater to the growing tribe of Offshore Business Community include:

- *Large Human Resource (skilled)*

Every year, approximately 19 million students are enrolled in high schools and 10 million students in pre-graduate degree courses across India. Moreover, 2.1 million graduates and 0.3 million post-graduates pass out of India's non-engineering colleges. While 2.5-3 percent of them find jobs in other fields or pursue further studies abroad, the rest opt for employment in the IT industry. If the flow from high schools to graduate courses increases even marginally, there will be a massive increase in the number of skilled workers available to the industry. Even at current rates, there will approximately be 17 million people available to the IT industry by 2008. By nature, Indians are very hard working and there is a constant endeavor to work at the highest productivity level. India being the second largest English speaking country in the world also offers a communication advantage.

Cost of qualified personnel in India is amongst the lowest in the world. As cost is one of the major reasons for outsourcing work, one can save around 50-75% of the costs by outsourcing the work to India.

- *Government Initiatives*

To meet the needs of a good infrastructure, the Government has promoted several Software Technology Parks (STPs) which provide ready-to-plug IT and telecom infrastructure. STPs also allow single-window clearance for all regulatory compliance issues. Currently, STPs have been established in 20 locations across India cover-

ing most of the major towns/cities. To support BPO service providers through infrastructure facilities and special incentives, STPs have already expanded their scope of services to include BPO services. Foreign Direct Investment (FDI) for 100 percent of the equity has been permitted in BPO companies.

- *Country Competitiveness*

Based on location and people attractiveness, ten countries were identified as strong contenders for the global ITES market in 1999-- India, Ireland, UK, Australia, Singapore, Hong Kong, China, the Philippines, the Netherlands and Mexico. Among these, only two countries, India and Ireland, have created a substantive presence till date.

Today, India and Ireland surpass other competitors in terms of employment, number of companies sourcing ITES as well as spectrum of verticals and services lines. India, in particular, is witnessing rapid growth due to its cost advantages, the early success achieved by the reference lighthouse customers and government initiatives implemented to improve location attractiveness. The ITES industry has grown at more than 70 percent over the last two years and currently employs over 1,00,000 people. India is fast emerging as the "new" leader, especially in traditional services such as call centers, back office processing, etc. India is also the first country to see significant third party activity.

- *Time Differential*

A virtual 12-hour time zone difference with USA, a 5 hour difference with UK and other major markets for BPO, has helped in creation of a virtual office which works for 24 hours a day, 365 days a year. This is very helpful in the field of accounting and transaction processing.

- *Strong INDLA Brand Equity*

India enjoys very strong brand equity in major markets, because of its growing globally competitive software industry. Of the Fortune 500 companies, around 220 outsource their software-related work to India.

- *Information Technology Support*

Arguably, India is on the forefront of the IT revolution, which is evident from the positions Indians hold in major IT and software companies. Today, it can be confidently said that most of the technology support in terms of software comes from an Indian/ India.

A comparison amongst some countries in Asia Pacific highlights the following:

(Ratings are on a scale of 1 to 3, with 1 being the lowest and 3 the highest)

Country	Work-force	Market Access	Local Market	Infra-structure	Cosmo-politan	Cost base
New Zealand	2	2	-	2	3	2
Kuala Lumpur	1	2	-	2	2	2
Japan	1	2	1	3	1	3
Hong kong	1	2	2	2	2	2
India	3	2	2	2	3	1

1 denotes low; 2 denotes average; 3 denotes high

Source: Mckinsey & Co.

India is by far the biggest winner, having cornered the largest market share for BPO. Russia, the Philippines, Brazil, Ireland, China and some European countries are also seen to be potential gainers from the gathering trend.

BPO INDUSTRY POTENTIAL

Globally, the F & A outsourcing is prevalent in all industry segments, the top three being Telecom, Energy and Financial Services Sector (Gartner).

NASSCOM-McKinsey has also projected the size of F & A Industry for India to be \$ 2.5 - 3.0 billion (more than 10 % of total India projection) by 2008. In fact, NASSCOM has revised its earlier estimates of less than a \$ 1 billion in the 1st study. Since F & A has emerged much faster than expected due to availability of very high quality and low cost manpower. This is of special importance to the large pool of chartered accountants available with in India. In addition to the above, allied Services like Payments, HR and Administration Service are expected to account for \$ 8.0 - 9.5 billion by 2008.

OPPORTUNITIES FOR CHARTERED ACCOUNTANTS (CA's)

Chartered Accountants (CAs) have the many skills including the skill sets for establishing companies with specific objectives as to BPO in the Memorandum and Articles of Association. Be it the legalities of setting up of a BPO entity or getting the Organizational Systems

implemented, the Chartered Accountants have the requisite capabilities of handling the industry specific assignments.

Though typically BPO Companies hire University Graduates or holders of equivalent degrees, Companies focused on research and analysis have to hire more people holding degrees like CA or an MBA. This demand for staff with specialisation is also likely to push up salaries.

The various traditional areas where Chartered Accountants can render their services in outsourcing are: -

Accounting services

These may include the maintenance of books and records as well as the preparation of accounts. It may also involve managing cash flows and management information. These services can be provided on a monthly, quarterly or annual basis as per the client's requirements.

Taxation

Taxation is a highly specialized area requires skills related to planning, documentation, representation and statutory and legal compliances. Chartered Accountants can make available these services to their clients.

Payroll Accounting

The intricate labour laws and the high volume of work have resulted in more and more big corporations outsourcing the entire salary & employee management to an experienced professional set up which delivers qualitative, timely and legally compliant outputs at the most competitive rates resulting in major savings in the HRD Departments.

Legal Services

These services relate to pre incorporation approvals, incorporation stage services and functioning business professional legal services for various company law, Reserve Bank, Compliances which a company may require and may find it cost effective to outsource. Chartered Accountants can render useful services in these areas.

Indian Vendors are now making a conscious effort to move up the value curve, gain better price realisation and target better relationship with their customers. They are introducing variety and sophistication in their work as they explore outsourcing functions like equity research

and even patent filings. Chartered Accountants can play a major role in these areas also.

NEW CONCERNS

Though India is becoming proactive in protecting information/data flowing into the country in the course of outsourcing by foreign firms still at present, there is no law to protect such data. From healthcare to tax returns, Indian companies have been handling personal information of overseas people. With the backlash from the EU and the US on business process outsourcing (BPO), India is making efforts to plug possible weak spots that might send negative signals to outsourcing companies.

At present senior government officials and industry bodies are deliberating on bringing about a consensus to strengthen existing legal instruments. Though India is unlikely to form a separate data protection Act, but it might plug weak spots in the existing IT Act, 2000. The government is planning to intervene, as more and more SMEs are getting active in outsourcing. Since the SMEs do not have sufficient experience in managing international trade and expertise in contractual agreements, more active concern is required.

The government has also asked NASSCOM to come out with a best practices document which would eventually be used as a guidance agreement by companies.

CONCLUSION

Industries in the outsourcing country are acting on an economic compulsion, and had they not to outsource, their profits would be in question, and instead of losing

some jobs, all the jobs could get lost. So as long as the economic argument remains predominant, there is potential for Offshore Business Processing.

Continuing difficult economic times are leading Western European companies to look to BPO as a tool to save costs and provide strategic review of many of their activities. While enterprises around the world are also attempting to focus their investments on their core business processes and are increasingly looking at outsourcing non-core business processes. Early adopters of BPO services, primarily large organisations, continue to expand their relationships to include new process areas, and technology and media are creating opportunities for outsourcing entire lines of products and services, such as online payroll, online benefits administration, online order management and online transaction processing.

Almost all consultancy firms world over are unanimous in their opinion that BPO is here and here to stay. To date, India has earned approximately 85% market share for offshore IT services. Looking forward, it is predicted that India will use the same fundamental strengths to maintain a substantial lead over other geographies as the market evolves from IT services to OBP and ultimately to business transformation services. Growth forecasts are most often in the range of 35% per year, compounded as far as the eye can see. On this optimistic note, let us usher in the good times with the same festive fervour which is a part of our lives in this part of the year.

BIBLIOGRAPHY

An Irrepressible Force for change

By Chris Adams and Steven P Vilendrer

Announcement on DIRM Course material and Eligibility Tests

The Institute has come out with the course material for its Post Qualification Course in Insurance and Risk Management (DIRM). The course material is available at the Institute's offices at Mumbai, Chennai, Kolkata, Kanpur, New Delhi, Ahmedabad, Pune, Bangalore, Hyderabad and Jaipur. The candidates from these cities can collect the course material from the respective offices. The course material has been sent to the candidates, who do not belong to the above cities, by courier.

The Eligibility Test schedule for the Course has also been finalised. The tests for the candidates belonging to the above cities shall be conducted from 15th November 2003 to 28th December 2003 on all Saturdays and Sundays. No test would, however, be conducted on 20th December 2003. The tests shall be conducted in two shifts - morning shift (9:00 am to 12:00 noon) and evening shift (2:00 pm to 5:00 pm). The details of venues for the tests are available on the Institute's official website www.icai.org.

For candidates from other cities, the Postal Eligibility Test Scheme has been evolved under which the answers to the test papers would have to be submitted to the undersigned not later than 24th December 2003. The test papers alongwith the instructions to be followed in this regard have been sent to the eligible candidates.