Outsourcing - An imperative for survival

The financial services sector has often been a reluctant passenger on the drive to new and more efficient business process technologies. But it is not technology alone that requires new thinking. The latest development is to outsource business processes to companies operating in countries such as India.

Albert Einstein once said that technological progress is like an axe in the hands of a pathological criminal. Over the past few decades we have seen this ‘pathological criminal’ cause turmoil in various industries and sectors, and the financial services sector is no exception.

Initially, decision makers in the financial industries sector tried to rebuff advancing computerisation and ignore this ‘pathological criminal’. Soon though, they realised that there was no choice and sought the new technology.

Business models too, underwent fundamental change. Computers were here to stay and the financial services firms who refused to learn, adapt and change, risked encountering the same fate as dinosaurs.

Time moved on and soon the ‘pathological criminal’ found another weapon with which to browbeat this industry sector. This time around it was the Internet. Once again executives in financial services firms went through the stages of denial and protests before surrendering to this new technology.

Today, for many organisations, the Internet is an integral part of their business cycle, for others it’s in the process of being made an essential adjunct.

But the ‘pathological criminal’ does not rest, and continues to invent or discover new methods to continue the torment. The latest is an attempt to make the financial services sector achieve contradictory goals simultaneously, with the help of Business Process Outsourcing (BPO).

In some respects, BPO can be viewed as an amalgamation of Business Process Re-engineering and Outsourcing.

The intent is to enable an organisation to access best practices for a set of business processes, for example, accounting or customer management, by using a specialist provider who has acquired world-class skills.

Some of the conflicting bases that BPO attempts to reconcile are as follows:

- Enhancing levels of service even as costs are kept in check;
- Addressing consolidation in the industry while grappling with disintermediation;
- Facing up to convergence while coming to grips with issues of disaggregation; and
- Gearing up for globalisation, yet continuing to be customer-centric.

Financial service providers are now looking for ways to improve operations which are generally viewed as inefficient. Unfortunately, any effort in this direction directly increases pressures on their bottom-line profitability.

To compound the discomfiture, there is an exponential increase in competition; newer, and hitherto unknown players are entering the market, and customers are becoming more mercenary and, consequently, less loyal.

These are all sure-fire recipes for raising blood pressure in the financial service providers’ fraternity. Yet, as pros and cons are tossed round boardrooms and strategic brainstorming teams, it doesn’t take long to realise that the various sets of objectives are not easily compatible.
Many companies, including a significant proportion in the financial services sector, tried their hand at Business Process Re-engineering in the nineties. Only a few emerged having successfully achieved their objectives.

Most found that their initiatives floundered midway, possibly because they lacked unwavering commitment at the board/senior management level or perhaps because the essential technical skills were inadequate or did not have the sheer management energy to push through intensive process-improvement projects.

BPO, however, offers businesses improvement without tears – or at least it can, if a sensible approach is adopted.

Gartner Dataquest, the research organisation which tracks Business and IT, formally defines BPO as “the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administers and manages the selected process(es) based upon defined and measurable performance metrics”.

Gartner predicts that the BPO space is likely to witness explosive growth in the medium term. Quantitatively, Gartner estimates that BPO business aggregated $208 billion in 1999 growing to $543 billion by 2004.

However, if contract manufacturing were to be excluded, since it is not relevant for an analysis of financial services, the consolidated volume in 1999 was $106 billion, and is expected to grow to nearly 23% annually to approximately $301 billion over the same period.

Although most of BPO’s present customers (84%) are in North America and Europe, which is likely to remain unchanged in the near future, this does not mean that the BPO work will actually be performed in these countries.

Current trends suggest strong movement eastwards, most notably to India.

Estimates indicate that by 2004, although customers based in Asia/Pacific using BPO will account for less than 5% of global revenues, BPO service providers in the region will be performing a much higher proportion of the work.

CHOOSING WHAT TO OUTSOURCE

Choosing what to outsource is the million-dollar question. More important though, is determining which business process(es) are most suited to outsourcing.

A process should fit four characteristics if it is suited to outsourcing. First, it should be standardised, as it would be foolhardy to outsource a process that is handled differently every time.

Second, it should be repeatable, and able to be processed in the same way as the previous and subsequent processes.

Third, the process should be high volume, and fourth it should be unbundled and able to be separated from the core business without detriment to the residual processes being retained by the business.

Using the yardstick of the criteria mentioned above, financial services providers could be lining up large chunks of their businesses as possible candidates for BPO. Some of the key areas are:

- Financial applications – accounts payable, accounts receivable, credit and collection, ERP maintenance, fixed assets, invoicing, payroll processing, purchasing, reconciliation and travel expenses.
- Customer service applications – authorisation calls, chargebacks and related queries, inbound direct marketing calls, collection calling, customer correspondence, customer database maintenance, customer inquiries, customer invoicing, e-mail response and online chat services.
- Transaction intensive applications – claims processing, credit underwriting, data transcription, exception processing, forms processing, keyboard data entry and order processing.

From a user’s perspective some of the main drivers for outsourcing can be graphically represented (as shown in Figure 1).

It’s interesting to note that the foremost driver is improvement of service levels - which is one of the first challenges in the set of contradictions mentioned earlier. It is a given premise that the outsourcer needs to be much more cost efficient than the user.

Identifying processes that are suitable candidates for outsourcing is only the first step though. The next step is considering which BPO provider to choose.

CHOOSING A BPO PROVIDER

The BPO industry is quickly attracting a large number of potential service providers. As BPO involves outsourcing whole parts of a business, it’s possible to approach the market as a BPO provider from different directions.

Existing and future players will include the big five in accountancy practices, IT professional services firms, process/transaction specialists, pure-play BPO providers, business service providers (BSPs), and vertical market specialists. It is also likely that application service providers (ASPs) will seek to muscle into the market as a way of adding value to what they have to offer.
However, abundance of choice can confuse the users and slow down the decision making process, unless the user company is clear about what is important.

It is essential that every financial services firm first defines its outsourcing objectives, and second, understands the expectations of the BPO provider.

Some of the key questions to consider when choosing a BPO service provider are:

- **“Here today, gone tomorrow”.** Is the provider’s financial track record solid and are its growth plans realistic? What is the financial strength and depth in the balance sheet?
- **Image in the market.** What sort of an image and market reputation does the provider carry? Is the provider regarded as a leader in its field?
- **Knowing the territory.** Does the provider have relevant industry experience and do existing clients seem satisfied with the service they are getting?
- **Technology that is compatible.** Is the provider’s technology licensed or proprietary? Is there a possibility that the user and the provider operate on different platforms that preclude any integration?
- **Smoothing the transition.** How well will the provider facilitate the move from the old IT platform to the new? Will service to customers be impacted during the transition from the owner to the outsourcer?
- **Monitoring the performance.** How will the provider report performance, resolve problems and monitor service levels? Would the measurement metrics enable comparison between a pre and post outsourcing scenario? Does the provider have an established innovation and quality management program?

Building a partnership starts during a critical phase when the process is transferred from the owner to the BPO provider.

It’s important that the BPO provider demonstrates understanding and empathy for the user and that both regard the arrangement as a business partnership – rather than just a legal arrangement for the supply of services.

### MAKING THE TRANSITION

It would be facetious to even suggest that moving major business processes in a large bank or an insurance company to an outsourcer is easy. However, the task is eminently manageable, provided it is well planned, done in stages and spans a reasonable time-scale.

There is no such thing as a “typical” time-scale. Another important element to remember is that there are fewer chances of problems if the BPO provider has a proven transition methodology.

Once again, such transition methodologies will differ, depending upon the exact process being migrated, but by and large they should have similar basic stages:

1. **Identify the process for outsourcing.** This stage would typically focus on selection of the process(es) to be outsourced, a high-level cost-benefit analysis, getting a buy-in from the top/senior management, then communicating the decision to all staff concerned in a manner which addresses their concerns.

2. **Plan for transition.** This is where the company and its chosen BPO provider start working closely together. Both the partners must select members for a project team and initiate the planning needed to define the work to be done in order to bring the new process on-stream.

3. **Understand the existing process.** Often, financial services firms do not understand the details of their own processes until they put them under the microscope. Tasks during this stage include collecting information about how the process is (and should be) handled, documenting the process, process base lining (developing benchmarks to determine what constitutes the minimum acceptable standard for the process), and validating the process and its assumptions with the owner of the process. On the basis of all of this, the transition team updates the project plan.

4. **Design the new process.** Outsourcing a process is an excellent opportunity to improve it, using the skills and experience of the BPO service provider. Indeed, there will not be much value in merely outsourcing a process to be run in exactly the same way. Work during this phase includes identifying requirements, designing process flows, developing performance metrics, measures and reports, and planning for the pre-production phase.

5. **Verify and implement the new process.** To ensure that the migration of a process is successful, basic infrastructure needs to be in place. This includes ensuring that adequate numbers of staff have been recruited and suitably trained, setting up and stress testing the IT platform that will carry and deliver the process, ensuring that basic amenities for the staff are in place, and ensuring that hardware and software have been installed and tested appropriately. During this stage, it’s not unusual for a pilot to be run and a few transactions processed. This enables both parties to finetune the process before it goes live. Once they are satisfied, it is expected that a formal Service Level Agreement would be signed, governing performance measurement and monitoring.

6. **Deliver service.** Finally, the new process goes live.

Aside from these points though, there is another important issue that managers in financial services companies should consider – globalisation.

As companies increasingly seek customers in overseas markets, the nature of the financial services industry is changing. It’s time to consider the potential payback from taking a global perspective when seeking the resources to deliver service.

### A PACKAGE TO INDIA

Information Technology (IT) was already tearing down the barriers to remote working before the arrival of the Internet, and since then, the Internet has only served to accelerate the pace, especially as more applications become web-enabled.

As a result, there are few barriers to accessing the full potential of a world-labour market. This is important at a time when many financial services companies are experiencing skill shortages that act as a drag on growth.

Outsourcing work to a remote location in another part of the world is now a very realistic option for any labour-intensive back-office operation.

Countries like Israel, Australia, UK, Philippines and India have emerged on the scene as credible outsourcing service providers, and among these, India is emerging as a front-runner.
Economists have commented upon the silent revolution taking place in Indian society – the emergence of a well educated, English-speaking workforce, tuned into new technology.

This is reshaping the demographics of India and by all indications the Indian ‘middle class’ will outnumber the population of Europe by the end of the decade.

In a climate where leading-edge financial services companies are looking to drive down their costs by as much as 10% each year, India offers a real chance to square that lower-costs-better-service circle and effectively reconcile the contradictions mentioned earlier.

Yet, even though hundreds of companies around the globe – including three of the five major UK banks – already outsource IT and some other business process work to India, it still seems something of a leap of faith in many boardrooms. Even more so when one of the growing trends is to outsource call centres to India.

The question that many are asking is, ‘Can a call centre in Mumbai really offer the same service as one in Manchester?’. In fact, many of the objections melt away after a considered appraisal of what is on offer.

To start with India has a population of over 1 billion people – the second largest in the world. Of this a large proportion (estimated at 300 million) speak English.

It has a large and well-developed educational infrastructure – with more than 200 universities, in excess of 5000 colleges and just under 100,000 secondary schools. It is estimated that more than 6 million students are enrolled at any given time in these colleges.

McKinsey’s assessment of the capabilities of the Indian workforce is also impressive. They rate the overall capabilities of the Indian workforce as being better than several other countries evaluated, which included Ireland, Australia, UK, Hong Kong, Singapore, Philippines, Mexico and China.

The concern that British customers would object to foreign accents was found to be inaccurate. In fact, even though English is the language of business in India, specialised training is imparted to staff that converse directly with British customers so their spoken English is accent free. (This is also notwithstanding the fact that customers currently encounter a rich variety of accents when they call such centres located in Britain.)

The fear that Indian staff will be unable to pick up British social nuances that are so important to make a calling customer feel comfortable is another issue that, to a large extent, has no basis in fact.

The short distance, which remains to be covered in cultivating specific nuances relating to a given industry, is more than made up by intensive training imparted at the outsourcing centres in India.

In terms of operating hours, although India is five and a half hours ahead of Britain, this does not pose a problem for back-office work.

In call centres, Indian staff also work ‘host country days’ and ‘host country hours’. In reality, the workforce in outsourcing centres across the country has adapted with a remarkable alacrity to a different work schedule – which dovetails with that of the host country.

There are also significant cost benefits to be obtained by moving processes into India. A rough estimate shows cost savings of about 20% to 25% can be achieved, even after taking into account higher communications costs, additional training expenses and the like.

The fear that control over processes will be lost if they are performed outside the country is likewise unfounded, and the difference is no more than if the processes were being performed from an office block around the corner. That is the point of the e-revolution – it shrinks the world.

MEETING THE GLOBAL CHALLENGE

By using BPO, financial services firms can focus on their core competencies. This in turn provides management with an environment in which cost reduction and improvement in service quality can happen simultaneously.

It is not unusual though for the expectations of every organisation to be different when they decide to outsource. Some of the expectations could be:

- **Enabling strategy.** One lesson learnt from the past decade is that winning financial services firms have moved their strategies from being merely aims, to being actioned and finally, to objectives actually being achieved. Since BPO reduces management complexity, it enables top managers to refocus on the issues that are really important.

- **Cost control.** It is only a matter of time before financial services companies who fail to reduce costs by industry standards fall by the wayside. BPO is one of the most important cost control weapons in the management armoury. Where the BPO provider takes responsibility for IT equipment and other resources, it can also play a part in shaping a healthier balance sheet.

- **Reinventing infrastructure.** E-business is accelerating rates of change. This means business infrastructure must become organic and adaptive. BPO factors into management decisions a level of flexibility that was previously impossible, allowing management to assign staff and resources to higher value projects.

- **Accessing talent.** E-business makes it possible to access relevant skills wherever they reside in the global village. Outsourcing a process eliminates, to a considerable degree, the time-consuming task of searching for, hiring and managing the people to run it. Among the best BPO providers, staff turnover is low and motivation levels are high and consequently, service level standards are easier to maintain.

- **Attracting customers.** This is the proverbial ‘make-or-break’ issue. BPO facilitates setting of and monitoring service levels across a whole complex range of processes. This, in turn, frees up time for staff to add those personal touches that transform customer satisfaction into customer delight.

The months and years to come will be an uncomfortable and unsettling time for the financial services sector.

The rules of the game are changing as competitors surface from across the globe; customers demand better, cheaper and more convenient service; and regulators bring in tougher regulation.

Outsourcing is fast becoming a reality, and substantial gains are there for organisations that embrace it instead of combating it.