

August 18, 2004

Financial Firms Hasten Their Move to Outsourcing

By SARITHA RAI

BANGALORE, India, Aug. 16 - Last February, when the online lending company [E-Loan](#) wanted to provide its customers faster and more affordable loans, it began a program in India. Since then, 87 percent of E-Loan's customers have chosen to have their loans financed two days faster by having their applications processed in India.

"Offshoring is not just a fad, but the reality of doing business today," said Chris Larsen, chairman and chief executive of E-Loan, "and this is really just the beginning."

Indeed, seemingly a myriad of financial institutions including banks, mutual funds, insurance companies, investment firms and credit-card companies are sending work to overseas locations, at a scorching speed.

From 2003 to 2004, Deloitte Research found in a survey of 43 financial institutions in 7 countries, including 13 of the top 25 by market capitalization, financial institutions in North America and Europe increased jobs offshore to an average of 1,500 each from an average of 300. The Deloitte study said that about 80 percent of this went to India.

Deloitte said the unexpectedly rapid growth rate for offshore outsourcing showed no signs of abating, despite negative publicity about job losses. Although information technology remains the dominant service, financial firms are expanding into other areas like insurance claims processing, mortgage applications, equity research and accounting.

"Offshoring has created a truly global operating model for financial services, unleashing a new and potent competitive dynamic that is changing the rules of the game for the entire industry," the report said.

Michael Haney, a senior analyst at research firm, Celent Communications, said: "With its vast English-speaking, technically well-trained labor pool and its low-cost advantages, India is one of the few countries that can handle the level of offshoring that U.S. financial companies want to scale to."

In a recent report "Offshoring, A Detour Along the Automation Highway," Mr. Haney estimated that potentially 2.3 million American jobs in the banking and securities industries could be lost to outsourcing abroad.

Girish S. Paranjpe, president for financial solutions at [Wipro](#), a large outsourcing company in India, said, "Pent-up demand, recent regulatory changes and technology upgrade requirements are all making global financial institutions increase their outsourcing budgets." His company's customers include [J. P. Morgan Chase](#), for which it is building systems for measuring operational risk, and Aviva and Prudential, the British insurers.

Several recent studies concur that there has been an unexpected and large shift of work since the outsourcing pioneer [Citigroup](#) set up a company in India two decades ago. They cite cost advantages as the primary reason. According to Celent, in 2003 the average M.B.A. working in the financial services industry in India, where the cost of living is about 30 percent less than in the United States, earned 14 percent of his American counterpart's wages. Information technology professionals earned 13 percent, while call center workers who provide customer support and telemarketing services earned 7 percent of their American counterparts' salaries.

Experts say that with China, India, the former Soviet Union and other nations embracing free trade and capitalism, there is a population 10 times that of the United States with average wage advantages of 85 percent to 95 percent.

"There has never been an economic discontinuity of this magnitude in the history of the world," said Mark Gottfredson, co-head of the consulting firm Bain & Company's global capability sourcing practice. "These powerful forces are allowing companies to rethink their sourcing strategies across the entire value chain."

A study by India's software industry trade body, the National Association of Software and Services Companies, or Nasscom, estimated that United States banks, financial services and insurance companies have saved \$6 billion in the last four years by offshoring to India.

But cheap labor is not the only reason for outsourcing. Global financial institutions are moving work overseas to spread risks and to offer their customers service 24 hours a day.

"Financial institutions are achieving accelerated speed to market, and quality and productivity gains in outsourcing to India," said Anil Kumar, senior vice president for banking and financial services at [Satyam Computer Services](#), a software and services firm. Satyam works with 10 of the top global capital markets firms on Wall Street.

Mastek, an outsourcing company based in Mumbai, is another example. Two years ago, Mastek turned from doing diverse types of offshore work to specializing in financial services. The results are already showing. In the year ended in June, 42 percent of Mastek's revenues, \$89.28 million, came from offering software and back-office services to financial services firms, up from 22 percent last June.

Fidelity Investments, the world's largest mutual fund manager, started outsourcing to Mastek 18 months ago and is now among the top five clients in its roster.

Sudhakar Ram, chief executive of Mastek, said, "It is rare that within a year a new customer turns a top customer; this illustrates the momentum in the market."

Another Mastek customer, the CUNA Mutual Group, which is based in Madison, Wis., and is part of the Credit Union National Association, started a project billed at less than \$100,000 two years ago. Now the applications that Mastek is building for CUNA, to handle disability claims, amount to a multimillion-dollar deal.

In the transaction-intensive financial services industry, offshoring of high-labor back-office tasks is becoming the norm.

ICICI OneSource, based in Mumbai, has added 2,100 employees in six months and signed on four new financial services clients, including the London-based bank Lloyd's TSB, for which it provides

customer service.

In one year from March 2003 to March 2004, ICICI OneSource grew to \$42 million in revenues from \$17 million. Today, more than 70 percent of its revenues come from the financial services industry, up from 40 percent two years ago.

For India's outsourcing firms, growth has not been without hiccups. Earlier this year, Capital One canceled a telemarketing contract with India's biggest call center company, Spectramind, owned by Wipro, after some workers were charged with enticing the credit-card company's customers with unauthorized free gifts. Weeks earlier, the investment bank [Lehman Brothers](#) canceled a contract with Wipro saying it was dissatisfied with its workers' training.

In response, outsourcing companies are improving their offerings. Leading companies are investing in privacy and security due diligence as they handle sensitive customer data, doing reference checks on employees, providing secure physical environments with cameras, and banning employees from using cellphones and other gadgetry on the work floor.

Deloitte forecasts that by the year 2010, the 100 largest global financial institutions will move \$400 billion of their work offshore for \$150 billion in annual savings. Its survey forecasts that more than 20 percent of the financial industry's global cost base will have gone offshore in that period.

With competence levels rising, Indian companies are tackling more complex tasks. DSL Software, a joint venture of [Deutsche Bank](#) and HCL Technologies, a software company, is handling intricate jobs for the securities processing industry. "Indian firms are taking offshoring to the next level; in the banking industry for instance, they are getting into wholesale banking, trade finance and larger loan processing type tasks," said Mr. Haney, the analyst from Celent.

But the relentless demand for skilled workers is putting pressure on wage rates, narrowing the wage gap with the United States and other Western economies. Simultaneously, companies are plagued by higher attrition rates that may lead to quality and deadline pressures.

For the moment, however, there is no indication the industry cannot cope with the unflagging demand to send work offshore. "If India can continuously pull less paid, less educated people into the labor pool," Mr. Haney said, "a substantial wage gap will continue to exist."