



Servicing Without Borders

intelligent financial software

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The offshore outsourcing of services from the UK, particularly within the Financial Services sector, has been a significant trend over recent years.

Business process outsourcing continues to modify the world of business and, with it, the business of management. This article, written even five years ago, would have been predicting a revolution in the way the UK Financial Services sector processed its business, all driven by these off-shore opportunities. So perhaps now is a good time to take stock and see where the worldwide market for services is placed and where it is going.

As financial service processing has become increasingly standardised, particularly so for transacting mortgages, close regulation has slowly turned it into a commodity that can be performed virtually anywhere.

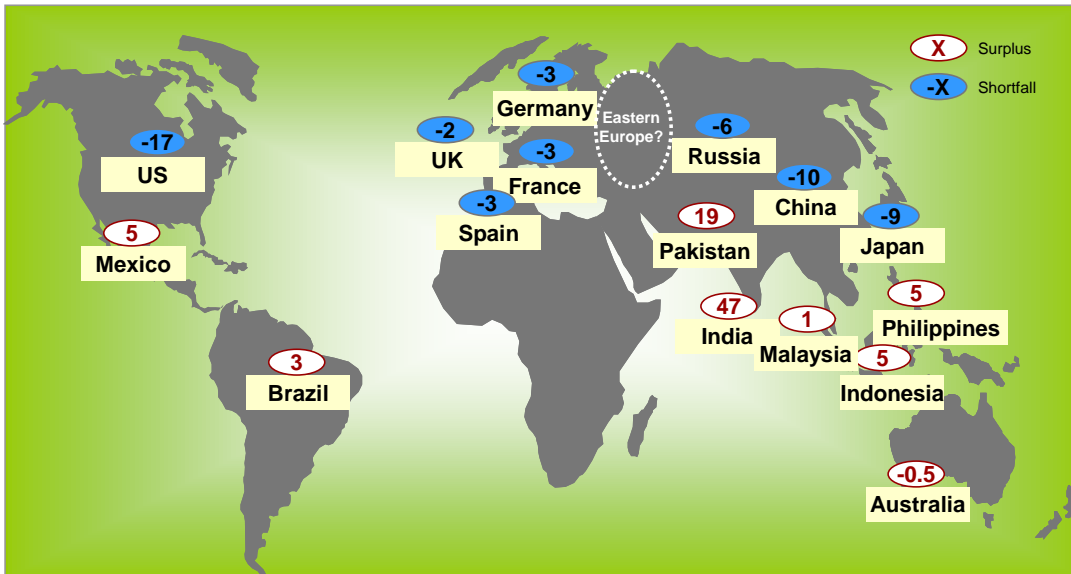
Which in turn begs the questions - how big is the market and what is driving it?

Recent surveys estimate the global potential for business process outsourcing in 2008 will be over £150 billion, with India's share worth ten per cent and China emerging as a credible offshore destination in the medium term.

This has particular relevance to mortgage markets capitalizing as it does on a trend towards homogenisation of mortgage markets across the globe, driven by automation, regulation – both domestic and international, globalization and the international mortgage backed securities market. The latter, while traumatised in the short term following the US sub-prime mortgage market wreck, will continue to be a strategic feature and drive the market.

The worldwide mortgage market in the long view will operate in an increasingly competitive environment and will continue to seek step changes in cost reduction. Among these will be the continuous exploration of opportunities to lower cost structures and enhance efficiencies, the delivery of flexibility to allow full and proper load balancing and processing risk diversification

Demographic projections indicate significant labour shortfalls in the developed world, however there is a significant potential labour surplus and shortage in working age group across the world (2020):



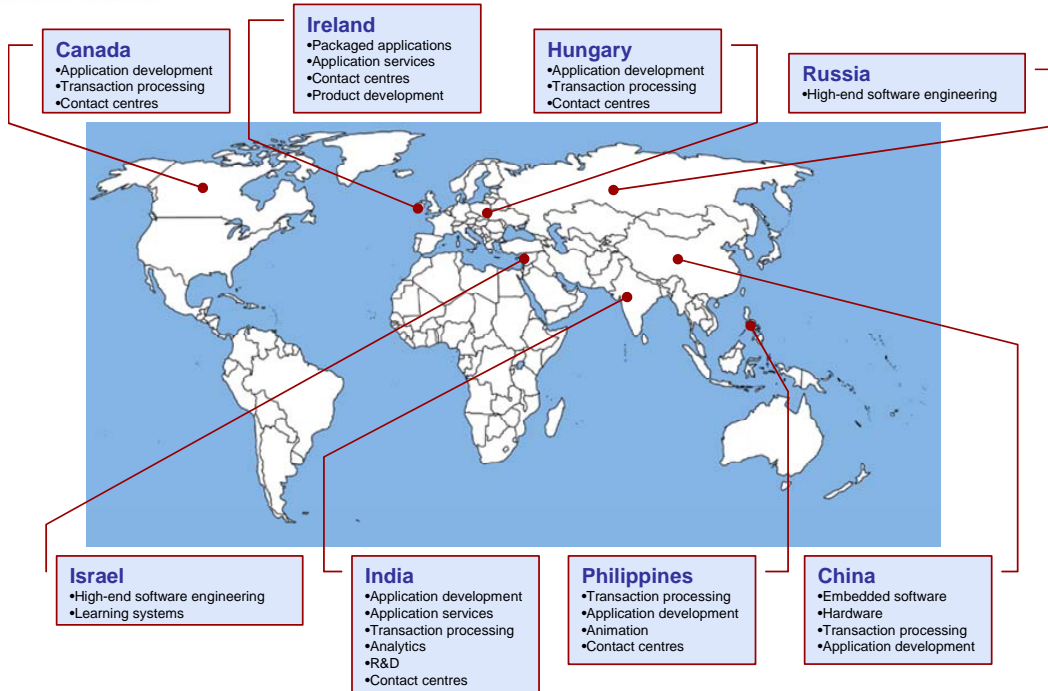
Note: Working population is defined at the 15 – 59 years age group. Ratio of working population to total population is assumed to be constant. Labour numbers are based on assumptions of no interventions by respective governments. (Source: US Census Bureau)

This picture, whilst clearly underlining the developed world's lack of resource, theoretically attainable from elsewhere, also shows that some of those potential sources are generating significant domestic demand which in turn will feed on its own domestic resource.

China is the best example of this, and India's rapidly expanding economy will also see its net resource available for offshore servicing reduce.

WHERE IN THE WORLD?

It might just be worth having a brief look around the outsourcing world, or at least the outsourcing world as we know it today, to see just what may be on offer. Here is a very general guide to the sorts of services available, from IT development and support through to full business process.



LOCATION	BENEFITS	POSSIBLE LIMITATIONS
Philippines	Understands the US market; voice work; low attrition	More expensive than India; small talent pool. Poor knowledge in general of non-US markets.
India	Good understanding of both US and UK markets. Excellent English language skills. Rapidly improving international communications links.	Expanding outsourcing industry putting pressure on best quality resources with the result that costs are increasing with the high staff turnover and scarcity of specialist skills.
Canada, Ireland, Australia	Understand the US/EU; high-end skills	High costs (£15-18K per year against £3-4K in India)
South Africa	Time zone similar to Europe; 25% cost saving, good for niche work	Skill shortages.
China	Low costs.	Effective English language capability yet to emerge.
Russia, Ukraine, Poland, Hungary	Technology skills available and European language skills are good.	Poor Infrastructure; corruption; language barrier; small talent pool; high costs.
Mexico, Puerto Rico	30% cheaper than the US; Spanish skills	Specialising in the US market, sharing time-zones, but capabilities focusing on lower value jobs.

When you look at the growing range of possibilities now strung across the globe, it becomes easier to understand recent estimates which indicate that two-thirds of global financial services now have offshore facilities.

And there can be little doubt that this move offshore will continue, though domestic options are likely to remain as valid as market conditions dictate. Lending businesses will continue to consider the customer service risks taken in moving processing and customer care outside the UK very carefully – not least of those being possible consumer reaction against overseas servicing centres where language and knowledge impact on service.

That said however, the movement of systems support and development will always be tempting given the lower costs available. All a business needs to understand are the likely increases in analysis and management costs, particularly accompanying new systems development, which will always be key considerations when assessing the full commercial case for 'offshore'.

However the sums work out, faster and more effective processing makes outsourcing a powerful tool for competitiveness. However, the urge to outsource critical customer-facing processes must always be tempered by these four considerations:

- Economically attractive labour markets can carry geo-political risks that need to be balanced against projected cost savings. High attrition (around 40% p.a. in India) may well generate a significant increase in recruitment and training costs.
- It takes time and money to get an outsourcing relationship up and running successfully.
- Cultural differences have to be ironed out and the transitional costs can be daunting.
- Concerns over customer data.

Overall, expertise and, ideally, experience in operating globally are always likely to be prerequisites for success in this area, whether sourced from within the outsourcing business or bought in from outside.

The experience of the last five years tells us that offshoring is a useful tool in any business' locker, but it is certainly not the panacea the enthusiasts would have us believe. It will grow, as our market place globalizes, but perhaps it should be seen as never more than simply part of a balanced business model.