



Inside: 6 Thought Papers

Infosys[®]

BPO Future Forward >>>

Winning in the Downturn



I N D E X

1. The Importance of Maximizing Customer Value in a Downturn	7 - 12
2. The search for gold: Helping banks to tap alternative funding sources	13 - 18
3. 'Analyze This' – How Communication Service Providers can use Analytics to Combat Recession	19 - 24
4. Customizing BPO: Developing a strategic response to the recession	25 - 30
5. Impact of Global Downturn on U.S. P&C Insurance Industry	31 - 36
6. Managing Risk Perception and deriving Competitive Advantage	37 - 44



Foreword



Dear Reader,

Organizations around the globe are opening their minds to innovation and transformation as the key to staying ahead of competition as the economic environment worsens. For in the midst of turmoil, lies the opportunity - opportunity to innovate, find newer markets and develop newer customer centric products.

Businesses need to be prepared to seize the opportunity, mitigate risks faster than the competition, and make choices to win in this economic downturn. They will have to rework their business strategies to focus on trimming excesses, refocus on core strengths and get to know what truly drives value for their business. In other words, it's back to basics.

It gives me great pleasure to present to you the 3rd edition of the Infosys BPO Journal which has "Winning in the Downturn" as its central theme, and brings views from industry champions and Infosys domain experts on how to counter and succeed in the current scenario.

This journal articulates strategies and solutions to multiple industries by thought leaders on areas such as emphasizing on the importance of maximizing customer value, while a strategic response to the recession is developed. We also focus on helping banks to tap alternative funding sources since liquidity has become a precious commodity. Managing risk perception well and deriving competitive advantage from it is also one of the topics in this edition. We also focus on leveraging Analytics by Communication Service Providers to combat recession.

"Winning in the Downturn" as In Darwin's words: "It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change."

Difficult economic times call for extraordinary insight and foresight. Smart business planning can be the key to succeeding, even survival, during the economic downturn.

I would like to especially thank John Willmott, CEO, NelsonHall for his contribution to this edition of the Journal.

I welcome your feedback on this edition at BPO_Marketing@infosys.com

Best regards,

A handwritten signature in black ink, appearing to read 'R Idnani', with a long horizontal line extending to the right.

Ritesh Idnani

Head of Worldwide Sales and Marketing



The Importance of Maximizing Customer Value in a Downturn

– John Willmott

In recessionary times, organizations naturally tend to place a high emphasis on cost-cutting and can be reluctant to invest in new products, markets, and processes. However, NelsonHall research shows that in the current recession, organizations have recognized that there is more to a downturn than cost cutting and organizations are typically looking to achieve three objectives. Firstly they want to, and indeed must, reduce their cost of doing business; secondly, they want to maximize the value of their existing customer bases and hold the top-line as far as possible in their existing markets; and thirdly they need to enter growth markets for the future.



So what does this mean in terms of business process outsourcing and how do organizations need to adapt their BPO sourcing to meet these demands? Well, firstly organizations using, or considering, BPO need to consider ways of combining the objectives of reducing operational costs while maximizing customer revenue potential, rather than treating them as conflicting goals.

Exhibit -1

Role of Business Process Outsourcing Services

Area	High Extent (%)
Reducing the cost of serving existing markets	56
Local market entry/penetration in emerging or new geographic markets	51
Improving customer retention and cross-selling in existing markets	46
Launching new products or services in existing markets	30
Environmental or green initiatives	14

Exhibit - 1 shows the extent to which companies across all geographies will utilize business process outsourcing services in 2009 in each of a number of roles

Source: NelsonHall

If cost reduction objectives are treated in isolation, then there is a danger that say by moving all customer service to the lowest cost offshore location or simply reducing the level of resources allocated to serving customers, then customer satisfaction may be adversely impacted with a corresponding deterioration in company revenues, the worst possible outcome at the present time. A recession is a time when companies cannot afford to lose customers to their competitors. New customers may be hard to acquire in such times, and so particularly in their mature markets organizations need to focus on retaining and building on their existing customer base. Accordingly, organizations should start with the primary goal of protecting the top line through maintaining or increasing customer satisfaction and retention and focused up-selling and cross-selling, and then ask how this goal can be combined with reduced cost of service delivery.

Exhibit - 2

Improve Ability to Retain and Cross-Sell

Area	High Extent (%)
Traditional products	71
New products	68

Exhibit - 2 shows the the perceived extent to which organizations need to improve their ability to retain and cross-sell to clients

Source: NelsonHall

Fortunately, in addition to traditional approaches such as six sigma process improvement, there are now mechanisms for combining reduced service delivery costs with improved customer satisfaction and sales. One initial approach is to start with channel optimization and then to follow up with location optimization. This channel and location optimization then needs to be complemented with information optimization to achieve a single view of the customer across channels and locations and to use consistent dynamic decisioning tools in support of each channel. Tools are now starting to emerge that can prompt customers online or prompt agents in real-time with suggestions to maximize customer satisfaction and revenue opportunities and these are an important element in maximizing revenues per customer through modest investment. There are even tools that can optimize channels to say IVR or SMS mid-transaction where this switch would yield a combination of high customer satisfaction and reduced transaction cost. And in areas such as food retailing, for example, introduction of self check-out technology is increasingly being used in the downturn to maintain customer satisfaction while reducing the number of in-store personnel to reduce the overall cost-to-serve.

Why is this approach likely to be more successful than just choosing the lowest cost location? Well firstly different types of customer and customer transaction are naturally suited to different channels. So for example it may be possible to achieve higher customer satisfaction for say simple change of address by using Internet self-service rather than a live agent. Similarly, many customers will regard a low-cost prompt by SMS, for example as helpful customer service rather than as an intrusion. However, there are other areas where, for example, the customer needs advice in making a complex purchase, where onshore customer service is the most effective means of achieving the sale and hence maximum value for the company. In between these two extremes, the optimum means of providing technical support for example might be a combination of online forums and agent support out of say India.

In terms of the onshore, nearshore, offshore location debate within BPO, a mix of all three of these will often be required if organizations are to optimize their operational effectiveness and

revenues per customer in existing markets, and to support entry into new markets. The key is put the right service in the right location rather than adopt a one-size-fits-all approach which will inevitably lead to sub-optimal value.

The other major area of expansion of BPO in the current environment is support for new high growth geographies. The world is becoming much flatter and this includes access to new domestic markets and not just access to low-cost delivery. So an objective for many organizations, mid-sized as well as multinationals, is to take advantage of consumer markets in the emerging economies of much of Asia, Latin America, and Eastern Europe. Here the BPO challenge is less about reducing delivery cost, though new low cost channels may be particularly important in these relatively youthful markets, than about access to local expertise and the ability to scale to meet demand and build leadership in these markets at an early stage in their development.

While most of this discussion has centered on maximizing value for the end customer, many of the same considerations apply to internal services such as finance and accounting or HR services, where achieving the correct channel and location mix can enhance the value of services to internal and external clients of the organization.

For example, many organizations are considering relocation of their HR and F&A shared services operations away from relatively high cost locations. However, these moves are not just about the lowest cost labor arbitrage, but also need to take into account the changing center of the firm's economic gravity, which explains the increasing tendency to locate F&A outsourcing hubs for manufacturing firms in China and the increasing number of shared services centers being relocated to Latin America.

Organizations are also starting to look at more rapid and cost-effective mechanisms for launching new services with BPO services increasingly being based around a standard hosted application. While it is typically not yet feasible to support the major core processes of a multinational in this way, BPO services based on standard hosted applications are increasingly being used to supply added functionality and meet niche requirements. So this approach is increasingly applicable as a means of rapid and low-cost new market entry, for example use of hosted applications plus BPO services to support new advertising initiatives in the hard-pressed media sector.

Overall, hosted applications and software-as-a-service (SaaS) are becoming increasingly attractive as new ways to do business and have been significantly stimulated by the current economic environment. SaaS is now perceived to be a highly appropriate initiative for current economic conditions by approximately half of organizations, and new forms of BPO are beginning to overtake former approaches in relevance. In particular, in the current recession, BPO services based on hosted software are perceived to be more appropriate than traditional BPO approaches based on work-shadowed client practices.

While there is still some way to go, approximately a quarter of organizations are planning use of BPO services based on supplier hosted software during 2009. SaaS is viewed as being a very

powerful tool for delivery of IT benefits, in particular, reduced IT costs coupled with the ability to implement process change rapidly and effectively, and this relates well to the current need of organizations for process standardization and simplification. However, it is only when hosted applications are coupled with associated BPO services that they are perceived as being highly effective in terms of reducing business costs, which is the primary goal of enterprises in the current environment.

In addition to industry-specific services such as support for advertising revenue generation, platform-based BPO services are emerging strongly in HR, where such approaches are increasingly used for cost-effective support for recruitment and learning as well as payroll, and in sourcing and payments initiatives.

Exhibit - 3

Change of Activity in Response to Economic Downturn

Area	Increase	Unchanged	Decrease
Cost saving initiatives	86	14	0
Operational consolidation	61	32	7
Moving more processing work offshore	51	49	0
Geographic diversification	66	18	16
Outsourcing	28	72	0
Exiting existing businesses	32	64	4
Increasing range of activities performed in shared services centers	26	74	0
Merger and acquisition activity	24	10	66
Product diversification	11	24	65

Exhibit - 3 shows the manner in which organizations globally will alter their activity in 2009 in response to a potential economic downturn. The figures shown are a proportion of the number of mentions for each area

Source: NelsonHall

C O N C L U S I O N

In conclusion, when sourcing BPO services, organizations should:

- Try to combine cost reduction initiatives with revenue protection and generation initiatives, rather than addressing cost reduction in isolation
 - Select channels and locations based on their impact on CSAT, customer retention, and average revenue per customer not just on cost
 - Be prepared to optimize customer service across multiple channels and delivery locations. Self-service is often the most cost-effective manner of increasing customer satisfaction
 - Use analytics in support of channel decisioning to optimize customer satisfaction and the sales potential of each interaction while reducing the cost of service delivery
 - Consider more timely and cost-effective approaches to new service introductions, internally and externally, potentially through application of platform-based BPO
-



Win in the flat world

The search for gold Helping banks to tap alternative funding sources

– Abhijit Ghosh

Introduction

The current economic crisis has all the makings of a perfect storm which is in some sense an unprecedented one - a severe liquidity crunch afflicting banks and financial institutions globally, the world's major economies going into simultaneous recession, spectacular collapses and bailout of banks across continents. The roots of the current crisis can be traced primarily to 3 main reasons:

- a) Under pricing of Risk e.g. excessive leverage at both corporate and individual levels the risks of which were not fully understood by all the stakeholders*
- b) Lack of coordinated and effective regulatory oversights*
- c) A sense of unbridled optimism as valuations across all asset classes peaked in the preceding few years in nearly all key geographies and markets*

The repercussions of these have reverberated throughout the world economy, both in the Financial Sector as well the Real economy. One of the biggest casualties has been the trust between counterparties in a financial transaction; bank-to- bank and bank- to- consumer. Liquidity has become a precious commodity.



Banks, as aggregators and distributors of liquidity, are left with broadly two alternatives to keep their businesses running:

- Seek funds from alternate institutional sources such as national governments, sovereign funds, private equity or tapping the markets as a means of shoring up capital
- Or expand their deposit base

Experience so far has shown that outsourced service providers can contribute toward the first option in a limited way.

Use of Direct Banking Models to reach customers in new geographies with innovative savings and deposit products is a play on the latter. It is here that service providers offering both Core Banking platforms and BPO capabilities are uniquely positioned to support the set up of Direct Banking models.

Why Direct Banking?

Analysis of several Direct Banking Models reveals that there are couple of key trends which holds important lessons for banks and financial institutions in these troubled times. Foremost amongst them is the ability of the Direct Banks to rapidly gain economies of scale in terms of customer acquisitions in a new geography - ING Direct, the world's leading Direct Banking Group is one of the fastest-growing banks worldwide and plays a leading role in all the markets in which it is represented. It has more than 21 million clients at present in the US, Canada, Australia, France, the UK, Spain, Italy, Germany and Austria with deposits in excess of € 318 billion.

Secondly it is absolutely imperative that the cost of customer acquisition and servicing should not be achieved at the expense of a bank's profitability in these depressed economic conditions - successful Direct Banks globally have a very simple and innovative product portfolio, flat structures and make use of cutting edge technologies which enables them to have a significantly lower cost structure than traditional branch banking. E.g. ING Direct has a relatively small head office in Hoofddorp, near Amsterdam, giving the branches in the individual countries enough room to adapt to the local environment. Products, too, which are basically very similar, are geared to local requirements. Wherever it makes sense, branches introduce additional products, though these naturally have to fit into ING Direct's overall product portfolio. In France, for example, ING Direct offers a special retirement product and in the UK house insurance.

A recommended mix is a model where business processes across retail, corporate and treasury are packaged as a complete end to end offering which can be readily employed by banks willing to take the Direct Banking plunge.

Success Factors For any Direct Banking initiative to be successful banks and financial institutions need to keep certain things in mind namely:

- Choice of Market : Developed Vs Newer Markets
- Internet Penetration in the country of launch
- Market Launch Strategy : Asset Vs Liability Products or both
- Insourced Vs Outsourced Model
- Brand Building Strategies e.g. creating a trusted brand in the marketplace

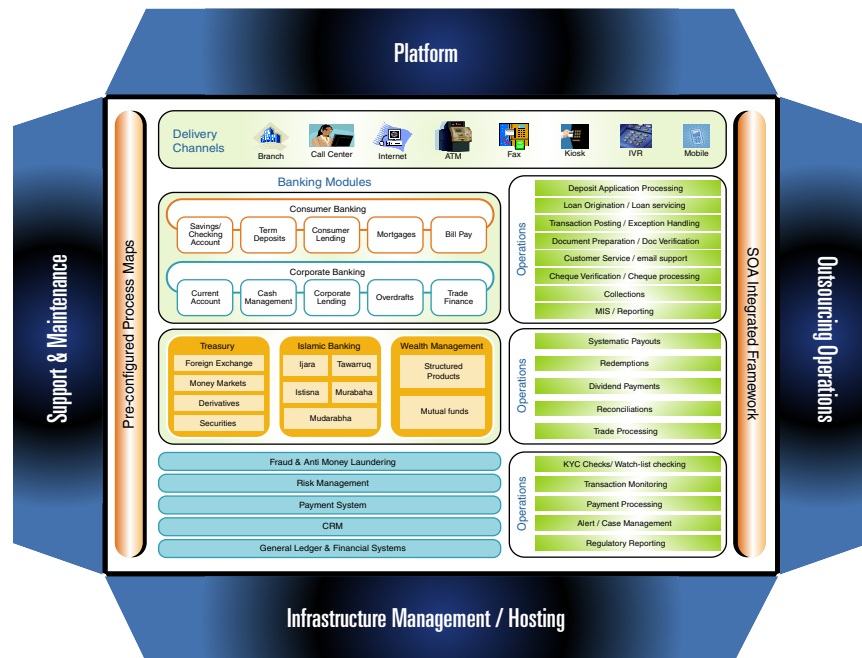
In difficult market conditions like the present one, banks and financial institutions would like to keep their initial market launch costs on the lower side which is only possible in an outsourced model. This will imply close partnership with service providers - choice of which is extremely critical. Banks and financial institutions need to look for service providers who have the following key ingredients:

Faster time to market: In troubled times speed is of the essence - once the business case and target market has been identified and regulatory approvals for a Direct Bank launch are in place, banks need to ensure that they leverage solutions that ensure the "quickest route to launch". Service providers need to have pre - configured platforms, process maps and implementation frameworks to aid this process.

Process Standardization: Service providers need to possess pre - configured process and platforms across products and channels as most of these implementations will be greenfield. This will require significant domain expertise and consulting skills on the part of the service provider.

Local Presence: Although process standardization is a critical requirement for the Direct Banking Model to be successful, vendors must not lose sight of the need to maintain a balance between a pre-configured offshore deliver model and local delivery to provide for onshore requirements. Local presence in the target markets especially for Call/Contact Centre requirements is a prerequisite for client servicing as it provides the only point of contact for the end customer with the bank and also enables the bank to cater to language requirements while ensuring customization to local nuances/ preferences.

Leverage the Power of Data and Information: The ability to tap the reserves of customer and transactional data sets puts the service provider in a unique position to advise banks on cross-sell strategies, customer acquisition, customer retention strategies and even product design. Service providers need to have strong analytics and data mining capabilities which will go a long way in assisting banks create a differentiated offering in the Direct Banking Model.

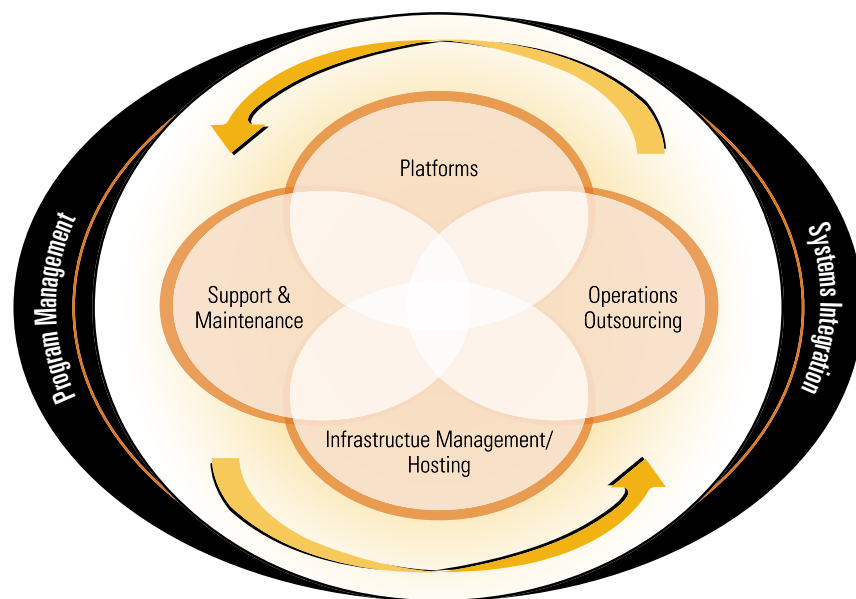


Solution Approach

The outsourced model is expected to emerge as the preferred option for banks /financial institutions in these times as they seek to variablize and minimize costs and capital outlays. It also makes economic and strategic sense if all of the services can be delivered by a single services provider. That way the service provider is better positioned to be able to offer sustainable business impacting improvements over a longer duration, as well as provide some "skin in the game" to achieve business outcomes .

Infosys has a "Bank in a Box" all-in-one solution for Direct Banks encompassing

- Systems Integration and Program management
- Deployment of Direct Banking platforms
- Implementation of allied third party systems
- Platform maintenance and support
- Operations outsourcing
- Infrastructure management / Hosting



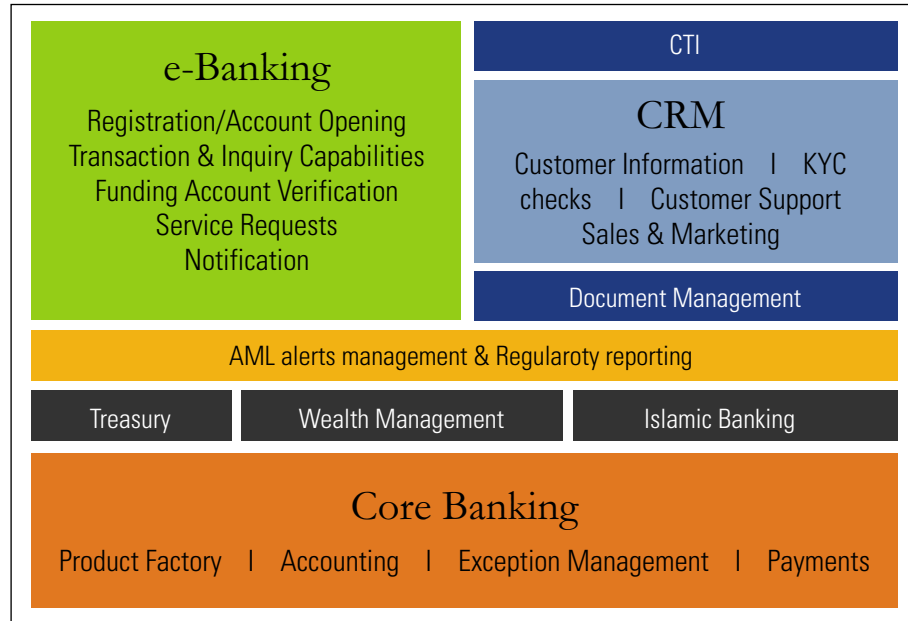
At the heart of this solution lie two key components which come from Infosys's vast experience of working with global banks and financial institutions.

Platforms

Flexible, Extensible and Pre-Configured platforms lie at the heart of any Direct Banking initiative. The platform offering not only enables a bank to rapidly launch new and innovative products but also allows them to offer superior customer experience and service delivery all of which are key to winning new customers in a Direct Banking Model.

Direct Banking Platforms can have several sub - components namely:

- Primary sub components : Core banking, CRM, eBanking - that are integrated, and pre-configured covering end to end customer experience & customer servicing
- Secondary sub components: Include value adds like Multi channel alerts, Mobile banking, Finanztools as financial calculators depending on a bank's requirements.
- Allied sub components: Third party / partner software systems for Document management, AML alert management and Regulatory reporting.



Operations Outsourcing

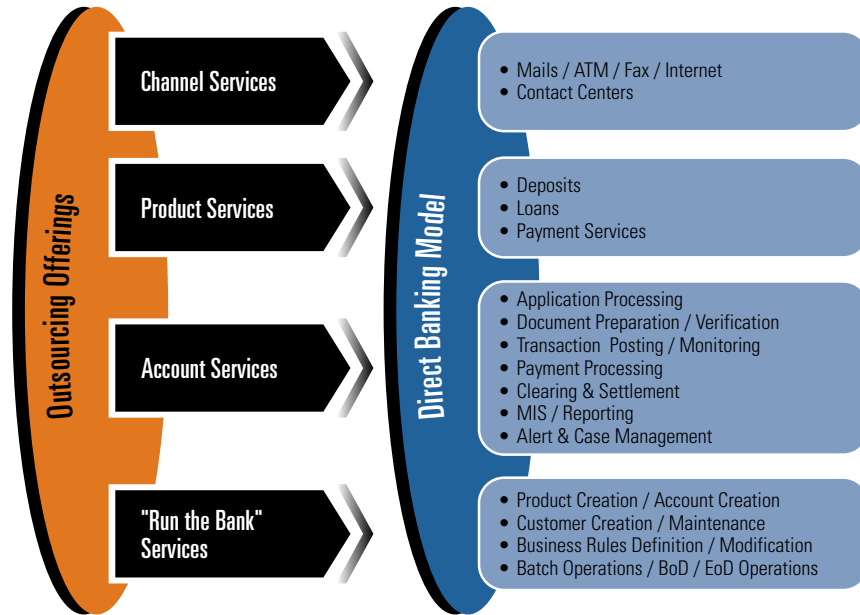
Service Delivery and Superior Customer Service are the key ingredients for a Direct Bank's success in any geography - both of which will require a service provider to have:

- Local and Global Delivery capabilities
- Trained resources on the platforms
- Pre - Configured Process Maps
- SLA definition and measurement tools
- Well defined Transition Methodologies
- Reporting and Analytical tools and skill sets

While this may appear akin to the role a service provider plays in a regular BPO outsourcing engagement, this is only half the story - a service provider in this scenario is the only real operations arm of the bank. Additional activities which need to be performed in a Direct Banking scenario are:

- Process Definition as the same does not exist for Greenfield banks
- Process Rollout i.e. configure the process on the platforms
- Process Testing i.e. conduct User Acceptance Test(UAT)

- Process Execution i.e. perform additional "RUN the Bank" activities like reporting, handling AML alerts, user creation and maintenance, EOD/BOD batch runs etc



C O N C L U S I O N

At a time when banks and financial institutions are finding it difficult to raise resources the Direct Banking Model offers them an opportunity to tap into that elusive pot of gold in the form of customer deposits and savings accounts. However accessing the same is no mean task - banks need to have the right strategy, identify the right markets and partner with a service provider who can bring all the pieces together. Service providers like Infosys are uniquely positioned to assist banks win in this downturn by bringing to bear an entire gamut of offerings around Consulting, Customer Analytics, Platforms and BPO.



Win in the flat world

'Analyze This'

How Communication Service Providers can use Analytics to Combat Recession

— Harry Jose, Vinay Peshwa

Introduction

In the wake of the global economic crisis, firms across industries and geographies have come under tremendous pressure to reduce costs. Most have responded by adopting a 'Capex Freeze' and 'Opex Reduction' mentality, which has been evident in their spending decisions, including those involving their outsourcing partners. Communication Service Providers (CSP) has been no exception!

While the value of outsourcing has never been in doubt, CSPs today are demanding more value 'per dollar of outsourcing spend' from their partners. There is a noticeable reluctance to commit on outsourcing investments unless the Return On Investment (ROI) is tangible and immediate. Against this backdrop, Analytics as a BPO service offering assumes significance, considering its potential to deliver quick and tangible Return On Investment (ROI) against relatively minor investments on the part of CSPs.



Addressing CSP Pain Points through Analytics

CSPs can combat the impact of recession on their margins in two ways

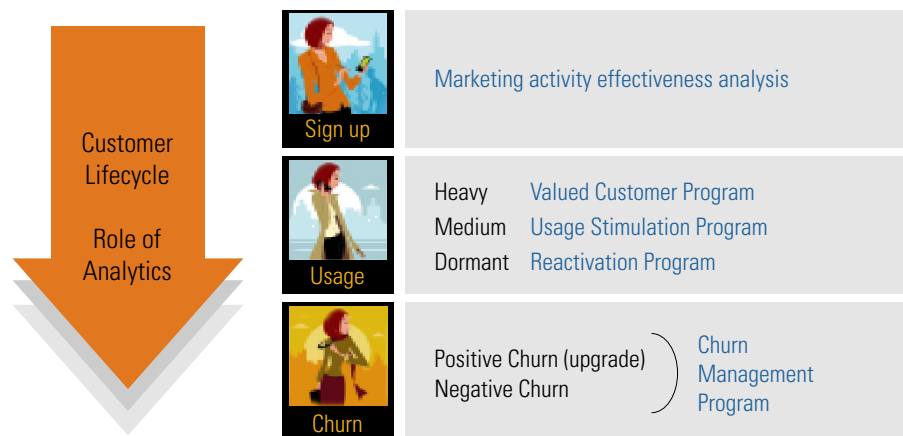
- Increasing Revenues
- Reducing costs

Analytics can enable CSPs to extract the maximum value out of their revenue maximization and cost reduction initiatives.

Using Analytics to Increase Revenues by reducing Churn

The entry of non traditional players to the CSP market and subsequent change in market dynamics, market saturation e.g. UK has more SIM cards than people and the continued drop in Average Revenue Per User (ARPU) had already made 'customer experience management' the number one priority for CSPs. Recession has served to further galvanize the efforts of CSPs in this regard. Analytics, through its ability to identify critical customer signals, can provide immense value add to CSPs in this regard. Interpreting these early warning signals can lead to devising of effective programs which will enable CSPs to offer positive 'customer experience' aiding increased loyalty and usage.

The scope of analytics spans across the entire CSP customer life cycle as depicted in the adjacent graphic. An area where it offers standout value is **customer churn management**. However, developing an effective churn management solution is not an easy task - as evidenced by 'customer churn' still being a primary pain point for CSPs, despite the existence of a large number of churn management solutions in the market.



Developing an effective Churn Management Solution

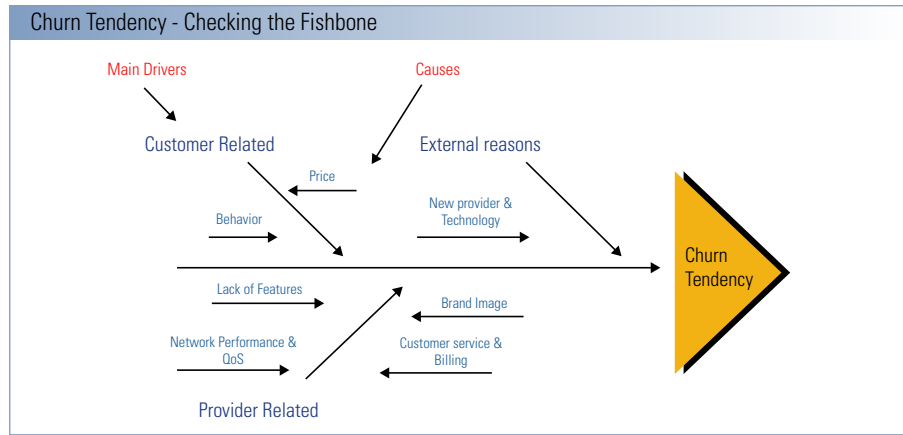
There are a number of issues which creates road blocks in the development of an effective churn management solution. Data needs to be combined from various sources like billing systems, CRM tools, call centres, transaction data warehouses, etc. to get a holistic picture. This task is difficult as different types of data are usually captured in different data warehouses and in different formats. Added to this is the sheer magnitude of data that may need to be processed.

Resource crunch from a skill set perspective (fewer resources with appropriate statistics/operations research/econometric background), as well as a lack of resources that have a cross-

functional understanding of domain, data warehousing concepts and quantitative skills are also issues that often reduce the utility of the churn management solution created.

Domain competency is of utmost importance in this regard as the churn solution gets driven by the needs of the department that proposes it and this could result in key variables from other departments being ignored - unless the analytics practitioner has enough understanding of the industry nuances. Also, the current solutions have a tendency to club upgrades (positive attrition) and attritors (negative attritions) in the same bucket.

Identifying and quantifying those factors with the greatest impact on churn is only valuable if the root causes of these performance deficits can be identified and dealt with. A rigorous Root Cause Analysis can identify potential drivers of churn as shown in the below pictorial.



Experienced domain practitioners can then facilitate the generation of hypotheses through iterative sessions of brain storming that then capture business logic for testing through modeling. Hypothesis testing will enable the analytics practitioner to cull out the factors which are pertinent to churn.

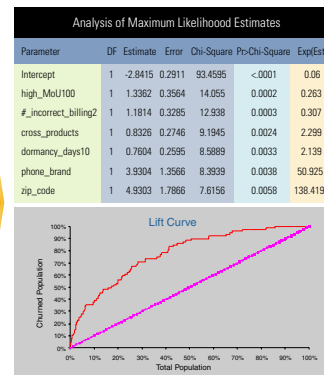


#	Hypothesis	Example of Variable
1	Customers with higher Minutes of Usage are more likely to churn if the service quality is poor	Monthly Minutes of Usage
2	Frequent billing issues for a subscriber can increase churn rates	# of billing issues in a quarter
3	A subscriber who has signed up for more products/VAS with the CP is less likely to churn	# of products subscribed to
4	Lower number of dormant days in a month would mean lower churn	Days of dormancy in a month
5	A phone brand tie up with more features and higher product quality & service will cause lower churn	Phone brand subscribed to

Generate hypothesis

Variable	Max Length	Field Type
DT_DY	8	Date
FLG_SRVC	1	Character
ID_PRI_CUS	19	Numeric
ID_TRN	14	Character
NUM_CO	8	Character
NUM_REG	8	Numeric
NUM_REG_OP	8	Numeric
NUM_STR	12	Numeric
MIN_USAGE	8	Numeric
TM_TRN	3	Numeric
TYP_TRN	4	Character

Create derived variable for testing hypothesis



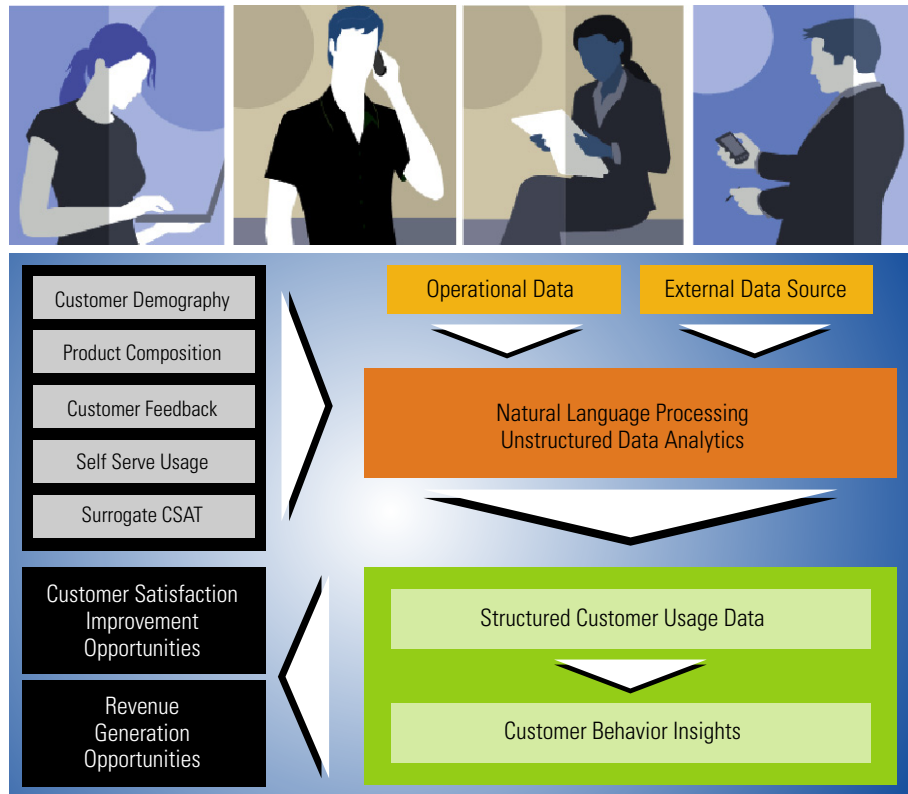
Validate hypothesis through model output testing hypothesis

By comparing driver strengths, opportunities to improve service and satisfaction, pro-actively read early warning signals of churn can be prioritized. It would then be possible to advise CSP clients on measurable market programs to understand how effectively churn can be reduced for a given driver.

Increasing ARPU through 'Voice of Customer' Analytics

Every customer interaction is a rich source of information on customer experience and behavior. Leveraging this 'Voice of Customer' information, through the use of analytics, can help positively impact ARPU. Unfortunately, the unstructured nature of this information makes it very difficult to mine using ordinary analytical techniques. Analytic tools which can develop semantic insights from unstructured data by leveraging natural language processing capabilities are needed to provide real time intelligent analytics about customer experience and usage.

A natural language processing tool can be used to create an interactive interface for the customer care executive to gather information about the customer through an intuitive questionnaire during call progress. Using this surrogate information and other sources of information such as operational data, internet customer forums, blog sites etc, and a rich pool of information can be created which can be mined to get customer insights. The below pictorial explains the structure of a typical natural language processing tool.



Another major area where such a tool can come in handy is to glean customer insights from the vast amounts of unstructured customer data available in customer feedback forms, written complaints, blog comments etc. filtering the unstructured data by searching for specific phrases can be used to sensitize the telecommunications provider to pertinent customer signals.

The insights gained can be used in two ways:

- Target a customer segment, eg. fine tune market offerings for a customer segment based on real time customer feedback gained through this type of analytics tool
- Target individual customer, eg. Enhance Upsell/ cross sell opportunities during interaction of the customer with a customer care representative, create Just-in time marketing campaigns, etc.

Analytics and Cost Reduction

Surveys show that the 'recession inspired' cost reduction initiatives of most companies focus on large variable costs that have an immediate, significant impact (e.g., travel and entertainment, administrative staff, suspending capital investments etc). Unfortunately, as soon as external pressure drops, these costs tend to creep back into the cost base. Research shows that only initiatives that focus on 'reducing the cost of revenues' or on reducing system inefficiencies have a significant long term impact. Analytics can play a major role in reducing system inefficiencies and thereby Opex, by enabling CSPs to maximize the utilization of existing assets.

The work done by Infosys for the fleet management team of a US based global telecom giant is a case in point. The project involved use of analytics to drive down maintenance costs by extending the life of vehicle parts before they are replaced on fleet vehicles. The use of analytic techniques has enabled Infosys to predict the life expectancy of vehicle spares, thus helping the client to ensure that the spares are not replaced before their life time is over, resulting in savings to the tune of close to \$3 mn a year.

Moving up the Value chain - Analytics as a BPO Managed Service Offering

The one short-coming of the initiatives discussed so far is that ROI on the analytics investment made by a CSP depends entirely on how well they are able to implement the analytics solution. Execution flaws often come in the way of firms achieving the full potential of the analytics solution.

The way forward would be to develop analytics as an end-to-end service offering which would cover the entire spectrum of solution development, solution testing and subsequent solution delivery. Such an initiative would be of tremendous interest to CSPs as the risk of 'execution failure' is mitigated with the onus of successful analytics project implementation being passed on to the BPO partner.

C O N C L U S I O N

In these recessionary times, when CSPs are combating tremendous margin pressures, initiatives which address the twin concern areas of 'increasing revenues' and 'reducing costs' will be of significant value. Analytics, with its potential to deliver quick and tangible Return On Investment (ROI) against relatively minor investments, assume considerable significance in this regard, all the more so if it is offered as an end-to-end managed service BPO offering, where the onus of ROI realization is transferred to the BPO partner.



Win in the flat world

Customizing BPO Developing a strategic response to the recession

– Shyam Rao

Summary

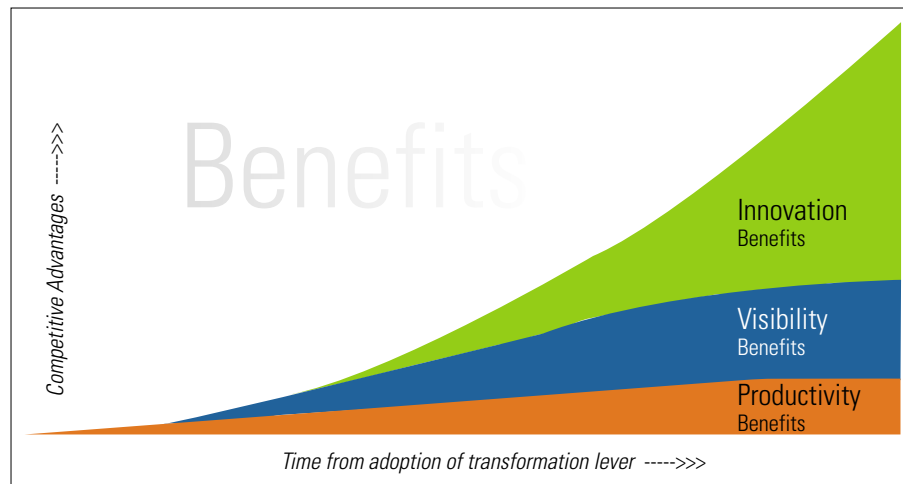
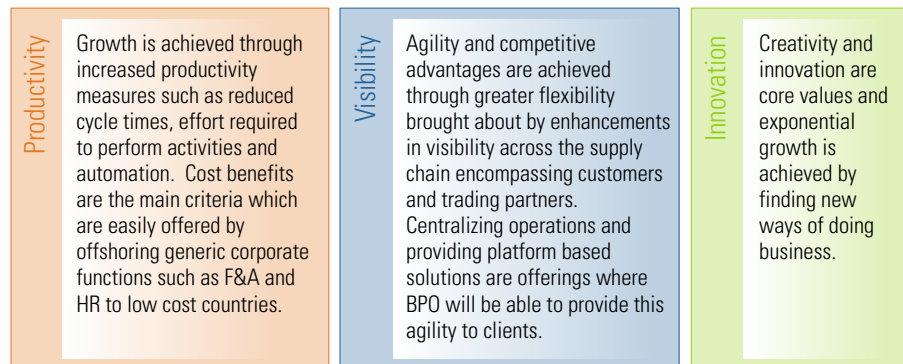
To ride out a recession and prepare for future growth, industry will have to build business agility fuelled by innovation. This would involve customizing their response to the downturn by launching initiatives which build on individual characteristics of a particular industry segment. BPO will need to support these initiatives by moving from generic BPO offerings to customized industry and client specific solutions. These initiatives and solutions would be especially effective when centered on transforming the supply chain and order management functions. We explore how Service Providers can achieve this by establishing a true partnership with the client, thus ensuring an effective strategic response to the downturn.



Introduction

When the going gets tough, the tough go cost cutting! A brief analysis of industry's response to earlier recessions (1990/91 and 2000/01) indicate the first knee jerk initiatives are budget cuts in manpower, facilities, services and a freeze on all investment plans. However this excessive focus on short term gains will lead to long term heartache in the organizations ability to recoup and exploit new opportunities that follow a recovery - as Bonoma (1991) puts it "summer follows a long and bitter winter and the wise one, is one who is prepared for both". Organizations will have to skillfully retain and develop those resources that will aid development of future growth opportunities and let go of those that do not provide long term competitive advantages.

Future growth comes from business agility to respond to new opportunities and this agility typically comes from adopting 3 transformation levers:



Most mature organizations will have achieved the incremental cost benefits from standardization and centralization by adopting the levers of *Productivity* and *Visibility*. Exponential benefits will now come from leveraging innovation as a lever to transform business performance. At Infosys the belief is that this innovative and creative ways of thinking extends to the organizations partners - both product and service providers.

Traditional offshoring models are focused on generic corporate functions such as FAO, HRO and Procurement functions. In recent times we have seen the emergence of newer functions such as Legal or Knowledge Services. But we see that each of these functions are different across industries

and individual companies and a "one size fits all" strategy does not help the client achieve the exponential benefits of innovation that can be enabled by differentiated service offerings.

Customized Industry Offerings

The ecosystem of a particular industry is peculiar to the products it sells, the regulatory environment under which it functions, its market characteristics and its relationships with its trading partners. Though all industries are characterized by falling demand and declining margins due to price pressures, we find that an industry will respond differently to these generic problems by identifying pain points and solutions that are unique to its ecosystem.

For example, the current meltdown in the financial services industry would indicate governance and risk management as both a cause and a solution to dealing with the crisis. The consumer electronics or the CPG industry would respond to falling customer demand with initiatives to speed up their product development life cycles and bring innovative products to the market in a faster and cheaper manner.

The healthcare and pharma industry on the other hand would not have an issue with falling demand but more an issue with actualization of sales or the ability of the customer to pay for services. Hence these industries would respond to a downturn by analyzing and addressing pain points associated within their individual environment.

The BPO industry will hence have to necessarily move away from offering generic "corporate" solutions across industries like FAO, Procurement or HRO and tailor their offerings to "operational functions" within industries. These operational functions will be unique across industries and more focused on processes than on functions. Hence customizing service offerings especially around supply chain and order management processes will help BPO to better contribute to supporting industry's initiatives in addressing individual pain points and positively impacting its strategies to survive and win in a downturn. Some examples of industry and the service offering that could be customized for it are listed below:

Industry	Pain Points	Possible BPO Service Offering
Hospitality and Travel	<ul style="list-style-type: none"> Retaining customer loyalty Pricing perishable products 	<ul style="list-style-type: none"> Customer loyalty program administration Revenue management/ optimization
Telecom	<ul style="list-style-type: none"> Network optimization 	<ul style="list-style-type: none"> Network service provisioning Revenue assurance
Distributors	<ul style="list-style-type: none"> High inventory costs 	<ul style="list-style-type: none"> Inventory planning and MRP
Hi-tech and discrete manufacturing	<ul style="list-style-type: none"> Long product life cycles High costs of environmental compliance After market services 	<ul style="list-style-type: none"> Product life cycle development Environment Compliance (e.g. RoHS & WEEE) & Reverse Logistics Spares order mgmt and warranty mgmt
Retail	<ul style="list-style-type: none"> Low spending power 	<ul style="list-style-type: none"> Customer analytics Program based discounting
Financial Services	<ul style="list-style-type: none"> Governance and risk management 	<ul style="list-style-type: none"> Basel II Risk and Governance audits. Operational risk assessments
Pharma	<ul style="list-style-type: none"> High cost of R&D and development of new drug formulations 	<ul style="list-style-type: none"> Clinical trials data and submission management FDA compliance

The BPO industry needs to develop a range of customized service offerings to industries and thus positively impact its client's operational performance. Going beyond generic corporate functions, and focusing on customized supply chain processes, will enable BPO to provide transformational benefits which in turn will help clients weather the recession and develop competitive advantages to fuel future growth.

Case Study

The software industry functions in an intensely competitive and rapidly changing environment complicated by the presence of a digital supply chain and rampant piracy. Independent software vendors (ISV's) typically generate revenue from license agreements and recent consolidation of large buyers has resulted in strong bargaining power (by customers) and lowered switching costs/customer loyalty for niche software products (e.g. security solutions). Infosys BPO understood that the absence of a physical supply chain indicated special challenges for the ISV industry and created service offerings such as Pricing & Licensing that addresses these issues and helps the software industry to compete more effectively in the marketplace.

A leading provider of security solutions software with over 99% of Fortune 500 companies using their products faced similar challenges. To address these issues Infosys BPO implemented its customized ISV industry specific Pricing & Licensing solution which involved providing license keys generated on Oracle and e2b tool, entitlement, version management and pricing support. This enabled the client to manage its digital supply chain more effectively, recognizing revenue faster and achieving the following benefits:

- Cycle time reduction by 35% across multiple processes*
- Productivity improvement of 35% within 7 months of operations*
- One-time cost savings of 40% through labor cost arbitrage*
- Complete up to date documentation of all client processes and sub processes which was non-existent till date*

These were achieved along with increased customer satisfaction, ensuring customer loyalty and lower scope for software piracy. By off shoring these services the client was also able to free up resources to focus on the highly skilled manpower required to develop and enhance their products (security and infrastructure software) and build competitive advantages to deal with a depressed market.

Customized Company Offerings

Companies within an industry strive to differentiate their businesses along core competencies to develop a set of value differentiators which enable them to build competitive advantages over other firms within the industry. The strategy for achieving growth will depend on the structure of the supply chain and the competencies of that particular company. Organizations for instance may choose to design and function under a vertically integrated supply chain for reasons of their ability to control and align the goals of the components of the value chain with their corporate mission or may choose a more laterally (horizontally) integrated supply chain structure to enable economies of scale. Similarly the growth strategies for a firm maybe focused on inorganic growth fuelled by mergers and acquisitions or through a more staid organic expansion of existing businesses.

The BPO industry's prime responsibility will now focus on supporting their client's strategies with customized offerings for individual clients. For instance a client with visibility issues due to multiple legacy systems from a history of acquisitions will benefit from a custom built platform based solution that will sit across the various legacy systems and provide a single overarching view of the entire system. Similarly a client with a loosely coupled horizontally integrated supply chain would benefit from service offerings that enable trading partner support such as PSS (Partner Sales Support) or PMS (Product Management Support) which will help align and manage the varying goals of the different components of the value chain with the corporate mission of the nucleus firm.

Case Study

A leading global distributor of products, services and solutions to industrial and commercial users of electronic components and enterprise computing solutions operated through a supply chain consisting of over 700 suppliers and 140,000 OEMs & contract manufacturers servicing customers across 50 countries. Maintaining and optimizing this supply chain involved a Product Management team which liaised with suppliers and OEMs & contract manufacturers to ensure timely delivery of products as well as management of debits/discounts offered on products. Infosys BPO built a customized offering for the company which involved a PMS team which negotiated, renewed and maintained the debits offered on products as well as sample requests from customers. With currently over 95% of debits and vendor rebates across North America managed by Infosys BPO associates (to the tune of \$1bn), the client has established a centralized offshore debit management centre thus achieving a substantial competitive advantage vis-à-vis its competitors.

Implications of customization to the BPO industry

The move towards customization of service offerings will present the BPO industry with not only opportunities in being able to move up the value chain but also pose several challenges. Some areas of concern that the industry must first address in the path to customization are:

Building partnerships with clients

The need to custom build solutions will require BPO to build relationships with the client that goes beyond the standard buyer - seller-of-services model. Gain-sharing revenue models will gain prominence

Creation of knowledge base

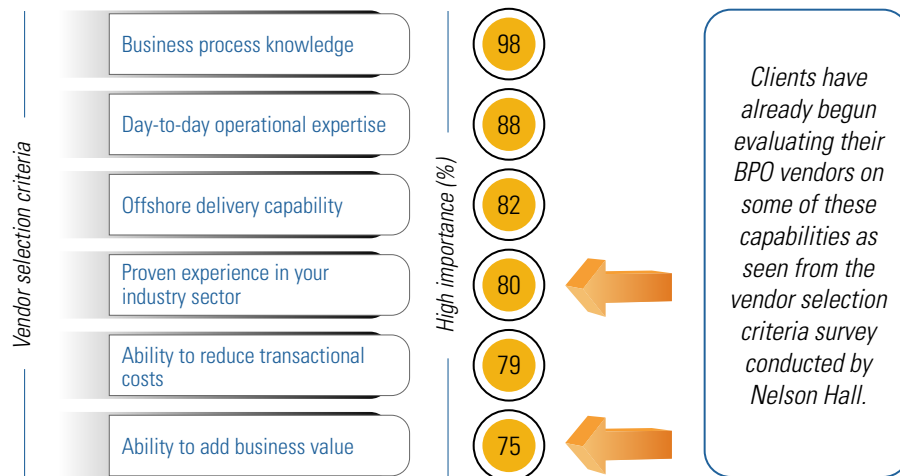
The BPO industry will be required to acquire industry specific knowledge and capabilities in order to design customized solutions

Investment and higher risks

Investments in effort and manpower will be required to move up the value chain. The creation of niche solutions will also involve increased risk in the reduced marketability of these investments across industries/customers

HR management

Higher quality of resources needed to staff these engagements will bring a renewed focus on attrition, skill management and talent retention



Source: (Nelson Hall presentation published Jan 2009: New approaches to outsourcing support functions in 2009 presented by Katharina Grimme, Rachael Stormonth and John Willmott)

C O N C L U S I O N

In spite of the recession companies will continue to make strategic investments in developing capabilities to differentiate and build competitive advantages. The BPO industry will need to support these initiatives by acquiring industry and company specific knowledge and building customized service offerings to their clients that can transform their supply chain. This partnership will require higher level of investments but will enable the relationship between client and service provider to move up the value chain and develop sustainable competencies for future growth.

References

1. Bonoma, Thomas (1991), "Heed 5 commandments to weather a recession", Marketing News (18 March), 10
2. Bowers, Brent (1991), "New business owners are pinching pennies this year", Wall Street Journal (25 April), B2
3. Dobbs, Karakolev & Malige (2002), "Learning to love a recession" McKinsey Quarterly, 2002 Special Edition Issue 2, pp 6-9
4. Menzigian, Katrina & Gupta, Saurabh (2009), "Industry Centric BPO Solutions - opportunities to attain market positioning", Everest Research, 2009.
5. Nelson Hall Webcast (2009), "New approaches to outsourcing support functions in 2009" Nelson Hall research January 2009
6. Rhodes, David & Stelter, Daniel (2009), "Advantage in a downturn", Harvard Business Review, February 2009, pp 50 - 58
7. Steve Cody (2008), "Weathering the Recession" PR News (02/04/08), Vol. 64, Issue 5, pp 1-7
8. Williamson Peter & Zeng, Ming (2009), "Value for money strategies for recessionary times", Harvard Business Review, March 2009, pp 66 - 67



Win in the flat world

Impact of Global Downturn on U.S. P&C Insurance Industry

– Veerabhadran Ananthanarayanan, Ritu Mittadar

Abstract

P&C insurers are striving to remain profitable, solvent and strengthen the top line and bottom line during the global downturn

Stock prices have come down, credit ratings have declined and revenue's have shrunk

What are the options available for US P&C insurance industry?



Introduction

The insurance industry is showing signs of saturation in the developed markets. Financial and economic crisis has aggravated the challenges faced by insurers. These include

- Product development to meet customer demands
- Quicker product marketability
- Competitive pricing
- Regulatory compliance
- Customer retention

The credit crisis has shown a limited impact on property/casualty insurers. Some insurers have exposure on the asset side of their business resulting from the investments, while some have exposure on directors' and officers' (D&O) and errors' and omissions' (E&O) portfolio.

A number of insurers have reported substantial losses for the year 2008. The sharp decline in profitability is due to deterioration in financial market conditions across the globe. Other factors include the four-year long soft market and the burden of \$26 billion in catastrophe losses-the fourth highest total on record.

Changing contour of US P&C Industry: Where the Industry is heading towards....

During slower economic growth or recession there is a direct impact for insurers, for example reduction in premium growth for commercial insurers. During this period of economic decline, it becomes more difficult for insurers to accept new risks such as vehicles, homes, office buildings, etc. as people will be spending less on these economic items.

P&C insurance companies make a major contribution to the economy through their investments. Meanwhile, sharp declines in stock prices and falling interest rates translate into decreased capital gains and lower investment income for insurers. Other economic factors that affect insurers include subdued in the housing market and depressing employment scenario.

Growth in Mature Market

One of the challenges that many insurers face is sustained growth. Insurance companies can find growth opportunities by innovative approach. Globally insurers in mature markets need to concentrate on a few key points that emerge from the current scenario -

- Launching new products in order to bring in market differentiation. This will also help insurers to retain customers and possible expansion in market share.
- Product diversification through strategic offerings and pursuing underserved market segments.
- Innovative capital deployment that maximizes the return within the defined risk framework

Managing Profitability

A highly competitive market makes customers price sensitive and that results in soft market. Net written premiums declined by 1.4 percent in 2008. The past two years mark the first sequential decline in premiums written since the Great Depression.

In a competitive market sound underwriting practice plays a critical role in making insurance available and affordable, and insurers financially strong to pay claims if losses occur. An insurance company can be competitive in price terms but can also be profitable.

Insurers need to concentrate on improving risk management especially in areas like, refining catastrophic modeling and reducing operational risks.

Tackling the rising costs would be a key to expense control. The expense growth requires emphasis on typically 3 areas - new business acquisition cost, underwriting expenses and claims expense.

Demand and Supply

A number of factors affect both the supply and demand of P&C insurance. Given the size and competitive nature of the market it might appear that the supply of insurance is unlimited. However, the supply of insurance is limited by two key factors: the insurer's perception of risk in relation to profit and the insurer's capacity to assume new risks.

Other factor affecting supply is an insurance company's resources. A company must have the infrastructure and human resources to handle the business it writes. Facilities need to be located appropriately to service customers, backed by an information systems infrastructure and staffed by employees with the relevant skill set and knowledge for that particular market.

A number of factors affect the demand for insurance, including the size of the overall market, economic activities, price and demographics. In developed countries, the market demand for insurable products such as auto, home and commercial properties insurance may have reached saturation point as the economic growth is less and aging population. In developing countries, where the market penetration for insurance tends to be lower, individual wealth and whether or not there is a need to protect assets will affect the insurance purchasing decision.

Insurance rules and regulations also create demand through mandatory insurance.

Global Presence

Globalization would be one of the major profit drivers in the coming years. Insurers can look at globalization through organic and inorganic growth. Global presence helps in distribution of the risk itself, for a global company having a storm in US will not have significant impact if their Europe portfolio is large and with no large losses are reported.

- Global downturn has created an exceptional landscape for M&A activities within insurance industry and 2009 will be a 'Wait and Watch' year. There would be few companies that would emerge out of this financial crisis with strong balance sheets and a little excess capital to fund an acquisition, but the analysts believe that they would wait until in-depth impact of the economic slowdown is better understood.
- Insurers can also look at expanding in emerging markets like Brazil, Russia, India and China(BRIC)

State of P&C Insurance Industry

In last couple of years the industry has seen conditions like hard / soft market and financial crisis & economic slowdown. A combination of these factors directly influences the profitability, capital and surplus of an insurance company.



If the economy does not recover from the financial crisis, it will have a direct impact on the insurers' capital and surplus which leads to reduction in the insurers' capacity to underwrite new business and impacting pricing of the products. Industry has observed a dip of 7.6% in the average surplus from 2007 to 2008.

Competitive pricing and declining economy are responsible for decline in premiums - the US P&C industry has seen a decline in premiums; trends show the first back to back decline since the year 1930 to 1933, in net premiums, by 1% in 2007 and by 0.4% in 2008 as compared to 3.9% premium increase in the year 2006.

The US P&C industry has witnessed disasters like tornados, wind storm, hail, floods, etc. Insured catastrophe losses reached \$26.0 billion in 2008, the highest level since 2005 and the year of Hurricane Katrina. The total loss for the year 2008 is much higher than the combined \$15.9 billion in loss from 2006 and 2007 (at \$9.2 billion and \$6.7 billion, respectively). This has a negative effect on insurers' capital and surplus too. The policy holder surplus which peaked at USD 522 billion (in Q3, 2007) reduced to USD 438 billion (by Q4, 2008).

The combination of higher catastrophe losses, cyclical deterioration in underwriting performance and severe stress in the mortgage and financial guarantee segments pushed the 2008 combined ratio up to 105.1, nearly 10 points above the 95.5 combined ratios in 2007.

Although the combined ratio has been volatile over the years, insurers were managing their bottom line due to the investment income. However, now the insurers are experiencing sharp decline in their investment income which dropped from \$63.6 billion in 2006 to \$28.3 billion in 2008 Q3 which is a direct result of the market conditions.

These conditions are exposing insurance companies to higher financial risks. Hence, insurers are taking a more conservative approach in pricing their products, embedding strong risk culture and analyzing returns on the risks they assume. In addition that market is showing sign of hardening in terms of the premiums.

How can outsourcing help in dealing with Recession?

P&C Insurance industry might continue to see more unfavorable business environment going ahead. The opportunity exists for the insurance companies in areas of Underwriting, Catastrophic exposure management, Capital management, Expense management and Operations management.

Insurance companies are focusing on - improving operational efficiency, new business acquisition, product development, pricing, technology systems, better risk management techniques, etc since cost reduction is clearly one of the prime focus areas for most insurance companies.

Even during the global downturn, the companies' earnings expectation from stakeholders and investors continues and becomes more demanding. Under such scenarios, first thing the companies look at are savings in the controllable expenses.

Outsourcing continues to be one of the important solutions for reduction in operating costs. In addition BPO partner can bring in discipline in underwriting practice by detailed evaluation of risk as per the standards identified by the company. There are instances where BPO has brought in the required discipline in underwriting and has also helped underwriters to spend more time on client facing activities. This has helped in increasing the ability to underwrite more business using sound practices.

The objectives of partnering with an outsourcing company are

- More focus on core business
- Streamline business
- Transformation of legacy systems
- Discipline in underwriting process
- Improve cost management
- Improve capital funds
- Workforce rationalization

Benefits to insurance companies are

- Allowing key resources to focus on core activities
- Multi-location delivery centers to de-risk business
- Availability of skilled resources for different types of work
- Improved customer satisfaction by predictable delivery and error free quality service

C O N C L U S I O N

Although insurance companies have been resilient so far to economic downturn compared to banks and other financial institutions, there are various aspects that insurers need to be vigilant about to remain profitable. They are:

- Risk based pricing
- Investment policies that brings optimum returns with acceptable risks
- Cost control and Capital management

It is an opportune time for P&C insurance companies to endeavor the outsourcing model in order to control spending and tap into external expertise. The change management of this magnitude can be handled by partnering with an external vendor. The customer centric organization demands efficient process that and flexible to meet market demand and get services at a lower price.

Win in the flat world

Managing Risk Perception and deriving Competitive Advantage

– Srikant Balan

Globalization and the technological reach, and therefore the global delivery model have created a network of interconnected and interdependent organizations that are reliant as much on the smooth functioning of each constituent as on the seamless flow of 'bits and bytes' through an integrated value chain. This transnational value chain has opened up a whole new set of risks, the dimensions of which if not adequately mitigated can damage the reputations of organizations, but if perceptions are well managed can be source of competitive advantage.



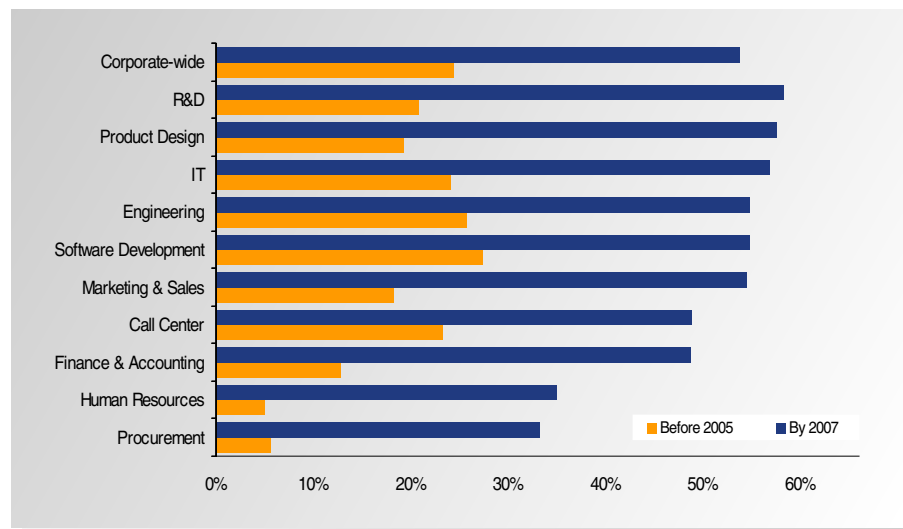
Introduction

In this globally tumultuous market, with companies vanishing from the economic landscape in a proverbial blink of an eye and the CEO's and CFO's obsession with the cost structure, risk management practices have not only become the cynosure for all eyes, but they have also started to act as a key differentiator to the products and services rendered by companies as well as service providers. An organizations ability to predict, prevent and respond effectively to disruptive forces besides ensuring that the cost benefit ratio is never compromised is the key to ensure that stakeholder's perception of risk is adequately allayed.

Outsourcing Drivers

Traditionally due to inflexibility in organization's global strategy, no real improvement in speed to market and access to qualified personnel at offshore locations, the non-core functions were always outsourced to gain immediate advantage. In the recent years however it's been evidenced that outsourcing contracts also include core functions of these organizations those which were traditionally never believed could be off-shored. This turnaround is primarily due to the fact that companies are now not only looking at labor arbitrage but also viewing business value in terms of productivity improvements, increased efficiency that a service provider can bring onto the table due to its expertise in managing many such processes (especially during the boom time of 2006, 2007 as depicted in Figure 1). Platform based offerings have increased, whereby a single platform can deliver across multiple client base. Therefore, from a BPO perspective, the underlying risks have also increased and it is paramount that all the risk perceptions are suitably mitigated.

Figure 1: Source - Duke University/ Conference Board Offshoring Research network 2007/08 US Survey



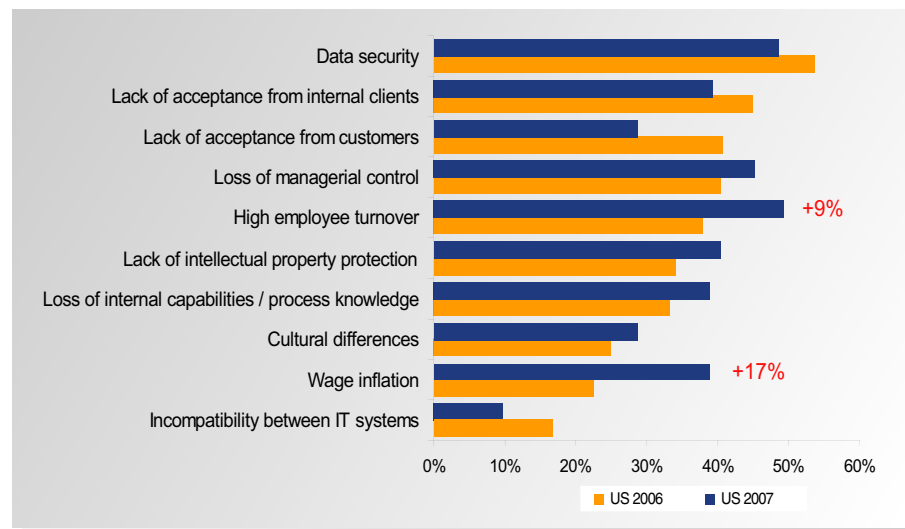
If outsourcing contracts are classified into those that involve core functions, non-core functions and a mixture of both, then the below table illustrates the common risk types for each category of sourcing contracts:

Sourcing Contracts	Example	Common Risks
Commoditized (Non Core) - depends only on mobility of work, availability of resources etc	Call center, technical support, Helpdesk, etc	Information Security, Business Continuity
Knowledge Process (mixed) - focus on core business. Emphasis on operations, delivery quality, excellence and capability of reverse transitioning	F&A, Payroll, HRO, Financial research, etc	Information Security, Business Continuity, Fraud, Regulatory compliance
Process/ product innovation (Core) - Global value delivery, strategic competency	Investment banking, Core banking, Software development, Procurement office, etc	Information Security, Business Continuity, Fraud, Regulatory compliance, IP, Country and Credit risks

In the last few years some of the key concerns for clients have been in the areas of security, business continuity and corporate governance. These are primarily due to the recent events across the globe that include volatility of commodity prices and currency movements, mortgage and real estate meltdown, US presidential elections and having both direct and indirect impact on the outsourcing industry. Additionally India being one of the choice outsourcing destinations for most global companies, incidents like the Mumbai terror attacks, Satyam frauds and the associated corporate governance issues, pandemic and the submarine cable faults have possibly impacted the perceptions and therefore the appetite for outsourcing decisions.

Figure 2: Comparison of Risk Perception in 2 years

Source - Duke University/ Conference Board Offshoring Research network 2007/8 US Survey

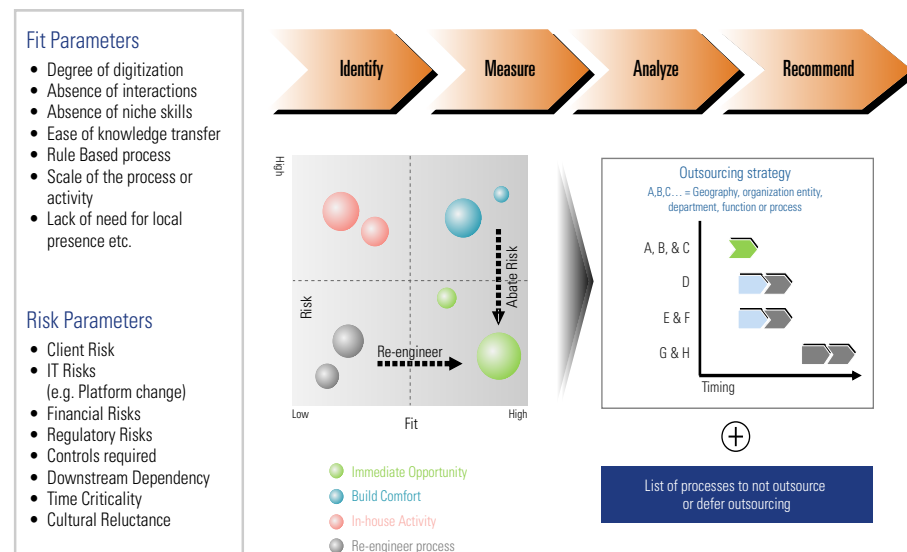


Traditional risk models view risks from an enterprise perspective with clients as a part of it address these concerns to a limited extent. However while these are important for sourcing decisions, clients trying to outsource their key business processes also wants its perceived risks (Figure 2) be suitably mitigated. Clients are increasingly demanding that BPO service providers use their judgment, context-sensitive skills rather than working only on documented instructions. They also have aggressive plans for outsourcing projects across various functions, besides wanting a complete suite of services instead of focusing on discrete elements of work. Clients outsourcing needs are only expanding and none of them have any plans on rescinding their contracts and/or relocating back the processes. Thus, the challenge is to sustain the expectations of expanding off-shoring plans and killing the business case to relocate back onshore by balancing the risk perception during this downturn. Gaining the confidence with high standards of risk management practices leading to innovative and secured business process management will be the key to win and establish a clear competitive edge. In this prevailing environment the approach to managing risk should not only be proactive but also customer centric.

Recommended Approach

In order to determine the feasibility of business processes that can be off-shored, clients should use a Risk-fit methodology. This tool enables clients to retain those processes that present a potentially very high risk for outsourcing or add additional control that will then reduce the risk and thereby make the process amenable for outsourcing.

Figure 3: Risk-Fit Framework at Infosys BPO



After the identification of the processes for off-shoring a control environment is designed in consultation with the client to ensure that delivery of services is not affected due to any prevailing risks. Therefore BPO's not only need an enterprise risk framework that looks at their internal risks but also a client risk framework, that views all the potential risks that clients face and the corresponding mitigation actions.

Recommended Framework to Manage Client's Risks

The risk framework (Figure 4) therefore should be an amalgamation of the enterprise and 'client' perspective and should ideally help in redressing the key concerns of clients especially those who are new to outsourcing and those that view outsourcing from a strategic perspective rather than a short term tactical option. The framework should delineate a comprehensive risk reduction mechanism in a BPO and also provide assurance to the clients, their internal & external auditors and any other key stakeholders. This approach to balancing enterprise and client risks ensures that the control environment exists at all levels of the value chain and is sufficient to meet all the requirements of clients.

Figure 4: Risk Management Framework



When suitable mitigation measures as described in Figure 5 are available, there is significant opportunity to reduce the cost of risk and thereby increasing the value of service delivery to clients. Further if these mitigation measures and control environments are bench marked against the global best in class standards, clients comfort with the service provider is further augmented. Viz. Infosys BPO has aligned its control environment to the best in class standards that include e-SCM, TR19/ BS25999, ISO 27001, ISO 9001, TL 9000, ISO 14001:2004, OSHAS 18001:1999 COPC, PCMM, AML, FISAP, SAS 70 etc.

Figure 5: Outsourcing risks and mitigations

Source: Infosys BPO

Risk Category	Risk Type	Mitigating Practices
Strategic	Business Change	<ul style="list-style-type: none"> • BPO Governance framework • Flexible Business model • Joint technology and BPO offerings
	Country Risk	<ul style="list-style-type: none"> • Global delivery model including near shore delivery option • Seamless operations from 2-3 different countries
Environment	Vendor Risk	<ul style="list-style-type: none"> • Contracts with vendors with SLA's defined • Vendor Risk assessment
	Financial Risk	<ul style="list-style-type: none"> • Credit checks & Monitoring • Currency Hedging
	Regulatory Compliance	<ul style="list-style-type: none"> • Enterprise & Client Specific SAS 70 • Internal and client specific audits
Enterprise	Knowledge Transfer & Capture	<ul style="list-style-type: none"> • Transition Methodology with defined toll gates and reviews • Reverse transition framework
	Business Continuity	<ul style="list-style-type: none"> • Flexible options including working from 2 different sites and hot seat option • Redundant/failover links to all clients
	Security/ Data protection/IP	<ul style="list-style-type: none"> • Stringent 24x7 physical Security & CCTV monitoring and electric fencing around campus • Disable USB/Flash drives, No media policy, Printer access restricted • IP audits and awareness trainings
Operational	Fraud	<ul style="list-style-type: none"> • Background checks on employees and training for new recruits • Dual control over processes involving accounting or funds transfer • Call backs, signature verification and periodic reviews of transactions • Verifications and proofs
	Employment & Workplace Safety	<ul style="list-style-type: none"> • Competitive compensation, defined career paths and comprehensive employee training • Atmosphere of care and fun • Network and data security
	Execution Management	<ul style="list-style-type: none"> • Quality processes and 6 Sigma methodology to minimize execution errors • Workflow management tools • Contract Compliance tools
	Business Practices	<ul style="list-style-type: none"> • Consultative approach to process changes • Business Process Council and domain expertise to discuss product design and execution

Alleviating Regulators Perceptions

While the framework can address the concerns of the clients, market regulators are influencing clients to focus on issues of corporate governance and internal controls in existence at BPO locations. Six years ago when service providers were grappling with the biggest shake-up in regulation for a generation after the ENRON, WorldCom fiascos, Infosys BPO was among the first company to provide an assurance mechanism under the SAS 70 framework to meet this regulatory need. Therefore the pursuit to achieve good governance should be an on-going process, whilst ensuring transparency, accountability and responsibility in all dealings with employees, shareholders, clients and the community at large. The corporate governance philosophy should not only encompass regulatory and legal requirements, but also several voluntary practices aimed at a high level of business ethics, effective supervision and enhancing value of all the stakeholders.

With the advent of outsourcing of more complex processes, Infosys BPO is very well placed to overcome the complex challenges posed by the raft of directives from BASEL 2 implementation, to the European Commission's Financial Services action Plan, including MiFID and Solvency II. Technology solutions have been developed jointly with Infosys technologies to address and meet regulatory requirements of clients.

C O N C L U S I O N

Risk management approaches have radically evolved over the last few years and have moved from a centralized top down framework to a multidimensional framework. It is no longer about managing controls and traditional check and balance focus but about influencing business practices and organization strategies. Enterprises are now adapting to assess and manage risk strategically in the context of the large scale opportunities it presents. While firms may not be able to eliminate uncertainty, they have however managed to develop resilient operations, have contingency plans to manage disruptions and recover quickly and build value. A deeper understanding of the clients business and their underlying risks can go a large way in alleviating their primary concerns around outsourcing besides being a significant source of competitive advantage. In a nutshell risk management is turning an adversary into a behemoth called opportunity where risks are pre-empted, foreseen and communicated to all stakeholders. Risk per se is a matter of choice. One can either mitigate it or accept it. However if not well managed, perceptions turn into reality and the risk may actually materialize.

ACKNOWLEDGEMENT

Jeff Russell

Duke University - Offshoring Research Network - The Fuqua School of Business



About the Authors:

The Importance of Maximizing Customer Value in a Downturn



John Willmott - one of the founders and CEO of NelsonHall. Since its inception in 1998, John has developed the company to its present position as the leading BPO analyst firm globally. John remains actively involved in the delivery of client assignments. He has personally covered the BPO market since 1992 and has led well in excess of a hundred assessments

of BPO. John currently presents NelsonHall's quarterly 'BPO Index' webcast, monitoring developments in the BPO marketplace worldwide.

Widely regarded as a 'BPO guru', John continues to contribute to, and oversee, NelsonHall's BPO research, and is a sought after speaker on BPO. John assists organizations in understanding the true shape of the BPO market and the success factors involved in BPO from both buy-side and supply-side perspectives. John holds a MA from Cambridge University and an MBA from Manchester Business School.

The search for gold: Helping banks to tap alternative funding sources



Abhijit Ghosh - is the Principal Consultant, Banking and Capital Markets practice at Infosys BPO, in charge of solutions and platforms. He has close to 11 years of experience in the IT/ITES industry. Abhijit has been instrumental in developing BPO solutions in the Core Banking, Mortgages and Reference Data space. He is a post graduate in management with a graduate degree in Physics.

'Analyze This' – How Communication Service Providers can use Analytics to Combat Recession



Harry Jose - Handles the domain competency enhancement initiatives of the Communication Media and Entertainment (CME) practice at Infosys BPO. He has over 7 years of experience, 5 of which has been in the area of training and competency development. Harry holds an MBA from Nirma Institute of Management, Ahmedabad.



Vinay Peshwa - Heads the Transformation Office of the Communication Media and Entertainment (CME) practice at Infosys BPO. Vinay has over 14 years of IT experience most of which was in providing consulting and technology solutions to Communication Service Providers around the globe. He holds an engineering degree from Indian Institute of Technology, Kanpur.

Customizing BPO: Developing a strategic response to the recession



Shyam Rao - is a solution anchor in the Order Management practice at Infosys BPO. He has 9 years of experience in the supply chain area in the hi-tech and discrete manufacturing space. Shyam is an alumnus of the London School of Economics.

Impact of Global Downturn on U.S. P&C Insurance Industry



Veerabhadran Ananthanarayanan - is the Solution Anchor with Insurance practice at Infosys BPO. He has over 13 years of experience in Financial Services and has worked with world's leading reinsurance company for 8 years in Reinsurance Operations, Business Applications Support and Process Re-engineering across markets. Veera is a post graduate

in International Business from IIFT, Delhi as well an Associate member of Indian Insurance Institute.



Ritu Mittadar - is a consultant with the Insurance practice in Infosys BPO. Ritu has over 7 years of experience across healthcare and insurance verticals, and has exposure in transition, operations and quality assurance. Ritu is a graduate in Life science and currently pursuing her Masters in Business Administration.

Managing Risk Perception and deriving Competitive Advantage



Srikant Balan - is Head of Risk Management at Infosys BPO. His responsibilities include managing Information and Data security, Business Continuity Management, Enterprise Risk Management (including SOX) and Regulatory compliance for both clients as well as Infosys BPO. Srikant had over 8 years experience in areas that include Software

development, Database administration, Operations and Process consulting in organizations like TCS and Siemens and across geographies including US, UK, Europe. He has an Engineering Degree from VJTI - University of Mumbai and a Masters in Business Administration (MBA) from Katz Graduate School - University of Pittsburgh. He is also a Certified Information Systems Auditor (CISA) from ISACA.

Infosys BPO Marketing team thank all the authors for their contribution to the Infosys BPO Journal

Questions? Opinions?

Please visit
<http://www.infosys.com/bpo>

Infosys BPO Ltd. (www.infosys.com/bpo), the business process outsourcing subsidiary of Infosys Technologies, focuses on integrated end-to-end outsourcing and delivers transformational benefits to its clients through reduced costs, ongoing productivity improvements, and process reengineering. It has been recognized as one of the leading BPO providers in the world by The International Association of Outsourcing Professionals, NASSCOM, Dataquest, Red Herring, FAO Today, NelsonHall and others. Infosys BPO. Infosys BPO operates in India, Czech Republic, China, Philippines, Poland, Thailand and Mexico.



For more information, contact bpo_marketing@infosys.com

www.infosys.com/bpo

© 2009 Infosys Technologies Limited, Bangalore, India. Infosys believes the information in this publication is accurate as of its publication date; such information is subject to change without notice. Infosys acknowledges the proprietary rights of the trademarks and product names of other companies mentioned in this document.