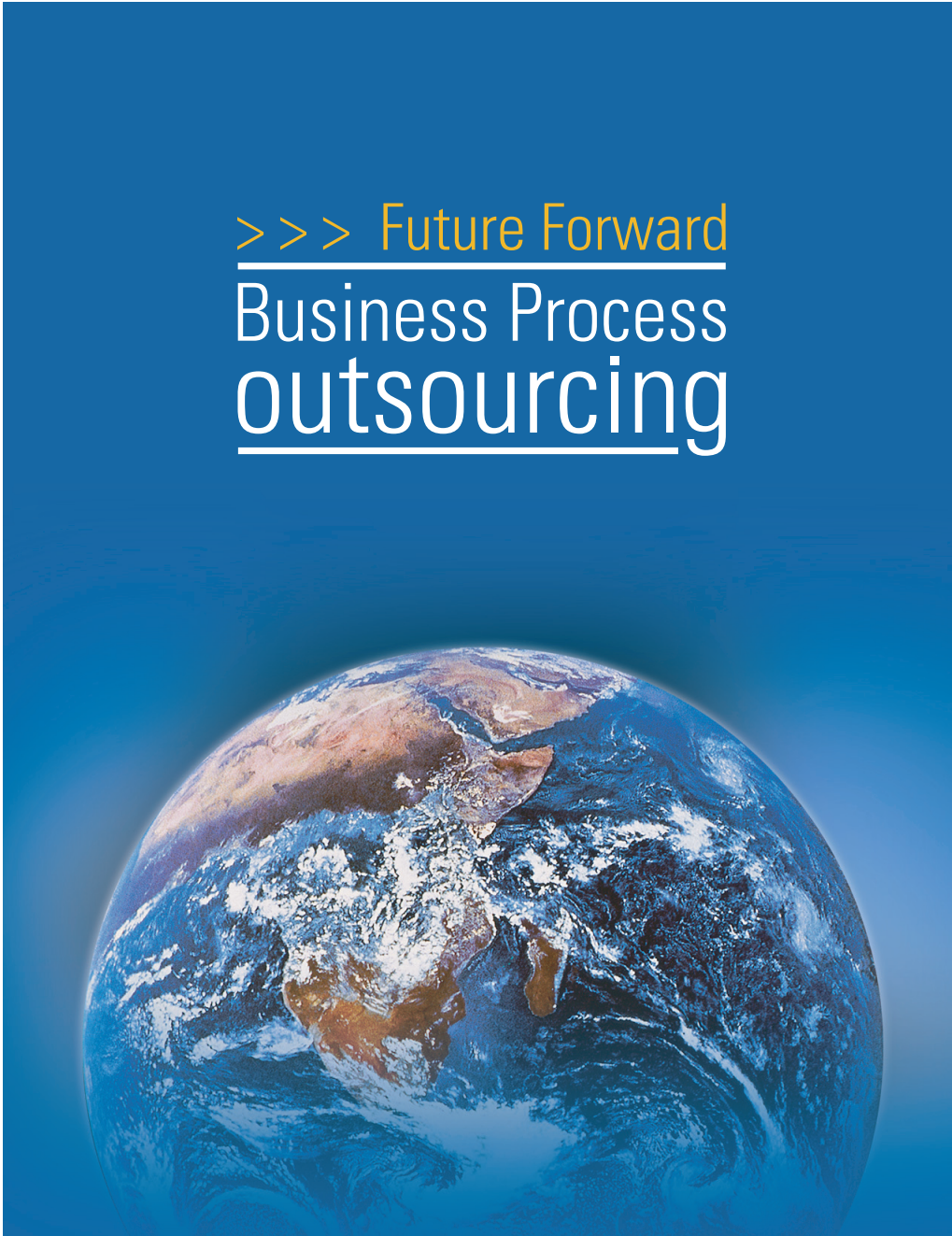


▶ ▶ ▶ ▶ *Inside: 8 Thought Papers*

>>> Future Forward
Business Process
outsourcing



Infosys®

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Foreword

Dear Friends

Most business leaders agree that the world is fast changing. The playing field is being leveled and expanded. Businesses are on their toes and need to be fast and flexible.

Innovation in product and customer service, time-to-market, globalization, comfort with technology, availability of information, convergence of industries and such trends are pushing global businesses towards a transformation that will help them win in this flattening world. No longer is global sourcing merely about moving jobs elsewhere; increasingly, it is about lowering the cost structure and leveraging global resources to differentiate products and services.

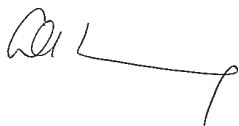
To shift their operational priorities, businesses around the world are seeking transformation partners that will enable them to innovate and accelerate faster. Infosys is a trusted partner of a large set of Fortune 1000 companies and companies from emerging economies in their transformation journey. We offer a spectrum of solutions and services that are innovative and cutting-edge. We are constantly innovating along with our customers and partners to visualize and define the business process outsourcing of the future.

The thoughts presented in this journal are a pioneering effort to co-create and share ideas with customers and stakeholders on emerging trends and practices such as:

- How technology and process would converge to create platforms that provide higher value to clients via lower capital investments, best of breed practices, and lower turnaround time
- How convergence in the communication industry is threatening to some companies while other companies are innovating to tap the opportunities by shifting their priorities
- How some of the new industries like shipping and logistics, hedge funds and smaller companies are leveraging outsourcing
- How insurance companies who were among the pioneers of outsourcing are looking at next-generation outsourcing benefits through process re-engineering to enhance productivity, efficiency and competitiveness
- How information that has been amassed by businesses around the globe can be analyzed to identify low-hanging fruits on saving costs or enhancing yield
- How future mortgage lenders need to make shifts in their strategy in the current context of the industry

We have launched this thought leadership journal on the BPO sector to bring to you our viewpoints and perspectives. This journal will be released on a semi-annual basis and we hope you enjoy reading this as much we enjoyed putting it together.

Best regards,



Amitabh Chaudhry
CEO & MD
Infosys BPO



Win in the flat world

Leading in the Converged Future: Becoming an Agile Telco

– Amit Ahuja, Abhay Chauhan and Gagan Vohra

Abstract

The convergence of networks, systems and devices is revolutionizing the communications industry. As technological progress redefines the marketplace, Communication Service Providers (CSPs) or telecommunications companies (telcos) face a unique set of lucrative opportunities and momentous challenges. Developing economies are opening up in the flattening world to offer CSPs enormous untapped markets. At the same time, emerging players are providing stiff competition through innovative and competitively priced offerings, taking customer expectations to new highs.

If CSPs are to win this game, they must closely engage with their customers while improving their service proposition. They need to work relentlessly toward reducing costs, improving profitability, becoming agile, and transforming the organization to keep pace with the changing paradigms of the flat world. This calls for increased operational efficiencies, integrated processes and rapid roll-out of novel and niche products in new geographies.

This paper outlines the four-pronged approach CSPs need to adopt to secure and maintain their leadership position in an industry hit by a tidal wave of change.



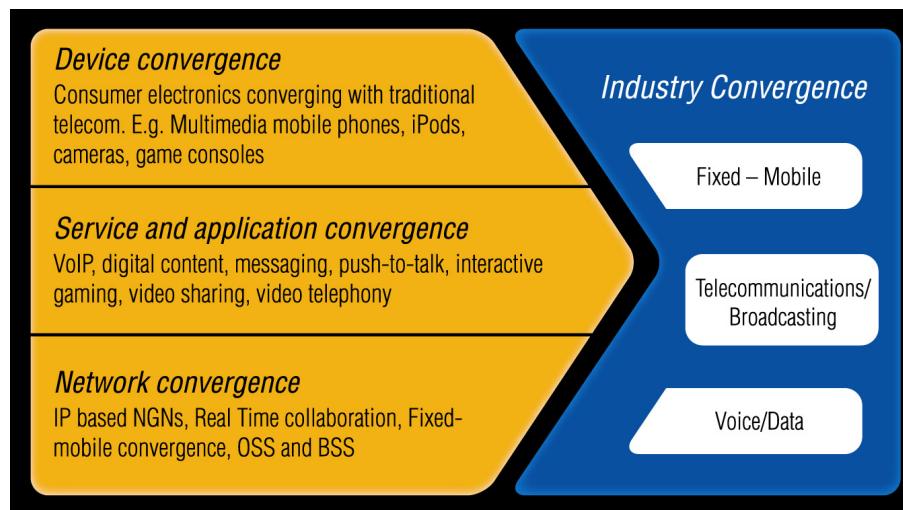
What is driving the agenda for transformation?

The telecommunications marketplace is a whirlpool of volatility and competition. As basic communications services get commoditized, the winners will be those who best meet customer expectations for innovative products while continuously paring costs. To survive and thrive in such a market, CSPs need to understand the factors driving the transformation. These are:

- *Convergence*
- *Porous boundaries between CSPs*
- *Next-generation products and new markets*
- *Mergers and acquisitions*

Convergence

Technological convergence offers CSPs and consumers myriad new possibilities. Internet Protocol-based Next-Generations Networks (IP-based NGNs) enable telcos to provide voice, video and data applications over one network. Equipped with capabilities for anywhere, anytime communications, NGNs herald higher quality, genuine choice and attractively priced innovative services for consumers. Further, feature-rich wireline and wireless devices offer an impressive convergence of services. For example, convergence has allowed the mobile phone to evolve from a mode of voice communication to a feature-laden multimedia device that enables users to take photographs, shoot video, listen to music, read documents and even execute financial transactions.



Porous boundaries between CSPs

Boundaries between CSPs are also becoming porous as emerging players offer applications which erode the market share of incumbent companies. A case in point is how wireless services have stolen a march over the wireline business. According to the Telecom Regulatory Authority of India, in October 2007, India had 217 million mobile connections, against 40 million wireline connections. A year ago, the subscriber bases were 98 million and 42 million respectively.

The blurring of target markets extends to other technologies as well, as telcos step into each other's territories:

- Digital Subscriber Line (DSL) is facing a threat from mobile broadband
- Multiple System Operators (MSOs) are challenging existing carriers through innovations beyond voice and data services. For instance, Cox/Comcast is offering advanced features such as caller ID on TV through its triple play service - broadband, phone and TV.
- Companies like Skype and Vonage are taking increasingly larger bites of the market pie and impacting the profits of long-distance carriers

Next-generation products and new markets

Since customers have an array of innovative and niche services to choose from, they unhesitatingly switch to a player offering newer and better products at a lower cost. Faced with decreasing customer loyalty, CSPs are chanting the quad play mantra, heralding the convergence of voice, video, broadband and wireless services. It ensures that a single provider blends these services in a seamless environment, thus fulfilling customer needs and reducing churn.

Quad play has led to the three-screen strategy - reaching out to customers through their personal computer, TV and mobile devices. Thus, most telcos are rushing to roll out new services like Internet Protocol Television (IPTV). British Telecom has launched BT Vision, Verizon has FiOS, while AT&T has launched UVerse.

The competitive pressures in a flattening world are forcing CSPs to launch their products in newer markets and geographies at a scorching pace to remain competitive. For example, Verizon plans to roll out its FiOS service across the US in the next 12-15 months.

Even as CSPs speed next-generation products to the market, they must continue to support existing services. While an increasing number of users are signing up for services like IPTV and mobile broadband, CSPs must continue offering POTS (Plain Old Telephone Service). BT provides enterprises with global connectivity through a world-class Multi Protocol-Level Switching platform, but still continues to support analogue circuits.

Mergers and Acquisitions

Convergence, the search for new markets and technologies, and the need for economies of scale are driving telcos toward mergers and acquisitions. Consolidated entities need to be agile to face challenges, lead technological changes and win in the marketplace.

The need for agility demands that telcos migrate to an NGN that is supported by interoperable system architecture, and embrace integrated and flexible business processes. Operational changes must accompany network and system transformations. In telecommunications, where there is no room for error, only agility ensures that neither service levels nor profitability are impacted adversely.

What are the hurdles to becoming an agile enterprise?

If CSPs are to profit from the world of opportunities that convergence offers, they must transform

their business models and IT landscape at a rapid pace. Business and technology silos keep them from responding to the changing demands of convergence and customer expectations. If industry players want to harness the potential of convergence, they must eliminate the following silos in their business structure:

- *Network and IT infrastructure:* Many CSPs have disparate systems that do not communicate with each other, leading to revenue and cost leakage
- *People:* CSPs have separate organizations and personnel for varied services. This leads to high costs and makes scalability difficult
- *Processes:* Sub-optimal and fragmented processes with a low degree of standardization are impediments to scale and flexibility. Integration makes it possible to streamline operations and automate processes for rapid response and to offer new and competitive services at low cost

CSPs are responding to this challenge by working with a number of partners, who have the expertise and agility to help launch new products and services, reduce costs, increase customer satisfaction, unify processes, and integrate systems to help CSPs focus on core competencies.

The Infosys approach to becoming a nimble-footed CSP

Infosys recommends a four-pronged approach to help CSPs reap the benefits of convergence and win in the dynamic communications marketplace.

This approach entails making the following strategic shifts:



Being the China Price

While responding to technological and consumer imperatives, CSPs must deal with increasing margin pressures. With plain voice getting commoditized and large investments needed to introduce new products and retain customers, CSPs must keep costs low and maintain margins to ensure profitability.

In the converging and flattening telecommunications landscape, it may help if your answer to the following questions is 'yes'.

- Can you reduce your cost structure by defining core processes, phasing out processes that do not add value and eliminating non-core processes?
- If your average ARPU (Average Revenue Per User) is 1/10th of what it is today, will you still be profitable?
- If you no longer charge for connectivity, will you continue to make money?

Telcos can move to lean and globally competitive cost structures by:

- Re-engineering processes to remove non-value-generating activities
- Defining harmonized processes that are scalable and flexible, and also increase utilization and productivity
- Automating to the extent possible to reduce time and delivery cost
- Outsourcing non-core activities to leverage a cost-efficient labor pool
- Mass personalization through self-service portals

CSPs in India, the world's fastest growing mobile market, ensure competitiveness through outsourcing. Its leading mobile operators have been adding more than 2 million subscribers every month, for the past 40 months. Despite having the lowest call rates globally, they have healthy bottom lines.

The following examples illustrate how Infosys enabled telecom majors across the world to 'Be the China price'. Infosys has helped:

- A leading access provider benefit significantly through a strategic assessment of its reporting organization that helped eliminate redundancy and drive enterprise-wide standardization and improvement. Infosys is working on automating the company's reporting systems and utilise the free-up resource to focus on value-added analytics
- A global telecom major by presenting a roadmap to transform its service delivery engine to reduce headcount and cost through process harmonization and automation, while improving service levels and customer experience
- The retail arm of a major UK-based telecom service provider, by clearing over 6.6 million additional transactions without any increase in headcount. This resulted in an estimated savings of £3.6 million over a 2 year period through a combination of process improvements and business transformation.

Similarly, Infosys' Scenario-Based Customer Service (SBCS) solution helps to build a superior customer service experience while creating a lower operating cost base for service and network operations. Through a process, technology and organizational change framework, the solution helps telcos transform the customer service experience by injecting operational service knowledge into key systems and processes. Problems are resolved rapidly and cost-effectively by empowering customer service agents with diagnostics and recommended resolutions at the point of customer contact.

Building Loyalty through Faster Innovation

To build customer loyalty in a flat world, CSPs must be able to answer these questions:

- How can you create and deliver new products with agility and fewer fixed costs?
- How can you become an aggregator of third-party content and enterprise services by collaborating and co-creating with other third parties?

The need for innovation in the industry has never been greater. Competition is fierce, technology is changing by the day and customer expectations are high. As voice revenue comes under pressure, telcos need to increase revenue from non-voice streams such as data, video and broadband in the following manner:

- Capture customer imagination by turning into a content aggregator and provider from being just a connectivity provider. CSPs can create interactive customer portals for self-service and content preview, co-creation, sales and download. For example, Telekom Malaysia offered download of a 'World Cup' graphical user interface (GUI) on customers' handsets during the 2006 Soccer World Cup. The GUI-embedded score update button was a huge revenue spinner
- Constantly improve the speed and quality of service delivery. It is only when providers 'de-silo' services that cross-network product and content delivery is effective. Integration helps telcos manage the network and IT infrastructure from one platform and enjoy a holistic back-office view. Modularizing workflows, as opposed to monolithic workflows for each service, allows the system to aggregate services through components quickly and cost-effectively
- Strengthen customer touch points to create delightful experiences through targeted products. This is enabled by mining the available - though scattered - customer and service data. CSPs can also deliver content to the 3 screens: Desktop, TV and mobile. Infosys can help repurpose content to provide it cost-effectively across channels

Making Money from Information

To cash in on information, you need to understand:

- How do you change from a "service" organization into one that proactively up-sells/cross-sells premium services based on the customer's unique preferences?
- How do you distil customer information held in billing and network provisioning systems to increase ARPU and intervene to prevent customer churn?

With the numerous and varied products on offer, and customers expecting personalization, a telco needs to differentiate itself through mass customization. Success is decided by a CSP's ability to deliver presence-sensitive and personalized services to a wide and diverse customer base.

How does a service provider offer customers the products they want?

CSPs spend valuable dollars to collect and maintain ever-increasing bytes of data. While information on customers, service, billing and networks is available, it is scattered across the

enterprise. To collate and leverage the data, CSPs must build customized analytical models for a 360-degree view of the customer and his/her behavior and needs. This will enable:

- Conducting on-going customer needs analysis
- Targeted segmentation of customers
- Serving customers based on value and preferences



Infosys is developing a framework that will leverage business intelligence to ensure customer-centric operations. This includes:

- Targeted marketing: CSPs need to anticipate customer needs and offer custom-built solutions. They must especially identify and profile high-value customers to offer appropriate services
- Pro-active churn management: With new players offering niche services, customer churn is high.
- Service delivery segmentation: Optimizing the cost to serve a client based on his contribution to ARPU
- True customer loyalty programs

CSPs can plug revenue and cost leakage by analyzing internal information. Infosys has developed a solution framework for optimal network revenue and access cost management. Through data cleanup, validation and synchronization between the various data stores - such as CRM, billing, order management and provisioning systems - it helps maintain a comprehensive and accurate:

- Master Circuit Inventory with relevant provisioning detail for financial auditing of facility access
- Customer billing database to corroborate billing
- Network cost database to manage, audit, dispute and pay vendor invoices

Winning in the Turns

To overtake the competition in the fast-changing market-place, it is critical to answer these questions:

- How soon and to what extent can you convert fixed costs into variable costs by adopting a managed service model?
- How do you ensure that declining legacy businesses do not become a drain on the overall organization during market downturns?

Telcos need to equip themselves to turn the change to their advantage. Players must adopt predictive capabilities through analytical models that help plan and develop a future-ready enterprise. Infosys can help:

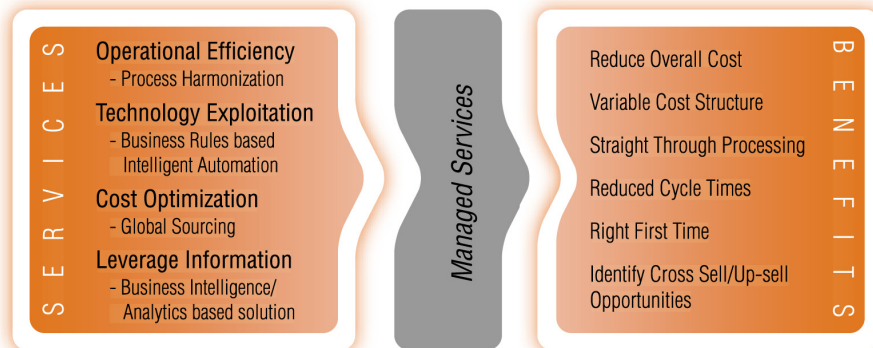
- Create data models for an enterprise-wide data warehousing system. Using advanced analytical tools and techniques, Infosys provides inputs on trend analysis and forecasting. This can help CSPs perform product and customer analysis and activity-based costing
- Develop statistical models to forecast demand and validation of existing models. These models can be used for budgeting and resourcing
- Analyze data for competitive structuring and pricing of products

Agility demands that CSPs cut fixed costs constantly. Moving to a variable cost structure provides a natural hedge during industry downturns. CSPs can ensure this by outsourcing activities to lower-cost geographies across the globe.

Infosys runs shared service centers in a managed service mode, thus helping integrate processes, achieve operational efficiency and ensure economies of scale. The centers handle the following functions:

- Order-to-Cash
- Procure-to-Pay
- Hire-to-Retire

Infosys' framework for success in the flat world



The graphic above illustrates how the Infosys framework helps CSPs take on various challenges in the flat world. With technology advancing at a breakneck pace, services and devices fulfilling varied communication and entertainment needs, and a host of new players meeting niche requirements, customers are spoilt for choice. They expect new products, faster service introduction and improved quality at decreasing prices. Faced with increasing competition and margin pressures, CSPs need ways to improve user experience to gain and retain customers.

Infosys' approach and solutions enable CSPs to plan, prepare and execute a road map that integrates processes, allows organizational flexibility, reduces time-to-market, lowers costs, and helps meet customer expectations.



Win in the flat world

Trends in BPO in the Shipping & Logistics domain

– Sarang Gaikwad

Abstract

Outsourcing is not a new phenomenon for the Shipping and Logistics sector. Some of the biggest companies in this sector have used outsourcing in many of their key functions routinely- from Ship Management, Training & Development to I.T. Application development & maintenance. Although the core objectives which drove outsourcing haven't changed over the years- viz: need to concentrate on core competencies, lack of in-house expertise and need to extract greater financial flexibility- what is new is that Shipping and logistics companies are now increasingly seeking to gain these benefits by outsourcing business processes which have been traditionally considered to be too core to be outsourced - much less offshored. This is just one amongst some of the key trends, which Infosys has researched, which are emerging from this domain. This paper seeks to make senior executives of Shipping & Logistics companies become aware of these trends which may impact the strategic outsourcing journey of their own organization.



Emerging trends in Shipping & Logistics Business Process Outsourcing:

Some of the key trends which Infosys has identified are -

A. *Laggards w.r.t outsourcing are trying to play catch-up:*

- Relatively smaller companies are increasingly feeling more and more confident of their ability to get business processes executed from offshore. These companies now view the cost advantage and customer service improvement gains from outsourcing as one of ways they can withstand competition from industry heavyweights, in an industry which is increasingly becoming ever more consolidated through mergers & acquisitions. Ex: Recently one of the smaller Europe based container shipping lines was acquired by an Indian Logistics company and key customer service functions, hitherto being performed from Europe have now been offshored into India.
- Companies with geographical origins in the Far East are increasingly seeking the benefits from BPO. This is significant given that traditionally it has been the companies from the USA and Europe which have taken a lead in seeking gains arising out of BPO. Ex: A Japanese shipping giant is presently in the midst of outsourcing some of its key business processes in two offshore locations in India.

B. *Leaders themselves are busy moving onto the next evolutionary step in their outsourcing journey:*

- Captives of Shipping and logistics majors are evolving from being a **Onshore centric** in terms of decision making and accountability to a model where process related decisions are increasingly being taken where the process is being performed- **the offshore back office**. Historically, the pioneers in shipping BPO established business process models which required the offshore teams to rely on their onshore counterparts to validate and check work output, or at the very least, assume final accountability for the output. Given the early stages where these captives found themselves on the learning curve, this model was the most logical choice at that point in time. However, while the resources in the offshore unit went up the leaning curve over a period of time, the original process model stayed at its historical origins, resulting in a sub-optimal process where- the work input going into the BPO was routed via onshore after being checked onshore for completeness, checked in the offshore captive for completeness and accuracy before processing, checked offshore again after processing the data and passing through another layer of onshore checks, before being passed on to the end customer! The unstated assumption behind this process model was that the offshore process would constitute nothing more than transactional algorithmic data entry based on procedures dictated by onshore SME's, who should therefore be finally accountable for the process quality.

Infosys is now seeing this process model being turned on its head with the offshore resources increasingly being seen as the SME's of the offshored processes. The process level decisions are now being increasingly taken offshore and these resources are now being even asked to contribute their knowledge on issues like system architecture

changes wrt the application modules they work on. One shipping captive that Infosys has spoken to for example directly interacts with customers on issues related to bill of lading and invoice accuracy Vis a Vis the traditional model where interactions with customers were always handled by the onshore offices.

This is a major change in both the process model as well as in perceptions.

- Transactional/Algorithmic data entry to Knowledge oriented - No longer are only transactional processes requiring little or no decision making the only ones that are being offshored. Shipping and logistics companies are increasingly feeling confident enough to outsource even complex, knowledge oriented processes which require significant levels of business process knowledge and decision making. Some of the representative processes which are being performed from offshore which fall into this category are: Approval of dangerous cargo before loading cargo on board- a process which requires master mariners with enormous business expertise, Business Process & IT application helpdesks etc. One industry major that we spoke to recently went so far ahead as to ask for our help in executing complex data analytics related to yield management, global accounting and budgetary control- processes which are currently being executed by senior resources with considerable experience, at their headquarters. In another client interaction, Infosys is discussing the set up of a helpdesk to resolve Business Process queries of its global user base- a process which is currently being supported by resources with between 15-25 years of work experience!
- Captive to Third party - Infosys has long since maintained that companies following the captive outsourcing model will incur a Total Cost of Ownership (which includes costs such as attrition, costs related to attracting and maintaining quality resources, among others) which is far higher than what they would incur in a third party model. A recent Forrester report entitled 'Shattering the Offshore Captive Myth' which shook the outsourcing world, confirms what we have been maintaining all along. Our recent conversations with industry make us believe that Shipping and Logistics companies, which have been captive heavy in terms of their outsourcing model till now, are already looking at the third party model in a more favorable light.

C. The emergence of pricing structures which enable shipping and logistics companies to variabilize customer service costs in the 'Flat World':

Infosys has identified the onset of transaction based pricing as a key development which is likely to revolutionize the cost structures in the outsourcing space. The transaction based pricing model allows clients to variabilize their Customer Service Costs/ TUE/Tonne of cargo carried- something that will likely be a competitive differentiator in the future.

The Shipping and Logistics industry has over time made a steady but sure progress towards becoming what we term 'Asset Flexible' w.r.t Capital Assets by moving towards chartering fleet and other capital assets rather than owning them. Consider this- Close to half the fleet of Maersk line, the #1 company in container shipping by revenue and capacity, is currently on charter. One of our clients- a global leader in the oil and gas exploration space, operates a \$1 billion shipping subsidiary for captive use, which also operates a fleet chartered at the same level.

The attractions of being asset flexible are not far to seek. Being 'Asset Flexible' helps these companies gain enormous financial and operational flexibilities, when the industry supply-demand balance turns adverse, by allowing them to shed capital assets. An 'Asset flexible' company is thus able to variabilize its underlying capital cost structures to the dynamic demand curve in an industry which is notoriously cyclical.

Infosys believes that Shipping and logistic companies would soon start to demand the same financial flexibility to enable them to variabilize the Customer Service costs per tonne/teu.

This flexibility however can only be provided by a few third party vendors like Infosys who have an ability to price BPO deals per transaction performed and more importantly the flexibility to re-allocate people to processes of other engagements- something which a captive shared service center is not able to do. The onset of Transaction based pricing would mean that Principals of Shipping companies would no longer need to allocate a fixed budgetary support for their captive SSC that is operating as a cost center or pay per FTE employed on its processes with a third party vendor. Rather, they can now look forward to paying only for the volume of service transactions they would consume (ex: no of bills of lading processed, number of invoices paid for in an AP process etc) multiplied by the cost per service transaction. So when the volume of containers shipped decreases say, in the lean season between January to June or any other industry wide down cycle, shipping companies can now gain the flexibility by paying exactly what they consume.

In other words, CEO's and CFO's of Shipping and Logistics companies can now not only be 'Asset flexible' with respect to their capital assets but for the first time also with respect to their human assets. Improved flexibility in customer service costs per tonne/teu shipped will no doubt result in an improved leverage for improving business growth, profitability and the long term competitiveness of Shipping & Logistics companies.

What is needed to achieve these goals is partnership with a trusted partner who has the right mix of expertise in terms of processes, technology and people to deliver outsourcing solutions which go beyond cost arbitrage and which are targeted to alleviate industry specific pain points. Infosys with its breadth and depth of domain knowledge in the Shipping & Logistics domain and experience in executing technology and Business outsourcing solutions with predictability is keen to be your strategic partner in this journey.



Win in the flat world

Property and Casualty Industry - At the Crossroads

– Prakash Hariharan

Abstract

Insurance companies, traditionally, have not been proactive in looking at back office and mid office process outsourcing as component in the overall business strategy. Market dynamics are forcing these companies to change now. With increasing pressure on premiums, that is expected to continue for the next 5 - 10 years, P&C insurers have increasingly started seeking new ways of improving profitability and competitiveness. They are looking at ways to introduce efficiencies in the way they conduct business. Automating the broker underwriter interactions, rationalizing the I.T. applications portfolio, introducing efficiencies in claims management function are some of the steps taken to ensure that expense ratios are contained. Also steps like these would enable P&C companies, focused on the top end of the market till now, to start targeting the mid-market.

While these changes are important, the soft market demands organizations to transform their overall operating model to ensure a step change in expense ratio. Outsourcing business processes would increasingly become an important strategy that these insurers would embrace to ensure cost savings and an efficient means of adding variable capacity (enabling variable capacity is important due to the high seasonality of the business).



Executive Summary

While U.S. property and casualty (P&C) insurers have made significant headway in ADM (Application Development and Maintenance) outsourcing, BPO (Business Process Outsourcing) is still largely unexplored. With premiums expected to grow at merely 1.8% (2007 forecasted growth) and thereabouts in the coming years, there is a greater need to structure expenses for a soft market. P&C insurers therefore need to find new avenues to reduce expenses and add variable capacity. BPO is an effective way that would enable insurers to achieve both of the above - allowing the business to add capacity where and when required and focus on aggressive growth initiatives while keeping a flat expense ratio.

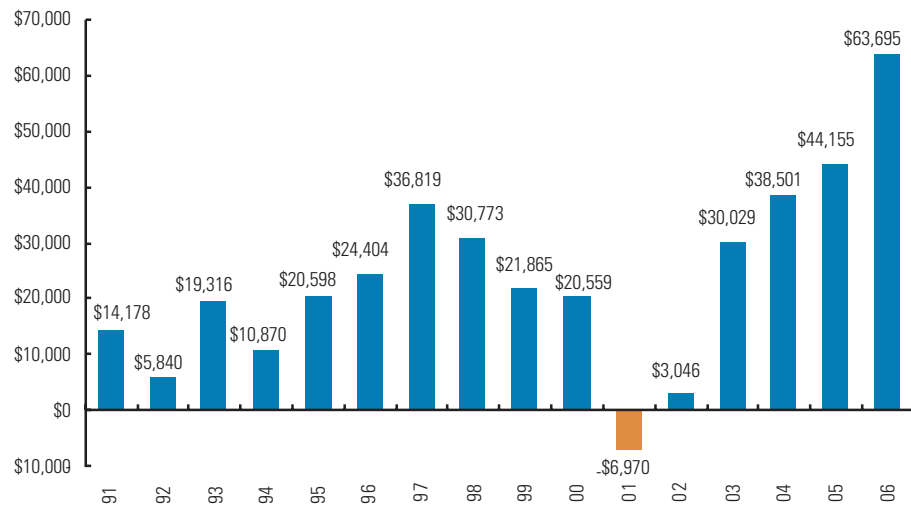
While functions like Payables, Receivables, GA, Financial Reporting would be the obvious candidates to be considered, each insurer will need to have a vision of the overall future state of their business and follow the right outsourcing approach that would help them achieve that specific strategic intent. The expectation is that organizations would increasingly start outsourcing higher end processes like underwriting activities or claims processing functions in greater numbers.

One thing that's clear is that P&C insurers who leverage outsourcing as a key component in their overall business strategy, and BPO providers that enable these organizations execute these strategies would emerge as winners.

In this paper, the performance of the P&C industry is analyzed and the reason outsourcing will become an imperative in this industry is discussed.

Property and Insurance industry outlook

The P&C insurance industry is a cyclical business and therefore, the industry profits have to be viewed over the long term. Looking at financial results for only one or two years will not provide us with the actual performance and would be misleading. Profits earned in years when losses are lower than expected (such as 2006) offset performance in years when insurers lose money, primarily because of significant catastrophic losses (such as 2001 and 2002; see figure below).



Source - Insurance Information Institute

As can be seen from the above figure, the profits made by insurance companies are cyclical and highly volatile. This is largely due to frequency and severity of catastrophes and the competitive pricing pressures. When industry financial performance is robust, competitive pressures bring down the premiums insurers could charge. The below table compares other key financial indicators in 2006, compared to the previous year. As can be seen from the table below, 2006 has seen premium growth, increase in surplus and record underwriting profits.

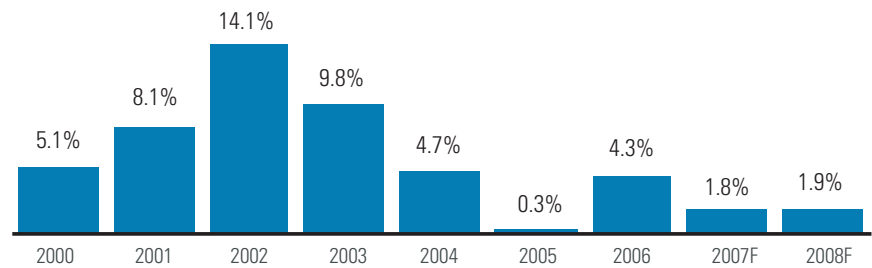
Item	2006	2005	Change
Net Written Prem.	443,778	425,500	+4.3%
Loss & LAE	283,700	311,624	- 9.0%
Net UW Gain (Loss)	31,232	(5,612)	N/A
Net Inv. Gain	55,561	59,430	- 6.4%
Net Income (a.t.)	63,695	44,155	+44.3%
Surplus	487,123	425,760	+14.4%
Combined Ratio	92.4	100.9	- 8.5 pts.

Source - Insurance Information Institute

2007 Industry Outlook

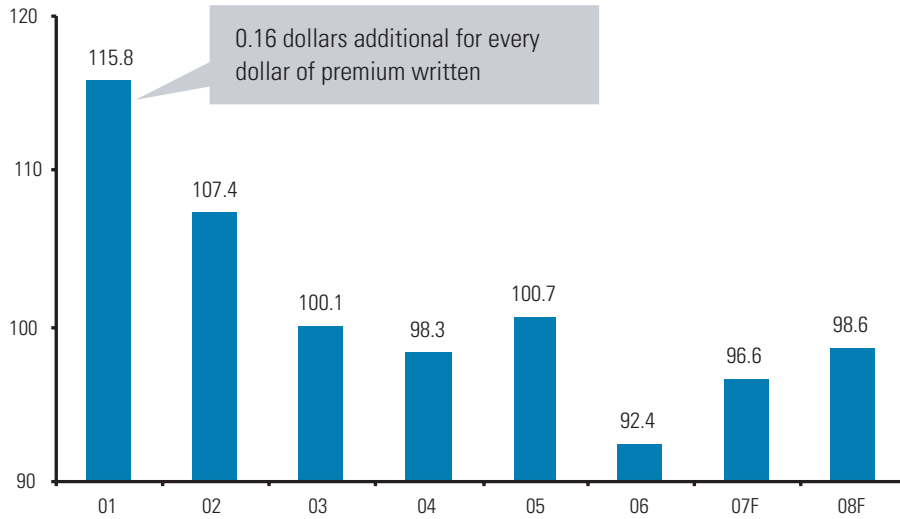
Let us analyze the industry outlook by evaluating important performance parameters namely, Net Written Premiums, Expense Ratio, Combined Ratio and Profitability.

Net Written Premiums - P&C insurers will experience their slowest growth rates since the late 1990s



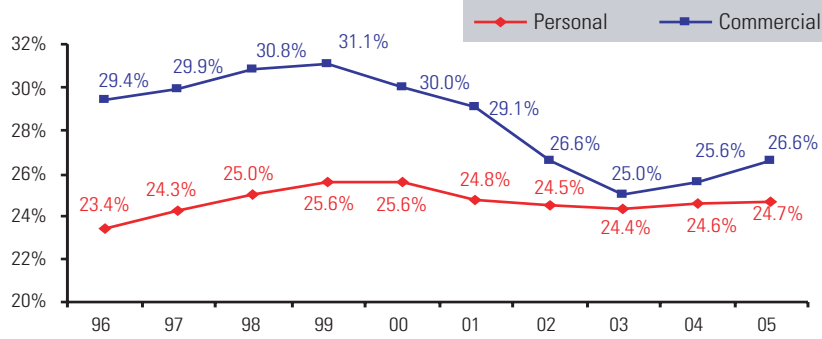
Source - Insurance Information Institute

Combined Ratio - 2006 produced the best underwriting result since the 91.2 combined ratio in 1949. Ratio would deteriorate in 2007,2008 primarily due to falling rates



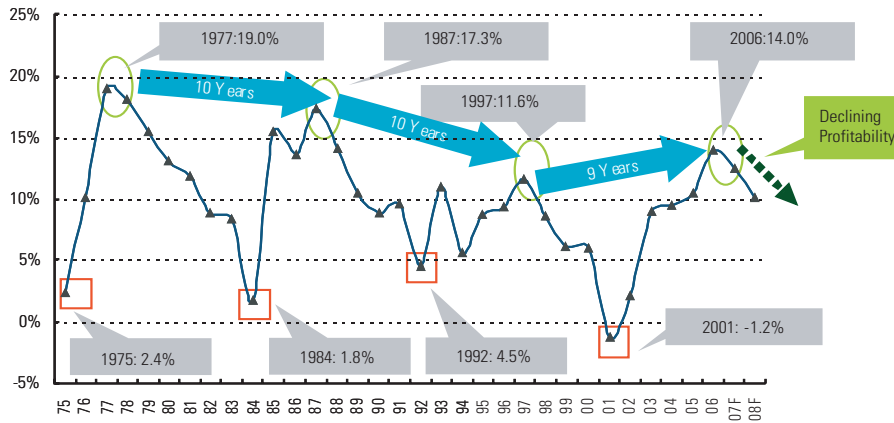
Source - Insurance Information Institute

Expense Ratio - Expenses ratios will see an upward trend as premium growth slows



Source - Insurance Information Institute

Profitability - Since the profitability has peaked in 2006, the cyclical nature of the business would mean that the industry would witness lower profitabilities in 2007 and 2008.



Source - Insurance Information Institute

Summary

- Good positive results in 2006; high levels of overall profitability
- Slow growth environment ahead; premium growth rates are slowing to their levels since the late 1990s
- Expense Ratio would increase in the following years
- Overall decrease in profitability due to increase in expenses and pressure on margins; clear need to remain underwriting focused

BPO - Strategic Imperative

U.S. P&C insurers are facing a soft market, declining premium rates, and fierce competition, a situation that demands careful control of the levers of profitability. Assuming that insurers would focus on underwriting to minimize the loss ratio, additionally the focus would be to structure underwriting expenses for a soft market.

Expenses related to underwriting can be largely classified into Broker Commissions, Salary costs, Licenses, taxes and other fees, other expenses such as advertising, administration and equipment.

Broker commission is the biggest expense component contributing to approximately 50% of the expenses. P&C insurers understand the importance of containing this cost and have implemented/ are implementing new commission structures, enabling technologies, and distribution strategies in an effort to limit expenses related to commissions. These are one time changes and cannot be altered frequently, therefore once implemented organizations may find it difficult to reduce costs on a continuous basis. Salaries and wages are a large and growing component of underwriting expenses, consistently accounting for a fifth of underwriting expenses and growing year on year.

Outsourcing offers an efficient means of controlling these rising expenses and also adds flexible capacity which is important to manage the high seasonality in the business. Additionally, it will free up bandwidth for insurers to focus on developing more complex products and target newer, profitable market segments.

Core processes



Support processes



■ Potential accruing candidates

Source - PricewaterhouseCoopers

Quite a lot of BPO service providers recognize the demand for insurance services and have focused industry verticals. While some of the processes initially outsourced were largely voice based, transactional activities or traditional outsourcing functions like Finance and Accounting, HR etc., recently, the choice of services has moved up the value chain into core processes such as underwriting, risk analysis and claims management.

At present, only those service providers who have had the focus to develop such advanced capabilities can collaborate with the insurers to help them execute these sourcing strategies. These are providers who were not only interested in call center work alone, but developed capabilities to undertake processes that have a significant data processing component (such as policy administration, claims processing, and underwriting). These providers are rightly poised to partner with the insurance companies and gain the maximum in the next few years; others would have to innovate and shorten the lead times to acquire such capabilities.

Conclusion

For many P&C insurers the upside of a sound sourcing strategy is too great to be ignored. Property & Casualty insurers have to think strategically about sourcing business processes as a means of adding capacity and capabilities and focusing on aggressive growth initiatives. The biggest challenge that impedes insurers to outsource their functions is the fear that outsourcing might lead to losing operational control and cause customer dissatisfaction. Obviously therefore, the demands from these companies are higher than ever to ensure continuity of the same service levels to not lose their market competitiveness. The sourcing market is responding with the development of processes to ensure good service delivery, development of more sophisticated services and the arrival of new entrants, many of them specialist or niche players.

The next few years would be interesting to see the extent to which the P&C insurers leverage outsourcing to remain competitive and how would that drive sourcing companies to innovate and unleash the full potential of outsourcing. Exciting times lie ahead for sure.

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Win in the flat world

Business Platforms–Cascading into the next Horizon of Outsourcing!

– Hariprasad B. K.

The Business Imperative

In a business environment increasingly driven by disruptive shifts in the global economy, organizations are locked in an ongoing struggle to cut costs, streamline processes and innovate operations. Hitherto, the business case for Business Process Outsourcing (BPO) was typically built on the twin benefits of labor cost arbitrage (lift and shift) and economies of scale (consolidation of distributed activities). However, customers today are increasingly looking beyond this to BPO providers who will deliver not only best practice processes but also technology enablers for seamless global business processing in a cost-effective manner.



Key Challenges

Achieving seamless global delivery is often hampered by a complex, heterogeneous systems landscape unable to communicate with each other. Due to inorganic growth strategies or through tactical de-centralized IT investments, many organizations find themselves operating fragmented, heterogeneous enterprise resource planning (ERP) systems and home-grown custom applications. This presents a significant challenge for an organization seeking to maximize benefits from consolidation and standardization. Obtaining timely and meaningful information is difficult, if not impossible, often hampering decision making and in many cases the cost of obtaining information is prohibitive. Organizations faced with this situation must decide their enterprise applications strategy, as a part of their overall outsourcing strategy.

Hitherto, the common approach was to consolidate their enterprise applications landscape and migrate to an in-house single instance implementation. However, global implementations can cost millions of dollars and take years to implement. Savings that could be achieved through process harmonization and processing consolidation through BPO, are often not realized due to delayed implementations. Any disruptive activity such as a merger or acquisition during the consolidation negatively impacts the implementation schedule and costs. Executives have also been challenged by changing market realities, increasing global competition and pressures on bottom lines, leading to capital starvation, expectations on delivering higher shareholder value by increasing ROI (Return on Investment), better Risk and Compliance, and alignment with overall strategic objectives.

Organizations have realized the need for an alternative service delivery model, given that investments in systems consolidation produces limited results at an unacceptable cost. Traditional BPO model, where the process and people are managed by a BPO service provider where as the technology is still owned and managed by the customer has limited effectiveness, as the fundamental bottlenecks are not addressed. This has led to customer expectations of technology led process transformation.

Business Platforms - The Way Forward

To address the challenges mentioned above, Platform BPO has emerged as an innovative service delivery model, wherein end-to-end processes are offered as "Managed Services", on a standardized "Business Platform" based on a best-of-breed ERP solution, hosted, managed and maintained by the BPO Provider. This involves implementing, and managing an end-to-end process that converges the ownership of the outsourced process, people and technology to the BPO provider and is aligned to the business and strategic objectives of the customer. This bundling of technology, consulting and BPO helps synergistic value creation, delivers transformational value and additional cost-savings using strategies such as global sourcing, technology innovation, process optimization, scale, and centralization.

A Business Platform enables customers rapidly move to a best-in-class state in managing end-to-end processes based on agreed SLA's with minimum of change management effort, at a business value based variable pricing. A hosted model, based on Best-in-Class process templates coupled with innovative technology enables multi-tenanted service delivery, leading to cost

savings through economies of scale, scope and access to low cost global labor. Additional value generation is also delivered through a value-added envelope of enabling technology such as scanning solution, business process management and workflow layer, and document management capabilities, built to work with the ERP. This can lead to immediate productivity gains and process effectiveness, with minimal investment from customers.

This transfer of responsibility for managing specified processes, application and technology enables customers to shift focus from transaction management to strategic, transformational initiatives.



Figure 1: Platform provides a blended service for process execution for multiple clients

This model lends itself very well to end-to-end processes that can be de-coupled and completely outsourced. Early examples of such processes are Source-to-Pay and Hire-to-Retire, offered on a non-effort transaction or Value pricing such as percentage of spend, Price per PO, Price per Invoice line and price per HR and Payroll function per employee.

Technology Led Process Transformation

The advent of Service Oriented Architecture (SOA) has enabled the Platform BPO approach.

It enables the BPO Provider to act as an extended enterprise of the customer and deliver services while being loosely coupled to the customer's applications instead of being tightly integrated to customer's IT landscape. The notion of business services (PO processing, Invoice and Payment processing, et al) creates a virtual application by connecting multiple services, often from disparate applications, to present users with a unified process view. The newly combined services become an end-to-end process that can be easily re-used and configured to meet customers' business needs. The business benefit of this is an end to end process view, cutting across functional silos to create true optimization of TCO at process level rather than function level.

In effect, this service delivery model is a paradigm shift to a process-centric model from an application-centric model. The provider can use the same process regardless of the underlying ERP system, and can thus act as an aggregator and provide economies of scale and scope, using a multi-tenanted model. This is a unique service delivery model, and a significant step in transformational outsourcing.

Essential Success Criteria

The Focus of traditional BPO is Cost Reduction and Process Improvement, not IT. These BPO goals are enabled by IT, but IT considerations get lost in the maze. The Platform BPO model, an answer to this paradox, is a bundling of ITO and BPO. This bundling typically prompts wider executive participation in decision making. This calls for a cross-functional decision process and needs a holistic mindset from customers, in giving away control of their applications landscape and technology to BPO providers, allowing a more seamless service. Moreover, The Platform provider can act as an aggregator through a Multi-tenancy model to provide economies of scale and scope, and hence provide benefits. This requires customers to be mature to adopt standardized platforms provided by the provider, and discontinue usage of customized platforms currently deployed.

Conclusion

Platform BPO model is a fundamental shift in service delivery from a transaction-centric model to a process-centric model, and creates advanced services and integrates them deeply into companies' value chains, in part, by combining internal capabilities with specialized processes and tools from providers. Depending on where an organization is in terms of process, people and technology maturity, savings of 20 to 35 percent on current TCO is possible by embracing the Platform paradigm, while quickly having a springboard to "Win in the Turns" of economic business cycles.



Win in the flat world

Leveraging Analytics to Improve Collections Effectiveness

– Shrikanth Jagannathan, Yogesh Chati

Abstract

The mortgage industry is going through a torrid time. Recent statistics reported by Federal agencies and other groups indicate that the mortgage meltdown will not subside anytime soon. Most lending institutions have become cautious. Debt is harder to obtain and is also more expensive. It was not always so.



The Lending Boom...

In the heydays of sub-prime lending, underwriting criteria were more relaxed, as rising home prices provided a buffer against default. As housing prices rose, lending standards were lowered, and new products were designed to keep buyers from being priced out of the market. To keep lending boom going, borrowers were offered riskier products with innovative features such as no money down, no income verification, interest-only payments, and even negative amortization loans. Reliance on automated tools, without the necessary checks and policies to govern their usage, helped create new loans and approve them in minutes. The hot securitization market, where mortgages could be pooled, rated, and sold to investors, abetted this trend. Once the loans were securitized and off the books, the loan initiators were free to go ahead and originate more loans.

...and Bust

Then, a convergence of several factors - a decline in housing prices, a moderate increase in mortgage rates, ARMs for sub-prime loans getting reset, incomes stagnating, decline in mortgage originations - resulted in the so called "sub-prime" crisis. There is a growing concern over the quality of credit on the lenders portfolios, given the increase in late payments, defaults, and foreclosures. In recent quarterly Federal Reserve survey of senior loan officers, over 70% of US respondents expected the quality of their prime, nontraditional and sub-prime residential mortgage loans, as well as of their revolving home equity loans, to deteriorate in 2008. The reasons are not hard to find.

- U.S. consumers are filing for bankruptcies at record rates. The total filings for the 2007 calendar year reached 801,840, an increase of nearly 40% over 2006.
- More than 1 million sub-prime ARMs are likely to reset during 2008, which could lead to higher bankruptcies.
- The average US consumer is highly leveraged and consumer debt is increasing faster than incomes. According to the Federal Reserve¹, the total consumer debt stood at USD 2.5 trillion as of December 2007, of which USD 1.57 trillion was non-revolving debt.
- The ratio of household debt relative to disposable income is at a record high and is projected to be over 150% in 2009.

Consumer behavior is changing as well. The average customer is now younger and more demanding. The customer is also focused on short term liquidity, and prefers to pay credit card and utilities ahead of mortgage debt. Surveys indicate that aggressive collection tactics can push customers towards filing for bankruptcy. A negotiated settlement of payment issues is preferred rather than just go by contractual agreement.

Focus on Managing Portfolios

These trends call for new ways to improve bottom-lines and enhance profits. We believe that one of the top areas to focus on is improving collections strategies so that you get more "bang for the buck". In the sections below, we lay out a framework to leverage the power of analytics

¹ <http://www.federalreserve.gov/releases/g19/Current/>

to substantially increase the efficiency and effectiveness of your collections strategies.

Management of existing portfolios is now a prime focus of the mortgage industry. One major response has been to implement more aggressive contact strategies. However, traditional collections strategies come into place once payment is "late", or an account becomes "default". These strategies are reactive in nature and are not sustainable. The need is for timely, proactive strategies targeted at the right person that maximize the dollars collected

An Analytical Framework to Drive Collections Strategies

Infosys believes this can be achieved by harnessing the power of analytics. Predictive tools can be used accurately analyze each account, and to identify the most effective strategy for that account. This will help optimize collections at each stage of the life cycle - from pre-delinquency account management to early stage & late stage collections to vendor management for recoveries after charge-off. The objective is to collect more dollars efficiently under given business constraints, thereby reducing the cost per dollar collected.

The mortgage industry has long used credit scores - such as the ubiquitous FICO scores - for loan originations. Credit scores, along with Capacity to Pay and Collateral, form the "three Cs" that a lender considers while underwriting a loan. However, adoption of similar techniques has been slower on the collections front, though we see more organizations doing that now.

Of course, analytics is just a part of the solution. The collection organization should be primed to work at optimal levels. We see a lot of organizations that are investing large sums to scale up their operations. At Infosys, we have helped customers set up, manage, and enhance their collections operations on several fronts - setting up their technology infrastructure, running their collections operations, transforming business processes to improve efficiencies, develop metrics to measure collections performance, and put in an enhanced reporting structures and dashboard to track and report these metrics.

In this paper, we describe a framework that will help organizations leverage predictive analytics to gain the insight needed to develop targeted strategies for collections. Implementing such a framework can be a "force multiplier" when one considers the benefits reaped in terms of increased collections and reduced costs.

Targeted analytics

Several collections agencies still treat all cases the same and outstanding balance is used to prioritize accounts. Other agencies employ simple variations of prioritizing using balance, days past due, and number of times delinquent in the recent past. Many agencies have begun using behavioral scorecards to prioritize which delinquent accounts to call.

While these approaches are still useful, with mushrooming numbers of delinquent accounts, amounting to millions of uncollected dollars, we see the need for deeper analytics that predict responses to particular actions - whether sending a reminder, making a call, or placing an account with a recovery agency. Targeted, action-specific models can improve cure rates, reduce roll rates and charge-offs. Collections call center efficiencies also improve with reduced call volume and higher effectiveness. We have also observed that targeted actions, such as not calling self

cures (those likely to pay without a call), improve customer satisfaction and retention levels. Action-based analytical models typically have a quick return on investment, with payback often in just a few months.

Analytics is a vast and complex area, and one needs a clear roadmap to go up the analytics curve. A collections organization should evaluate its current maturity in terms of data availability, modeling complexity, organizational acceptance of analytics. This will enable it to determine the appropriate level of analytics that it can accept and support.

Profiling, Segmentation and Scorecards

The start would be to understand the kinds of customers you have, and what their behaviors are. Data analysis and basic analytics is already being used to identify distinct customer segments. These segments are formed from the analysis of customer profile and linking it with historical behavior data. Further analysis can be done to profile these customer segments, understand their characteristics, and identify those segments that are causes of concern.

However, just knowing your customer is not enough. The desired objectives for each segment are different and, hence, so should be the strategy employed. For example, in the early stages of delinquency, the percent of self-cures can be 30% or higher. This could be due to common behavior traits such as habitually mailing the check out on or after the due date. Identification of self curing accounts helps collections agencies to focus their efforts on accounts that need them. Traditional scoring strategies can then be used to classify the remaining delinquent accounts into high-, medium-, and low-risk categories. In the early stage, collections call centers should call high-risk accounts, while low-risk accounts are not called.

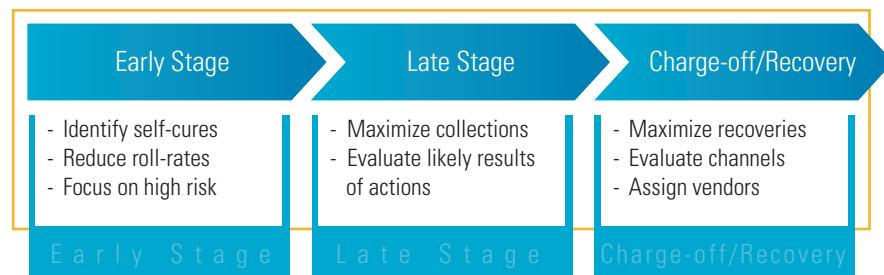


Figure 1: Focus areas at Various Stages

Similarly, for late stage delinquencies, behavioral scoring can help identify specific actions that will deliver the best results. For example, consider an account that has large dues, but with a high likelihood of that payment will happen only after a collection agency call. One can immediately flag this account for placement with an external vendor, without a prior call or letter. Such a decision made early could result in collecting dues while the debtor still has funds available, and before other lenders reach him/ her.

Multi-dimensional Analysis

Segmentation and behavioral scoring are, in a sense, one dimensional. A scorecard can identify an early stage account as high-risk, but may not determine the specific treatment that would be effective. So, all high-risk accounts would get assigned a one action, say a phone call, while all low-risk accounts are assigned a "no call" action. The collections center then misses the opportunity to call low-risk accounts that need agent assistance to pay, or vice-versa, leading to inefficiencies and ineffectiveness. Multi-dimensional analytics, on the other hand, provides deeper insight by allowing us to see the account from multiple angles - such as risk, propensity to pay, response to a particular action, and so on. This helps the collections agency to create specific actions to better target each particular account.

In a recent project for an Infosys client, we scored customer accounts on two dimensions - the propensity for a charge-off and the responsiveness to a collections agency call. Six segments with increasing scores were formed for each dimension, as shown in the Figure 2. The segments shaded red indicate those with the highest risk.

		Risk of Charge-off →					
		A	B	C	D	E	F
↑ Response to a Call	Customers (%)						
	I	3.45	0.29	6.85	2.66	3.24	0.22
	II	7.43	1.22	4.60	2.25	1.98	0.39
	III	2.23	2.66	1.45	5.52	2.88	0.67
	IV	1.61	6.32	2.87	1.83	2.66	1.41
	V	3.87	0.98	1.92	1.55	3.64	4.67
VI	2.16	1.17	0.94	0.92	2.18	9.30	

Figure 2: A Two-dimensional Matrix

Deeper analysis allowed us to take the thirty-six segments, and put them in eight clusters. Once we profiled the characteristics of each cluster, we were able to develop specific actions targeted at each cluster. Thus, what would have been a "one-size fits all" strategy using one dimension was replaced by a better targeted strategy using two dimensions.

The case above can be generalized to a system where one can play with scores from multiple models. The scores produced by each model are used as variables to build a decision tree, which will determine how accounts are prioritized and actions assigned. Score ranges for each model can be used as triggers levers to determine prioritization and treatment options for each case. These trigger levels can be set by the model user, based on business priorities and constraints.

Further, models that predict action outcomes can be tested using experiments, before being used. Each action (call or no call; settlement offer or agency; active skip trace effort or letter) is applied to a sample, and responses are tracked. Satisfactory performance over such experiments can lead to application of the action across the entire population.

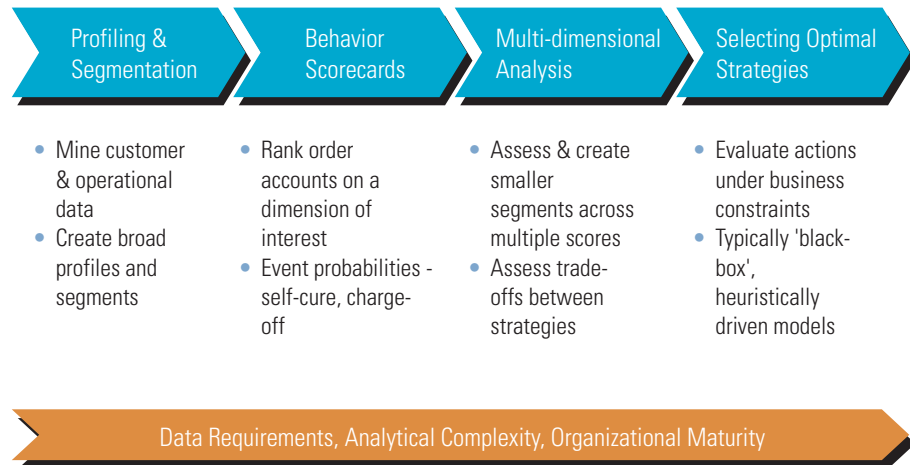


Figure 3: An Analytics Roadmap

Strategy Optimization

Multi-dimensional modeling is highly effective in evaluating trade-offs between strategies targeted at specific segments. The next level of complexity would be to create models that can select an optimal strategy from a host of alternate strategies. Automated algorithms are deployed to determine the most successful action for each case, based on its precise circumstances and history. Such "decision models" create heuristic relationships between actions, responses, and results. Sophisticated models enable the user to set real-life constraints, such as number of collectors or budgets, during the strategy design process.

Optimization models are typically "black-box" models and require great amounts of trust - in the model methodology and the model developers - before they can be adopted. It can lead to perceptions of adding mindless automation and removing control from "experts". Though, it can provide great returns, the investment in terms of management oversight and change management is non-trivial, and hence strategy optimization would still be considered a technology for the future.

The Modeling Process

Analytical modeling is a data-intensive exercise. Good data collection and storage are the best preparation for any modeling project. In addition to internal account performance data, models would also require external data. Typical sources could be credit bureaus, which gives information on the customer's credit history or demographic data with information on the customer's behavior and interests that are not captured in the internal databases. The greater the extent and variety of data available, the more powerful are the models.

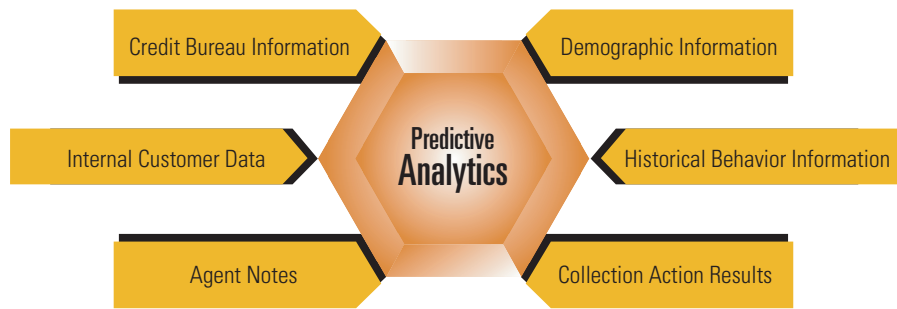


Figure 4: Data Requirements in Modeling

The data would be made up of several variables - amount due, number of days due, number of times past due, credit bureau score, income, and so on. Each variable tells us something unique about the customer. Using statistical techniques, such as logistic regression, the analyst would identify those few characteristics that influence the behavior being modeled, and carefully estimate the influence of each characteristic. The model performance would be tested on out-of-sample and/ or out-of-period data before being put into production. The production data should be captured for future use.

An important part of model governance is model monitoring. Performance of statistical models typically degrades with time, due to various reasons including changes in collections portfolio and in account behavior. Hence, models have to periodically tested, and recalibrated or re-modeled, as the case may be.

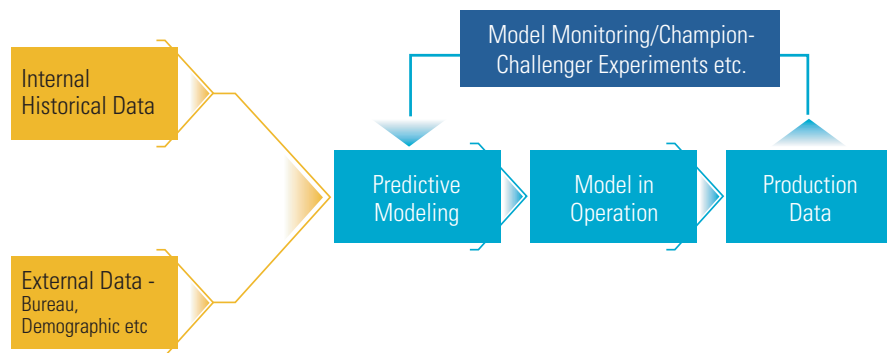


Figure 5: Typical Modeling Process

Constant model monitoring, rebuilding and periodic experimentation ensure that changes in the portfolio are captured and new predictive characteristics are included. This ongoing process helps collections call centers to test new actions, analyze new populations, and enhance their strategies.

In conclusion

To summarize, analytics is a great investment increase dollars collected and improve collections efficiencies, given the business and economic constraints. A collections organization should evaluate its current maturity in terms of data availability, modeling complexity, organizational acceptance of analytics. This will enable it to determine the appropriate level of analytics that it can accept and support. Leveraging analytics is a continuous process and one needs to have a plan to enable analytics to improve business metrics. As organizations go farther up the analytics curve, they will find that rewards multiply with minimal incremental investments.



Win in the flat world

Outsourcing Strategies in the High Tech Ecosystem

– S. Vaitheeswaran, Vijai Kumar

Abstract

The high tech ecosystem has honed the sourcing of global capabilities and the serving of global markets to tremendous maturity in the last 40 years presenting customers the twin delights of standardized, globally available products with consistently improving features and falling prices. To the ecosystem, this has meant challenges to managing growth and delivering profits - achieved by developing an operating model based on sourcing discrete products and processes at the optimal quality, cost and level of service, globally. Supporting services such as BPO evolved in the late 70s to enable this model. While the BPO industry has reported a steady 10% Y-o-Y growth in the last decade, competitive provider growth and falling margins are leading some clients and analysts to predict pain in client organizations due to a shortfall in innovation in services outsourced. This PoV discusses why clients and providers need to collaboratively redefine value creation and fine-tune their outsourcing strategies to achieve the next level of business benefits through outsourcing.



Context setting:

Starting with payroll, accounting and customer service, BPO has now evolved to help semiconductor makers, component distributors, EMS, OEMs, SIs work together to source and assemble components, transport goods, sell and deliver products tailored to customer needs.

With low cost and offshore delivery having become the norm in outsourcing contracts and with more and more core processes being outsourced, Clients are looking closely at the overall value they believe outsourcing provides and asking fundamental questions of outsourcing providers:

- 1) Are providers able to understand the business context and customize services (E.g. Aligning fulfillment support processes such as material planning, expedite and vendor management to minimize working capital and manage obsolescence)
- 2) Are they able to manage risk and enable clients to "sleep peacefully at night" (E.g. Align supplier management processes to delivery and product failure risk)
- 3) Provide a true business case for outsourcing as SG&A and outsourcing costs do not continue a downward trend, in-house teams deliver better on meeting overall supply chain goals

On the other hand, providers too are grappling with key challenges:

- 1) Pressures on profitability driven by price-based competition limits the flexibility to hire top-tier talent, invest in solution development and meet advanced needs.
- 2) Partnering with clients and creating true business value: Process leadership, ability to create and sell commercial models that abstract value created by outsourcing from a larger client transformation program
- 3) Commercial, labor, infrastructure and environmental constraints to expand the global delivery model

Clearly, BPO providers and clients need to understand each other's positions, identify which BPO relationships are strategic and determine the future direction of outsourcing strategies for realizing business benefits.

Infosys View:

The market for BPO services has matured today from the focus on labor arbitrage and lowest-price provision of prices to a focus on a flexible, scalable capability to deliver enabling processes in various functional areas like F&A, Procurement, Order Management, HRO, Knowledge services and customer services. This capability will not only deliver BPO services to support the global operations of clients to optimize their SG&A and COS, but also open up opportunities to drive revenues. Several leading providers too understand client needs and would like to deliver transformational business value at an order of magnitude higher than the price of BPO services.

Infosys believes that an understanding of the unique characteristics of BPO services in high-tech will help design future models and outsourcing strategies

1) BPO is high-impact yet does not receive sufficient management attention

BPO is inherently high-impact as it entails interface with internal and external customers globally, access to several internal systems of record and commerce and co-ordination across powerful internal functions in the client organization. This is in significant disproportion to the cost of BPO services which typically dictates the management attention conferred on it. The fact that BPO is delivered from locations remote from global HQ and does not have one single owner within the client further contributes to this

2) Business functions in high-tech companies are globally dispersed and mature in the use of outsourcing and technology tools to deliver service

Today a client has sales offices in California, R&D centers in Raleigh and Bangalore, sourcing in Singapore and manufacturing in China in-house/outsourced in locations of lowest cost for that skill, using the latest technology tools to collaborate and access support services. Traditional labor arbitrage, change management or technology augmentation models need to be replaced by aggressive partnership models which deliver a committed business benefit

3) The same global delivery model is responsible for high costs of co-ordination and enhanced operational and financial risk

Formerly routine functions such as establishing a supply chain from the factory and dispatching components to OEMs now require interface with multiple partners who may not have your world-class operational efficiencies. Eg: Fulfillment co-ordination and inventory management with 5 different contract manufacturers each with 20+ separately managed sites. This opens companies to significant risk in delivery schedule, product cost and failure.

4) Clients therefore still expect providers to provide stability in the form of stable workforce, continuity of service and "no-surprises". The high growth rate of the BPO provider industry compels providers to move in the opposite direction as the focus keeps shifting to the next higher level of offering.

5) Leadership in the outsourcing environment, while not yet a well-researched topic, can be said to emphasize attributes such as Ability to think across organizational boundaries to mix and match capabilities, sell outsourcing within the organization to senior management, offer alternative career paths to employees to dispel the fear of "job loss"

Infosys approach:

1) Focus on the basics

Requirements capture, definition of specifications, transition to new provider and service which delivers predictable, measurable output are the basic expectations from any service. Creating and meeting expectations in performing these activities is the origin of the disconnect between clients and providers today.

During a BPO outsource, such activities require specialist capabilities and yet should not be entirely delinked from BPO provider operations and handed over to 3rd party consultants. An in-house "Solution design" comprised of a mix of process consultants supported by a robust Discovery and Transition methodology brings in a disciplined approach to As-is process capture and operating model design through program management and toolset-driven rigor and sign-off based handover to Operations.

2) Predictable service delivery through Operations Excellence as the foundation of value creation

A hierarchy of expectations exist within client organizations with respect to outsourcing. Predictability of service delivery enabling clients to sleep peacefully at night is fundamental to securing acceptability and building comfort with business and executive stakeholders. Operations Excellence is the foundation of delivering this service predictability through a combination of self assessment, domain expertise, executive and operational dashboard, baselining of metrics and service levels. It is this service predictability that provides outsourcing champions credibility within their organization and the confidence to outsource higher-value tasks and provide entry to strategic programs. Operations Excellence therefore, is not merely a hygiene factor but also a key enabler of the journey to value creation. E.g. Infosys has created an Operations Excellence Management System (OEMS) based on industry standard workflow and MIS systems and aligned it to the balanced scorecard for all business units.

3) Leadership and Governance

Operations managers, process consultants and account managers in a provider operation service multiple stakeholders within the client organization, across functional departments. To translate the strong insight and relationships that result from this interaction into a partnership that delivers value in client business transformation, the provider needs to build strong client-facing competencies in middle management, incentivize provider account managers to cultivate "outsourcing champions" in client organizations, ensure that senior BPO executives such as CEO, Unit Heads network extensively and participate in formal reviews with Client business, sourcing and support function heads through a robust bottom-up Governance and communication model. E.g. Infosys hosts atleast 3 personnel visits per account, recommends dedicated Account /Vendor managers based onsite, conducts a QBR (Quarterly Business Review) alternately at client and provider locations where middle and senior management from both entities participate. In turn, clients are setting up

dedicated Client Advocates/PMOs comprised of sourcing and business leaders to drive all BPO initiatives, promote a culture of outsourcing and motivate in-house and outsourced teams to collaboratively work on operational excellence and innovation.

4) Innovative operating models to minimize operational and financial risk

Many branded equipment and product makers with distributed supply and demand chains are concerned about the impact of their operating model on their ability to predict demand, deliver products on time, cost and quality and retain a unique competitive advantage. Under the present model, this would demand a very high cost of co-ordination. BPO providers with experience working across the value chain with entities that buy and sell from each other can join client supply chain transformation programs. Process analysts can leverage the rich transaction data flowing across the sourcing, MRP, ERP systems and interface with suppliers, manufacturing, sales ordering and distribution functions to drive behavior by expediting shipments and update of fulfillment status information, follow-up with logistics and distribution service providers and form rapid response teams to troubleshoot operational glitches. Eg: Cross-functional teams working across a technology OEM and its distributor identified the root cause of critical sales orders going on hold to be an error in purchase order format used and freed up working capital.

5) Transformation through process leadership and deep domain knowledge

BPO providers, much like EMS providers, provide infrastructure and processing services to a range of industry sectors and have developed strong capabilities and best practices through servicing a wide variety of requirements. Clients can get to world-class in these processes by funding process leadership programs, connecting BPO providers to leading technology tool companies for product development and instituting specialized knowledge in provider SME teams through secondment. In many cases, this may lay the foundation for a go-to-market strategy based on a joint product offering. E.g.: SMB(Small and medium business) process and system platform for several software vendor and retailer clients of a large technology distributor.

6) Creation of commercial models to create, measure and share value

Traditional sourcing models based on creation of a BPO work team dedicated to the account and charged on effort-basis (per FTE man-year) were relevant in a context where transparent collaboration was required to establish the offshore outsourcing model. Client sourcing teams now employ this model for tactical functions with predictable demand, using reverse auction mechanisms for price discovery. For strategic functions, the emphasis has shifted to aligning the cost of receiving BPO services to the service used (utility model) and the business outcome (benefits model). Price discovery is effected through adoption of tiered transaction pricing, gain-share agreements based on committed reductions in effort reduction , processing time and critical errors.

Supplier discovery now consists of Proof-of-concept demonstrations of process performance, supplier governance models, account business models and technology implementations evaluated through a structure scorecard.

Providers have redefined and aligned their operating metrics and processes to client business metrics, instead of the earlier focus on meeting SLAs which are typically after-the-fact measures of mean performance. This alignment of metrics enables providers to understand what inputs in resourcing, methodology and technology contribute to desired outputs - driving measures as diverse as performance-linked pay, high-performer retention management, SaaS (software as a service) implementations, creation of compliance/ analytics offerings in spend, process management, transaction management and financial planning. BPO providers have then rolled up these service offerings into contractual commitments by making tool and people investments, accepted operating risk from the client business so as to deliver benefits like reducing client spend on indirect materials by 5%, reduced unapplied cash by 3% etc. This is very similar to the kind of bottom-line commitments that partners for core offerings like component suppliers and distributors make today and will culminate in BPO service providers no longer being confined to the back-office in high-tech.

In summary, the future points to one of renewed commitment in partnership between High-tech companies and their BPO providers. This could well be one of the critical organizational strategies to weather the imminent slowdown in the US economy in 2008.

Footnote:

Infosys BPO is one of the pioneers in taking BPO to a global delivery model managing ~\$30 bn of customer orders, sourcing ~\$5 bn of inventory and supporting ~100 product lines for 9 high-tech clients with a combined revenue base of ~\$100 bn.



Win in the flat world

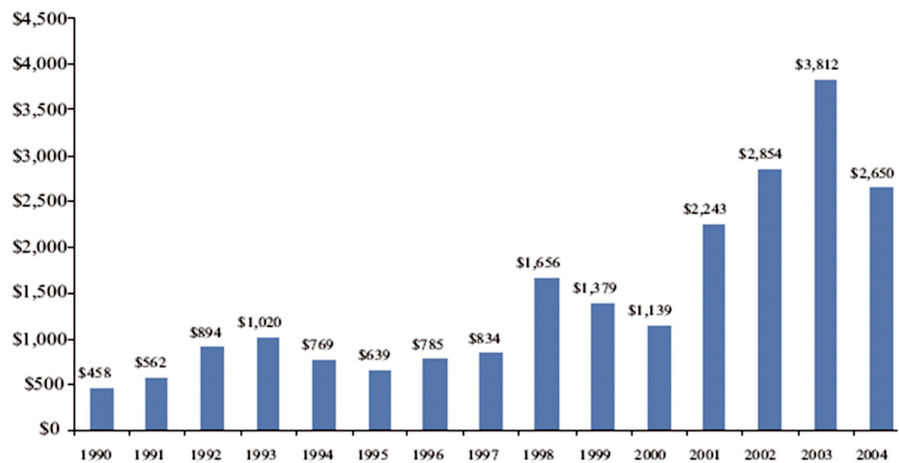
Light at the end of the Tunnel: A Transformation Framework for the Mortgage Industry

– Abhijit Ghosh

Abstract

From 2000 through 2004, the US Mortgage market was on song - declining interest rates gave prospective homebuyers in the US more purchasing power coupled with rising property prices and increased market for financial instruments such as CDOs & securitization which increased bank's lending capacity manifold enabling them to originate more loans. During this period some homebuyers paid beyond what they could truly afford to buy a house before home prices went even higher, and home prices as a multiple of annual income rose to a record highs. As housing affordability went out of reach for most borrowers, lenders loosened credit underwriting standards and introduced riskier loan products to help borrowers qualify. Lenders believed that higher credit risk which they are taking would be mitigated by rising home prices, which would lead to accumulated home equity if borrowers defaulted. Moreover most of the lenders did not hold on to this paper for long - they sold it off to hedge funds and other investment management firms in the secondary market all of whom lapped up the same in the backdrop of a benign credit environment and the lure of making abnormal profits.





Source: Mortgage Bankers Association

But since 2006, the trends have started reversing - interest rates have moved higher, reducing affordability for new buyers, slowing the growth in home prices, and have caused rising mortgage payments for those with ARMs. Lenders are now saddled with increased delinquencies especially with loans they have made to borrowers with questionable credit records, excess capacity & a secondary market which has lost all appetite for mortgage paper. Many of the lenders have been forced to shut shop with several more to follow and the effects are being felt across the entire US economy. Total mortgage production will be down 16 percent to \$1.96 trillion in 2008 from a projected \$2.34 trillion in 2007. Total originations are expected to witness a further drop of four percent in 2009 to \$1.88 trillion.

Once the dust settles down, the question facing most lenders will be how to cope with mortgage cycles in a more effective manner going forward. How will the future state look for the mortgage market participants and what do they need to do to prepare themselves for the same?

Trends:

Despite all the losses and the accompanying pain that has come to characterize the recent crisis it is our firm belief that this will create a very different mortgage market in the medium term compared to its present version. Traditional barriers to outsourcing will break down across mortgage participants; organizational hierarchies will start disappearing as mortgage players will become more cost sensitive and nimble footed to respond to changes in market conditions; the competitive playing field between large and mid sized lenders will start getting leveled. The rules of the future for the mortgage industry are changing fast and market participants need to adapt themselves for the same.

Trends

Half or 2/3 rds of Sub - Prime Lenders will have to shut shop

Large lenders are closing sub - prime divisions and moving staff to prime/conforming loan divisions

New structures for sub - prime are being worked by Wall Street and the sub - prime market will bounce back but its size will be reduced to half

Mortgage Banks with warehouse lines of credit are in crisis but other lenders who fund mortgages with deposits are doing okay

It is expected that the origination market will bounce back in 2009 - FHA & Conforming loans are there; secondary market players will reprice better

Possible Outcomes

Potential of outsourcing is even greater going forward as a result of the sub - prime crisis - lenders will look to outsource complete processes instead of the piecemeal approach which was in vogue

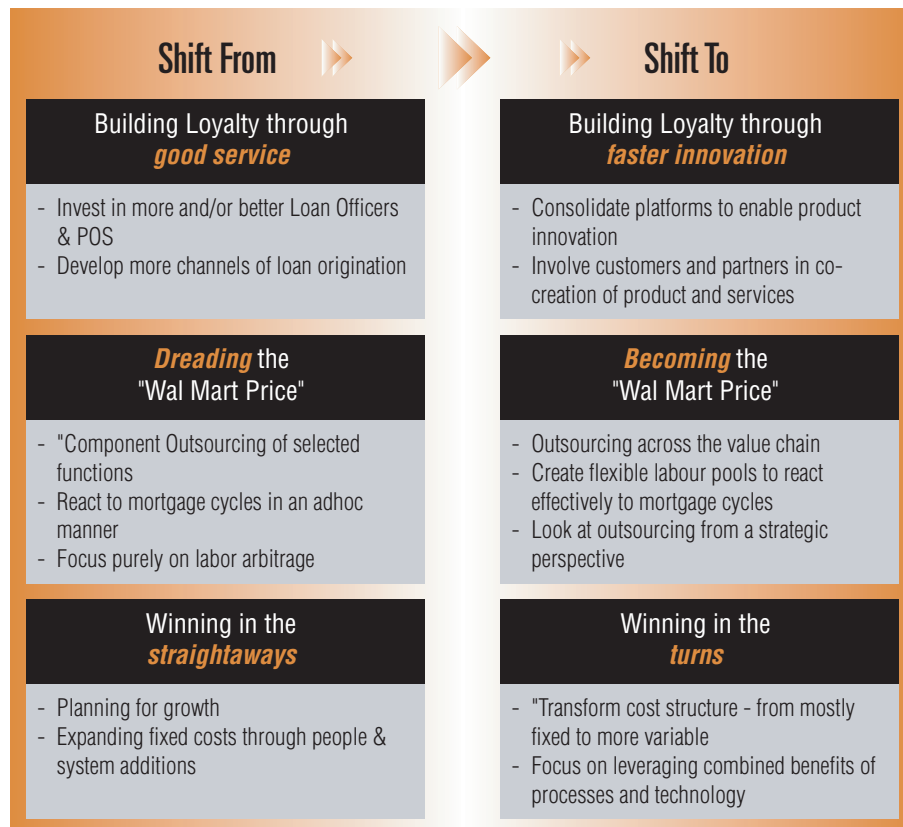
Lenders will want to move a variable cost model with flexible ramp up & ramp down capabilities to cover for any industry upturn/downturn in future

Lenders will look to consolidate origination platforms and back - office teams handling origination processes

Tier II & Tier III Lenders will explore Managed Service Outsourcing options to compete effectively with the larger players

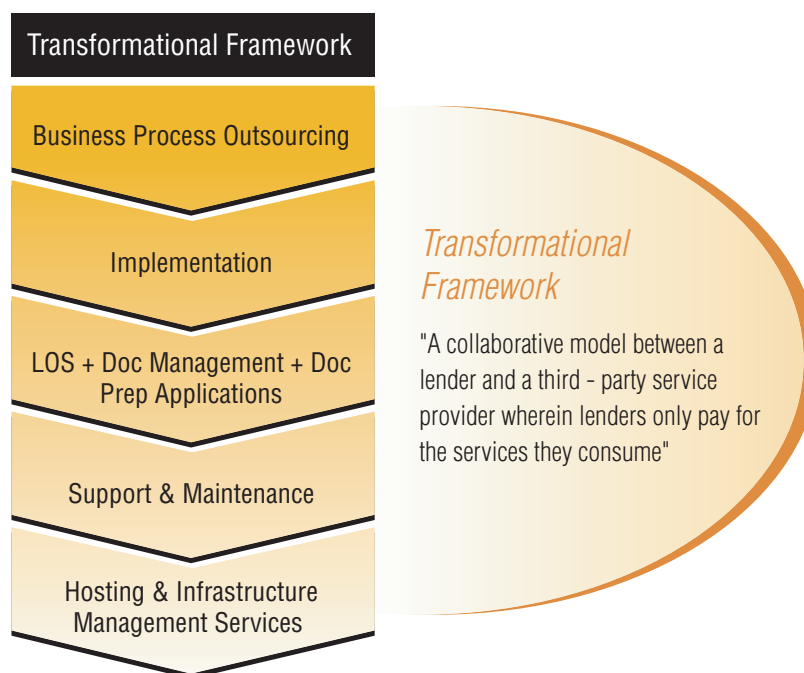
Shifts:

In order to compete effectively in the battlefield of the future mortgage lenders need to make some strategic shifts namely:



Transformation:

How will mortgage lenders bring about the desired transformation to cope effectively with the challenges of the future? This can be achieved by combining people, process & technology and leveraging an outsourcing model which will consist of:



Operating Model:

True Transformation can only be brought about through collaboration - it essentially consists of the lender adopting a third - party managed services model where the risk and rewards are shared between the lender and the third - party service provider proportionately. However there can be several versions of this model depending on the size and business mix of the lender e.g. Offshore Loan Fulfillment Centers for Tier I Lenders which can act as a challenger to its existing loan fulfillment centers; fully hosted managed services model for Tier III and possibly some Tier II lenders etc.

Business Process Outsourcing:

Mortgage Lenders need not worry about losing control in their transformational journey - key origination functions like marketing, underwriting & funding will still need to be retained by the lender. The remaining functions in the origination value chain can be performed by the service provider - who will have access to cheaper labor pools and scalable delivery models to cope with mortgage cycles better.

Implementation:

Implementation will consist of two distinct phases: a) Platform Implementation & b) BPO Transition.

These phases can be executed in parallel or sequentially. However the scope of implementations can again vary widely depending on the lender size - for Tier I clients platform implementations & BPO transitions can span across several months whereas for Tier III clients it can be a matter of a few weeks.

Platforms:

One of the pillars of the Transformational Framework will be the underlying technology platforms - this need to include not only LOS & Doc Prep platforms but also enabling applications like Doc Management from an offshoring perspective. While Tier I Lenders can look at transferring their existing platforms to their third party service providers Tier III & some Tier II lenders can leverage the platforms offered by the service provider itself. Some of the key features of the LOS platform which need to be present include:

- Ability to support multiple channels (Retail, Wholesale, Correspondent etc)
- Ability to support multiple products
- Workflow & Business Rule engines
- Built in Interfaces with third - party service providers
- SOA architecture etc

Support & Maintenance:

Lenders can free themselves of the platform support and maintenance issues by transferring the responsibility and risks associated with the same to the third - party service provider. When provided by the same service provider i.e. the one who is also responsible for the BPO activities it will ensure benefits like:

- Proactive Issue Resolution
- Simplified Governance Structure
- Integrated SLAs from an operations & support perspective
- Common Infrastructure
- Single Contract Framework etc

Hosting & Infrastructure Management:

This will be applicable for Tier III & in some cases Tier II Lenders wherein they can leverage the third - party service provider's hosting and infrastructure management offerings

Pricing:

Lenders will only be charged on a pay by drink model i.e. mortgage lenders will be charged:

- On the no of loans originated by channels on a sliding scale basis with a minimum cap on volumes
- Fixed Annual Fee to cover for the hardware & hosting
- One Time Implementation fees (if required)

Benefits

By adopting the Transformation route Mortgage Lenders will be able to provide answers to critical issues like

Handling increasing Loan Volume

- Quicker loan decisioning
- "Best-fit" automation
- Channel diversification
- Flexible Resource Ramp up & Ramp down capabilities etc

Reducing Costs

- Offshoring
- Lower upfront investments

Increasing Productivity

- Process Improvements using Six Sigma tools
- Elimination of redundant tasks
- Automation of manual tasks etc

Retaining Customers

- Prompt Customer Service
- Self Service Mechanisms
- Cross - Sell / Up - Sell opportunities through data mining etc

Finding new revenue streams

- Reduced Cycle Times
- Ability to add or introduce new products as per changing market requirements etc

Conclusion

The Mortgage industry has witnessed one of its worst crisis in recent times but the situation is not all that despairing - as mortgage lenders start taking a hard look at their existing business models help is at hand in the form of outsourced service providers who can combine technology, process & scale capabilities which will enable lenders to compete effectively for the mortgage market of the future.



Win in the flat world

Hedge Fund Outsourcing: The need for Specialization

– Abhijit Ghosh

Abstract

Hedge Funds have witnessed remarkable growth over the last decade with number of hedge funds well over 10,000 and AUM being in excess of 1.34 trillion. Over the last couple of years the industry has received increased attention from both regulators and institutional investors like pension funds and fund of funds.

While regulators have focused more from a compliance and risk management perspective the presence of institutional investors in large number of hedge fund portfolios have increased the decibel levels for greater transparency. Lately in order to maintain their consistent performance and high performance fees hedge fund managers have started increasingly investing in OTC derivatives & emerging market paper. All of these have started putting operational pressure on hedge funds middle & back - office which are forced to process and account for the complex investment products and transparency requirements.

Hedge Fund Managers have responded to some of these challenges by jettisoning their privacy concerns in lieu of more outsourcing services.



Hedge Funds have traditionally relied on the following service providers:

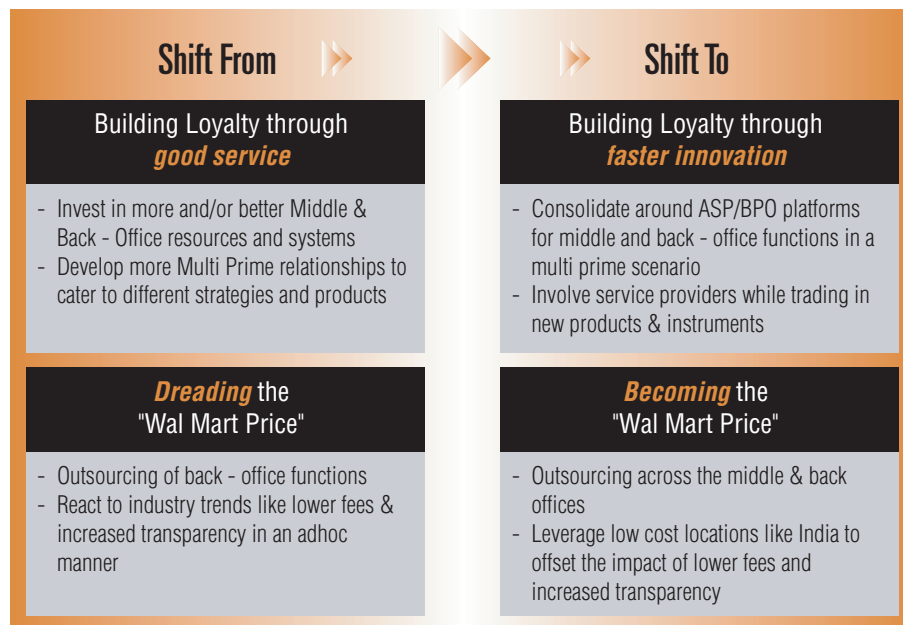
- *Prime Brokers*: For trade execution, security structuring, financing, securities lending, and in the US often custody.
- *Custodians*: In Europe regulation requires to have a separate custodian
- *Hedge Fund Administrators*: For fund administration services like NAV calculation, Partnership Accounting etc
- *Technology Vendors*: for both point and full front to back - office solutions

The traditional outsourcing model works very well in a single prime broker scenario. However as the hedge fund grows in size & there is a need to access new markets & new securities a multi prime scenario becomes inevitable. Smaller hedge funds and even larger hedge funds with small IT and operational staff face significant operational challenges when making the move to multi-prime broker scenario namely:

- More points of contact and interfacing with multiple prime brokers
- Additional documents/counterparty monitoring
- Portfolio aggregation and reporting challenges
- Reconciliation with multiple primes puts pressure on existing hedge fund systems and staff
- Trade booking and allocation becomes more complicated
- Increased error rates in the back office

Shifts

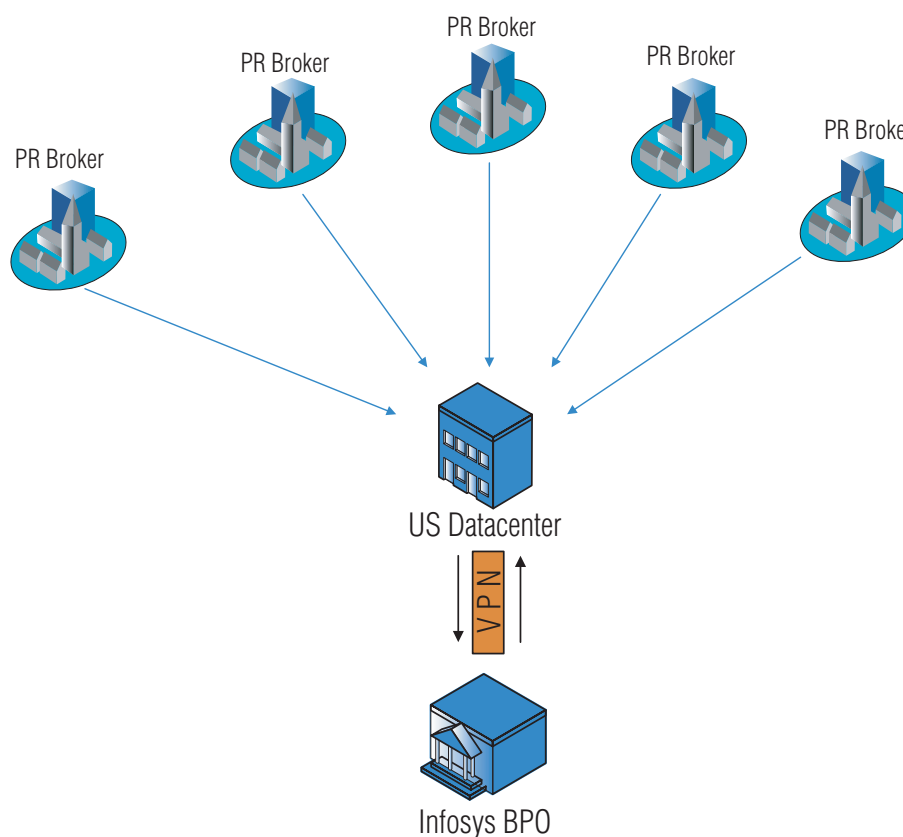
Hedge funds need to make the certain strategic shifts to compete effectively in a multi prime scenario:



Emerging Outsourcing Model

This model is ideal for funds in a multi prime scenario and can consist of the following additional service providers:

- ASP Provider with Front, Mid & Back - Office technology
- BPO Service Provider for operations outsourcing



Services to be provided in the Emerging Model

Aggregation Services will need to cover a whole range of activities except for the key prime brokerage and fund administration services.

Trade Capture/Trade Allocation:

Service Providers need to have the ability to allocate trades at fund, strategy & broker account levels. Customized Portfolio Views, Position Monitoring & Flash P&L will be other key requirements from service providers. Some of these activities need to be coordinated with hedge fund managers as these will have a significant bearing on trading strategies.

Security Master:

Service Providers need to provide comprehensive coverage for securities (both type & across markets) usually by integrating with market data source providers like Bloomberg & Reuters. Common Activities will include:

- Definition & Amendment of terms and conditions for listed securities
- Ability to define terms for unlisted & OTC securities
- Creation of Golden Copy
- Handling Corporate Action Events etc.

Service Providers need to have access to systems which will enable data storage & provide audit trail capabilities.

Reporting:

Perhaps the most critical activity in multi - prime scenario - service providers needs to have the ability for:

- Data Extraction from multiple databases
- Batch Processing & Report Scheduling
- Scenario Analysis (including What IF)
- Support for Currency Conversions
- Adhoc Reporting etc.

Pricing & Valuation:

In recent times Investor due diligence has brought this function into the limelight - service providers need to have the ability.

- Collecting & Storing Pricing Data (in multiple formats) from different sources
- Identify Stale & Missing Prices
- Calculating Best Price
- Valuation service (for hard to price securities) etc.

Reconciliation:

Service Providers need to reconcile everything - from nominal holdings, to transactions between prime broker, custodian, OTC Counterparty & hedge fund records. In short, the service provider should be able to show that the prime broker is reflecting the same trades, holding the same positions and valuing those positions in line with the service provider's own records. Any material break in reconciliation must be resolved. It is preferable that the reconciliation is electronic to handle increasing volumes and complexity.

Portfolio Accounting:

Although this is essentially the preserve of Hedge Fund Administrators and is likely to remain service providers can offer the same for purposes of functions like shadow accounting. Portfolio Accounting Capabilities of Service providers should include:

- Ability to handle a wide range of complex products
- Support for multi - currency accounting
- Financial Statements & Trial Balance Reporting etc

Challenges

Key business challenges in the Emerging Outsourcing Model which Service Providers need to overcome

Hedge Fund Privacy Concerns:

Service Providers must take steps to safeguard confidential client data. This can include activities such as role-based authorization to access client information, encryptions, de-identifying sensitive data, and secure transfer of client data both electronically and physically.

Compliance Checks:

Service Providers might be required to perform compliance checks relative to restrictions on investments, leverage, requirements of subscribers, valuation procedures in line with the offering memorandum, and other obligations. Systems and procedures must be in place to automate these efforts as much as possible for accuracy and consistency.

Human Capital:

The rapid growth of alternative investments has sharply outpaced the skill sets of available workers. Offshore hedge fund destinations like Ireland, Bermuda etc are witnessing an acute war for talent amongst established Hedge Funds & HFAs. Perhaps it is time to explore BPO skill sets in countries like India & China where hedge fund servicing is yet to take off.

Internal Controls:

New business will be at risk if the Service Provider does not have proper business and process structures in place, documented and audited. One supportive statement to this affect is SAS 70 certification, which more and more BPO players are adding to their quiver.

Connectivity:

Service Providers not only need to maintain a dedicated technical staff but also have to maintain hundreds of point of external connectivity with Connections to a wide variety of global participants-banks, prime brokers, custodians, hedge funds, operational units, and intermediary service providers, hence automation is critical to the speed and accuracy of service delivery; these connections are a continuous requirement.

Disaster Recovery:

Service Providers need to have disaster recovery facilities - this need to be at two levels:

- a) At the platform & application levels
- b) At an Operations Level. Key attributes of staffing disaster recovery will include cross training, communication schemes, temporary relocation, and remote system access.

Conclusion

The multi prime hedge fund environment is a reality - it is estimated that nearly 35% of funds in excess of \$1 billion in assets have four or more prime brokers, with some funds having as many as a dozen in an attempt to spread their portfolio. Hedge Fund Managers need to explore new outsourcing service providers who can assist them by combining technology and process capabilities in competing effectively in the emerging market dynamics.



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[Leading in the Converged Future: Becoming an Agile Telco](#)

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[Trends in BPO in the Shipping & Logistics domain](#)

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[Property and Casualty Industry - At the Crossroads](#)

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[Business Platforms-Cascading into the next Horizon of Outsourcing!](#)

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[Leveraging Analytics to Improve Collections Effectiveness](#)

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[Outsourcing Strategies in the High Tech Ecosystem](#)

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[Light at the end of the Tunnel: A Transformation Framework for the Mortgage Industry](#)

[Hedge Fund Outsourcing: The need for Specialization](#)

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Questions? Opinions?

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