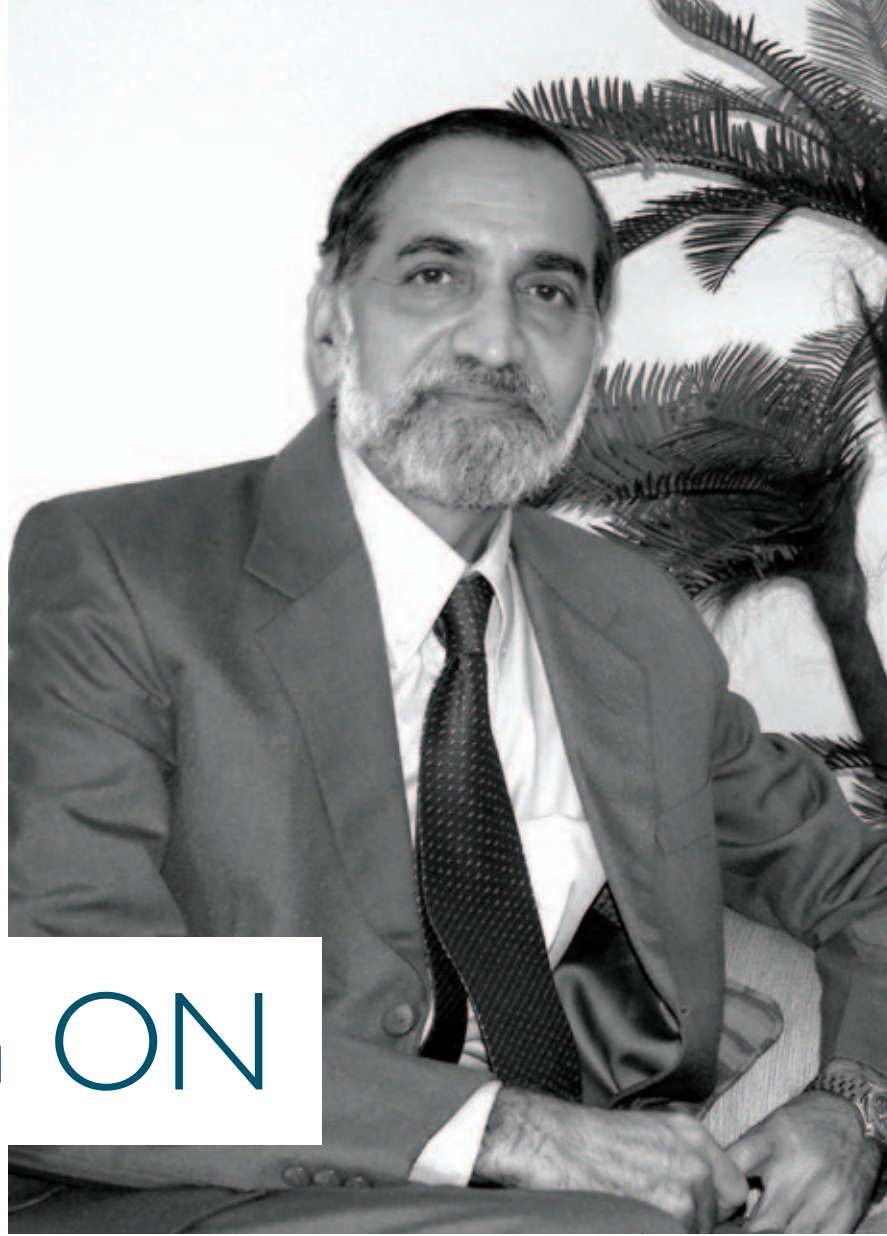


INDIA'S COMBINED ANNUAL BPO AND IT OFFSHORING REVENUE IS NOW A STAGGERING \$19.5BN, WITH THE FINANCIAL SERVICES SECTOR IN PARTICULAR EXPERIENCING MASSIVE GROWTH. BUT DATA SECURITY RISKS AND COMPETITION FROM NEW RIVALS RAISE DOUBTS ABOUT THE SUBCONTINENT'S CONTINUED DOMINANCE OF THE MARKET. **MARK STUART** ASKS **KIRAN KARNIK**, PRESIDENT OF IT TRADE BODY NASSCOM, HOW INDIA IS DEALING WITH RECENT NEGATIVE COVERAGE AND CREATING NEW OPPORTUNITIES.



# BANKING ON SUCCESS

**MS** There have been a few high-profile cases in the western press recently that have drawn attention to leakage of personal and financial data from banks, and it's been claimed that security is not as strong as it should be. How are Indian companies responding to this?

**KK** It's a serious issue that concerns the industry as a whole, rather than the location. We work with vendors and customers to see how we can build in better practices across the board, and ensure we protect data from the very small number of people who want to misuse it. Indian laws are strong – though of course they can always be improved – and we're working directly with the government to tighten the laws where there are loopholes. But having said that, the negative media coverage is rather like a 'man bites dog' story – it's so rare it makes news. Nowhere is 100 per cent secure, but India is one of the safest countries for data protection and security, and that's recognised by our customers. Also, even if data is held in a bank in the home country, the dangers of misuse are not reduced.

Cost will prevent East European countries stealing significant business from India.

There's evidence to suggest that most data leakage comes from within the same company – maybe within the same four walls of the building. It's not a danger that just affects outsourcing.

**MS** How is India dealing with the outsourcing backlash (particularly protectionism from US companies)?

**KK** There was a peak of anti-outsourcing feeling during the US presidential campaign, with people concerned about homegrown jobs, but the approach we've used is to emphasise that outsourcing is a mutually beneficial relationship. In fact, more outsourcing can paradoxically lead to more home country jobs. In the UK, as the financial services sector booms and grows, it leads to more outsourcing, which in turn boosts the industry further, creating more jobs back home.

**MS** There have also been rumblings lately that outsourcing does not save companies as much in real terms as forecasts would suggest, because of hidden costs. How would you respond to this?

**KK** I think it's quite true that some companies come in expecting enormous savings, and certainly in the initial year, those savings can be much less than expected. Companies that read figures stating that India's costs are one fifth of what they are at home, and conclude from this that they can save



80 per cent of current costs, will be disappointed, because it doesn't quite work like that. But without a doubt there is huge value to be created and savings to be made from outsourcing to India. If there wasn't, companies wouldn't stay.

**MS** Bank of America recently opened up its own development centre in India. Can you see this taking off among financial firms in Europe?

**KK** Definitely – this is something that banks are seeing as useful and desirable. It's not so much about saving costs, as about the ability to offer better services to customers, quicker processes and responses. That increases customer satisfaction, which in turn enables competitive success. Banks that don't set up development centres will suffer because customers will perceive that things take too long. If HSBC can reach solutions in a few hours, customers will ask, why is it still taking my bank days? In this context, the global banks will be emulated a lot more by national banks in one country, or even by regional banks.

**MS** Eastern European countries are emerging as potential rivals to India for the UK outsourcing market. How can India differentiate from these new entrants?

**KK** They have some advantages – narrower time difference and geographical proximity – and that will work in their favour. But there's little scalability. There's first-rate talent in places like Hungary and the Czech Republic, but Eastern Europe doesn't have the depth of human resources – not even in Warsaw, which is a larger talent pool. For specific work, they will emerge as centres of excellence, and for that reason, many Indian companies have set up bases in Prague and Budapest.

Primarily, the cost factor will prevent East European countries stealing significant business from India. You can't pay low wages to qualified people in new EU countries, because they can move easily across borders. There might be a 10–15 per cent differential, but that's not good enough – especially when added to the talent pool constraints. Eastern Europe could well follow the Irish model. Outsourcers invested in Ireland because it was cheap, but then that very investment drives prices up and so the same companies gradually leave Ireland for India.

## INTELLECTUAL PROPERTY

NASSCOM has joined forces with Mumbai Police to launch the Mumbai Cyber Lab (MCL), the first of its kind. This unique entity helps provide training to the police, creates an interface between the police and people, spreads awareness about cyber crime and related issues, and interacts with businesses, financial and educational institutions.

The Indian Government as well as the police and judiciary are helping and supporting the NASSCOM anti-piracy drive in various ways: amendments in the Copyright Act, training for the police, conducting raids and training the judiciary. The decision by Karnataka's Government to make Karnataka a 'zero piracy state' is the most visible example of government support and willingness to make India a zero piracy country. NASSCOM is also working with various state governments to create IPR cells in police departments.

**MS** What's the secret of India's success?

**KK** Partly vision and strong leadership from people in the IT industry – and partly circumstances, which I suppose you could call luck! Also, and this is something many people don't give it credit for, the government's policy has been very enabling. The popular view is that the government has simply stayed out of things. But by avoiding the interfering hand of bureaucracy, the government has helped the outsourcing business along very effectively.

**MS** Looking ahead, how do you think the outsourcing marketplace will evolve?

**KK** I think there's going to be an explosion of new kinds of work being outsourced. All the time we're seeing new sectors opening – in drug discovery, for instance, you need life science skills combined with IT skills of a high order. This is because if you're synthesising a molecule to tackle a major disease, you want to simulate it on a computer first. I see much more of that kind of work being outsourced, as companies realise it makes sense to locate the work where the talent lies, not where the company happens to be based. It doesn't matter if the control room of a chemical plant is 10ft away or 10,000 miles away. As high-band communications become commonplace, there's nothing stopping that kind of thing increasing; the type of work you can outsource is entering a whole new dimension. FBA

## KIRAN KARNIK

As president of NASSCOM – the premier trade body and the chamber of commerce for the IT software and services industry in India – Kiran Karnik works closely with the industry's leading figures, and with the Indian central and state governments to formulate policies and strategies for the advancement of this sector locally as well as internationally. [www.nasscom.org](http://www.nasscom.org)

**Mark Stuart** is lead writer of The Chartered Institute of Marketing's *Insights* papers and is one of the featured authors in the *FT Handbook of Management*.



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