

India's outsourcing providers are boosting their value to financial services companies by offering knowledge process outsourcing. Nasscom's president, **Kiran Karnik**, and its Product Forum chairman, **Deepak Ghaisas**, tell Mark Stuart why India is the world's hottest outsourcing location.

INDIA SPICES UP OUTSOURCING

- India is looking to add extra value to maintain its reputation as the world's favourite outsourcing location.
- India expects to be the outsourcing location of choice for at least the next 15 years.
- The Indian Government is cracking down on cyber-crime and data theft.



Bringing knowledge to the table

India has the infrastructure and talent pool in place for KPO. Kiran Karnik, Nasscom president, observes: 'Talent is the important driver here, after money. However, what lies at the bottom of the pyramid is still cost. Things are fine as long as this is under control, but if costs go haywire, customers are going to look elsewhere.'

So, should India be focusing on consolidating the quality of existing outsource arrangements rather than pushing for further growth in the sector? Ghaisas says: 'A bit of both. There's still plenty of room for expansion. The market isn't going to slow down. We have less than 10% of the global outsourcing market, and India is well equipped to accommodate more growth.'

'At the same time, quality comes from the value we deliver. Creating more productive processes, ensuring high security, increasing the quality of resources for the industry – these are the areas we can deliver in.'

Ghaisas acknowledges that MiFID represents a significant opportunity for India, and Nasscom is busy making sure that Indian outsourcing companies understand the exact provisions and requirements. He says: 'We're working out the implications and making sure we have compliance. We're building a knowledge base before we approach European companies with solutions.'

Winning on quality

Competition from China and East Europe could threaten India's dominance of the outsourcing market, but Ghaisas believes India still offers a better overall outsourcing package. 'Eastern Europe is closer, which is useful for call centres, and there are excellent language skills, too. But it doesn't have anything to rival the talent pool we have in India.'

He also doesn't see China as a serious threat. 'If anything, the Philippines is a stronger rival for the US market, because it has better language skills than China. But the Philippines isn't great for Europe because of its US pronunciation. We also have a closer cultural bond with the UK.'

Karnik doesn't doubt that China will emerge as a serious player in coming years, but he believes India will maintain its position for at least 15 years. 'In China, top management will know English, but the workers only understand it, they can't speak the language.'

Facing competition from China and Eastern Europe and bruised by allegations of fraud, Indian outsourcing firms are looking to knowledge process outsourcing (KPO) as a way to add extra value for financial services companies.

In addition to controlling costs and crime, India's National Association of Software and Service Companies (Nasscom) believes that the country should be providing a better outsourcing service by offering specialised industry knowledge.

Deepak Ghaisas, chairman of Nasscom's Product Forum, says: 'When the outsourcing boom arrived, the benefits were made almost entirely on labour costs. A US company relocating to India can save around 20%.'

'However, economic pressures are starting to suppress these potential savings. The only way to change that is by adding extra value, which is where KPO comes in.'

Indian gem

The Indian market offers:

- A well-developed infrastructure
- An educated talent pool
- Stable cost savings
- More productive processes
- High-quality resources
- A strong capital market
- Tight security

Anyway, Ghaisas points out, with KPO, accents and language gaps are irrelevant. 'KPO is about understanding the business and the intellectual capital that your talent pool brings.'

US and European banks are also opening development centres India. Ghaisas says: 'Morgan Stanley, Bundesbank, HSBC, all the big players are setting up development centres or BPO centres in India. Citibank bought a 40% stake in i-flex for \$400,000 in 1993 and sold it for \$600 million in 2005. That's probably the best single investment in its history.'

The middle ground

Does Ghaisas think financial services companies should outsource to India or set up captive units? 'The latter saves costs, but you can't unlock its value in terms of business with third parties. Three or four years down the line, you'll have a cost advantage, but the way you run it is more expensive, so ultimately it's not competitive.'

Ghaisas believes joint ventures are the ideal middle way, allowing banks to have their cake and eat it. They make cost savings, get maximum value and unlock all of the potential. 'Also,' he adds, 'the capital market is running at good multiples – much better than in the US, UK or Europe – so investing in a company in India is a no-brainer really.'

India is also acutely aware of the outsourcing backlash that peaked during the US presidential elections, with the increasingly angry perception that home jobs were being lost to outsourcing arrangements halfway round the globe.

Ghaisas responds: 'Actually, for every dollar the US spends on outsourcing to India, its economy goes up \$1.25 because we're buying software from Microsoft and HP, which goes back to the US economy, creating jobs. Plus, companies that outsource gain the advantages that come with increased equity, as outsourcing makes them leaner and fitter. There are no convincing arguments that outsourcing to India doesn't make sense.'

Dispatching security worries

India must also alleviate justified industry concern over the issue of fraud. Last year, Channel 4's *Dispatches* series showed employees from an outsourcing company willing to sell financial data. Financial services companies are particularly concerned, as they handle extremely sensitive data.

Ghaisas says the problem is one of human nature, and that the risks are no greater in India than anywhere else. 'There will always be people greedy for money, and that brings a level of risk. The reality is that security in India is as good as anywhere in Europe.' Karnik adds: 'In fact, one of the alleged criminals admitted that the data he offered for sale was fake.'

'Talent is the important driver here, after money.'
– Kiran Karnik

Setting standards: the National Association of Software and Service Companies

The National Association of Software and Service Companies (Nasscom), India's premier trade body, is also the IT software and services industry's chamber of commerce. It has over 1,100 members, of which over 250 are global companies from the US, UK, EU, Japan and China. Its members are in the business of software development, services and products, and IT-enabled/BPO services and e-commerce.

Set up to facilitate business and trade and encourage research, Nasscom has historically been the strongest proponent of global free trade in India. It proactively encourages its members to adopt world-class management practices, build and uphold the highest quality standards and become globally competitive.

It is a not-for-profit organisation, registered under the 1860 Societies Act.

To alleviate fears and ward off potential problems, Nasscom runs special programmes between companies to make sure all new employees understand that they are handling confidential data and what their responsibilities are.

Furthermore, the IT Act of 2002 is strictly enforced. Ghaisas says: 'The Indian Government comes down heavily on people who commit cyber-crimes or sell data because we're very aware that a publicised case can tarnish India's image abroad.' Karnik points out that Nasscom has helped the Indian Government tighten up the IT Act to iron out loopholes and discrepancies.

Nasscom is also encouraging self-regulation, which it believes is far more effective than creating more legislation.

Adding knowledge to its proven track record of supplying quality services will supply India with the competitive edge it needs to attract and retain financial services companies in the coming years. By also keeping a tight rein on costs and fraud, there is no reason that India shouldn't continue to be a leading provider of outsourcing services. FBA



Kiran Karnik

As president of Nasscom, 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 and internationally.



Deepak Ghaisas

Deepak Ghaisas is chairman of Nasscom's Product Forum and an executive member of its Executive Council. He is also CEO (India operations) and CFO of i-flex, a world-leading provider of IT solutions to the financial services industry.

Mark Stuart

Mark Stuart is lead writer at the Chartered Institute of Marketing and a featured author in *The FT Handbook of Management*.



What's next in outsourcing?

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