Chapter VI:

FUTURE PROSPECTS OF FINANCIAL SERVICES OUTSOURCING

- Work Flow and Growth Prospects
- Future prospects for the network bank
- The Indian Edge in Outsourcing
- IT Outsourcing Trends
- SBI referred that-Outsourcing customer service has been advantage
- Regulatory Compliance

- Activities that should not be outsourced

- Bank’s role and Regulatory and Supervisory requirements (As per RBI guidelines)
- Future Growth of Outsourcing
- The Opportunities for International Banks
- The Peculiarities of the Indian Market
- SBI to outsource rollout of ATM
- More Indian' big banks plan to outsource ATM roll-out
- Outsourcing financial services by State Bank of India, Bank of Baroda, ICICI Bank, Axis Bank and some others Indian commercial Bank
- Banking Operational Services
- The activities that are already outsourced by the Bank
- Some of the services outsource by SBI other than above mentioned areas
With increased competition in the banking Industry, the net interest margin of banks has come down over the last one decade. Liberalization with Globalization will see the spreads narrowing further to 1-1.5% as in the case of banks operating in developed countries. Banks will look for fee-based income to fill the gap in interest income. Product innovations and process re-engineering will be the order of the day. The changes will be motivated by the desire to meet the customer requirements and to reduce the cost and improve the efficiency of service. All banks will therefore go for rejuvenating their costing and pricing to segregate profitable and non-profitable business. Service charges will be decided taking into account the costing and what the traffic can bear. From the earlier revenue = cost + profit equation i.e., customers are charged to cover the costs incurred and the profits expected, most banks have already moved into the profit = revenue - cost equation.¹ This has been reflected in the fact that with cost of services staying nearly equal across banks, the banks with better cost control are able to achieve higher profits whereas the banks with high overheads due

to under-utilisation of resources, un-remunerative branch network etc., either incurred losses or made profits not commensurate with the capital employed. The new paradigm in the coming years will be \( \text{cost} = \text{revenue} - \text{profit} \).

As banks strive to provide value added services to customers, the market will see the emergence of strong investment and merchant banking entities. Product innovation and creating brand equity for specialized products will decide the market share and volumes. New products on the liabilities side such as forex linked deposits; investment-linked deposits, etc. are likely to be introduced, as investors with varied risk profiles will look for better yields. There will be more and more of tie-ups between banks, corporate clients and their retail outlets to share a common platform to shore up revenue through increased volumes.

Similarly, Banks will look analytically into various processes and practices as these exist today and may make appropriate changes therein to cut costs and delays. Outsourcing and adoption of BPOs will become more and more relevant, especially when Banks go in for larger volumes of retail business. However, by increasing outsourcing of operations through service providers, banks are making themselves vulnerable to problems faced by these providers. Banks should therefore outsource only those functions that are not strategic to banks’ business. For instance, in the wake of implementation of 90 days’ delinquency norms for classification of assets, some banks engaging external agencies for recovery of their dues and in NPA management.\(^2\)

Banks will take on competition in the front end and seek co-operation in the back end,

as in the case of networking of ATMs. This type of co-petitions will become the order of the day as Banks seek to enlarge their customer base and at the same time to realize cost reduction and greater efficiency.

When we talk about global, one thing that comes ready to mind is outsourcing. An important outcome of globalization apart from FDI and FIIs is the growing outsourcing industry. Global players in the background of having access to the cost efficient and productive centers all over the world are relocating a host of their functions, more importantly those relating to their back offices deriving a number of benefits in terms of costs and productivity. The frenzy of this trend which is more popularly known as outsourcing has even become a hot political issue in many advanced countries and nations like us are trying every endeavor to defend our turf by improving our competence and competitiveness in this segment. Worldwide outsourcing today is a multibillion-dollar business to which India has a sizeable stake and share. ³

The same features and functions of Outsourcing, one may find in Indian Banking Industry will be evident in the domestic context also. If in developed countries, outsourcing is opposed by some section of the political system and labour unions, it is similar experience with domestic situation as well. Outsourcing as a subject is spilling into the social arena as well, since it is creating significant spending power for the youth and the very young, sometimes is causing some concerns about the living styles

and patterns. Notwithstanding these causes and concerns, banking organisation is beginning to love and like outsourcing very much and we hope to see strong growth in this segment in the years to come. Obviously, when we see so much growth in this segment, it is natural to look at threats and opportunities. It is in this context; mentioned future prospect of the outsourcing of banking functions in India with specific reference to and some aspects of strategy and operational aspects.

The Financial outsourcing service providers has given impetus to inflow of foreign exchange and creating job opportunities in India. The financial services sector has emerged as a key domain for outsourcing.

**Work Flow and Growth Prospects**

Banking, financial services and insurance (BFSI) comprise 38 per cent of the outsourcing industry in India (worth $47.8 billion in 2007). Most of the work outsourced comes from the US followed by Europe.\(^4\)

According to a report by Mc Kinsey and Nasscom, India has the potential to process 35 per cent of the banking transactions in the US by the year 2011. Outsourcing by the BFSI to India is expected to grow at an annualised rate of 30 - 35 per cent. Outsourced services from the BFSI domain include customer support, software and solutions required for core banking, various banking processes like mortgage loan processing, application processing, verifications etc, and other services like market analysis,

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\(^4\) Dossani, R.: *Published in IMG Magazine 12/2006.*
Future prospects for the network bank

"Outsourcing" is currently one of the most popular topics of discussion in the banking community. This term is used to describe the distribution of value chain activities among partners. Against a background of increasingly deregulated markets, changing customer behavior and a steady decline in profit margins, one of the pivotal challenges is to manage and configure value added correctly. Banks are faced with having to improve their cost-income ratios on a long-term basis while securing lasting competitive edge that will help them position themselves in the marketplace. But this challenge offers a massive opportunity: the outsourcing of service processes is an ideal means of achieving future-oriented value added. That's because the emergence of financial networks in the financial industry will mean a fundamental change in the form and image of the traditional bank as the so-called "network bank" takes shape. From the various discussions with the various bankers, Management Group, and head of the "Sourcing in the Finance Industry", explains the key factors in this new development.

What experience have banks already gained with outsourcing -

From a very early stage, the financial institutions have set up inter-bank organizations (e.g. the centralized clearing houses and exchanges) and standards to ensure the system-supported interchange of information (e.g. SWIFT, Financial EDI, FIX

Protocols). This process has been facilitated by the intangible nature of financial products. At the same time, it is clear that fragmentation of the value chain is at a much less advanced stage than in the automotive industry, for example. Full-service banks, in particular, have integrated numerous business processes (retail, processing, product and support processes) vertically in order to meet customer requirements. Although there are misgivings about the measurement of real net output ratios (i.e. the depth of value added), it is a fact that the banking sector, at 50-80 percent, is well ahead of the electronics or automotive industries, with just 15-25 percent. A study of more than 20 bank branches and Local Head Office’s of SBI, ICICI, Bank of Baroda, and Axis Bank undertaken sheds more light on this situation. It reveals that there are three distinct categories here. The real net output ratio of 57 percent for the sourcing of infrastructure services is an indication that collaboration with outside partners is already commonplace as regards the operation of computer centers and the maintenance of IT systems and equipment. The level of value added in the ongoing development of IT applications is much lower than this, at 27 percent. But for the "traditional" banking processes, such as sales, marketing, portfolio management and payment, securities and loan transactions, the figure rises to 86 percent. Another study in which sourcing practices in Public Bank and Private Bank were compared showed that the proportion of in house development of IT applications is still relatively high in Public Bank, whereas the real net output ratio for service processes, such as the management of securities, is lower than in Private bank. Both these studies indicate that the banks are very much interested in new sourcing models.
So, now the questions coming that are the value-adding sectors now in line? After all, the outsourcing of service processes is a tricky matter for any bank. The increasing diversification of the provider structure in the banking community (e.g. Bank of Baroda, State bank of India, Axis Bank, ICICI Bank) is creating a basis for the formation of supply chains across a number of value added stages. This development is turning the traditional bank into a networked enterprise. Although the full-service and private banks, in particular, will continue to offer services from a single source, the banks are operating with a range of partners who need not be "visible" to the customer, provided that the rules are complied with. This increase in the level of networking can be achieved gradually or in a series of small steps.6

Outsourcing sounds like a highly systematic approach. But does it reflect the reality -

In actual practice, the strategic configuration of sourcing models is often replaced by decisions based on a "strategic gut feeling" or the equation of sourcing with the choice of new software. The organizational, political and technical complexity of sourcing projects is underscored by a number of failed projects or the delays in the transfer of payment transactions from one Bank to the other. We have examined carefully the basic reasons for this in the Sourcing Competence Center, referred to earlier, which is developing a configuration/architectural model to enable the end-to-end observation of sourcing models from strategy through to the information systems. The basis in this case is a process-oriented approach, since processes have proven their worth as "the link between strategy and technology". This model is expanded with the addition of an evaluation model which permits the systematic comparison of sourcing models by way

of a metrics catalog geared to the architectural levels, determines the economic viability of these sourcing models, and unites the quantitative and qualitative aspects. The purpose of the integrated IT-supported configuration and evaluation model is to assist banks and providers with the implementation of network-oriented sourcing strategies. It goes without saying that the model cannot take the place of trust as the cornerstone of any partnership, nor can it replace friendly, cooperative personnel, without whom no successful joint strategies, processes or systems could be developed. In view of these difficulties and the continual reports of new record profits, is there really any reason to change things –

Exhibit 6.1: Reasons for Outsourcing

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve company focus</td>
<td>60%</td>
</tr>
<tr>
<td>Reduce and control operating costs</td>
<td>50%</td>
</tr>
<tr>
<td>Free resources for other projects</td>
<td>30%</td>
</tr>
<tr>
<td>Gain access to world class capabilities</td>
<td>20%</td>
</tr>
<tr>
<td>Resources not available internally</td>
<td>15%</td>
</tr>
<tr>
<td>Accelerates Reengineering benefits</td>
<td>10%</td>
</tr>
<tr>
<td>Reduce time to market</td>
<td>5%</td>
</tr>
<tr>
<td>Share risks</td>
<td>5%</td>
</tr>
<tr>
<td>Take advantage of offshore...</td>
<td>5%</td>
</tr>
<tr>
<td>Function difficult to manage to...</td>
<td>5%</td>
</tr>
</tbody>
</table>

[169]
10% = Function difficult to manage to control or out of control.
12% = Take advantage of offshore capabilities.
12% = Share risks.
18% = Reduce time to market.
20% = Accelerates Reengineering benefits.
25% = Resources not available internally.
36% = Gain access to world class capabilities.
38% = Free resources for other projects.
54% = Reduce and control operating costs.
55% = Improve company focus.

7Source: Outsourcing Institute - 5th Annual Outsourcing Index

At present there is no shortage of resources for acquisitions. Whereas in some countries there are strong consolidation tendencies among providers, in India the number of sourcing providers is increasing steadily. Nevertheless, as our study shows, most Banking institutions are engaged in the breakup and configuration of their value chains. Regulatory and other factors also play a key role in this scenario. Success can of course act as a brake on certain developments. In these situations we need visionaries who will see beyond the status quo and develop farsighted concepts. The banks still have a choice: either they can adapt outsourcing process voluntarily and for strategic reasons or they can rest on their laurels and hope to catch up later on – possibly when their backs are to the wall, because reasons for outsourcing by banks are mentioned here from various study.

7. 5th Annual Outsourcing Index Report - Outsourcing Institute.
Chapter VI: Future Prospects of Financial Services Outsourcing

The Indian Edge

While the major driver of the outsourcing wave is the cost advantage India enjoys in terms of employee cost, comparatively lower rentals for space etc., western outsourcers opt for India for various other reasons like better management, focus on core areas where they specialize, quality, service etc. According to Ramesh Mengawade, CEO and Chairman of Opus Software Solutions, a third party processor for credit, debit and prepaid cards, "outsourcing in card processing enables our clients flexibility and time to market advantages for introducing new features and enhanced security due to stringent regulatory compliance." 8

Table 6.1: Growth trend of the Outsourcing Industry – 2008-09

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Employment</th>
<th>Revenue (in $ m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Care</td>
<td>65000</td>
<td>890</td>
</tr>
<tr>
<td>Banking &amp; Finance</td>
<td>37000</td>
<td>710</td>
</tr>
<tr>
<td>HR</td>
<td>4500</td>
<td>65</td>
</tr>
<tr>
<td>Payment Service</td>
<td>13000</td>
<td>245</td>
</tr>
<tr>
<td>Administration</td>
<td>25000</td>
<td>325</td>
</tr>
<tr>
<td>Content development</td>
<td>65000</td>
<td>565</td>
</tr>
<tr>
<td>Total</td>
<td>249500</td>
<td>3400</td>
</tr>
</tbody>
</table>

Source: Nasscom (www.bpoindia.org, knowledge base)

8. www.nasscom.in/ knowledge base FY 2008-09
Table 6.2: Indian Service Providers: BPO Revenue by Vertical Industry, 2008
(Millions of Dollars):

<table>
<thead>
<tr>
<th>Vendors</th>
<th>Banking</th>
<th>Insurance</th>
<th>Health &amp; Care</th>
<th>Telecom &amp; Utilities</th>
<th>Service</th>
<th>Govt.</th>
<th>Manufacturing</th>
<th>Retail &amp; Travel</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>24/7 Customer</td>
<td>42</td>
<td>42</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>3i Infotech</td>
<td>64.5</td>
<td>43</td>
<td>7.6</td>
<td>6.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.6</td>
</tr>
<tr>
<td>Aditya Birla Minacs</td>
<td>74</td>
<td></td>
<td>82</td>
<td></td>
<td>211</td>
<td></td>
<td></td>
<td></td>
<td>25</td>
</tr>
<tr>
<td>Aegis</td>
<td>65</td>
<td>12</td>
<td>38</td>
<td>90</td>
<td>79</td>
<td>14</td>
<td>5.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cognizant</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compass BPO</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>4</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Source</td>
<td>84</td>
<td>146</td>
<td>115</td>
<td></td>
<td>9</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Genpact</td>
<td>269</td>
<td>80</td>
<td>20</td>
<td>74</td>
<td>350</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HCL</td>
<td>6.4</td>
<td>23.6</td>
<td>150.7</td>
<td>20.6</td>
<td>5.1</td>
<td>27.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iGate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>13</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infosys BPO</td>
<td>55</td>
<td>13</td>
<td>97</td>
<td></td>
<td>110</td>
<td>35.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satyam</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patni</td>
<td>38</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>10</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tata Consultancy Services</td>
<td>112.8</td>
<td>122.8</td>
<td>24</td>
<td>18.8</td>
<td>6.7</td>
<td>1</td>
<td>5.7</td>
<td>39</td>
<td>30.2</td>
</tr>
<tr>
<td>Wipro Technologies</td>
<td>70</td>
<td>9</td>
<td>34</td>
<td>76</td>
<td>63</td>
<td>0</td>
<td>33</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>838.7</td>
<td>352.4</td>
<td>264</td>
<td>681.1</td>
<td>197.8</td>
<td>2</td>
<td>853.8</td>
<td>179.3</td>
<td>123.2</td>
</tr>
</tbody>
</table>

Note: Revenue totals are Gartner estimates for the year.

Source: Gartner survey (March 2009).
Chapter VI: Future Prospects of Financial Services Outsourcing

Exhibit 6.2: Indian Banking organisation been outsourcing activities for long:

<table>
<thead>
<tr>
<th>YEARS</th>
<th>Public Sector Bank</th>
<th>Private Sector Bank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 10 years</td>
<td>14%</td>
<td>7%</td>
<td>21%</td>
</tr>
<tr>
<td>6-10 years</td>
<td>11%</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td>5 years</td>
<td>12%</td>
<td>6%</td>
<td>18%</td>
</tr>
<tr>
<td>4 years</td>
<td>6%</td>
<td>4%</td>
<td>10%</td>
</tr>
<tr>
<td>3 years</td>
<td>9%</td>
<td>5%</td>
<td>14%</td>
</tr>
<tr>
<td>2 years or less</td>
<td>5%</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>We do not outsource</td>
<td>8%</td>
<td>4%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: Field survey

The survey shows that Indian Public sector Bank and Private sector bank outsourcing financial services from many years. Total percentage of both Private and Public banks are Outsourcing from various periods are shown in above Exhibit 2, whereas very few banks are in India not outsourcing services still now.
The Banking sector has been a large user of information technology (IT). Banks, in particular, have been increasingly using IT in their day to day operations. Over the years, the banking sector has witnessed a large increase in the use of IT based delivery channels and internet banking activity. Some of the new facilities provided by Bank with the help of service vendor include:

- extended the reach of core banking solutions (CBS) to more branches so as to facilitate anywhere banking;
- introduced technology based products and services such as mobile banking;
- funds transfer options to cover third party customer accounts within the same bank;
- funds transfer across banks;
- utility bill payments and other regular periodical payment facilities;
- and expanded the internet banking facilities

Mobile banking is another activity, which is gaining ground. Many customer-friendly facilities from short messaging service (SMS) alerts to action based on mobile instructions are being incorporated. These technological advances could have far reaching implications for the Banking sector with the help of outsourcing process. As per the recent RBI report, the public sector banks incurred an expenditure of Rs.10,676 crore on computerization and development of communication networks between September 1999 and March 2006. It also mentions that more than 95% branches of public sector banks at end-March 2006 were fully or partially computerized. Out of 27 public sector banks, branches of as many as 10 public sector banks were 100%
computerized, like SBI & Bank of Baroda while branches of another 12 banks were more than 50% computerized.

The banks in India are on a growth path as is apparent from the organization strategy which is focusing towards building top line growth while managing costs. The banks have responded that around 60% of the organization’s focus is on building top line and around 40% is for managing costs. The scenario is consistent across all classifications of the banks, and maintaining all this things is possible with the help of outsourcing financial services.

Around 95% of Banks both public and private Bank have mentioned that retaining customers is critical and 88% of Banks feel the same about acquiring new customers while only 53% of firms said that cutting costs will be a top priority. This is in line with International trends. In conformance with the expressed plans for growth, banks have mentioned the following top 4 benefits expected from outsourcing financial services. This is again in conformance with global trends where Regulatory pressure around Governance, Risk and Compliance and increasing Global Competition in terms of Markets and Customers, are seen as the two key drivers for the adoption and use of outsourcing process:

- New Customer Acquisition
- Increasing Process Efficiency
- Increasing Customer Service Levels, and
- Adherence to Compliance

IT Infrastructure today is the back-bone of the banking industry. It is becoming extremely critical with the growing business pressures of managing explosive data
volume and transaction growth along-with high uptime needs. The core banking infrastructure for a bank typically consists of business application software, systems software, delivery channels, hardware, networks, security, office equipment, communication systems, storage, power back-up, helpdesks and contact centres, and various other evolving elements. In the Indian context, banks appear to have skipped out on the mainframe-driven trend of computing, owing lesser skilled resources, costs, and being a comparatively late adopter of technology. The outsourcing adoption by the Indian banking industry has assumed a big-bang approach. This has resulted in the replacement for disparate systems of appropriate infrastructure to go along with it.

During our discussion with the technology leaders in banking, we found that most of the banks have seen explosive data volume growth in the past 3 years and foresee similar trends in the next 3 years. The average overall data volume growth has been in the range of 37.5% and is expected to be in similar range for the next 3 years. Private sector banks have a higher data volume growth in the range of 44% while the public sector banks anticipate a growth of around 32% in their data volume. Some of the key reasons cited by the banks for anticipated increase in data volumes are increase in customer base, higher number of transactions per customer, more services being provided, increase in service channels such as, internet banking and RBI regulations. While private sector banks anticipate opening up of newer branches and increase in number of transactions as the key drivers for data volume growth; to maintain growing data volumes Bank takes the help of outsourcing service provider.9

9. www.banknetindia.com
Infrastructure Management

Currently, less number of the infrastructure is owned by the banks themselves. The models being followed are ‘bank owned – bank managed’ and ‘bank owned- vendor managed’ with the private sector taking a lead in the vendor managed operations. Going forward, banks believe that their infrastructure management model will change a lot. There will be a movement towards ‘vendor owned-vendor managed’ operations, particularly in the private sector. ‘Bank owned-bank managed’ operations are expected to reduce. If we look at the infrastructure management from the size of the assets, we see that both bigger banks and smaller banks plan to shift to a vendor owned – vendor managed model while the others will continue to maintain their current positions.

IT spend has been growing in the banking sector but at the same time there has been identification of areas of cost improvement in the non-core areas through outsourcing. In this section we have assessed the organization decision making structure, the budgets, their sub-heads and the spend drivers, as well as the current In-House team structure and the outsourcing plan for the banking industry.

Budget & Spend

Budgets have an almost equal divide amongst maintenance and development at an aggregate level. There exists very high variance in maintenance to development budget ratios between banks based on their IT Maturity in terms of applications and the future IT road-map. The maintenance budget forms 53.75% of the overall budget at an aggregate level. The budget at an aggregate level constitutes of around 39% for Infrastructure, 35% for Applications, around 10% for Security, and around 16% for
New Developments & Enhancements. The expenditure will be driven by applications for new developments and Infrastructure maintenance and development for both Public & Private banking industry.

Exhibit 6.3: Budget & Spend drivers in the following types of activity Banks currently outsource and which intend to outsource over the next three years:

<table>
<thead>
<tr>
<th>Activities</th>
<th>Currently outsource and intend to keep outsource</th>
<th>Currently outsource and likely to bring back in-house</th>
<th>Do not currently outsource but likely to within 3 years</th>
<th>Do not currently and unlikely to outsource</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower-value IT activities (e.g. infrastructure)</td>
<td>42%</td>
<td>3%</td>
<td>38%</td>
<td>17%</td>
</tr>
<tr>
<td>Higher-value IT activities (e.g. applications &amp; services)</td>
<td>35%</td>
<td>3%</td>
<td>39%</td>
<td>23%</td>
</tr>
<tr>
<td>Lower-value customer contact activities (e.g. outbound, scripted sales calls)</td>
<td>44%</td>
<td>4%</td>
<td>29%</td>
<td>23%</td>
</tr>
<tr>
<td>Higher-value customer contact activities (e.g. inbound helpdesk calls)</td>
<td>37%</td>
<td>4%</td>
<td>42%</td>
<td>17%</td>
</tr>
<tr>
<td>Lower-value HR activities (e.g. payroll)</td>
<td>25%</td>
<td>3%</td>
<td>35%</td>
<td>37%</td>
</tr>
<tr>
<td>Higher-value HR activities (e.g. benefits management)</td>
<td>18%</td>
<td>4%</td>
<td>23%</td>
<td>55%</td>
</tr>
<tr>
<td>Lower-value finance activities (e.g. accounts payable)</td>
<td>49%</td>
<td>7%</td>
<td>27%</td>
<td>17%</td>
</tr>
<tr>
<td>Higher-value finance activities (e.g. financial statements and reporting)</td>
<td>56%</td>
<td>4%</td>
<td>29%</td>
<td>11%</td>
</tr>
<tr>
<td>Knowledge-based activities (e.g. financial research, modelling)</td>
<td>14%</td>
<td>6%</td>
<td>22%</td>
<td>58%</td>
</tr>
</tbody>
</table>

Source: Field Survey
IT Outsourcing Trends:

The IT Organization structure in private sector banks has a major chunk of Business Analyst / Domain Experts which is not the case in the public sector banks. This is a trend which will catch up at an aggregate level as well with the growing importance of understanding business within the IT department. The private sector has been early adopters of Outsourcing for support and maintenance operations which reflect in the vast difference in the number of people hired by the Public Sector in Support and Maintenance as compared to the private sector. Also, due to higher number of legacy systems in the public sector banks; there exists a greater number of support and maintenance staff.

Exhibit 6.4: IT Outsourcing Trends in Indian Banks

The IT operations outsourcing in the private sector is at a high level of 49% of their total IT operations. This amount to 19% of the total IT spends. The public sector has
been a laggard in it with only 19% of the total IT operations outsourced corresponding to around 10% of the total IT spends. Though both the sectors have outsourced the low value add services only, 50% of the respondents in the public sector have responded that they seem to be keen to increase their current outsourcing.

In the backdrop of a rapidly growing Indian economy and international dynamics, banks would be under pressure on two fronts:

1. From regulatory compliance requirements
2. From the need to perform against competitive forces

The overall technology landscape of the banks thus should be driven by the requirement for efficient and reliable regulatory compliance applications as well as a strong transaction coverage as well as analytics bandwidth to ensure Customer Centricity, Performance Management and Revenue Growth. This section focuses on the prevailing situation vis-à-vis transaction systems and business intelligence and regulatory compliance setups.\(^\text{10}\)

**Transaction Systems**

Quite unsurprisingly the behaviour demonstrated earlier is reflected in the number of transaction systems. Public sector banks seem to be well covered with respect to transaction systems that support the following functional areas:

1. Rural banking.
2. Investment services
3. IT

---

In the case of the private sector banks that are not covered on rural banking it was seen that these are smaller and newer banks. However private sector banks seem to cover the following functional areas more than the public sector banks vis-à-vis transaction systems:

a) Treasury operations, b) Online banking services, c) Compliance and Risk, d) SME services.\textsuperscript{11}

In a growth economy, these could be big business drivers. All banks surveyed have a core banking solution. However there seems to be some variation with respect to functional coverage. Large asset size banks seem to have all functional areas covered by the CBS. In terms of branch coverage however there is again a clear distinction between the private sector as well as public sector banks. In the case of the latter there is full coverage while in the case of the latter an 80-20 rule seems to have been followed wherein the branches that generate the largest business volume are covered by a CBS.\textsuperscript{12} To consider the focus of outsourcing in operational issues of public sector and private sector banks it shows the satisfaction level of the banks.


Chapter VI: Future Prospects of Financial Services Outsourcing

Exhibit 6.5: In Operational issues both Public sector and Private sector Banks satisfied with its experience of outsourcing so far. The rating of the survey in the following areas are: between 1 and 5, 1 being very satisfied, 3 being neutral and 5 being very dissatisfied, shows in Percentage

<table>
<thead>
<tr>
<th>Activity</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of cost savings achieved</td>
<td>15%</td>
<td>45%</td>
<td>24%</td>
<td>14%</td>
<td>2%</td>
</tr>
<tr>
<td>Levels of compliance</td>
<td>14%</td>
<td>34%</td>
<td>41%</td>
<td>11%</td>
<td>0%</td>
</tr>
<tr>
<td>Quality of employees in Vendors organisation</td>
<td>13%</td>
<td>37%</td>
<td>31%</td>
<td>15%</td>
<td>4%</td>
</tr>
<tr>
<td>Levels of customer satisfaction</td>
<td>15%</td>
<td>40%</td>
<td>33%</td>
<td>11%</td>
<td>2%</td>
</tr>
<tr>
<td>Quality of management data</td>
<td>12%</td>
<td>41%</td>
<td>35%</td>
<td>11%</td>
<td>2%</td>
</tr>
<tr>
<td>Levels of performance improvement</td>
<td>16%</td>
<td>38%</td>
<td>32%</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>Morale of employees in outsourcing organisation</td>
<td>9%</td>
<td>28%</td>
<td>44%</td>
<td>17%</td>
<td>2%</td>
</tr>
<tr>
<td>Overall impact</td>
<td>13%</td>
<td>41%</td>
<td>35%</td>
<td>9%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Field Survey

The results of the survey clearly shows that the activity in level of cost savings, levels of compliance, quality of specialised services, customer satisfaction, performance improvement, overall impact, etc. in all category both public and private sector banks of our sample survey shows satisfaction in the result of outsourcing.

Banks can maximize returns on internal resources by concentrating investments and energies on core competencies. Outsourcing will enable Banks to transfer resources from non-value added staff functions to value-added core functions. The outsourcing Banks can also utilize the superior knowhow of the service provider to enhance their
own capabilities, which enables them to offer higher value and thus higher margin bearing products to their customers. Thus we conclude that the opportunities provided by BPO will outweigh the risks, and banks will benefit from BPO in terms of profitability, lowering costs and maximizing efficiency level in the banks by outsourcing their financial services. Thus, the hypothesis of the study, there is a relationship between lowering costs and maximizing efficiency level in the banks by outsourcing their financial services has been confirmed.

It is vital to understand Total Cost of Ownership (TCO) for systems that underpin market operations, which are subject to change, and are not stable. Supply Chain Management (SCM) and Customer Relationship Management (CRM) systems often fall into this category. Ongoing investment in the systems mean the initial implementation costs will be a fraction of the ongoing operating cost. Maybe the reason why CRM has often been seen to fail under the Return on Investment (ROI) model is because it should have been evaluated using a Total Cost of Ownership perspective. Strategically important but continuously changing elements of an organisation’s infrastructure or processes are rarely going to yield results in an ROI model more suited to less volatile aspects of the business.

Around 95% of Banks have mentioned that retaining customers is critical and 88% of Banks feel the same about acquiring new customers while only 53% of Banks said that cutting costs will be a top priority. This is in line with International trends. In conformance with the expressed plans for growth, banks have mentioned the following top 5 benefits expected from Outsourcing /leveraging IT for business. This is again in conformance with global trends where Regulatory pressure around Governance, Risk
and Compliance and increasing Global Competition in terms of Markets and Customers, are seen as the two key drivers for the adoption and use of technology

- New Customer Acquisition
- Leveraging Cross-Sell Opportunities
- Increasing Process Efficiency
- Increasing Customer Service Levels, and
- Adherence to Compliance

Chief General Manager (IT), State Bank of India referred that-

**Outsourcing customer service has been to our advantage**

The State Bank of India has been involved in Community Services Banking since 1973. Besides personal banking, their services range from agricultural banking to NRI services. SBI has been voted third among the most inquired brands in 2005 by a survey conducted by agencyfaqs.com.

"We started outsourcing our customer relationship management (CRM) needs via a small call centre that attended to the needs of our customer service department. This has now developed into a full-fledged, inbound call centre, where all customer queries pertaining to ATMs and debit cards are attended to. Besides, we also answer banking queries such as those on facilities for loan disbursals.

"By using the services of established call centers, we benefit from their core competence"

"Why did Bank decide to outsource customer services- Well, the 24x7 nature of our operations, the ease that outsourcing allows, and the availability of trained labour were a few factors that influenced our decision. Moreover, established call centers regularly update themselves and keep abreast with new CRM techniques. Bank found them competent, and they have the requisite expertise to handle customer queries. By using their services, we benefit from their core competence.

"Banker said that, in the first six months of having outsourced their customer service requirements, it has been to their advantage. Also, when Banks invested in outsourcing, it was done keeping in mind the future course of their CRM activities- which includes outbound services, lead generation, phone banking, as well as providing all the services Banks do in their physical banks today.

"Security is indeed a concern when Banks are outsourcing, and once Banks start phone banking, we will allow call centre agents to access only select data. Bank screening processes are rigorous, and it starts right from when they hire call centre agents. Also, sufficient checks and balances have been built-in, so that only the need-to-know type of information is available to the call centers.

"Banks has made the requisite security provisions. To avoid any misuse, logging and tracing of every caller and receiver will be possible."
Exhibit 6.6: How satisfied Banks with the following elements of successful customer interaction at organisation’s service vendors/outsourcing centres? Rate each of the following between 1 and 5, 1 being very satisfied and 5 being very dissatisfied are shows in percentage:  

(Source: Field Survey)

<table>
<thead>
<tr>
<th>Activities</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>A close working relationship between the business and CRM management teams</td>
<td>10%</td>
<td>29%</td>
<td>28%</td>
<td>9%</td>
<td>1%</td>
<td>23%</td>
</tr>
<tr>
<td>Thorough understanding of products and services</td>
<td>10%</td>
<td>27%</td>
<td>34%</td>
<td>10%</td>
<td>1%</td>
<td>18%</td>
</tr>
<tr>
<td>Real-time access to customer data and analytics</td>
<td>7%</td>
<td>34%</td>
<td>25%</td>
<td>9%</td>
<td>3%</td>
<td>22%</td>
</tr>
<tr>
<td>Data analysis skills within the customer-contact teams</td>
<td>8%</td>
<td>31%</td>
<td>32%</td>
<td>11%</td>
<td>0%</td>
<td>18%</td>
</tr>
<tr>
<td>Developed understanding of customers’ cultural expectations</td>
<td>5%</td>
<td>20%</td>
<td>39%</td>
<td>15%</td>
<td>1%</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Customer satisfaction level**

- A close working relationship between the business and CRM management teams
- Thorough understanding of products and services
- Real-time access to customer data and analytics
- Data analysis skills within the customer-contact teams
- Developed understanding of customers’ cultural expectations
The results of the survey clearly shows that the activity in level of customer satisfaction, levels of understanding customer enquiry, quality of specialised services to customer, customer satisfaction, performance improvement, overall impact, etc. in all category Banks of our sample survey shows satisfaction in the result of outsourcing. Banks can maximize returns on internal resources by concentrating investments and energies on core competencies. Outsourcing will enable Banks to transfer customer services to service provider and concentrate on core functions. The outsourcing Banks can also utilize the superior knowhow of the service provider to enhance their own capabilities, which enables them to offer higher value and thus higher margin bearing products to their customers. Thus we conclude that the opportunities provided by BPO will reduce the staffs’ workload on customer queries, and banks will benefit from BPO in terms of customer satisfaction, lowering costs and maximizing efficiency level in the banks by outsourcing their financial services. Thus the second hypothesis of the study, which is there is a close relationship between financial service outsourcing by bank and customer services has been confirmed.

**Regulatory Compliance**

All banks surveyed have a system or database that supports regulatory compliance. Most banks surveyed also seemed satisfied with the effectiveness of the RBI regulatory compliance solution. Sixty three percent of the banks have an external solution to help with regulatory compliance. The remaining banks have a home grown solution. All the banks surveyed are procuring a solution that will support with regulatory compliance of RBI regulations, applicable to outsourcing arrangements.
entered into by a bank with a service provider located in India or elsewhere. The regulated entity should ensure that Outsourcing arrangements neither diminish its ability to fulfill its obligations to customers and nor impede effective supervision by RBI. Banks therefore have to take steps to ensure that the service provider employs the same high standard of care in performing the services as would be employed by the banks if the activities were conducted within the banks and not outsourced. Accordingly banks should not engage in outsourcing that would result in their internal control, business conduct or reputation being compromised or weakened.¹⁵

**Activities that should not be outsourced:**

As per RBI guidelines banks which choose to outsource financial services should however not outsource core management functions including Internal Audit, Compliance Function and decision-making functions like determining compliance with KYC norms for opening deposit accounts, according sanction for loans (including retail loans) and management of investment portfolio.

**Material Outsourcing:**

During Annual Financial Inspections (AFI), RBI will review the implementation of these guidelines to assess the quality of related risk management systems, particularly in respect of material outsourcing. Material outsourcing arrangements are those, which if disrupted, have the potential to significantly impact the business operations,

reputation or profitability. Materiality of outsourcing would be based on:

- The level of importance to the bank, of the activity being outsourced.
- The potential impact of the outsourcing on the bank, on various parameters such as, earnings, solvency, liquidity, funding capital and risk profile.
- The likely impact on the bank’s reputation and brand value and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service.
- The cost of the outsourcing as a proportion of total operating costs of the bank.
- The aggregate exposure to that particular service provider, in case where the bank outsource various functions to the same service provider.

**Bank’s role and Regulatory and Supervisory requirements (As per RBI guidelines):** ¹⁶

The outsourcing of any activity by bank does not diminish its obligations, and those of its Board and Senior Management, who have the ultimate responsibility for the outsourced activity. The bank would therefore be responsible for the actions of their service provider including Direct Sales Agents/Direct Marketing Agents and Recovery Agents and the confidentiality of information pertaining to the customers that is available with the service provider. The bank should retain ultimate control of the

Outsourced activity. It is imperative for the bank, when performing its due diligence in relation to outsourcing, to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration. Outsourcing arrangements should not affect the rights of a customer against the bank, including the ability of the customer to obtain redress as applicable under relevant laws. Since the customers are required to deal with the service providers in the process of dealing with the bank, the bank should incorporate a clause in the product literature/brochures etc., stating that they may use the services of agents in sales/marketing etc. of the products. The role of agents may be indicated in broad terms.

Outsourcing, whether the service provider is located in India or abroad, should not impede or interfere with the ability of the bank to effectively oversee and manage its activities nor should it impede the Reserve Bank of India in carrying out its supervisory functions and objectives.

Banks need to have a robust grievance redressal mechanism, which in no way should be compromised on account of outsourcing. The service provider, if it is not a subsidiary of the bank, should not be owned or controlled by any director or officer/employee of the bank or their relatives having the same meaning as assigned under Section 6 of the Companies Act, 1956.

RBI guidelines on outsourcing of financial services by bank is effective for security concerns; all the banks surveyed also seemed satisfied with the effectiveness of the RBI regulatory compliance solution applicable to Outsourcing arrangements entered into by a bank with a service provider located in India or elsewhere. Thus, the third hypothesis of the study, existing Reserve Bank of India guidelines on outsourcing of
financial services by bank is effective for security concerns of its clientele, has been confirmed.

**Number of Vendors**

There is a wide variance in the number of vendors that a bank employs. Private sector banks show a tendency for more vendors – this is in line with the larger number of systems that private banks maintain. Of the banks surveyed, only three were planning to rationalize the vendor set. Two of the banks had the number of vendors in the range 11~15 while the third had 22 vendors. 17

**Future Growth of Outsourcing**

Recently the financial services sector in the US has been under a lot of pressure on account of the sub-prime crisis, due its exposure to securities backed by real estate assets. This has resulted in uncertainties regarding the flow of work from this sector to India. There is a view that the slowdown in the US will affect the IT and BPO industry adversely while there is another school of thought that the slowdown would eventually benefit India as companies will outsource more work to check their costs.

While India has not been as seriously impacted by the global financial turmoil, the current credit crunch has affected all sectors of the Indian economy. On the one hand,

the Indian banking industry is witnessing rapid change given the evolving regulatory environment, rapid technological advancements, heightened competition and consolidation. On the other hand, with the global recession looming, the industry is now exploring process innovation and is more aggressively adopting technology.

The restructuring underway in the banking industry is of such a magnitude that in the short term, many firms are simply parking the outsourcing debate to the side, as they seek to understand who owns who, who will have what jobs and whether the various financial rescue packages are successful.  

When the dust settles, the resulting merged entities will look at what outsourcing arrangements they have inherited and how they can be optimised. For those firms undergoing mergers or acquisitions, there are some specific challenges to consider, particularly if there are existing outsourcing arrangements already in place. There are major drivers in favour of outsourcing, predominantly around reducing costs. However there are also key challenges, including how to combine different sourcing strategies and cultures. There are also penalty clause implications to consider if contracts are to be changed or terminated. If we look into the crystal ball, the financial services 'survivors' will likely be the ones to continue to aggressively reduce costs through a variety of sourcing routes. This could be a mix of offshoring, outsourcing and shared services.

18. The Economic Times, 21st Aug, 2008 - Banking and financial services sector driving the outsourcing industry.
Outsourcing in particular is seen by many financial institutions as a faster way to drive dramatic and sustainable cost reduction than other initiatives. More conventional long-term cost reduction business transformation initiatives often prove to be highly complex, take a long time to deliver and have a high risk of failure. Meanwhile, traditional short-term 'slash and burn' cost reduction initiatives can often damage a firm's longer term position by losing core skills.

A sizeable number of major financial institutions are offshoring and outsourcing as a way to achieve radical cost reduction, with some major breakthrough deals recently announced such as the $1bn Aviva deal in July 2009. 19

In order to understand which route will deliver the greatest savings at lowest risk, firms need to consider whether it is cheaper to stay in-house, what levels of sustainable savings are achievable and what investment is needed. Recently there has been a trend towards offshoring via an outsourcer, with a growth in the number and quality of outsourcing firms now serving the financial sector. For those firms new to offshoring, the time and expense in setting up a captive and the need for fast results is likely to deter them from doing this on their own. If a suitable supplier is available which has already gained a good reputation with another financial institution, this can seem the easiest route. The extra hurdle of a supplier margin or potential VAT can then be offset by gaining benefits earlier and not having the upfront costs of setting up a captive.

19. www.informationweek.com
Many global banks may continue to keep operations in-house, particularly if they already have an existing overseas operation in such regions as Eastern Europe, India or Singapore. It is a comparatively straightforward task for them to take on the back office operations from an acquisition and build this into their existing captive offshore organisation.

Recent deals are largely going down the outsource route, with some banks selling their captives to outsourcers, to realise the value generated in them over time. However if a firm chooses to go with an outsourcer in the midst of a major merger integration or consolidation, the client must ensure they receive benefits from the supplier. Firms need to ensure they don't get locked into deals they live to regret.

Another important factor is planning for regulatory concerns including gaining all the appropriate approvals, and ensuring current and future compliance needs are met. Change management through these difficult times is critical. The top executives must ensure cross-function changes happen across the organisation and a change plan is in place to manage the sensitive issues of people and culture.

Ensuring accountability over time is often a challenge if firms suffer from high staff turnover. Bonus structures, such as may be obtained in the current climate, can offer managers an incentive to deliver the required cost savings over the long term.

Once the turbulence subsides in the financial world, cost pressures are likely to drive surviving firms to place outsourcing and offshoring back onto their top management agenda.
Chapter VI: Future Prospects of Financial Services Outsourcing

At that point it will be even more important for the surviving firms to understand the dynamics of the sourcing marketplace in order to drive sustainable cost advantage. Those that get their sourcing decisions wrong could end up with inflexible and expensive arrangements they will live to regret.

The Opportunities for International Banks:

India’s banking market is one of the fastest growing in the world. The reasons are numerous: a burgeoning national economy, financial-sector reforms, foreign investment that has risen in step with an easing regulatory climate, and a highly favorable demographic profile, to name a few. Some leading international banks have already demonstrated that it is possible to establish a presence in India and achieve profitable growth amid local competition. But India’s potential is so vast that significant opportunity still awaits foreign banks that have not yet explored the country. It is an opportunity that few can afford to ignore. Fueling India’s banking growth is a greater than $600 billion economy that is expanding at about 6 percent per year, stimulating per capita incomes and consumption. Large numbers of households are shifting into the middle class, creating booming markets in housing, motor vehicles, televisions, computers, mobile phones, and other products—most of which require financing. Total banking assets have doubled over the past five years, and industry profits have tripled over the past three years. The current profit pool of about $20 billion and may reach $40 billion within a decade—resulting from a rapid expansion of revenue that will parallel that of the overall financial-services sector. What is more, about 60 million new households should be added to India’s bankable
segment by 2011. 20 And the countries will likely have a surplus of 47 million people aged 15 to 59 by 2020—a time when most other large economies will face a shortage in this age bracket. Infrastructure gaps, although glaring in some areas, are improving, and a stable political-reform consensus bodes well for continued economic growth. Of course, entering India’s banking market is no small task. More than a few foreign institutions have tried to secure a foothold, found the going slippery, and departed with not much to show for their effort and investment. But the fact that success is attainable should make international banks take notice: India in the twenty-first century is about far more than outsourcing and offshoring. The 33 foreign banks currently doing business in India collectively earned more than $500 million in after tax profits in 2004, with the three most established players accounting for most of that profit. For some foreign institutions—Citibank and Standard Chartered Bank, for example—India is the most important emerging market, providing even higher returns than their home countries. 21 Given India’s potential over the next decade and beyond, it is imperative for international financial institutions to consider entering the country. Moreover, foreign banks already present in India should explore ways of expanding onshore in order to ride the growth in the domestic market. Naturally, part of any bank’s debate about India should begin with an exploration of where the country’s best opportunities currently lie.


Opportunity Knocks:
Retail financial-services businesses—such as mortgages, personal loans, wealth management, and asset management—have enormous potential in India today, given their relatively low levels of penetration. Retail lending, for example, at about $40 billion in 2004 and growing at roughly 30 percent per year, still represents only about 20 percent of industry advances and less than 7 percent of GDP—a much lower percentage than in Thailand (18 percent), Malaysia (33 percent), and South Korea (55 percent). India’s demographic profile makes it likely that this rate of growth will continue for the foreseeable future. Consider India’s mortgage business. Bolstered by low interest rates, mortgages currently account for half the retail asset market. And there is significant room for further development, with volume rising possibly to $50 billion within the next few years. Or take the wealth management sector. India is among the top six Asian countries in terms of net investable assets (NIA). According to various estimates, there are around 400,000 Indian households with NIA above $250,000, 150,000 households with NIA above $500,000, and more than 60,000 households with NIA above $1 million. In the broader asset-management arena, the roughly $35 billion in assets being professionally managed in India is quite low, representing just under 6 percent of GDP. Nonetheless, the value of assets managed by private and foreign-owned players (which now account for more than 75 percent of the market) has grown by 60 percent annually over the past five years. With more than $180 billion in long-term fixed deposits in banks and low penetration in the pension market, sustained growth is expected. What makes the opportunity especially attractive is that many private institutions above a certain critical mass are earning a
return on equity of more than 30 percent.\textsuperscript{22} India’s billion-strong population, demographic profile, and rising degree of affluence also bode well for other retail products currently in their infancy, such as credit cards and life insurance. India’s Credit-card base has risen to about 10 million, for example, but only two players are earning appreciable returns. Yet penetration still lags that of most emerging markets, and life insurance is just beginning to shed its image as solely a tax shelter.

\textbf{The Peculiarities of the Indian Market}

India’s growth story is unfolding across a business landscape that has more than a few special features, which international banks should be aware of. The first concerns the overall structure of India’s financial-services industry. But these institutions are deeply constrained in their autonomy and in their ability to adhere to a market-based human-resources strategy. Moreover, in the short to medium term, they are not likely to be available for acquisition. Second, the bulk of the Indian financial-services industry is concentrated in urban areas. Indeed, there are really two ways to look at the Indian market: inside metropolitan areas and outside their boundaries in rural regions. Most of the recent growth has come in urban areas, with the 20 largest cities currently accounting for 50 percent of the financial services market. Similarly, 80 percent of housing loans originate in 20 percent of the country’s urban residential districts. Markets outside metropolitan areas have not yet been fully explored. Third, banks in India typically have a very high volume of small transactions, requiring an operating

\textsuperscript{22} The Outsourcing Report- Capgemini, 2004.
platform that can support very low breakeven levels. The global operating platforms of international banks appear to be disadvantaged compared with those of new private-sector players that have entered the market since 1994. Fourth, India’s information infrastructure is still evolving. Information capture, especially with respect to risk, is gradually getting more attention as banks embrace technology. For example, a credit bureau for retail businesses has just been set up. Yet banks have to use considerable finesse in working around the problems that still exist in this area.

The overall structure of India’s financial-service industry, the public sector financial institutions dominate the Indian banking sector, as well as in Outsourcing of financial service by bank the public sector banks are ahead of other institutions. Exhibit 6.7: “Public-Sector Financial Institutions Dominate the Indian Banking Landscape.”

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Exhibit 6.7: Public-Sector Financial Institutions Dominate the Indian Banking Landscape

![Bar chart showing distribution of assets, branches, and deposits among different types of banks in India.]

**SOURCES:** Reserve Bank of India; BCG analysis.

**NOTE:** All figures are from financial year 2009.

**Doing Things Right:**

It is critical to note that the twists and turns on the road to success in India—although the robust growth in India’s financial-services industry, many of these institutions are now evaluating whether to venture into additional segments. ICICI Bank, a top
domestic private-sector bank, provides another example of how dramatic growth is possible in India. ICICI—using loan fairs, aggressive pricing, and direct sales for customer acquisition—has tripled its market share to more than 20 percent over the past four years and has secured its position as a leading mortgage lender. Indeed, with lower technology and factor costs, as well as lower profit aspirations, Indian private-sector banks ICICI Bank and Axis Bank have been able to take share away from both foreign and Indian public sector banks. One element of their success has been their ability to structure their business models and operating platforms to suit the requirements of low breakeven levels in different products.

Currently, SBI spends over Rs.450 crore annually on buying new software and managing IT systems from its Belapur, Navi Mumbai-headquartered IT centre, according to industry insiders. SBI’s deputy managing director for information technology, for comment was not returned. While the bank is only looking at covering 10,000 of its branches to begin with, the contract value could exceed Rs10,000 crore once SBI’s total 14,000 branches are brought under the outsourcing agreement. The rationale behind total outsourcing is to bring more cost efficiency in areas such as cheque clearance, which costs Rs.4 for an Internet-based transaction against Rs.27 for physical clearance.

"It must say, in the first six months of having outsourced their customer service requirements, it has been to their advantage. Also, when bank invested in outsourcing, it was done keeping in mind the future course of their CRM activities—which includes outbound services, lead generation, phone banking, as well as providing all the
services bank do in their physical part today. Security is indeed a concern when banks are outsourcing, and once they start phone banking, they will allow call centre agents to access only select data. Their screening processes are rigorous, and it starts right from when they hire call centre agents. Also, sufficient checks and balances have been built-in, so that only the need-to-know type of information is available to the call centers. They made the requisite security provisions. To avoid any misuse, logging and tracing of every caller and receiver will be possible.

India is widely expected to become the third-largest economy in the world by 2035, behind China and the United States. Leading international banks will not be able to ignore it. Indeed, a stark choice may be looming: enter India now at relatively low cost, or enter later and pay heavily for the delay in terms of investment and lost opportunity.

Exhibit 6.8: Banks currently outsource or does it intend to – use its outsourced, capabilities to generate revenue or for other reasons:

| Bank intend to become a more profitable organisation | 44% |
| Bank want specialized work from specialized persons | 21% |
| Less expenditure in infrastructure                 | 16% |
| Banks do not currently outsourced                   | 19% |

Source: Field Survey.

Outsourcing will continue to grow and will continue to broaden in scope from a relatively straightforward tool focused on efficiency-driven cost reduction/profitable organisation to become an increasingly strategic tool focused on achieving change.

The future is about choices, as survey shows that significance of outsourcing most of the Banks intend to become a profitable organisations.

**SBI to outsource rollout of ATM**

State Bank of India, the country's largest lender, is on an outsourcing overdrive. After outsourcing the back-office work in foreign offices, the bank has now decided to rope in external agencies to set up automated teller machines to save on capital expenditure and reduce the rollout time. It plans to initially outsource 500 ATMs to vendors, including original equipment manufacturers.

SBI intends to take the ATMs tally from the current 12,250 to 25,000 by March 2012. This entails large capital expenditure and management time, a senior executive said.
"If the bank can provide better customer services (ATM facilities) without buying machines, why not; It is possible to save on capital expenditure," the executive added. He did not spell out the extent of savings. The bank is not, however, abandoning the task of setting up ATMs on its own. While private banks have aggressively outsourced the establishment and management of ATMs, the number of public sector banks doing the same is still small. The employee unions in public sector banks have, in recent weeks, protested against outsourcing moves.

Of the 500 ATMs that will be set up by SBI through the outsourced route, 200 will be established in the metros, 150 in urban locations, 100 in semi-urban areas and remaining 50 in the hinterland. The bank did not specify whether these ATMs would be located at the branches or offsite.

SBI is looking at the outsourcing initiative on an experimental basis. The bidders should not have been blacklisted by any public sector banks for deficiency in services in the last three years. The vendor would have to install and maintain the ATMs, providing uninterrupted power supply with backup facilities and security. The service provider will also have to ensure network connectivity with the bank's switch at Navi Mumbai. In the year 2009; SBI outsourced the roll-out and maintenance of its ATMs on a pilot basis to C-Edge, a joint venture between SBI and Tata Consultancy Services.25

Traditionally, most ATM outsourcing deals were based on a monthly lease rental model, but more banks are now looking to adopt the pay-per-transaction model.

Business Standard reported that India’s third largest private sector lender, Axis Bank, was planning to outsource the roll-out of ATMs and adopt a pay-per-transaction model. Some banks with smaller ATM networks, such as YES BANK, also use a pay-per-transaction model. A senior executive from a private sector bank said the advantage of such a model is that there are no fixed costs and banks only pay depending on the number of transactions that are processed.\textsuperscript{26}

Since April 1, 2011, customers are free to use ATMs of any bank without incurring a charge, according to Reserve Bank of India (RBI) guidelines. The acquiring bank, whose ATM is used for a transaction, will have to be paid an interchange fee by the customers’ bank.

Banks with larger ATM networks treat inter-change fee as an important stream of revenue and expect to benefit from the April 1 rule, which they say will prompt more customers to use their ATMs. Although figures are not available, banks say they saw a significant rise in the number of interchange ATM transactions in April.

The SBI will arrange for license from the Reserve Bank of India and the usage of its own switch and cash. Meanwhile, the bank has joined the National Financial Switch, managed by the Hyderabad-based Institute for Development and Research in Banking Technology. These will broad-base the availability of off-site channels for banking transactions.

\textsuperscript{26} Nair, K.: “Brain Gain, the BPO Way”. Business Standard, ICE World (April 6), 2005.
State Bank, ICICI Bank looks to outsource ATM management

Following the lead of smaller players, the country’s two largest lenders, State Bank of India (SBI) and ICICI Bank, are looking to avoid the hassle of running their giant ATM networks by outsourcing managed services to third-party vendors.

SBI recently invited bids to manage its 20,000 ATMs and the 5,000 ATMs it plans to open by the end of the current financial year. It has asked interested parties to quote a price per ATM per annum for three years. According to analysts, the contract to manage SBI’s network for three years would be worth at least Rs 4,500 crore. ICICI Bank, the country’s largest private sector lender, is also looking to outsource the management of its ATM network, according to people familiar with the development. FSS and Diebold had been short-listed to manage the bank’s 5,600 ATMs, the person added.

More Indian big banks plan to outsource ATM roll-out

Outsourcing of automated teller machines (ATMs) is on the rise. At least two large banks are outsourcing the installation and management of ATMs as they look to rapidly expand their networks in the current financial year. Private sector lender Axis Bank is in talks with BAIL, Euronet Worldwide, Prizm Payments and two other independent service operators for the outsourcing contract.

Similarly, Bank of Baroda (BoB) has invited request-for-proposals from prospective vendors for the site construction, supply and installation of ATMs. The bank intends to set up 500 ATMs at its branches as well as off-site over the next three years. This includes 70 bio-metric ATMs that use a customer’s fingerprint to authenticate a
transaction instead of the customary four-digit personal identification number. Currently, BoB has more than 3,000 ATMs across the country.

“We hope to outsource the installation and day-to-day working of new ATMs within the first half of the current financial year,” - Aspy Engineer, head of alternate channels at Axis Bank said. The bank is looking at a pay-per-transaction model to keep costs low. As part of the pilot project, 500 ATMs were set up all over the country. The public sector lender currently has 25,000 ATMs and is aiming to increase the number to satisfy the customers. SBI has, however, not stopped setting up ATMs on its own. It opted for ATM outsourcing to help meet its roll-out target and also to save on capital expenditure, a senior bank executive said.

At present, Axis Bank’s ATM count stands at 3,595 and plans are afoot to set up 1,000 ATMs in the current financial year. Like SBI, the private sector lender does not plan to stop installing ATMs on its own. The outsourcing plan is intended to complement our independent roll-out strategy. “We want to be a large acquirer in the ATM business and don’t want to lose out on opportunities as the ATM business has opened up,” Engineer said.

OUTSOURCING is becoming the name of the game in the domestic banking industry. Today, banks find it economical and convenient to outsource ATM networks: the machines, their maintenance, safety and security to other specialised agencies. And, as the list of banks, which are outsourcing such products increase, the costs have been plummeting to all-time lows. Outsourcing costs have plunged from

Rs 3,300 per ATM machine per day, couple of years ago, to around Rs 1,500 per day. This would work out to just about the salary of a senior executive of a bank. A Chief Executive of a private sector bank said: "The ATM dons the role of an officer, the accountant, the clerk, the cashier, the attendant and even the security man on duty? All rolled into one. There is no lunch break or tea break and it works round the clock, all through the year." All that the bank has to do is to show the agency where the ATM is to be installed, provide link between the bank's computerised network and their switch, and replenish the cash whenever it depletes at the machines. The agencies provide end-to-end outsourcing facilities from providing the machines themselves, installation, round-the-clock security, the transport and stacking of notes. There are several players in this outsourcing field. The India Switch Company is one, with two different entities for importing the machines and providing network support. Several others have moved up the ladder from importing, manufacturing and networking into the realm of outsourcing, sources said. After the initial infrastructure costs in procuring the switch and laying the network, these agencies are able to service additional customers at a fraction of their initial costs, the banker said. Given the decreasing costs and additional conveniences on offer, more banks are said to be contemplating end-to-end outsourcing.  

India's best banks and bankers

A majority of banks already rely on third-party vendors to manage certain aspects of their ATM networks. However, they are now opting to outsource the end-to-end

management and pay vendors on a per-transaction or a per-ATM basis. Banks, MFs join hands to fight money laundering.

**Exhibit 6.9: ATMs (74,505)**

![Pie chart showing ATM network share]

**ATMs:** The total ATM network of the banks in the country is 74,505. Nationalized banks accounted for the largest share of installed ATMs, followed by the new private sector banks, SBI group, old private sector banks and foreign banks. While SBI group, new private sector banks and foreign banks had more off-site ATMs, nationalized and old private sector banks had more on-site ATMs.

SBI entered into an agreement with C-Edge to outsource the management of 250 ATMs on a pilot basis. Smaller banks such as YES Bank and Dhanlaxmi Bank have also adopted this model.

Axis Bank, the country’s third-largest private sector lender, has gone a step further and has entered into agreements under which the vendors will be responsible for setting up new ATMs, apart from managing them. Earlier this year, AGS Infotech and Prizm

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Payment Services inked a deal with Axis Bank to set up and run 5,500 ATMs for the lender over the next 18 months. After the Reserve Bank of India (RBI) asked banks to stop charging customers for cash withdrawals, setting up and managing ATMs has become a costly affair for banks. Whenever a customer uses an ATM of another bank, his bank has to pay the bank whose ATM is used an interchange fee of about Rs 18. In April last year, banks, following a directive from RBI, stopped charging even third-party customers for ATM withdrawals. However, in October last year, banks were permitted to charge customers who had used their quota of five third-party transactions per month.

**Table: 6.3 ATMs Substitute for Branches**

<table>
<thead>
<tr>
<th>Bank group</th>
<th>Number of ATMs On site</th>
<th>Number of ATMs Off site</th>
<th>Total number of ATMs</th>
<th>ATMs as % of branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector banks</td>
<td>29795</td>
<td>19692</td>
<td>49487</td>
<td>52</td>
</tr>
<tr>
<td>Old private sector banks</td>
<td>2641</td>
<td>1485</td>
<td>4126</td>
<td>36</td>
</tr>
<tr>
<td>New private sector banks</td>
<td>8007</td>
<td>11518</td>
<td>19525</td>
<td>59</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>286</td>
<td>1081</td>
<td>1367</td>
<td>79</td>
</tr>
<tr>
<td>All banks</td>
<td>40729</td>
<td>33776</td>
<td>74505</td>
<td>57</td>
</tr>
</tbody>
</table>

Source: Data as of 31 March 2011, RBI, Report on Trends and Progress of Banking in India, 2011.
Chapter VI: Future Prospects of Financial Services Outsourcing

Outsourcing financial services by State Bank of India, Bank of Baroda, ICICI Bank, Axis Bank and some others Indian commercial Bank:

Outsourcing Banks, IT processes to various financial service providers; not only Banks leverage significant cost-savings but Banks also increase productivity and customer responsiveness, which gives various benefits to Banks.

Table 6.4: Operating models, Banks currently favour for its various outsourcing activities: (Source: Field Survey)

<table>
<thead>
<tr>
<th>Activities</th>
<th>Captive</th>
<th>Build-operate-transfer</th>
<th>Joint Venture</th>
<th>Outsourcing to Service Vendor</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower-value IT activities (e.g. infrastructure)</td>
<td>7%</td>
<td>25%</td>
<td>12%</td>
<td>36%</td>
<td>20%</td>
</tr>
<tr>
<td>Higher-value IT activities (e.g. applications &amp; services)</td>
<td>11%</td>
<td>6%</td>
<td>25%</td>
<td>37%</td>
<td>21%</td>
</tr>
<tr>
<td>Lower-value back-offices processes(e.g. payroll, Accounts payable)</td>
<td>19%</td>
<td>7%</td>
<td>17%</td>
<td>36%</td>
<td>21%</td>
</tr>
<tr>
<td>Higher-value back-offices processes(e.g. benefits management, financial reporting)</td>
<td>9%</td>
<td>11%</td>
<td>29%</td>
<td>38%</td>
<td>13%</td>
</tr>
<tr>
<td>Lower-value front-office processes (e.g. routine outbound customer calls)</td>
<td>5%</td>
<td>7%</td>
<td>30%</td>
<td>41%</td>
<td>17%</td>
</tr>
<tr>
<td>Higher-value front-office processes (e.g. inbound helpdesk calls)</td>
<td>7%</td>
<td>19%</td>
<td>18%</td>
<td>43%</td>
<td>13%</td>
</tr>
<tr>
<td>Knowledge-based activities (e.g. financial research, modeling)</td>
<td>42%</td>
<td>8%</td>
<td>9%</td>
<td>31%</td>
<td>10%</td>
</tr>
</tbody>
</table>

[211]
Chapter VI: Future Prospects of Financial Services Outsourcing

Major benefits from Outsourcing:

- Reduced Costs – 20-50 percent, on average
- Increased Customer Service Levels
- Access to current and evolving technologies
- Time to market reduced
- Greater productivity and cost effectiveness
- Helps in effective recycling of funds.

Banking Operational Services

- Credit card services.
- Account management services.
- Customer service / Customer Support
  • Bank Reconciliations
  • Standing operations

Mortgage Operations:

- Origination Docs
- Servicing
- Loan Payments and Settlements
  • Marketing Services
  • Collections
  • Customer Service

Credit Card Services:

-Payment processing services
-Dispute documentation / processing
-Settlement transactions.
Chapter- VI: Future Prospects of Financial Services Outsourcing

- Account fulfillment
- Customer service / Customer Support
- Skip tracing
- Credit card solutions, front office systems, credit scoring models and credit card processing software

Cash Management

- Account maintenance
- Collections
- Transaction processing (Payments)
- Clearing
- Reconciliation

IT Solutions Offered

- Development & Implementation
- Enterprise Application Integration
- Reengineering and integration of legacy systems
- Architecture development
- Application maintenance and Production support
- Help Desk Support
- Data Warehousing & Data Mining
- E-banking and E-investment solutions
- E-trading solutions, including online trading portals, portfolio tracking sites, stock tickers etc
In order to stay competitive in today’s Capital Markets one must continue to innovate and be as flexible as the market requires. It’s up to the leaders within the organization to promote effective strategies that will enable rapid growth and position the company to have a competitive edge. Also, capital market leaders must create differentiated products and services through both commercial and customized software solutions, integration, and enterprise data management to achieve high performance. Financial Service Providers enable Banks within the industry to speed up performance with proven strategies and global sourcing solutions.

The following activities are already outsourced by these Banks:

<table>
<thead>
<tr>
<th>Department</th>
<th>Outsourcing Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIAD</td>
<td>* Credit Card Back-end operations and Authorization Switch Maintenance</td>
</tr>
<tr>
<td></td>
<td>• Merchant Acquiring, Back-End Operations and Authorization Switch Maintenance</td>
</tr>
<tr>
<td></td>
<td>• Credit Card, ACS (Access Control Server) Operations for 3DSecure</td>
</tr>
<tr>
<td></td>
<td>• Credit Card and Debit Card, Personalization, Encoding, PIN generation</td>
</tr>
<tr>
<td>T&amp;ISD</td>
<td>* SMS alert Server Back End Operations</td>
</tr>
<tr>
<td></td>
<td>• Providing bandwidth services for the bank.</td>
</tr>
</tbody>
</table>
• Disaster Recovery Site Hosting and Co.’s location services.
• Branch/ Office Computer Hardware and peripherals maintenance.
• ATM hardware maintenance and support.

(\textbf{CIAD}- Card Issuance & Acquiring Department, \textbf{T&ISD}- Technology & Information Systems Division.)

\textit{Technology for Banks:}

The Banks bought various softwares like Finacle (vendor Infosys) for core banking, e-Funds ATM Switch (vendor e-Funds) for ATMs, DpSecure (vendor CMC Limited) for Depository, Finacle e-_channels (vendor Infosys) for e-Banking, Amlock (vendor 3i Infotech) for KYC / AML, ITMS (vendor Lasersoft) for Treasury Operations, CTS (vendor NCR) for Cheque Truncation, OFSA (vendor Oracle) for TP/PA/RM, PeopleSoft (vendor Oracle) for HRM. The banks purchased licenses for all these applications. However, the Annual Maintenance Contract for both the bought software and hardware is generally carried out by vendors. All RBI supplied softwares like RTGS family, NDS family etc. are supported by RBI or RBI entities. These softwares and hardwares are however used/operated by Banks.

\textit{Outsourcing of Internal Audit:}

Banks are increasingly contracting with independent public accounting firms or other outside professionals to perform work traditionally conducted by internal auditors.
These arrangements are frequently referred to as “internal audit outsourcing,” “internal audit assistance,” “audit integration,” “audit co-sourcing,” or “extended audit services.” Banks generally enter internal audit outsourcing arrangements to gain operational or financial efficiencies by engaging a vendor to:

- Assist internal audit staff when the bank’s internal auditors lack the expertise required for an assignment. Such assignments are most often in specialized areas such as information technology, fiduciary, mortgage banking, consumer compliance, and capital markets activities. The vendor normally performs only certain agreed-upon procedures in specific areas and reports findings directly to the bank’s internal audit manager.

- Perform all or part of internal audit. In these situations, banks should maintain a manager of internal audit and, as appropriate, an internal audit staff sufficient to oversee outsourced vendor activities. The vendor usually assists the board and audit manager in determining the critical risks to be reviewed during the engagement, recommends and performs audit procedures approved by the internal auditor, and, jointly with the internal auditor, reports significant findings to the board of directors or its audit committee.  

Some of the services outsource by SBI other than above mentioned areas

- Services outsourcing by Banks-

As per directives of RBI, nowadays Banks engage the service of BFIs (Business facilitators) and Business Correspondences (BCs) to cater deposits from unbanked areas and provide financial needs to small farmers and other ancillary services to the villagers on behalf of their linked Bank’s Branch. In this direction, CSPs (Customer Service Points) have been set up in the unbanked areas having more than 2000 population where small deposits as well as payments are being accepted/made to the villagers. They are also making payments to NREGA beneficiaries which directly help them getting payment from their own villages.

OMRs (Officers, Marketing & Recovery) are being engaged on contact basis to cater business and provide financial assets and liabilities products to the areas under their operation.

Payments through POS (Point of Sale) are being facilitated to the Card holders of Banks at the important shopping points.

Cross-selling of life and non-life insurance products, mutual funds products etc.

- Reasons for outsourcing of financial services of a bank in rural areas-

i) To cover the unbanked areas which ultimately leads to provide services at the very doorsteps of the villagers and to reduce rush over the counters in the branches.

ii) To provide better/improved services to medium and high value customers at the branches as well as at POS.
iii) It is a cost saving approach to improve profitability of the bank. Also, to make the Bank more competitive.

- The problems a banker faced doing this work-
  
i) Initially, banker faced problems in getting confidence of the simple villagers on the outsourcing agents along with men & machines.
  
ii) To stabilize systems & procedures unlike traditional banking services.

- Satisfies the purpose of Bank and it fulfills the quality of vendor’s-
  
i) It is getting momentum and undoubtedly it would satisfy the needs of target group.
  
ii) It depends on the quality of services and service providers.

- Productivity of banks increased -

By reduction in cost of services leads to improve the productivity.

- Outsourcing programs achieve their stated objectives of improving organizational performance, productivity, market share, and quality-

Improvement in organizational performance, productivity, market share, and quality is being observed.

- Factors associated with the success or failure of outsourcing programs of banks-

Selection of outsourcing agents in a rightful manner and percolate their services to the target group in rightful approach and attitude with suitable products are the key factors to success.

- The future outlooks of the bank regarding outsourcing-

[218]
The arena of outsourcing has been increasing day by day and Bank is contemplating to utilize this source aggressively.

- **Continues of all the services which are outsourced previously are continue or discontinue some of them**-

It would continue due to having large numbers of unbanked areas in the country and implementation of financial inclusion of the poorest of poor in the remotest area of the country.

- **Planning for more other services to be outsourced apart from present outsourcing work**-

Recruitment of specialized Officers in contact basis, cash replenishment in ATM and cash management, Treasury management, signature/image scanning in liability accounts, etc. through agency service are in the card of Bank.

**Table 6.5: Top risks Banks expect their organisation will have to manage if it is considering outsourced or already outsourced, or the risks Banks were most concerned by at the point when chose to outsource:**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security of client data</td>
<td>24%</td>
</tr>
<tr>
<td>Cost overruns</td>
<td>17%</td>
</tr>
<tr>
<td>Political and regulatory risks in service location</td>
<td>13%</td>
</tr>
<tr>
<td>Inadequate levels of compliance and internal control</td>
<td>10%</td>
</tr>
<tr>
<td>Retention of top employees in outsourcing markets</td>
<td>9%</td>
</tr>
<tr>
<td>Deteriorating quality of service</td>
<td>10%</td>
</tr>
<tr>
<td>Inadequate communications and infrastructure</td>
<td>6%</td>
</tr>
<tr>
<td>Security of intellectual property</td>
<td>5%</td>
</tr>
<tr>
<td>Impact on management time</td>
<td>4%</td>
</tr>
<tr>
<td>Others</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Source: Field Survey.*
All the Banks gives priority on management of risks related to Security of client data, costs, and Political and regulatory risks in service location because ultimately it effects the Banks long term growth.

Table 6.6: The following table showing percentage of risk management processes and controls does Banking organisation have, at its outsourcing operations:

<table>
<thead>
<tr>
<th>Risk Management Process</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks have a designated manager with responsibility for risk management at outsourcing centre and prepare with alternative service provider</td>
<td>22%</td>
</tr>
<tr>
<td>Banks have a committee charged with looking at all our outsourcing operations</td>
<td>30%</td>
</tr>
<tr>
<td>Banks have a local audit/risk management committee at captive operations</td>
<td>23%</td>
</tr>
<tr>
<td>Banks have change authorisation processes time to time that require approval from us</td>
<td>17%</td>
</tr>
<tr>
<td>Banks are holding Fund specifically against the operational risks associated with outsourcing</td>
<td>7%</td>
</tr>
<tr>
<td>Others</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Field Survey.
Table 6.7: The following table showing percentage of measures are most effective at ensuring the security of intellectual property and data privacy at outsourcing centers:

<table>
<thead>
<tr>
<th>Measures</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical access-control measures (swipe cards, etc.)</td>
<td>24%</td>
</tr>
<tr>
<td>Secure data transmission protocols</td>
<td>19%</td>
</tr>
<tr>
<td>Data storage on servers in main office</td>
<td>17%</td>
</tr>
<tr>
<td>Non-disclosure agreements for all staff in outsourcing centers</td>
<td>14%</td>
</tr>
<tr>
<td>Background checks for service vendor and their all staffs</td>
<td>11%</td>
</tr>
<tr>
<td>Close on-site supervision of employees in vendor’s organisation</td>
<td>9%</td>
</tr>
<tr>
<td>Third-party security monitoring organisation</td>
<td>5%</td>
</tr>
<tr>
<td>Others</td>
<td>1%</td>
</tr>
</tbody>
</table>

*Source: Field Survey.*

Most banks surveyed also seemed satisfied with the effectiveness of the regulatory compliance solution and banks have an external solution to help with regulatory compliance. The banks have a home-grown solution for risk management processes and controls does Banks have a designated manager with responsibility for risk management at outsourcing centre and prepare with alternative service provider also Banks have a local audit/risk management committee at captive operations and Physical access-control measures to reduce risk of outsourcing.