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Business process outsourcing in Indian life insurance sector

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Abstract
Organizations are increasingly sourcing their business process through external service providers, a practice known as Business Process Outsourcing (BPO). India offers a unique combination of attributes that have established it as the preferred destination for IT-BPO. Advances in technology and communication have allowed transnational companies to rapidly globalize at a very low cost. The cost of managing workers in a distant location had fallen drastically, and the need to outsource became stronger. Significantly, India also began efforts to open up its economy to the world. Since the onset of globalization in the early 1990s, successive governments have pursued programs of economic reform committed to liberalization and privatization. The government started easing restrictions and liberalizing the economy, which has helped the country see rapid economic growth. The paper attempts to make an overview of business process outsourcing in Indian Life Insurance Sector.

Keywords: business process outsourcing, Indian life insurance sector, life insurance of India, swot analysis

1. Introduction
In today's world of consolidation, convergence and competition it's the need of all organizations to focus on their core profitability or activities link-up directly with the revenues and hence the profitability. In such a scenario, companies tend to outsource their non-core tasks to focus on business decision-making. Outsourcing has become the latest mantra for companies to stay ahead of competitors in this highly competitive business environment. Now-a-days organizations are not only concentrating on their core activities but are also specializing more and more on them, leaving non-core activities to outside vendors, who have achieved expertise and proficiency in these activities.
While outsourcing is not exactly a new innovation, the shifts that have occurred recently in this space are worth nothing. But the concept of taking internal memory functions and entrusting to an outside firm to handle them is a recent phenomenon.
Outsourcing is done to save money, improve quality or free company resources for other activities Outsourcing was first done in the data-processing industry and has spread to other areas, including Tele messaging and call centres Outsourcing is the wave of the future. It is also a long-term, result-oriented relationship with an external service provider for activities traditionally performed within the company. Outsourcing usually applies to a complete business process. It implies some degree of managerial control and risk on the part of the provider. It's the transfer of components or large segments of an organization's internal IT infrastructure, staff, processes or applications to an external resource such as an Application Service Provider.

SWOT Analysis of Indian BPO Sector
Strengths
1. Highly skilled, English-speaking workforce,
2. Abundant manpower,
3. Cheaper workforce than their Western counterparts According to NASSCOM, The wage difference is as high as 70-80 per cent when compared to their Western Parts.
4. Lower attrition rates than in the West.
5. Dedicated workforce aiming at making a long-term career in the field.
6. Round-the-clock advantage for Western companies due to the huge time difference.
7. Lower response time with efficient and effective service.
8. Operational excellence.
9. Conducive business environment.

Weaknesses
1. Recent months have seen a rise in the level of attrition rates among outsourcing workers who are quitting their jobs to pursue higher studies. Of late workers have shown a tendency not to pursue BPO as a full-time career.
2. The cost of telecom and network infrastructure is much higher in India then in the US.
3. Local infrastructure.
4. Political influence.

Opportunities
1. \$98.6 billion ITES business.
2. \$110 billion IT (consulting, software solutions) market.
3. In services that require advance English, like KPO, Content and Medicine, India will continue to excel. NASSCOM predicted that India will emerge as a global hub for knowledge services.
4. India has a large pool of English-speaking lawyers with expertise in foreign legal systems who can offer legal support and patent services. A few Indian companies are already affiliated with American legal firms and they have captured a small part of the American market.
5. India is now the leader in the FAO market with many

Fortune 500 companies already having their outsourced operations in India with firms like IBM, ACS, and TCS etc.

Threats

1. The anti-outsourcing legislation in the US state of New Jersey. Three more states in the United States are planning legislation against outsourcing Connectiut, Missouri and Wisconsin.
2. Workers in British Telecom have protested against outsourcing of work to Indian BPO companies.
3. Other BPO destinations such as China, Philippines and South Africa could have an edge on the cost factor.

Challenges before BPOs in India include possibility of a backlash from European and North American markets which are posing a great threat to the Indian BPO industry. India is looking forward to take up huge off shoring ventures but it's difficult to set up the infrastructural requirements for this. The other reason behind the slowing down of off shoring in India is due to the political reasons concerning markets of Europe and America.

The challenges before BPOs in India are increasing rapidly but that could be the motivating factor for India. BPOs in India need to improve the workforce by emphasizing areas such as foreign languages as well as streamlining operational procedures.

Every new opportunity has got its own blessings and curses like the same outsourcing industry has also got its own opportunities and threats in this post LPG era but it depends on our companies how well they are going to encounter the threats and how well they are going to capitalize the opportunities gifted by LPG.

BPO in Life Insurance Sector

Insurance processing services provider specialized solutions to the insurance sector and support critical business processes applicable to the industry right from new business acquisition to policy maintenance and to claims processing.

Service Example:

1. New Business/Promotion, Inbound/outbound sales, initial setup, Cash Management, Underwriting, Risk Assessment, Policy Issuance etc.
2. Policy Maintenance/Management: Record Changes like Name, Beneficiary, Nominee, Address; Collateral Verification, Surrender Audits Accounts Receivables, Accounting, Claim Overpayment and Customer Care Service via voice/email etc.

Let's take an example of US insurance company which outsourced some of its non-core activities to a third party service provider. The third party is into composite services and takes care of both customer support and transactions processing. Let's say a policyholder wants to raise a claim on his policy, he calls up in the insurance company to clarify some of the doubts with regard to the claim. Here call will be routed to the third party service provider who takes the call and answers to the queries.

The same policy holder sends his claims from along with supporting documents for claim settlement. The forms will be sent to the third party center to fulfill the claims. Now the non voice based services get active, the process executive will follow the set of guidelines given by the client, process the request and update the system about the status of the claim. These two activities are entirely different from the process perspective the former is a voice based activity and later becomes a non-voice related activity.

These processes can be either core or non-core to the enterprises. Generally, those processes that are the source of competitive advantage and therefore owned and operated by the enterprise are known as core processes. These activities help achieve differentiation in both financial and operational performance and are imperative for strategic decisions making.

Non-core processes are those processes that do not necessarily provide competitive advantage, and may act as a support to the core business.

Mentioned below are some of the core and non-core activities of a typical service oriented company

Table 1

Core Activities	Non-core Activities
Risk Management	Customer Support
Tax returns filling	Tech support
Financial Analysis	General Accounting
Treasury Operations	HR/Payroll processing
Financial Reporting	Data Processing
Underwriting	Premium Accounting
Reinsurance	Out & Inbound call centres
Cash Management	Indexing
Portfolio Analysis	MIS

Findings of the Study

Organizations are increasingly sourcing their business process through external service providers, a practice known as Business Process Outsourcing (BPO). India offers a unique combination of attributes that have established it as the preferred destination for IT-BPO. Advances in technology and communication have allowed transnational companies to rapidly globalize at a very low cost. The cost of managing workers in a distant location had fallen drastically, and the need to outsource became stronger. Significantly, India also began efforts to open up its economy to the world. Since the onset of globalization in the early 1990s, successive governments have pursued programs of economic reform committed to liberalization and privatization. The government started easing restrictions and liberalizing the economy, which has helped the country see rapid economic growth.

Major findings of the study include

- Developments in telephony, fiber optics and satellite communications made Internet-based communication and transfer of data possible, paving the path for outsourcing to India.
- Over the years, BPO has become the second largest segment in Indian IT/ITES industry and also the fastest growing. The scope of process outsourcing has widened over the past few years to also include KPO (Knowledge Process Outsourcing) operations. Customer Care is the largest contributor in the BPO segments.
- The last few years have witnessed the industry evolve from executing projects at the lowest end of the value chain, to one where Indian players are aggressively bidding for and winning large-scale turnaround projects. At the same time, the Small and Medium

Providers (SMPs) in this sector are holding their own during these difficult times. The SMPs in India are integral to the growth engine of the industry in particular, and the Indian economy in general.

- India has low cost but highly qualifies English speaking labour. Therefore, BPO is accelerating quite fast in India. The first companies to start experimenting with India as an outsourcing base were multinationals who started company owned back office operations and all centres. Vary soon they began outsourcing far more complex functions from India.
- While MNCs still dominate the outsourcing scene in India, an increasing number of Indian firms have now started paying a role. Infosys, Wipro, Satyam and HCL technologies have entered BPO operations.
- The BPO industry has grown 70 percent over the past few years, the turnover increasing from Rs. 7000 crore to Rs. 81,000 crore.
- BPO industry is in transition. Large firms are consolidating their businesses. Small companies are gobbled up by large players from outside. The main drivers of outsourcing are cost quality, technology and reliability. Companies are scaling up, looking at technology, tie-ups and quality certifications.
- The evaluation of the outsourcing paradigm will be built on this premise. A synthesis of the pyramidal model of sub-contracting and horizontal networks is likely to emerge and the role of the parent organization as per customer specification. What happened in the manufacturing sector over the years will be true in service industries also which is possible because of technological revolution. This is particularly so in services where face-to-face service delivery is either not required of convenience and cost advantages.
- The Indian BPO firms have to consistently prove their capabilities to deliver and create near indispensable situation for the parent to survive without them. This will not only involve growing technical and domain expertise but also refinement in systems and practices while keeping costs under control. In essence, BPO firms have to manage their consolidation and growth challenges simultaneously.
- The BPO industry needs sound in restructure and a sensible regulatory framework. Telecom costs constitute all most 25-30 per cent of the operational costs of BPO centers. The cost of technology is also higher in India. The cost of technology in US is $ 5000, but it is same in India. The government needs to bring the telecom infrastructure and technology of India to global standard before Indian can realize its full potential in this sector.
- To most Indian software companies, BPO was an accidental opportunity and in many cases was initiated by their overseas clients. They had to quickly set up subsidiaries to exploit this new found opportunity which came in handy in the face of the downturn in the IT industry. Another stroke of luck for the industry was the cheap availability of abundant and under-utilised fibre optic cables laid under the sea by western companies during the e-commerce hype generated in the 1990s and their increasing bandwidth capacity.
- In the domain of Business Process Outsourcing (BPO), the countries competing with India are Mexico, Philippines, Malaysia, China, and Canada. These countries have obviously placed several challenges before BPO in India. The challenges that India faces from these countries include availability of workers who are more skilled and educated.
- India is the world's largest sourcing destination for the information technology (IT) industry, accounting for approximately 67 per cent of the US$ 124-130 billion market. The industry employs about 10 million workforces. More importantly, the industry has led the economic transformation of the country and altered the perception of India in the global economy India's cost competitiveness in providing IT services, which is approximately 3-4 times cheaper than the US, continues to be the mainstay of its Unique Selling Proposition (USP) in the global sourcing market.
- Indian insurance industry has come a long way since the days of private dominance and Government monopoly in inore than century. The establishment of Insurance Regulatory and Development Authority in 1999 and subsequent entry of foreign and private players has changed the entire insurance landscape of the country. Professionalism and the technologies brought in by the foreign players have forced the hitherto sluggish and complacent players to devise their strategies from company-business-oriented to customer-satisfaction-oriented and that are progressive in nature.
- The time difference between the Greenwich and India provides scope for the India operations to work around the clock, 465 days. In the insurance industry, high volume and low severity claims are the ones most apt to recognize saving through BPO. This enables companies to better focus on the higher risk and lower volume claims. BPO can also reduce insurance back-office costs by 30 per cent to 50 per cent. It also eliminates the need to invest heavily in the latest technology and skills.
- The insurance sector is witnessing a concerted move towards business process outsourcing as a strategic option. This industry is ideally suited for outsourcing, given large transaction volume, structured decision-making and reliance on rule-set processes. Outsourcing in this domain has shifted along the complexity and maturity spectrums from transaction processing to true business transformation. Corporate house are progressively acknowledging the potential benefits from BPO in this segment and identifying road maps for process re-engineering that will contribute to greater profitability. Outsourcing strategies are being driven by the twin objectives of cost rationalization and quality enhancement.
- While insurance companies already outsource highly transactional processes such as claims and payments, new business processing and underwriting support, they can gain significant additional value by leveraging BPO for other processes. For example, outsourcing research and analytics for actuarial support can optimize pricing and more accurate premium calculations helping the company target additional consumers based on demographics, groups and risk profiles. A BPO provider with deep domain experience can support customer retention, cross sell and up sell initiatives and exploit new sales channels and entry into new geographies.

Recommendations

It is true that outsourcing is a business decision that is often made to lower costs or focus on competencies and it is characterized by expertise not inherent to the core of the client organization. Cost becomes a major deciding factor as the overhead costs of customer service are typically less where outsourcing has been used, leading to many companies, from utilities to manufacturers, closing their in-house customer relations departments and outsourcing their customer service to third party call centers. On the other hand, between workers having different skills, letting workers focus on their skill set means more goods and services for all. If some people can use some of their skills more cheaply than others, then those people have the comparative advantage. That is the idea that countries should freely trade the items that cost the least for them to produce. In neoclassical economic theory, this will provide for more goods and services for all, and at a lower cost. In Marxian economic theory, this process is assumed to raise the rate of exploitation and result in a more unequal distribution of wealth and income. In other words, some benefit from the process, either directly or indirectly, while others may be worse off. But in either way, focus would remain on the competencies.

Eight Simple rules for Insurance and annuities companies should be followed to clear the decks for success:

- **Ensure BPO is a CEO priority**

In uncertain times, sponsorship for critical initiatives such as BPO must come from the very top of the organization. Only the CEO can deliver the message that there are no other options for the business. If the commitment is not there, then the junior management sees implementation as optional, easily findings ways to opt out with spurious arguments. The prevarication of junior staff and their desire to protect their jobs can delay the delivery of savings and jeopardize the success of the business.

When the CEO takes a positive decision and makes outsourcing a priority, significant success can be attained. For example, the CEO of a re-insurance company that was acquiring a closed books business mandated the outsourcing of all its operations. By doing so, the company was able to complete six conversions of policies to its new, single system within six months, and increase its policies under management by $6 billion in five years.

- **Approach outsourcing with an open mind**

Merely thinking policy renewals or rules-based transactions limits the extent to which BPO can be used as a “survive and thrive” tool for insurance companies. Smart insurance organizations have been outsourcing these types of processes for years. But the BPO industry has moved well beyond volume-based voice and data work into highly complex industry and insight processes – think research and analytics for actuarial pricing support, identifying customers’ proclivity to pay premiums or buy new policies in different geographies and socio-economic categories, sales support for customer retention, cross sell and up sell, or assisting financial advisors prepare portfolio analysis. Smart Insurance companies collaborate with providers to determine ‘the art of the possible.’ They begin by determining what is core and non-core to their business.

In the insurance industry, core processes include product development, sales/agency administration and regulatory compliance. But beyond these, most SG & A and highly complex processes can be seamlessly transitioned and successfully outsourced to a provider with a proven track record and substantial insurance industry expertise.

- **Keep it simple**

Speed to cost reduction with no diminution of quality should be the first and foremost objective of BPO as a survival tool. This is not the time to radically transform business processes, implement new enterprise technology or put in the latest bells and whistles. It’s time to get the cost out, and fast. For example, in the insurance industry, instead of trying to integrate multiple policy administration or claims systems overnight, companies should outsource the operations of some of these systems – both IT and business processes – to a service provider and move to a single system over a period of time. There may even be opportunity to monetize some of these assets by entering into a right contract and financial model with a BPO service provider. Keeping it simple also means avoiding a wholesale overhaul of the business model at once. This does not mean that changes in workflow, or standardization of processes which can be accomplished during transition or shortly thereafter should be off the table. Keeping it simple means being realistic about the aspirations for the program in times of economic uncertainty, focusing only on obtaining the benefits that truly matter.

- **Move Fast**

Companies can move fast on their outsourcing program by mandating aggressive timelines across the board. Truth is, there is no change without urgency. This is the time for insurance companies to quickly take a look at their closed book of business, open book business running on older legacy systems and claims and payments associated with older policies and systems that do not have cross sell or up sell opportunities and outsource these operations to a BPO service provider to reduce costs. But fast is the key word here, if moving quickly to implement BPO is not seen as vital to the basic survival of the company, it will not produce the desired results. Imposing deadlines for the development and implementation of roadmap, including scope, provider selection and transition will mobilize the organization.

- **Empower an internal outsourcing champion, and put top talent on the case**

Survival programs are always led from the top and center. As evidence of executive commitment, the appointment of an outsourcing champion/ program management leader with the right level of responsibility and authority is critical to success. This must be someone who is fully accountable for and committed to the success of the program, has organizational respect, knows how to exercise authority, is not distracted by other responsibilities, is a good politician and has a personal incentive to succeed. For example, when a large insurance company decided to make its first foray into outsourcing its underwriting and claims processes, it assigned its CIO the role of outsourcing czar as the organization had already successfully outsourced IT processes under the guidance and leadership of this executive who well understood the challenges and complexities of outsourcing. It also appointed highly knowledgeable business owners to oversee the processes, and these business owners report into the CIO who holds ultimate responsibility for the success of the underwriting and claims processing outsourcing initiative.

- **Develop a realistic deployment plan**

Even when outsourcing is being implemented for cost, a measured, tightly sequenced but rational program that meets milestones and is not disruptive to the business has a much greater chance of success than an all hands-on, sprint-to-the-finish program. In their haste to cut out more cost, companies at times push for or buy into an unrealistic transition roadmap. When the first failure occurs because processes cannot be documented thoroughly, the network is not ready or work shadowing is insufficient, the naysayers come out in force. A deployment strategy that builds up steam over time after the success of initial phases is far more likely to meet objectives. For example, when choosing to outsource policy changes processes, it is best to begin with simple products like term life insurance to enable the provider to quickly ramp-up in terms of both offered products and the clients internal working style and culture. After that program is successful, other more complex processes, such as actuarial, underwriting and policy transactions can be transitioned to the provider.

- **Insist on alignment**

Outsourcing can mean a massive dislocation of culture, resulting in a tug of war between client and provider. When new people and processes are introduced into the equation, dissonance naturally occurs. In the insurance industry, there are four key alignment points. First and foremost, the provider must understand what values are important to the client and adjust its working style accordingly. Second, the provider must design its deliverables to support the client’s needs. Third, the provider must have solid and proven insurance domain expertise – such as a requirement that all team members are LOMA or other industry body certified in order to effectively design and deliver the program. And fourth, all operations, processes and expectations must be documented to ensure the provider has full understanding of, and insights into, the various state, federal and compliance regulations to which the client must adhere to.

- **Debit Budgets in advance**

This little trick obtains commitment where it counts-in the budget process. Building BPO savings into the current year’s budget in advance ensures managers have no excuse but to be committed to the implementation of the BPO program or find some other way to get the cost out fast. Truth be told, short of cutting staff to the bone, there is rarely another way. This is particularly true in cost center functions such as underwriting support, policy changes, claims and finance and accounting. A BPO provider with insurance domain expertise knows the types of cost savings which can be attained per outsourced process and can work with the client to craft a contract specifically designed to attain them. For example, an experienced service provider may well commit upfront to savings of 50 percent or more in policy servicing, and 20 percent year on year productivity gains in underwriting support.

Conclusion

Business world is undergoing changes rapidly. In this race, various business practices came into being one among them is to shorten the process cycle. This can be done by computerization or efficiency should be improved. A new concept called ‘outsourcing’ concept has emerged. That is cross-border trade through electronic commerce, in which services flow from the territory of one member into the territory of another member crossing national frontiers through the use of electronic commerce. In IT parlance, it is commonly known as Business Process Outsourcing (BPO). Outsourcing has long been practiced in areas such as manufacturing where the jobs involve low level skills or specialized skills.

However, things are changing in insurance industry with companies adopting or taking new initiatives enabling information technology across different functions and processes. This study tries to bring out the opportunities of outsourcing in insurance vertical, covering the common business processes enabling technology. Further, the study attempts to list down some of risk factors involved in the whole cycle of outsourcing. It also tries to address the uncertainty of operational planning, so that it shouldn’t act as an impediment, but instead gives an impetus to insurance players in reaping the benefits of outsourcing.

Business Process Outsourcing is the leveraging of technology or specialist process vendors to provide and manage an organization’s critical and/or non-critical enterprise processes and applications. Outsourcing, Offshore-Outsourcing and Offshoring are used interchangeably despite important technical differences. Outsourcing involves the transfer of organizational function to a third party; when the third party is located in another country the term offshore-outsourcing should be used. Offshoring in contrast, represents the transfer of an organizational function another country, regardless of whether the work stays in the corporation or not. Outsourcing and offshoring are not new concepts to the global economy. Earlier, offshoring was mostly restricted to manufacturing through technology-transfer during the maturity and decline phases of product life cycle. Major advantages of outsourcing are cost-reduction, comparative advantage by division of labour and economies of scale, lower turnaround time, data-backup for disaster management. Areas of concern are service quality, data-theft, attrition rate, privacy laws and personal information misuse and credit-card frauds. There are other issues also like job-lose in the outsourcing country, cultural differences and information security. The Indian outsourcing industry is growing fast and has become a major investment area. With increased focus on information security and a comprehensive IT act it is going to get a further impetus in coming years.

In insurance vertical, the key differentiating factor among the players is the level of services offered to their customers. Insurance being one of largest industry in terms of customer base, the real challenge for the companies is to retain the policy holders, as retention is directly proportional to better customer service. Due to immense competition and growth in volumes insurers should be a position to manage these volumes and serve their customer better.

Even though information technology has to some extent helped the companies in serving their customers efficiently, but the ITES comprising of both BPO and KPO services should be seriously looked at by the insurance players to serve their customers. Outsourcing can create wide opportunities across different functions and offer many benefits to the insurers.

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