

# INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION & MANAGEMENT

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## THE USE OF BUSINESS PROCESS OUTSOURCING (BPO) AND CO-SOURCING BY INDIAN BANKS

**DR. MUNISH SABHARWAL**  
**EXECUTIVE DIRECTOR**  
**KITE GROUP OF INSTITUTIONS**  
**MEERUT**

### ABSTRACT

*The main objective of this research paper is to observe whether the selected Indian Banks are using Business Process Outsourcing (BPO) and Co-Sourcing or not and if they are using BPO & Co-Sourcing then for what purposes? This was pursued by conducting structured interview of branch heads of the selected 16 scheduled banks of Meerut (U.P.). The researcher with the help of a questionnaire inquired from the branch heads of selected banks and compared the responses with the desired state using GAP Analysis Worksheet. The study indicates that some large public sector banks with the exception of SBI and large private sector banks are only banks using BPO services that too mostly for customer Interaction Services only. The study also indicates that large public sector banks are using co-sourcing for Life, General insurance and housing finance only whereas large private sector banks are using co-sourcing for knowledge services only.*

### JEL CLASSIFICATION

M15 (IT Management)

### KEYWORDS

Business Process Outsourcing (BPO), Co-Sourcing.

### INTRODUCTION

**B**usiness Processes Outsourcing (BPO)<sup>1</sup> is the delegation of one or more IT-intensive business process to an external service provider, who, in turn, owns, administrates and manages the selected process (es) based upon defined and measurable performance metrics.

In recent years outsourcing the operation of IT systems has been supplemented by a move to outsourcing not just systems, but whole business processes. These processes can be either internal functions such as payroll processing (which do not have a direct relationship to the business of the company), moving more recently to operations which were once seen as critical to the success of the business. A good example of this is the outsourcing of cheque processing.

<sup>2</sup>The banks have been utilizing the BPO services over the past five years, having already out sourced some of their internal services such as human resources, call center, customer care and transaction processing services to third parties and in some cases to their captive centers. With more stringent norms and financial services rules have forced global and Indian banks to wake up to alternate delivering through third party BPO services.

Once such processes were ring fenced by the company as being too important for third parties to manage. However, whilst on the one hand the core services of banks are becoming increasingly technologically intensive, these services are also increasingly taking on the characteristics of hygiene factors, in that they become commodities to the point where they do not add to the competitive edge of the bank. They are a minimum requirement to remain in the market. As such, they are increasingly subjected to the possibility of outsourcing as the economic arguments described above take precedence over strategic ones. Thus the key business processes are being outsourced as they:-

- become increasingly capital intensive;
- become a generic process, common to all institutions; and
- lose their role in supplying competitive advantage.

Two major forms of business process outsourcing exist:

- Outsourcing by a number of banks forming a mutually-owned company to carry out the process
- Outsourcing to a third party

The former case is suitable for smaller and medium-sized institution, which have more difficulty in obtaining the economies of scale, in order to compete with larger companies. The fastest-growing areas of back-office outsourcing are applications process, tax compliance, sourcing / procurement, and HR. The outsourcing market follows the development of the Business process Applications (BPA) market closely. As Enterprise Resource Planning (ERP) applications for processes are developed and implemented, BPO follows by about 18 months. This progression occurs because: (1) ERP systems are the most common base technology of the outsourcing vendors that serve the corporate market, and (2) ERP systems define back-office business process and standardize it. From a process functionality standpoint, relatively little differentiation exists for back-office systems offered by major vendors SAP, Oracle, People Soft, Baan, and J.D. Edwards. This process standardization means it is possible to develop a service to deliver this process and that the effort is profitable because the market is large enough to support it.

An advantage of BPO is the way in which it helps to increase a company's flexibility. However, several sources have different ways in which they perceive organizational flexibility. Therefore business process outsourcing enhances the flexibility of an organization in different ways.

<sup>3</sup>Most services provided by BPO vendors are offered on a fee-for-service basis. This can help a company to become more flexible by transforming fixed into variable costs. <sup>4</sup>A variable cost structure helps a company responding to changes in required capacity and does not require a company to invest in assets, thereby making the company more flexible. Outsourcing may provide a firm with increased flexibility in its resource management and may reduce response times to major environmental changes.

<sup>5</sup>The key lies in knowing which of the main value drivers to focus on – customer intimacy, product leadership, or operational excellence. Focusing more on one of these drivers may help a company create a competitive edge.

<sup>6</sup>A third way in which BPO increases organizational flexibility is by increasing the speed of business processes. Supply chain management with the effective use of supply chain partners and business process outsourcing increases the speed of several business processes, such as the throughput in the case of a manufacturing company.

<sup>7</sup>Finally, flexibility is seen as a stage in the organizational life cycle: A company can maintain growth goals while avoiding standard business bottlenecks.

<sup>8</sup>BPO therefore allows firms to retain their entrepreneurial speed and agility, which they would otherwise sacrifice in order to become efficient as they expanded. It avoids a premature internal transition from its informal entrepreneurial phase to a more bureaucratic mode of operation. A company may be able to grow at a faster pace as it will be less constrained by large capital expenditures for people or equipment that may take years to amortize, may become outdated or turn out to be a poor match for the company over time.

Although the above-mentioned arguments favor the view that BPO increases the flexibility of organizations, management needs to be careful with the implementation of it as there are issues, which work against these advantages. Among problems, which arise in practice are: A failure to meet service levels, unclear contractual issues, changing requirements and unforeseen charges, and a dependence on the BPO which reduces flexibility. Consequently, these challenges need to be considered before a company decides to engage in business process outsourcing<sup>9</sup>

A further issue is that in many cases there is little that differentiates the BPO providers other than size. They often provide similar services, have similar geographic footprints, leverage similar technology stacks, and have similar Quality Improvement approaches.<sup>10</sup>

Outsourcing is not a standalone phenomenon. It is part of a larger movement within organizations to define the value-add of a process. Outsourcing will affect large corporations in several different ways:

- It will eliminate anything known as a "cost center." Corporations will run only profitable processes. All other processes will be outsourced to a company that can make money on the process.
- It will necessitate process-based costing, best known as activity-based costing (ABC). Companies will begin looking at the process as a unique business to determine whether or not it is contributing to economic profit.
- It will change the type of leaders necessary for success in large corporations. Much of the back-office processing will be done using virtual staff in virtual corporations. Managers and leaders will need to rely more on negotiation and less on hierarchical direction. Diplomatic skills will be more important than technical skills.

### <sup>11</sup>CO-SOURCING

It is a business practice where a service is performed by staff from inside an organization and also by an external service provider. Co-sourcing earns advantage over Total Outsourcing in a way that it minimizes sourcing risks, brings in transparency, clarity and better control over the processes outsourced.

With computer services companies becoming increasingly involved in their customer's business by taking over responsibility for IT and business functions, it seems logical that they have a stake in the success of the financial institutions which they work with. Recently this interest has become formalized with outsourcing companies entering into arrangement where they share their clients' business risks by supporting them to enter into new businesses. Rewards are based on the profits of these new operations. Increasingly the supply of IT resources is seen as a partnership between a bank and one or more suppliers. Indeed to start a new operation, a bank may need the support of a large hardware firm, a specialist software house, a systems integrator, a communications company and a consultancy. In recent years the largest systems integrators and now some of the hardware companies, are willing to develop complete business operations for their clients, based on mutual win / win arrangements.

The advantage of co-sourcing is that banks can share risk with IT companies, Banks get access to latest technologies and Firms can get access to business knowledge of banks to exploit their technology

The disadvantages of co-sourcing are that the arrangement is based on a win/win outcome, which conversely means that both sides lose if the business fails to deliver. Also the Management control in the long run may be a problem. IT firms are not likely to have a role in the long term running of banking business themselves, though they will accept long-run management of the IT.

### REVIEW OF LITERATURE

Parsons, Gotlieb and Denny [1993]<sup>12</sup> in their study deals with the impact of IT on banking productivity per se. Computerization is one of the factors which improves the efficiency of the banking transactions. They concluded that higher performance levels have been achieved without corresponding increase in the number of employees. Also, it has been possible for Public Sector Banks and Old Private Banks to improve their productivity and efficiency by using IT.

Healy & Palepu [2001]<sup>13</sup> in their study suggest that the use of technology can improve/enhance systems for administrative control such as enabling better management of risk, which if disclosed in regulatory reports to supervisors and in annual reports to investors, can improve bank transparency and enable the banks to reduce their cost of capital. Hence, technology can be the key to differentiation, competitive edge, and institutional survival.

Rajshekara K. S. [2004]<sup>14</sup> in his study described the adoption of IT in banking has undergone several changes with the passage of time. Today IT has become an inseparable segment of banking organization. The application of information technology in the banking sector resulted in the development of different concepts of banking such as – E-banking, Internet Banking, Online Banking, Telephone Banking, Automated teller machine, universal banking and investment banking etc. Information technology has a lot of influence on banking transactions. It ensures quick service with low transaction cost to the customers. The real success of IT in the banking sector depends upon the customer's satisfaction. Therefore banks should organize and conduct customer awareness program in their service area. Security is an important issue in the context of E-banking. The development of technology for the identification of customers with different means of communication devices is a must for successful business and also to reduce frauds in banking. In this paper the author has studied customer related aspects only. This paper do not present any study related to the bank employees and their problems regarding bank computerisation.

Rishi & Saxena [2004]<sup>15</sup> in their study suggest that the advancements in information and telecommunication technologies (IT) since past 25 years clearly indicate a positive impact on banking and financial institutions. Innovations in information technology and development in IT sector has been enforced the convention of IT elements in maximum branch of banks. Public sector banks were late adopter of new technology as compare to private and foreign banks.

Mittal & Dhingra [2007]<sup>16</sup> in their study suggest that Indian banking industry has witnessed a remarkable development in the Informational Technology (IT) in last few years. Banking transactions are become easier and customer friendly due to the technological improvements. To play a supportive and key role, banks are providing with lots of services which are the combination of electronics and information technology, like, Automatic Teller Machines (ATMs, plastic money i.e. credit card, debit card and smart cards, phone banking, e-banking which is called by net-banking, etc. ATMs have emerged as the most favored channel for offering banking services to the customers in the world.

Uppal R.K. [2009]<sup>17</sup> in his study suggests that in the emerging competitive environment and IT era, with little or no distinction in product offering, it is the speed of rendering service which sets apart one bank another. Prompt service is equated with quality service. Time is a major factor which effects quality and reputation of the bank. E-banks are providing quick service that is why they are becoming popular. Hence it is very essential that all bank groups should put in place the right kind of systems to further cut down on service time and render instantaneous service to the customer. Only such banks will tend to survive in the rat race for market shares in the days to come.

G. Koteswara Rao & Roshan Kumar [2011]<sup>18</sup> Banks can use technology to improve their performance and they can get the sustainable competitive advantage. According to our study, we can conclude that proper integration of BI & KM can help bank to get wide benefits. It includes historical context, not just a shallow examination of what is apparent and easily accessible. Instead of nuggets or pockets of information from corporate databases, it provides a true 360° view of attitudes and behaviors, combines structured and unstructured data, meshes solicited and unsolicited feedback, and keeps a real-time pulse on business (Kadayam,2002). Banks will be able to manage explicit information and there by transform the information to knowledge which in turn can help bank in making better decisions and lead them to be in a better position in contemporary business competitive environment. This integration will not only facilitate the capturing and coding of knowledge but also enhances the retrieval and sharing of knowledge across the bank to gain strategic advantage and sustain in competitive market.

Siva Prasad Ravi, Ravi Kumar Jain, Hari P. Sharma [2011]<sup>19</sup> In their study suggest that the justification for outsourcing activities, such as cash management, research and business analytics, and other processes that otherwise are considered core to the banking business, lies in the argument that these activities, though essential to the bank, do not provide a unique competitive advantage. This implies that those activities, where a bank can do better than its competitors, and which generates a competitive advantage, are retained in house and the rest are outsourced (Chris, et al.2004). The outsourcing strategy has shifted from product (and/or service) focus to that of differentiation and speed –to – market. Several studies pertaining to outsourcing in the financial services sector show a gradually growing trend in outsourcing, both in terms of nature and scope of activities outsourced, and also emphasize that outsourcing is a critical aspect of financial institutions to survive in today's business environment (Federal Bank of New York, 1999).

### HYPOTHESIS

The research work was conducted to prove the assumptions that the Indian Banks do not use Business Process Outsourcing (BPO) and also Co-Sourcing.



**OBJECTIVES OF THE STUDY**

The research work was conducted with the objective to find out whether the selected Indian Banks are using Business Process Outsourcing (BPO) and Co-Sourcing or not. Are they using Artificial Intelligence based technological application or not and if they are, then for what purposes?. The study also aims to find out if the selected Indian Banks are using BPO & Co-Sourcing then they are using them for what purposes?

**RESEARCH METHODOLOGY****SCOPE OF RESEARCH**

Since all banks follow the norms of the RBI and the computerization by banks is done as per the recommendations of committees formed by the Central Bank from time to time, therefore their policy for implementation of the computerization in branches of a particular bank are same anywhere. Therefore, the area of research chosen by the researcher is Meerut city, as it is a well developed city having branches of most of the banks.

**POPULATION**

The researcher has focused his research only on the scheduled banks. The scheduled banks are SBI & its six Associates, 19 PSU's, OTHER PUBLIC SECTOR BANK- IDBI Bank Limited, 14 OLD PRIVATE SECTOR BANKS, 7 NEW PRIVATE SECTOR BANKS, 36 FOREIGN BANKS, Regional Rural Banks (Total 82 Banks are there but in UP only 7 are present and in Meerut only 1 with only one branch). There are 53 Urban Cooperative Banks, 31 State Cooperative Banks, 371 District Central Cooperative Banks and 93413 Primary Agricultural Societies in India.

**SAMPLE DESIGN**

Since the population size is very big it was not feasible to study the entire population, so the researcher decided to go for a sample survey. In order to get a holistic representation, the researcher has used stratified sampling and scheduled banks categorized by RBI have been divided into groups referred to as strata on the basis of the Total Turnover of the banks.

**SAMPLE SIZE**

The total number of banks selected by the researcher is 16 (Sample size- 16). The list of selected banks is as shown below:

LIST OF BANKS SELECTED AS SAMPLE			
S. No.	Bank	S. No.	Bank
1	SBI- State Bank Of India	9	South Indian Bank
2	PNB- Punjab National Bank	10	Nainital Bank
3	CBI-Central Bank of Indian	11	ICICI Bank
4	Syndicate Bank	12	HDFC Bank
5	Andhra Bank	13	Axis Bank
6	Punjab & Sind Bank	14	Yes Bank
7	Bank	15	Sarva UP Gramin Bank
8	Federal Bank	16	Zila Sahkari Bank, Meerut

**RESEARCH DESIGN**

**Data Collection:** The Data is collected from primary sources only.

**Data Collection from Primary Sources:** Since all the information could not be obtained from secondary sources therefore for the collection of firsthand information for primary data, the researcher prepared a questionnaire containing various questions regarding the computerization in banking.

The branch for a bank is selected by the researcher taking into consideration the size and business of the branch, which ensures that the branch will be fully computer equipped as per bank norms. The list of selected branches in Meerut of selected 16 scheduled banks.

Then the researcher conducted well scheduled interviews and the respondents are asked to complete the questionnaire by verbally responding to questions in the presence of the researcher, through a face-to face structured interview.

The Researcher also noted on-the-spot observations by visiting the branches of the banks and using their various products and services like ATM's, Tele-Banking, SMS Banking, Net Banking, Mobile Applications, POS Terminals, Credit and Debit cards of various banks.

**Analytical Tool:** The mainly quantitative data produced by this questionnaire was analyzed by preparing tabulation sheets for use of BPO & Co-Sourcing by selected Indian banks.

**ANALYSIS & FINDINGS**

1. In Q.No.1 the researcher inquired about whether the Bank uses BPO services? If yes, the BPO is used for which services? Specify the name of company which is running the bank BPO and purpose?

TABLE 1.0: BPO IS USED BY THE BANKS FOR WHICH SERVICES & THE NAME OF COMPANY WHICH IS RUNNING THE BANK BPO & PURPOSE			
NAME OF THE BANK	Does the Bank (Branch) use BPO services	BPO is used for which services	Specify the name of the company and purpose
SBI	No	-	-
PNB	Yes	Insurance Inquiry	Achiever Enterprises- A PNB Metlife BPO
CENTRAL BANK	No	-	-
SYNDICATE BANK	yes	Customer Interaction Services	SyndBank Services Limited
ANDHRA BANK	Yes	Customer Interaction Services	Not aware
P & S BANK	No	-	-
IDBI BANK	Yes	Customer Interaction Services	IDBI Intech
FEDERAL BANK	No	-	-
SOUTH INDIAN BANK	No	-	-
NAINITAL BANK	No	-	-
ICICI BANK	Yes	Customer Interaction Services	First Source
HDFC BANK	Yes	Transaction Processing & Rural BPO	Atlas Documentary Facilitators Pvt.Ltd
AXIS BANK	Yes	Customer Contact Services (voice, email and web chat)	First Source
YES BANK	Yes	Customer Interaction Services, IT Incentive Business Processes	Not aware
SARVA UP GRAMIN BANK	No	-	-
ZILA SAHKARI BANK	No	-	-

Table No. 1.0 suggests that PNB (*Achiever Enterprises- A PNB Metlife BPO*), Syndicate Bank (Synd Services Ltd.), IDBI (IDBI Intech), HDFC (ADFC) and ICICI Bank as well as Axis Bank (Firstsource) are only banks using BPO services that too mostly for customer Interaction Services only.

Others like SBI, CBI, Punjab & Sind Bank, Federal Bank, South Indian Bank, Nanital Bank, Sarva UP Gramin Bank and Zila Sahkari Bank are not using any BPO Services.

2. In Q.No.2 the researcher inquired about whether the Bank uses co-sourcing services? If yes, the co-sourcing is used for which services? Specify the name of company which is running the bank co-sourcing and purpose?

TABLE 2.0: CO-SOURCING IS USED BY THE BANKS FOR WHICH SERVICES AND THE NAME OF COMPANY WHICH IS RUNNING THE BANK CO-SOURCING & PURPOSE			
NAME OF THE BANK	Does the Bank (Branch) use co-sourcing	co-sourcing is used for which services	Specify the name of the company and purpose
SBI	Yes	Life Insurance	SBI Life insurance is a joint venture between SBI & BNP Paribas Cardif
PNB	Yes	Life Insurance, General Insurance, Housing Finance, Investment	MetLife, Oriental Insurance, PNB Housing Finance Limited & PNB Gilts
CENTRAL BANK	No	-	-
SYNDICATE BANK	No	-	-
ANDHRA BANK	No	-	-
P & S BANK	No	-	-
IDBI BANK	No	-	-
FEDERAL BANK	No	-	-
SOUTH INDIAN BANK	Yes	Life Insurance & General Insurance	LIC & Cholamandalum
MAINITAL BANK	No	-	-
ICICI BANK	Yes	Yes Knowledge Services	Not aware
HDFC BANK	Yes	Yes Knowledge Services	Not aware
AXIS BANK	No	-	-
YES BANK	No	-	-
SARVA UP GRAMIN BANK	No	-	-
ZILA SAHKARI BANK	No	-	-

Table No. 2.0 suggests SBI is using co-sourcing for life insurance (SBI Life Insurance is a joint venture between State Bank of India and BNP Paribas Cardif), Punjab National Bank is using co-sourcing for Life and General insurance (MetLife and Oriental Insurance respectively) and PNB also uses Co-sourcing Housing Finance and Investment (*PNB Housing Finance Limited and PNB Gilts* respectively). South Indian Bank is using co-sourcing for Life and General insurance (LIC and Cholamandalum respectively).

ICICI Bank and HDFC Bank uses co-sourcing for knowledge services only.

CBI, Syndicate Bank, Andhra Bank, Punjab & Sind Bank, IDBI Bank, Federal Bank, Nanital Bank, Axis Bank, Yes Bank, Sarva UP Gramin Bank and Zila Sahkari Bank does not use co-sourcing at all.

## HYPOTHESIS TESTING

The analysis proves that the Hypothesis assumed by the researcher that the Indian Banks do not use Business Process Outsourcing (BPO) is FALSE, though partially as smaller public sector banks, Regional Rural & Cooperative Banks are not Business Process Outsourcing (BPO) at all.

The analysis proves that the Hypothesis assumed by the researcher that the Indian Banks do not Co-sourcing is TRUE, though partially as large & established public & private banks are using Co-Sourcing for other business such as insurance.

## RECOMMENDATIONS & SUGGESTIONS

Another way in which BPO & Co-Sourcing contributes to a bank's flexibility is that a bank is able to focus on its core competencies, without being burdened by the demands of bureaucratic restraints. Key employees are herewith released from performing non-core or administrative processes and can invest more time and energy in building the firm's core businesses.

## CONCLUSIONS & IMPLICATIONS

The analysis suggests that the majority of large banks in India, both public and private sector, are using BPO services that too mostly for customer Interaction Services only. The study also indicates that some large public sector banks like PNB (*Achiever Enterprises- A PNB Metlife BPO*), Syndicate Bank (Synd Services Ltd.), IDBI (IDBI Intech) with the exception of SBI and large private sector banks HDFC (ADFC), ICICI Bank and Axis Bank (Firstsource) whereas others like SBI, CBI, Punjab & Sind Bank, Federal Bank, South Indian Bank, Nanital Bank, Sarva UP Gramin Bank and Zila Sahkari Bank are not using any BPO Services.

The study also indicates that large public sector banks like SBI for life insurance (SBI Life Insurance is a joint venture between State Bank of India and BNP Paribas Cardif), Punjab National Bank for Life and General insurance (MetLife and Oriental Insurance respectively) and PNB also uses Co-sourcing Housing Finance and Investment (*PNB Housing Finance Limited and PNB Gilts* respectively) are using co-sourcing for Life, General insurance and housing finance only whereas large private sector banks like ICICI Bank and HDFC Bank are using co-sourcing for knowledge services, with the exception of South Indian Bank which is using co-sourcing for Life and General insurance (LIC and Cholamandalum respectively).

CBI, Syndicate Bank, Andhra Bank, Punjab & Sind Bank, IDBI Bank, Federal Bank, Nanital Bank, Axis Bank, Yes Bank, Sarva UP Gramin Bank and Zila Sahkari Bank does not use co-sourcing at all.

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