

## **The Captives Are Restless**

SINW000020050418e14i00005

Maria Trombly Asia/Technology Correspondent

1443 Words

18 April 2005

Securities Industry News

English

Copyright (c) 2005 Thomson Media Inc. All Rights Reserved

Financial firms that set up captive "in-sourcing" operations overseas are starting to face some of the same staffing issues experienced by outsourcing vendors--and can learn a few things from those vendors when it comes to keeping their foreign employees happy and productive. According to a recent report by Datamonitor, retention is getting to be a big problem for financial services firms with offshore operations.

"There are quite a lot of financial services institutions that don't have the skill sets required to operate global fulfillment operations," said report author Anders Maehre in an interview with Securities Industry News. "We think that perhaps a financial services institution would be in a position to secure longer-term stability using an outsourcing relationship."

Vendors have typically been in a market longer, have more experience in dealing with local personnel issues and can offer their employees more job variety and work opportunities.

"The small captive outfits will find that this is hard to do," Maehre said. "They will start to encounter problems or lose the economic advantages that they went to India for."

And India isn't alone in this, Maehre added. "I don't think it's country-specific, though the symptoms might start country-specific," he said.

Business process outsourcing (BPO) is a politically sensitive subject for many U.S.-based and European financial firms, but it can be politically sensitive in the host countries as well, says John Eagleson, the partner in charge of the financial services operations practice at Houston-based TPI.

For example, Indian call centers have many of the same problems as U.S. call centers, like high turnover and burnout rates. But there are also cross-cultural complications.

"A U.S.-based individual who deals with a call center might have a different reaction if they hear an Indian accent," Eagleson says, "which increases the opportunity for burnout for Indian staff."

Another issue is that a high percentage of these employees are female, says Eagleson's colleague Greg Blount, who co-heads TPI's global services delivery practice. "Females working at night has historically been a taboo thing in India," he says. "Now you've got this very significant social shift occurring, and it's got some social impact and results in high turnover."

TPI, which counts four of the top ten broker-dealers and three of the top ten global asset managers among its customers, advises firms on their outsourcing plans.

For the past six to nine months, these firms have also been seeing the impact of rising labor demands, Eagleson says, particularly in India. "This is having the impact of high attrition

rates," he said.

Some local providers might be better set to address these concerns. For example, Indian bank ICICI has set up ICICI OneSource, which provides BPO services to foreign firms. "Much of the work they're doing is call-center work, which is a very high-burnout position," Eagleson says. "But they have the opportunity to rotate individuals at other jobs at the bank, so the employee is not faced with the prospect of, I'm either doing this call-center job or I'm out.' They have cross-training opportunities and job rotation opportunities."

Captive facilities, however, tend to be much more focused and thus provide fewer opportunities for either horizontal movement or promotion for employees. "People are very focused on their career development," Blount notes.

BPO vendors are also managing this issue by spreading the risk around. For example, some multinational vendors may have outsourcing operations in various countries. Turnover is high in India, but it's low in Costa Rica, for example.

"They're managing a portfolio," says Blount. "A lot of the financial companies that are having trouble have no global strategy. They need to begin rethinking that."

On the positive side, there are plenty of things that financial firms can do to address these issues. For example, Citigroup has historically done a good job making sure that international employees have good career prospects in the company. "That's because Citi proactively looked to their Indian operation to mine talent for their other international operations," says Blount.

Job prospects are important, particularly in India, because there is very heated competition for experienced staff. In addition, financial firms tend to attract the best, most talented, most ambitious graduates. They expect to get meaningful, challenging work. "You've got this highly-motivated workforce and they have a lot of opportunities," notes Blount. "It's not very different from what the IT industry was like in the late 1990s with the Internet boom. You've got people getting several job offers on a weekly basis. That's what it's like in India and beginning to be like, though not to the same extent, in China."

This is part of the reason wages have been rising at almost double the rate of inflation in India, he adds. But not everyone agrees that BPO vendors have an inherent advantage over captive operations.

Suresh Gupta, for example, who heads the global sourcing consulting practice at Capco, says that global brokerage firms often have more to offer their international staffs than outsourcing vendors. "Many employees like to work for global brand names because they have aspirations to work for well-known names, and also because in the back of their mind, they maybe think Hey, there might be opportunities to go to the U.S. and work there for awhile," he says. "So my experience is that they will get better retention than pure outsourcing companies like Wipro."

But more importantly, when it comes to brokerage outsourcing, there are few vendors who have the necessary domain expertise to do much more than basic call-center work, Gupta says. For example, countries like India don't yet have some of the more complex financial instruments that the European and U.S. markets offer. Even the most experienced domestic staff won't have been exposed to them.

As a result, companies have to spend so much time training and overseeing the new hires that they might as well not have the vendor as a middleman at all.

Oversight is particularly important when sensitive financial data is at risk, as demonstrated by Citibank's recent problems with Indian employees working for a BPO vendor, who were

arrested for theft. "You still have to have the same controls and monitoring to make sure that there are no breaches," Gupta says.

By setting up a captive operation, a firm has more control over exactly who gets hired and what their jobs consist of. "If you look at any securities back-office work, the only real meaningful work that is being done is in captive operations," he said.

In a few years, however, these captive organizations may grow big enough that, like ICICI, brokerage firms may start to offer those services to other companies. Standard Chartered, for example, may be doing this with its subsidiary in Chennai.

Financial firms do poach employees from one another, Gupta admits. If one brokerage sets up shop in a city and another moves in, it's likely to draw on the first set of employees for its recruitment efforts. But that is not a problem limited to captive operations.

One solution is to go a little further off the beaten track. Eugene Goland, the founder and president of DataArt, says that if companies expect to be training employees from scratch anyway, they might as well go someplace that has lots of talented people--but not enough to attract competitors.

For example, his company, which provides development services to a few U.S. securities firms, including a \$2 billion hedge fund, has 170 of its 200 employees located in St. Petersburg, Russia. Latvia and Estonia are also good places to set up shop, as is Novosibirsk, he says.

"DataArt has a relatively easy time retaining employees with industry expertise," he says. "Let's say we have an engineer who is experienced in the financial services. If the engineer is in New York, all he has to do to change jobs is cross the street. If he resides in St. Petersburg, Russia he only has one or two companies that can utilize his skills."

But DataArt also takes extra steps to make sure that employees stay happy, he adds, including continuing education in financial skills, English classes, long-term contracts and stock-option plans. "Most of those measures can be implemented by a company that sets up its own operations," he says.

Copyright 2005 Thomson Media Inc. All Rights Reserved.

<http://www.thomsonmedia.com><http://www.securitiesindustry.com>

For assistance, access [Factiva's Membership Circle](#).

**(c) 2005 Dow Jones Reuters Business Interactive, LLC (trading as Factiva). All Rights Reserved.**