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India: Global Back Office and Beyond

- Post independence, India through its education system had created a good pool of technically skilled human resource. With fewer opportunities in India many of these people migrated to the west. While, relatively speaking, their numbers were small they were the torch bearers who promoted the “Indian professional” in the global world
- With the rapid developments in communication technology in the 1990’s and the advent of the internet, many of the functions that these professionals performed could be performed from remote locations and the concept of the global “services” back office was initiated
- Indian providers of IT services led the outsourcing boom in the late 1990s, mainly with data entry, standard processes and conversion assignments in the Y2K era
- And, it was GE who established the first strong “back-end services” office under its group company GECIS in India. This took the concept of mere outsourced development work to providing complete operational services from a remote location including voice based customer support, giving birth to the ever expanding BPO industry in India
- Information technology and IT-enabled services will employ 4 million people in 2008 and account for 7% of gross domestic product and 33% of India's foreign-exchange inflows, according to Nasscom, an Indian IT industry organization.
- In the last couple of years, outsourcing to India, has progressed from pure call centers, billing departments, software engineering and clerical services to a set of functions that are carried out by a higher end of white collared workers. Here, the processes outsourced have a higher degree value addition. Thus, the IT enabled businesses saw the birth of KPOs (knowledge process outsourcing).
- This wave of outsourcing has been spearheaded by the financial services sector - big investment banks in the West have been trimming research jobs and hiring Indian firms to do their digging. It makes perfect sense, since much of the research is just number-crunching and poring over reports, certainly nothing that would require you to be in New York, London or anywhere else in particular. Citi and Stanchart have big back-end operations in India. And companies like evalueserve and Kopal have emerged as large KPO players.

- There's no reason why other high-skilled jobs like the development of new financial instruments - derivatives and "structured products" - shouldn't follow.
- Although 65% of India's 180,000 outsourcing services work force is involved in transaction-intensive services like call-center support or check processing, the industry as a whole helps its clients save \$1.5 billion annually.
- With 5 consecutive years of rapid economic growth – above 8.8%, there have been structural differences in the Indian economy. Prosperity is on the increase. While on one hand this means that the wage cost advantages that India had with the western world is diminishing, on the other hand it is creating a massive increase in domestic demand and markets
- Thus, the global services back-office has the opportunity now to cater to a domestic market in services as well. Financial services companies are increasingly catering to a growing domestic market – insurance, stock broking, mutual funds and banks are growing at a rapid pace.
- While the world slows down and India loses the pure wage cost arbitrage, there are several challenges to its continuing as a leading global back office. However, the next wave of growth will come through several areas
 - The ability to cater to a growing domestic market
 - The ability to go up the value chain and create partnerships with large global front-end organisations
 - The ability of the domestic manufacturing industry to keep pace and help sustain economic growth
- In more ways than one, the scope of the back-office will have to be widened including the manufacturing sector. And, in the whole process, there will have to be continuous stress on:
 - Leveraging Brainpower: Indian manufacturing, if it is to prosper in the global marketplace, will be knowledge-based. India's service providers have been moving up the value chain for some time now. Gone are the days when Indian companies were merely an extension of the back office. Today, Indian companies are providing customers with "knowledge process" outsourcing (KPO), services requiring specialized expertise, judgment, and discretion.
 - Thus, India will have to concentrate on developing its human capital to widen and grow as the back office of the world not only in services but also in manufacturing

So what is the foundation of this back office – To begin with and going forward – some SNIPPETS :

1. Education
2. Manpower – Raw/semi skilled/skilled
3. Bloodlines
4. Proof of concept
5. Efficient/safe debt : equity financing
6. A large aspirant economy
 - Demographics - 350 m middle class 500m 2010
 - 64% of population 15-64 yrs
 - 2020 50% < 35 yrs
7. most diversified land in the world
8. A domestically fuelled economy – producing and consuming
9. Large % poor/BPL/we live with less - - so greed has it only a few.

“Lifestyle equality”

- Cataract/Heart/Knee surgery
 - Shampoo
 - Telecom
 - 2500 Car
10. GDP 8.9% 4 tears now 6-7%
 11. And lastly, how India saves
 - Over 80% of Indians save (Due to lack of social security system)
 - But less than 1/4th of savings are in Financial Instruments (i.e. investment in stock markets, small savings, small life insurance)
 - There are 321 Mn citizens in the paid workforce category in India. Out of this:
 - Only 2.5 % are active investors in equity – directly or through mutual funds. There is still huge potential here.
 - The majority of invisibles surplus (2/3rd) goes into banks and post office deposits.
 - Despite 81% of households going in for saving, Indians do not plan their financial future.

My biz Max India:

1. Life Insurance:

- India is the 4th largest life insurance market in the Asia-ex Japan region expected to go up to USB 92 Bn by 2010-11 (a CAGR of 17%).
 - Total life premiums of USD 47 bn and new business premium of USD 23 bn expected in FY08
 - 2% share of world life premiums
 - 7.6% share of Asian life premiums

- Among the fastest growing markets
 - Total life premiums have grown at a 5yr CAGR of 32.6% compared with 5.6% for Asia.
 - India's 5yr premium CAGR is over 5 times the growth rate of Asia
- Penetration levels still lower than other developed countries.
 - Premiums to GDP ratio is at 4% compared with 6-9% for developed nations
 - Premium per capita is USD 40 against an average of USD 157 for Asia
 - Still under-penetrated, with existence of a parallel economy estimated as big as the real one.
 - Ownership pattern, state-wise breakup:
 - Low-income states: 18% households
 - Mid & high-income states: 30%

India's life insurance need gaps are so large that even if its growth rate slows temporarily; we will still have impressive absolute growth figures.

- Large segment of under penetrated rural population
 - 60% of rural and 40% of total population does not even have access to bank accounts
- Increasing focus on semi urban and rural areas
 - Only 26% of the population is covered in rural areas compared with 50-60% in metros
 - Players to increasingly focus on building up distribution capabilities in Tier-II & III cities.

Life Insurance players are busy working out innovative business-models to reach this huge, but underserved semi-urban – rural market. This would become another multiplier to growth. E.g. models such as *Max Vijay*.

2. Healthcare:

- The link between health & economic growth suggests that a 5 year gain in the life expectancy leads to increase in growth rates from 0.06 to 0.58% of GDP.
- In the last 50 years, growth in Health Expenditure globally has exceeded growth in GDP by about 2% per year.
- In India, Healthcare has grown at a rate nearly twice as much as that of GDP during past 10 years and is expected to maintain its momentum going forward.
- Indian Healthcare industry expected to grow at a 15% CAGR till 2012 to contribute 6.1% of GDP.

Clearly, Healthcare sector is poised to be an important economic driver for India.

- India currently has about 600,000 doctors and about 1.6 million nurses. As per WHO norms for developing countries, this translates into a shortfall of 1.4 million and 2.8 million doctors and nurses respectively.
- To reach developed country healthcare norms by 2027, India needs USD 1 trillion over next 20 years.

All these factors make Indian Healthcare sector virtually recession-proof

- Role of private sector in Healthcare: As per latest NSSO survey a rapid growth from the public to private sector is observed. There are an estimated 67,000 private hospitals in India, which comprises 93% of all hospitals and 64% of the hospital beds nationwide.
- About 80% of people use the private sector for outpatient curative services as a first line of treatment.

India's large private hospital chains are continuing their expansion undeterred, as in urban centers, customer preference towards better healthcare service levels gathers steam.

3. Health Insurance:

- Population covered under any Health Plan is about 15%, including beneficiaries of CGHS / ESI / Army / Railway / PSU's / self insured / covered by Insurance.
- Of the 1,123 million, approx. 1.4 percent Indians covered by private health insurance.
- India is potentially the world's largest market for health insurance, Max Bupa sees the market to be USD 8 bn by 2015.
- In India, a major portion (79%) of the expenditure on Health is incurred by Individual Households. 90% of that private health spending in India is self pay. This makes Health Insurance a natural choice.
- Many people go into debt to fund access to healthcare.

Reforms : FDI Insurance / Branches / Multi Brand retail
Laying off

In ending

Everything happens 1 – 3 – 5 – 7 – patience

Not hit by Asian crisis

Less hit by sub prime and Global financial Crisis

India recently put a rocket on the moon

So ROCKET SCIENCE should be replaced by SUB PRIME OF FINANCIAL
SCIENCE