

MADE IN INDIA

IN FIVE YEARS, MORTGAGES WON'T BE MANUFACTURED in the United States—they will be made in India.

By the time you leave any major airport in India, this forecast seems absurd. Impossible. Before you even reach the hotel car, you will see sacred cows roaming the parking area, smoke swirling from the tray of food balanced on a street vendor's head, a crush of jostling humanity and a cacophony of taxi horns that make Manhattan rush hour sound like a melody. Process my mortgages here? Impossible.

But spend one week in India touring call centers, loan processing centers and software development firms, and your skepticism starts to crack. Learn about the financial back offices in India run by GE Capital, Citigroup, Chase, ABN AMRO and Countrywide, and you begin to wonder. Your peer group is here—why not you?

BY
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**Could a piece
of every mortgage
originated in
America stem
from the labor
of workers based
in India? This
author says
we are five years
away from such
an outcome.**

Spend two weeks in India, and your perspective changes. Maybe it was the veiled woman in the back of a pedal cab sending an SMS (text) message from her cell phone. Maybe it was the poster in an ABN AMRO branch: "No bank holidays. In fact, no holidays at all." Maybe it was my interview with a new recruit at an outsourcing vendor, who had a résumé like a job-hopping American tech worker—SBC Communications Inc., Sprint Corporation, CitiFinancial, Providian Corporation.

When I complimented her facility with American idiom, she gave me a puzzled look and said, "Well, sir, you know, I speak with Americans for six hours each day." She provided phone support to configure digital subscriber lines (DSL) for SBC Communications. She helped Sprint PCS subscribers set up their phones. She sold credit cards and mortgages for CitiFinancial.

Spend three weeks in India, and you feel like you should get in on the biggest technology gold rush since the dot-com craze hit America. In Gurgaon, the tech suburb south of Delhi, new apartments, new office buildings and new malls are being built at a fast pace. Office space is scarce, and retaining employees is hard because of aggressive recruiting for experienced staff.

Business hotels are so scarce in Bombay that people sometimes stay in another city and fly in for their work day. It took two hours of negotiation with a hotel clerk to keep my room when I extended my stay in Delhi for one day. Even the roadside vendors and Hindi-speaking taxi drivers know about the revolution. They ask, "What is your business? Call center or BPO [business process outsourcing]?", and then grin.

It's boom time in the Indian tech sector. There is no question that offshoring the financial back office is in its early stages of maturity. And many information technology (IT) offshoring projects fail to meet their goals. But the offshoring of business processes (the failures are common to IT offshoring—mortgage or otherwise) will likely gain its footing, and more important, U.S. firms will learn to manage processes overseas. And then we may not manufacture mortgages in the United States any more.

Beware of waiting until the future of offshoring seems clear. By then, it won't be in the future anymore. By the time you feel completely secure "importing" mortgage processing from India, and offshoring goes mainstream, it may be too late to build a career on the opportunity. It certainly will be too late for your bank to gain competitive advantage by outsourcing. And most interesting, it will be too late for you to sell your services, expertise or products to India when its domestic lending business ultimately booms.

Consider a population of more than 1 billion and imagine a middle class of 300 million Indians all hungry for home-ownership. Exporting U.S. lending savvy to India starts to look like another very big opportunity.

What's on the offshore menu?

There are three relevant outsourcing sectors in India:

- Call center
- Software development
- Business process outsourcing (back-office processing, called BPO—not to be confused with that other BPO, broker price opinion)

And there are a few ways to do it. For example, you can set up your own shop (called "captive") or engage a third party to handle your processes.

Case study: Hazard insurance tracking

Let's start with the basics—a practical example of process outsourcing. Lenders need to know that the collateral behind a loan is insured against fire. To check that the home is protected, lenders monitor each borrower's hazard insurance to ensure that premiums are paid and coverage remains in force. This is a perfect candidate for offshoring.

The magic of cheap global phone calls means that hazard insurance tracking can be done offshore just as easily as in the United States. It is affordable to ride voice and data on leased digital fiber and to put a phone and Internet-equipped computer on every associate's desk in India. The associate reviews a borrower's coverage by logging in to a lender's loan servicing system (Fidelity National Financial [ALLTEL], Fiserv, Harland Financial Solutions Inc. [INTERLINQ®], GCC Servicing Systems or Fair Isaac Corporation [London Bridge]). Proprietary online services use a Citrix Systems Inc. remote-access module to make

local applications accessible anywhere. Standards-based applications need appropriate security, Internet access and a browser like Microsoft® Internet Explorer. The associate in Delhi, Bangalore or Bombay now has all the information and phone power as his or her American counterpart. Let's get back to the hazard insurance tracking illustration.

Suppose the loan servicing program reports that the borrower's insurance is not verified. Then the associate calls the borrower to request proof that the premium has been paid. If the borrower faxes documentation of coverage, the fax will be received in the United States, indexed and reviewed, and the servicing record updated. The borrower could also mail proof of coverage. The mail would be received in the United States, scanned and stored here, then the

image can be viewed in India just like the fax. If the borrower fails to provide documentation, the associate will call the insurance carrier. With documentation in hand (or actually on screen), the associate reviews and closes the case with an appropriate entry in the servicing record.

Hazard insurance tracking is the classic process to send offshore. It is labor-intensive, repetitive and easy to define; the required training is short; success can be defined precisely; and there are limited exceptions or unusual cases that require deep industry expertise. Note that although the offshore staff can view the loan-servicing record, the data actually remains in the United States.

I estimate that 60 percent to 70 percent of the mortgage sector's non-sales labor can be sent offshore to a lower-cost location at a savings of 30 percent to 40 percent. Simple math suggests that the mortgage industry can cut labor costs by almost one-quarter. Branch loan officers and



mortgage brokers are safe from this trend—you can't offshore retail sales.

Six Sigma quality and religion

One mantra in the offshore business is "Come for the savings, stay for the quality." This is true. And *not* true.

Most offshore projects that deliver cost savings do *not* deliver process improvements. The same process is simply exported intact, good or bad. In my survey of lenders, I note that U.S. financial services firms welcome the cost savings, but worry about quality of service. The outsourcing industry has an answer: Six Sigma.

American children cite individual freedom as the key national value. Likewise, Indian children cite tolerance—especially for religion—as the national treasure. There do seem to be many religions: Hinduism, Islam, Jainism, Christianity, Sikhism, Buddhism, Bhaiism, and so on. So it is appropriate that quality is also a "belief system" in India. The most popular quality sect is the Six Sigma quality dogma.

Six Sigma was popularized and evangelized by GE, a pioneer in offshoring work to India. Other sects include SPICE, CMM and ISO. The Six Sigma steps toward offshore enlightenment are:

- Define opportunities
- Measure performance
- Analyze opportunity
- Improve performance
- Control performance

At first, the measuring and reporting will make you smile—and then it might bury you. Most outsourcing vendors track performance metrics *ad nauseum*. They *overreport*, so you will receive documentation as thick as a Bombay phone book (three volumes, each 2 inches thick).

If you are a process outsourcing client, you may receive a report more than 50 pages long every week, covering the offshore operations. Your initial enthusiasm with deep performance data quickly becomes a cry for relief. You will ask for just a summary of results. And here in the reporting lies my favorite reason to outsource, whether locally or offshore.

Offshoring and core business focus

If someone else is worrying about performance in the well-defined and repetitive parts of your business, you can focus on the big challenges. If your offshore vendor handles application processing or loan servicing, then you can focus on marketing or capital markets. Outsourcing should let you focus on your core business.

Imagine offloading away your oversight of an entire department for the luxury of a single point of contact. The tangible savings from offshoring are valuable, but freeing up management bandwidth to grow the business could be an even greater benefit in the end.

Most lenders think their core operations cannot be outsourced. To get perspective on this, think back 25 years. When I took out my first mortgage in 1979, nearly all mortgage processes were done inside the bank: title research, appraisal, credit evaluation, underwriting, servicing, default management. No longer. What seems "core" today is out-

sourced tomorrow, enabling lenders to improve performance at a narrower, specialized range of tasks. So much for the claim that core operations will never be outsourced.

Exotic Indian food—like pizza

The legions of roadside vendors in Indian cities seem untouched by the 21st century—and perhaps the 20th century as well. Like process outsourcing, vendors are specialized. They stake out a patch of land on the roadside for the day's commerce. The coconut truck comes in the morning and dumps a small hill of the nuts, and in between naps the roadside "shopkeeper" is in business. Same with the barber. He picks a section of road, sets up a chair, hangs a mirror on the fence and is ready to give you a shave and a haircut. You see

Successful Offshore Processes

Here is a list of components of a mortgage operation that would make good candidates for offshore outsourcing.

Acquisition, origination, processing

1. 1003 application processing
2. Credit request
3. Verification of employment
4. Good-bye letter and correspondence
5. Recording information update
6. Pre-funding review
7. Complete underwriting for Federal Housing Administration (FHA) loans
8. Closing—drawing loan documents
9. Wiring review and finalization
10. HUD-1 review and finalization

Servicing and default management

1. Loan boarding (data integrity)
2. New loan audit
3. Payoff request processing
4. Foreclosure processing
5. Bankruptcy processing
6. Hazard insurance tracking
7. Premium obtainment
8. Reconveyance/release processing
9. Escrow administration
10. Customer fulfillment—e-mail management
11. Customer service research
12. Adjustable-rate mortgage (ARM) maintenance and index validation

Other back-office processes

1. Business process outsourcing (BPO) and appraisal processing
2. Real estate-owned (REO) process management
3. Mortgage insurance research/claims
4. Investor reporting

Phone-based (call-center) processes

1. In-bound customer service
2. Outbound welcome calls
3. Early-stage collections

hundreds of such establishments along the city streets.

But there are also modern malls. They are filled with American brands in food, clothing, technology and entertainment. The signage is all of Western brands. During my first week in Delhi, we had pizza delivered to the office by Domino's, and we dined at such exotic neighborhood eateries as Pizza Hut, Kentucky Fried Chicken, Ruby Tuesdays and TGI Fridays. India is tropical, but on the wall of one franchise eatery hung a Flexible Flyer sled ready for snow. Such familiar fare wore down my forecast of how fast we'd export our mortgage processes to India.

I opened this article with the assertion that we would no longer manufacture mortgages in the United States in five years. I came to this conclusion by a process I call "forecast ping-pong."

Every time my hosts plied me with American fast food, my time frame prediction shortened. For a brief moment I forecasted outsourcing's dominance in three years. However, each time I shortened the forecast, some event tempered my exuberance.

A Brahma bull wandered through an intersection, slowing traffic. Three and a half years. And then the power went out and I got stuck in an elevator. Four and a half years. Or a staff person overlooked a problem because the solution required reaching up the management hierarchy. Let's stick with five years.

Who turned out the lights?

I was told that the power goes out "occasionally." I ask, "Is that 'occasionally' every year? Or is 'occasionally' every month?" Actually, the power goes out many times each day. Each time, the darkness lasts for a few seconds.

The nonplused Indians talk through the darkness seamlessly, without a pause. Americans giggle and wonder if it is time to adjourn. And a few seconds later, the building's generator kicks in and light is restored. In the interim, all phones and computers stay on. An uninterruptible power supply (UPS) system bridges the momentary delay between a public power outage and the back-up generator.

Have you ever wondered what happens to an elevator when the power goes out? Nothing! You don't move. Yes, I think we should leave the mortgage offshore forecast at five years.

European modernization may be a guide here. I recall power outages in the 1970s when my father was building a factory for Digital Equipment Corporation (DEC) in Ireland. He kept two flashlights in his briefcase and used them on a number of occasions—but not daily. And while setting up factories in Scotland in the 1960s, the electric heat in our home cycled off during the day when scarce generating capacity was requisitioned by industry. Will India follow a similar course of rapid development?

Show him where we park the elephants

American visitors playfully might be shown "where we park our elephants while we work." And on my first day in Delhi, I struggled through the mental fog of a 10 1/2-hour time difference, a 14-hour flight and a workday that starts after the sun sets. I got out of my taxi and saw an elephant wandering down the street with an advertising banner on its side. And they do have monkeys at the train stations—just like we have squirrels.

In an early conference call with my Indian colleagues, I kept introducing my remarks with "This is Steve," before making my comment. Finally one Indian gently let me know that was not necessary. "Steve, we know who you are—you are the one with the funny accent," he said.

Accents are a great and difficult concern with offshoring. (I'll save that for the next white paper.) Likewise it is critical to overcommunicate, and phone, e-mail, fax, voice and instant messaging still are not enough to eliminate the challenges of time and distance. I now have videoconferencing in my home for early-morning meetings.

Logistics for associates

Most of the BPO (business process outsourcing) labor force is young, and in India, economics and close family ties mean that college graduates live at home. Few of the rank-and-file own a car or motorcycle, so the "logistics" department manages a fleet of cars that follow a route to pick up staff from home and bring them to the office. The average commute time is more than an hour each way.

Associates work overnight, for the convenience of American consumers. When I reach my desk in the United States at 8:00 a.m., they start work. They work when I work, because we are their market. They

are all college graduates, articulate and experienced.

Sneakers and mortgages

Exporting mortgage processing requires staff competencies that match the task. The outsourcing rank-and-file fails the test of widespread familiarity with homeownership or mortgages. There is no working knowledge of consumer credit American-style in India. So, to compensate, the outsourcing companies don't parse the mortgage back office like your average U.S. lender. It is not divided into origination and servicing. Instead, each part of lending is broken down and documented into small, easy-to-document elements.

So instead of big-picture talk about offshoring an entire loan servicing operation, the back office is divided into hundreds of little tasks such as verifying each field from a handwritten fax with the corresponding section of a 1003. This approach lowers the skill level and mortgage experience required to deliver high-quality performance. So, when you consider offshoring sweeping components of mortgage processing, that



approach *is* improbable. But broken down into well-documented elements, offshoring looks plausible.

The key question can be reduced to something like this: Is mortgage lending more like making sneakers or launching rockets? Some parts of lending *are* rocket science. Underwriting and FICO® calculations might be. Hedging strategies are rocket science. But most of lending comprises tasks that are easy to define, repetitive and labor-intensive. These processes can be “imported” from afar—like sneakers.

The sneaker analogy has further relevance in that the mortgage of the future will likely bear the label “assembled from foreign and domestic parts.” By the way, certain small components of even the rocket-science side of the mortgage business have found their way to India. The marketing and hedging side of lending is outsourcing very sophisticated analytics to India. Although India has a large and well-educated work force, these firms succeed most often when they make back-office mortgage operations similar to sneaker manufacturing.

What to offshore?

Not all mortgage processes that can be sent offshore should be. What works? Well, let’s start by looking at wages. A newly minted MBA in India earns more than \$20,000. And new associates earn \$3,000 to \$4,000. A floor manager (without an MBA) can earn \$13,000.

With U.S.–India salary differentials like this, labor-inten-

sive processes are the top candidates for outsourcing. But just looking at the labor content is too simple. The labor content may determine whether the task *can* be outsourced offshore, but a separate analysis will help determine whether the task *should* be outsourced.

For illustration, let’s consider birthday presents for your spouse. You can’t outsource gift-buying, because there are too many possible choices. Too much training or existing expertise is required to execute the task. And if the gift comes late, the results are catastrophic—so it is a high-risk process. Not the kind of thing you’d want to outsource.

Likewise mortgage processes. If the process is immature, which means not well-defined and the operational “handbook” has not matured, the task is not suited to outsourcing. And it does not matter whether the outsourcing vendor is in Iowa or India. A task that has too many possible outcomes requires a highly trained specialist and is a poor candidate for outsourcing. If failure is catastrophic or has extraordinary time sensitivity, don’t outsource it. At least don’t start with a sensitive process. See the sidebar (“Successful Offshore Processes”) for a table of mature processes that have been offshored successfully.

Equinox’s PCRA process

At Equinox Corporation, we have developed a process (everything in Indian BPO seems to be a “process”) to analyze which parts of the lending process can be outsourced *and* offshored, and how to rank them. The Process Cost Reduction Analysis (PCRA) starts with a three- to five-day on-site observation and

Figure 1		Process Cost Reduction Analysis (PCRA) Worksheet	
		Scale Definition	
Define the Process: Is the process—	Not Attractive to Offshore: Process is a <i>low</i> outsourcing priority if—	Very Attractive to Offshore: Process is a <i>high</i> outsourcing priority if—	
Manually intensive	Entirely automated	Very labor-intensive process	
Standardization	No standard steps in the process	Process is completely standardized with clear rules	
Process maturity	Process is new or poorly defined	Process is well-defined or is being outsourced now	
Links to other processes	Process is not easily isolated; links at many steps	Process stands alone—minimal linkages to other groups or processes, or already outsourced	
Expected savings	Additional cost outweighs the savings	Minimal infrastructure expenditure; outsourced full-time equivalent (FTE) cost lower than current	
Consumer contact	Face-to-face interaction with the consumer	Process requires no contact with the consumer	
Legal aspects	Legal/compliance issues impede moving offshore	No regulations impact moving the process	
Quality improvement	Fall in productivity exceeds cost savings	Major improvement opportunities	
Language requirements	High fluency in multiple languages	Low/medium fluency and single language (English)	
Risk to lender	Critical process; failure has major consequences	No impact on client; virtually risk-free	
Information technology (IT)/telecom architecture	Systems not equipped for external interface; major IT spending required	Process can be easily interfaced with minimum technology; solution already exists	
Complexity	Extremely complex—much knowledge capture is required, and many configurations	Simple process	
Human resources/skill availability	Specialized skills required; not available offshore	Work force with the required skills is available	
Open to change—client’s organization	Resistance to change in the organization	Management supports offshoring the process	
Work force impact	Major layoffs; work force cannot be redeployed	Already outsourced—work force can be redeployed; only growth is being met by the outsourcing; does not impact current work force	

SOURCE: EQUINOX CORPORATION

documentation process.

The PCRA analyzes current business processes and identifies what parts are suitable for cost reduction through outsourced business process management. We look at all parts of lending operations except for the retail sales process, where we see little offshore potential. All of origination and servicing is first categorized as data capture, processing, fulfillment or technology services. At the lender's facility, we catalog, isolate and analyze each part of the lending process, then score its "outsourcability."

Figure 1 provides a helpful guide for how to rate the process and set priorities. Is the task labor-intensive, fairly well-defined and without much change? Can the task stand apart from other processes? Is customer contact minimal? If the answers are "yes" to these questions then you have found a good candidate for offshoring.

Pick a process, such as a new customer welcome call. It is labor-intensive, it can be routineized, it requires minimal integration with other operations and it does not have real-time sensitivity. Bingo!

Even before you start soliciting vendors, make your own independent decisions about which processes you want to outsource. Then match them against the vendors you invite to bid. The PCRA provides a detailed roadmap with cost and operational justifications for each step.

High-octane due diligence

Most due diligence in the United States is superficial. We assume certain vendor capabilities, then go looking for a few chinks in the supplier's armor. One should not make such assumptions in looking at offshore vendors. Spot-check a claim in every category that matters to you.

Turnover. Wages for Indian tech workers are rising fast, and turnover is astronomical. When I asked for statistics on turnover at one outsourcing operation, I was told "20 percent." Not so bad, I thought. But then I remember that my assumptions on offshore operations are often incorrect. I asked for clarification—"per year?" I braced myself while awaiting the answer. "No, per month," I was told.

Infrastructure. If your vendor claims to have fiber-optic lines running in two directions for redundancy, ask to be shown the node right then and there. Bring your own flashlight. And check if they are "live."

Capabilities. If you are told that the vendor has 35 mortgage processes in place today, ask to sit next to a staff person in order to watch him or her do four of the processes.

Client satisfaction. Obtain a list of the vendor's clients, and ask for documentation on specific details on the services rendered for those clients. For example, if the vendor claims to handle a lender's customer service, place 100 calls (not 10) to the customer service number published by the client.

Some fraction of those calls should end up at the vendor. Record the calls and tabulate quality. Have an associate place the calls from the United States during your meeting. Then ask to visit the department that takes the calls. Take nothing for granted.

Offshoring is not for sissies

For years I have pioneered customer acquisition and retention strategies for lenders, which succeeded because they required very little technology integration with lenders. My product offering evolved from earlier failures that *did* require extensive integration or changes in how lenders do business.

Outsourcing is *not* a low-impact process. It takes months to solicit and pick vendors. It takes months for integration. And it takes months before the process settles down to an acceptable level of performance. And switching vendors is not easy. Outsourcing mortgage processes is not a casual decision. But keep in mind the possible 25 percent overall cut in your labor costs and the possibility that mortgage processes are more like sewing sneakers than launching rockets. And consider the benefits of focus. Ask yourself this: If you could outsource non-core areas that are recurring management headaches, could that benefit your business?

If you make offshoring work, the rest of your career success will accelerate ahead of your peers. The trend toward globalization will only accelerate, so having that experience in your background and on your résumé is valuable.

However, the trip to India takes 14 hours (excluding the stopover in Amsterdam, London or another European capital). It's not a day trip to Chicago. It is a week or two away from the kids (or bring them along—but not on the first trip).

And remember that ultimately this is a two-way street. The big picture of financial services offshoring is the future housing needs of 300 million middle-class Indians. India needs mortgage insurance, title insurance, P&C insurance, servicing, underwriting and a secondary market. The American mortgage market has already developed these sophisticated capabilities. America stays efficient when we take advantage of low-cost sources for goods, whether here or abroad. And we remain a powerful economy when we export our advanced infrastructure and experience, and grow our human capital skills. So, let's think global and export our mortgage expertise. **MB**

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