

# Riches In Debris

Never mind the doomsday forecast, the US sub-prime crisis may actually help the Indian KPO industry ride a multi-billion dollar opportunity

KS VASANTH and SRIRAM SRINIVASAN

**O**NE MAN'S loss is another man's gain. This is the case of the substantial gains panning out for the Indian knowledge process outsourcing (KPO) and mortgage process outsourcing (MPO) units, even as the sub-prime crisis toll continues to rise in the US—a recent Deutsche Bank Securities report puts the total sub-prime losses at around \$400 billion. Industry insiders see the KPO and MPO segments poised to ride a big inflow of business. Says Amit Goyal, Vice President, Business Solutions, of WNS Global Services: "The offshorable, addressable MPO

market of the US residential mortgage ecosystem is in the range of \$7.5-8.14 billion. However, the current MPO market in India is not more than \$200 million (employing over 10,000), leaving a huge headroom for growth."

For now, however, some of the largest BPO/KPO companies in the country have been significantly affected. Prominent among these are WNS Global, InfosysBPO and iGate Global. While WNS Global posted a net loss of \$10.5 million for the quarter ended September 2007 following the bankruptcy of mortgage lender First Magnus, both InfosysBPO and iGate Global are said to be affected by the collapse of wholesale mortgage banker GreenPoint Mortgage.



**"About 90% of processes at the loan-origination time are repeated at foreclosure. This means more back-end work"**

**Shri Gopalan**  
HEAD OF OPERATIONS, STRING REAL ESTATE  
INFORMATION SERVICES



## The Rationale

So, why would the players who form the US mortgage industry ecosystem—wholesale lenders, retail lenders, correspondent lenders, reverse mortgage lenders, sub-prime lenders, brokers, servicers, sub-servicers, private mortgage insurance companies, lender services providers (title and escrow companies)—want to outsource now? After all, as current volumes indicate, this industry has not been a big fan of the outsourcing segment.

Explains Devesh Bahl, Business Leader, Data and Analytical Services, of Zenta, a KPO focussed on the US



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mortgage industry: "As volumes go down, the mortgage industry is under tremendous pressure to cut costs. Outsourcing can help save cost by up to 60% in some cases."

Agrees Goyal: "As many as 11.71 million loans are estimated to have originated in 2007. Considering that the average cost of originating a loan is \$1,505 and the average cost of servicing a loan is \$81, there can be substantial cost savings."

The fall in origination and the rise in foreclosures should lead to a spike in back-end work. Says Kashyap Kompella, Adviser, Global Services Deliv-

ery Practice, of TPI, an outsourcing advisory consultancy: "While loan origination has definitely shrunk, certain specific pieces in loan servicing could expand. For instance, there could be increased activity in collection, restructuring of EMI, loss mitigation (which is a subset of default management) and so on."

#### More The Merrier

Clearly, KPO companies wish to make the most of this dawning opportunity. Explains Krishna Srinivasan, Vice Chairman and Chief Executive Officer of ISGN, a US mortgage

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**Kashyap Kompella**  
ADVISER, GLOBAL SERVICES  
DELIVERY PRACTICE, TPI



industry-focussed solutions provider: "Over two million loans are expected to go into foreclosure in the next two years. With the average loss per foreclosure being steep—to the tune of about \$75,000—we believe, we are well-positioned to provide relief to our customers through our unique combination of products, services and outsourcing capabilities."

In fact, the roots of the increased demand seem to go much deeper. Says Shrini Gopalan, Head of Operations at String Real Estate Information Services, a KPO that specialises in the US residential mortgage industry: "After the sub-prime crisis, there is emphasis on the underwriting part of lending operations, which basically involves due diligence covering background checks on buyers, property valuation and title examination. About 90% of the processes that one goes through when a loan is originated have to be repeated at the time of foreclosure. This means more back-end work."

Shrini, who attended a meeting of the American Mortgage Bankers Association at Boston in October, adds

that the increased demand for KPO services from the US residential mortgage industry players has to be seen to be believed. "New customers who walked into our stalls wanted to close deals across the table. Typically, these are deals that take three-to-four months to close. Similarly, some of the existing customers who were earlier giving us just overflows (excess work that they are unable to handle), now want to know how much additional work we can handle and how far we can ramp up."

**Other Lending Streams**

Goyal of WNS adds that changes are continuing to take place in the aftermath of the sub-prime crisis. For instance, many lenders are diversifying into other lending streams such as reverse mortgages and student loans. "One sub-prime service firm modified over 3,500 loans last month compared with 700 a month, a year ago. With all these changes, we clearly see traction in areas such as foreclosure services, students' loan processing and reverse loan processing."



**"We are seeing a 30% rise in business this year, thanks to the increasing demand for apartments"**

**Srikanth Ramachandran**  
PRESIDENT AND CEO, NTRUST INFOTECH



**"As volumes fall, outsourcing industry is under pressure to cut costs. Outsourcing can save cost by up to 60% in some cases"**

**Devesh Bahl**  
BUSINESS LEADER, DATA & ANALYTICAL SERVICES, ZENTA

In fact, the sub-prime crisis seems to be having a positive rub-off effect on the commercial mortgage industry. Says Srikanth Ramachandran, President and CEO of NTrust Infotech, a company focussing on the US commercial mortgage industry: "With a slowdown in new home sales and rising foreclosures, demand for apartment homes is increasing. So, commercial builders are now putting up apartment lofts on existing commercial buildings. This combination is changing their business model and back-office process. This, in effect, is accelerating some of their outsourcing initiatives. Thanks to this, we are seeing a 30% rise in business this year."

**Long Haul**

But Kashyap of TPI warns that many of these gains could be short-term. For the KPO industry to hit the jackpot, it should look at high-value assignments such as underwriting and consultancy in the secondary market. He explains: "These (underwriting and consultancy) are premium priced and need considerable domain expertise. Even for a company, which has been operating in the industry for some time, it would take significant effort and time to train its employees in such work."

Shrini agrees it is indeed difficult to build up the expertise and scale up the value chain. But once a relationship has been built up and trust between parties established, these

assignments are easier to bag, he argues. However, it would be difficult for new companies to break in, since clients neither have the patience nor the time to experiment with new players. So, it's advantage established players, who have a track record of excellence, he says.

Most players also seem to concur with the view that though it is the smaller players who need to cut costs in order to benefit most from the outsourcing, they may not be the best placed to do so. Says Kashyap: "There are a couple of reasons. One, many of these players do not have a history of outsourcing. So, they are not sure how to go about it. Second, though outsourcing is basically aimed at cutting costs, it initially requires investment in terms of an IT network and platforms. Many of the small firms may not be able to afford it. It's a chicken-and-egg syndrome."

But it may just be a temporary blip. Because ultimately once the crisis is over, the industry is expected to consolidate, with smaller and weaker players either going bankrupt or being taken over by a bigger player.

Adds Devesh of Zenta: "Outsourcing can have a snowballing effect. The cost-savings that these companies make can be ploughed back into the companies for process improvements and quality safeguards, which will stand the industry in good stead over the long-term." And that argument, one can say, is as safe as a house. ■