

Business Process Outsourcing Service Line Definitions

The term business process outsourcing (BPO) is defined as the outsourcing of business functions or processes. In order to qualify under this definition BPO contracts must involve the vendor taking responsibility for operational management of the business activity. For the purposes of this definition, IT services do not count as a business function.

BPO can be divided into two principal streams:

- ❑ White-collar BPO, involving office and call centre personnel
- ❑ Blue-collar BPO, including areas such as facilities management and engineering services.

“White-collar” BPO activities include:

Front-Office Services

- ❑ Customer management services, covering the outsourcing call and contact center services
- ❑ Document management services, including inbound document management and outbound document management services such as transactional print & mail services

Middle-Office or Industry-Specific BPO

- ❑ Industry-specific services i.e. outsourcing based on a specific business process unique to that sector, such as mortgage processing or check processing in the banking sector, insurance policy administration, etc.

Back-Office Support Services

- ❑ Finance & accounting outsourcing
- ❑ HR outsourcing including for example payroll services, HR administration services, recruitment process outsourcing, and learning services
- ❑ Indirect procurement: services for procurement of indirect goods and services.

Industry-specific services are usually part of the means by which the organization delivers services to its own clients, for example mortgage processing in the banking sector, policy administration in the insurance sector, revenues & benefits in U.K. local government, and warranty administration in high-tech manufacturing.

Front- and back-office services are more generic in nature and in general apply and are offered and delivered across a range of industry sectors. Front-office services are generally customer facing such as contact center and mail handling services. Back-office services cover the internal support functions of finance & accounting, indirect procurement, and HR services.

Each of these BPO services can be broken down further as shown below. This segmentation follows the structure used within NelsonHall's Global BPO Market Forecast reports.

Front-Office Services

Customer management services (CMS)

Customer management services is defined as the outsourcing of customer handling functions such as call and contact center services. It covers the outsourcing of single or multi-channel inbound and outbound customer contact, covering for example the following channels: inbound and outbound agent-based voice, IVR, inbound and outbound email handling, inbound and outbound SMS, webchat etc.

The market is segmented into:

- **Cost-effective customer support**, covering contact center outsourcing services where the emphasis is primarily on the provision of customer care for existing products and services, with little or no value-add in terms of cross-selling or up-selling
- **Support for new market entry**, covering the outsourcing of customer handling services primarily in support of new product introduction and new geography market entry. Also includes customer handling support for new businesses such as establishment on online retailing. In either case, the customer handling is in support of a new market initiative by the client
- **Increasing customer retention/value**, covering the outsourcing of customer handling services where the focus goes significantly beyond simple customer care or technical support and there is a major emphasis on assisting the client to retain customers or use incoming calls as the basis for cross-selling and up-selling
- **Customer care transformation**, where customer management services vendors are also involved in replacing the customer handling infrastructure of the client e.g. using contact center services based on a hosted contact center platform

Document Management Services:

Document management services is defined as the outsourcing of a document-related process to a third-party. Document management services is segmented into four areas covering printer fleet management, inbound document acquisition & storage, the printing & multi-channel distribution of transactional documents such as invoices and statements, and the sourcing and distribution of print materials:

- ❑ **Document Infrastructure Management** or managed print services, covering outsourcing and management of printer fleets
- ❑ **Inbound Document Capture**, verification and distribution, covering the outsourcing of one or more of:
 - ❑ Data capture, processing and distribution
 - ❑ Document storage & retrieval
 - ❑ Mailroom operations
 - ❑ E-Discovery.
- ❑ **Outbound Transactional mail**: outsourcing the printing & distribution (both physical and electronic) of transactional mail such as invoices and statements
- ❑ **Outbound Print Management**, covering the outsourcing of print sourcing and procurement, warehousing and distribution of marketing materials and corporate documentation.

Industry-Specific (Middle-Office) Services

These are specific to a particular industry and are the business functions that perform the processing tasks specific to that industry.

1. Healthcare Payer and Insurance

Life BPO

This service line focuses on BPO activities associated with life, annuities, and pensions (LA&P) policy processing within both open and closed blocks. It does not address any outbound voice based activities involved in the selling and marketing of LA&P products.

The Life BPO market is segmented into four areas:

- ❑ Cost-focused policy administration, where the service is principally focused on policy administration, policy exit and regulatory BPO services of closed life blocks. The primary objective is significant cost reduction whilst maintaining current service levels to policy holders
- ❑ Service-focused policy administration, covers both closed and open blocks of business and is focused on a more comprehensive range of BPO services including policy acquisition, policy administration, policy exit, and distribution management. The primary objective of the service is typically improving customer service levels to policy holders and distributors
- ❑ Support for new product introduction, covers life insurers, operating in mature markets, introducing new products e.g. growth of the 'at retirement' segment. Primary objectives are reduced capital investment requirements and reduced time-to-market around new product introduction, typically 1 to 3 months.
- ❑ Support for new market entry, services in support of life insurers developing presence in emerging markets of China, India, Eastern Europe, Middle East and Latin America.

Property & Casualty BPO (P&C BPO)

This service line covers BPO activities associated with property and casualty (P&C) products such as home, auto, flood, pet etc., and commercial general insurance and more specialized areas such as marine, aviation and transportation. This service does not cover health, worker compensation or life insurance.

The P&C BPO market is segmented into four areas:

- Claims management, covering management of whole or part of the claims process. Activities include first notice of loss (FNOL), loss adjusting, subrogation, investigation, settlement etc. Primary objectives are to reduce settlement and operational costs whilst improving customer experience of a claim to drive retention
- Policy acquisition & administration, supporting in-force policy administration (e.g. address change, endorsements etc.) and activities associated with new business generation such as policy renewal, retention or acquisition (e.g. quotation, pre-issue validation, basic underwriting, application acceptance, policy issuance, policy renewal etc.) directly to customers or via brokers
- Comprehensive policy servicing, covering management of the majority of P&C insurance activities for existing product lines within current geographic markets. Comprehensive policy servicing typically includes the service elements encompassed within the claims management and policy acquisition and administration segments described earlier
- Virtual insurance company, the outsourcing of all IT infrastructure and operational activities required to offer new insurance product either in support of affinity groups and brandassurers or within a new geographic region.

Health Insurance BPO, or Healthcare Payer BPO,

This service covers outsourcing of member management, claims management, provider management, and member care management in support of healthcare payers in both the public sector and private sector.

The Healthcare Insurance market is broken down into two main segments:

- Public Sector, which includes healthcare payer related BPO activities carried out on behalf of both the U.S. Federal and State governments. The main sub-segments within public sector health insurance are:
 - Medicare Program: BPO activities funded through the Center for Medicaid and Medicare Services (CMS) in support of the federal Medicare program
 - Medicaid Program: BPO activities funded both by federal and state level government in support of Medicare program
 - Other publically funded programs: BPO activities funded by federal and state government in support of programs such as Veterans Association (VA), CHIP, American Indian/Alaska Natives, SCHIP etc.
- Private Sector, which covers healthcare payer related BPO activities carried out on behalf of private commercial healthcare insurers, not-for-profit (NFP) health plan providers (e.g. some BCBS organization, charitable organizations, industry or trade groups) and self-insured organizations such as employers, unions or trade associations. The main sub-segments within private sector health insurance are:
 - National healthcare payer: healthcare payer that operates on a U.S. national or multi-state basis and can include commercial insurers, BCBS association members and NFP organizations offering FFS, HMO, PPO, CDH or hybrid plans. Examples of national healthcare payers include Aetna Health, CIGNA, Humana & UnitedHealthCare
 - Regional healthcare payer: healthcare payer that operates on a regional or single state basis and can include commercial insurers, BCBS association members and NFP organizations offering FFS, HMO, PPO, CDH or hybrid plans. Examples of regional healthcare payers include Dean Health Plan (Wis), FirstCare (Abilene, Amarillo, Lubbock, Waco) Grand Valley Health Plan (Mich.), Vermont Health Plan, Presbyterian Health Plan (Mich.)

2. Banking

Mortgage BPO

This service line consists of BPO services in support of mortgage origination and administration services for prime residential, sub-prime residential, and commercial mortgages. The Mortgage BPO market is broken down into two segments:

- ❑ Origination Services, covering the outsourcing of customer acquisition, underwriting services account set-up and data entry, and credit and compliance checking
- ❑ Mortgage Administration or mortgage servicing, covering the outsourcing of:
 - ❑ Maintenance and customer services, including name changes, customer service and correspondence handling, and delinquency services
 - ❑ Payment services, including collections, payment processing, loan accounting, and foreclosure services
 - ❑ Secondary market services, including securitization, portfolio servicing, and investor reporting.

Payment Processing

This service line consists of the outsourcing of those processes involved in banking payment processes including support for customer initiation and vendor validation of payment request, transmission of payment to target institutions, and crediting of target accounts. The payments processing BPO market is broken down into three segments:

- ❑ Check processing, covering outsourcing of transaction capture, transaction execution including check presentment, and transaction posting and reconciliation
- ❑ Credit card processing, covering outsourcing of card issuing and merchant acceptance services in addition to transaction capture, execution, and posting services
- ❑ EFT services, covering the outsourcing of transaction capture, execution, and posting for electronic funds transfer such as debit and credit transfers and ATM outsourcing.

Securities Processing

Securities processing BPO consists of outsourcing elements of the processing of financial securities such as shares. Securities processing BPO is broken down into two segments:

- ❑ Portfolio Services, including the outsourcing of transfer agency, fund accounting and administration, and custody services
- ❑ Trade Services, including the outsourcing of trade execution & capture, order routing, and trade matching and settlement services.

Core Banking BPO

Core banking BPO covers the outsourcing of core account administration in support of deposit services, client data services (CIF), general ledger services, loan services, and reporting services. However, the outsourcing of account administration services in support of mortgage processing, payments processing, securities processing, and channel management services are specifically excluded from core banking BPO and are included elsewhere within these definitions.

3. Government

Government industry-specific BPO covers all the white-collar industry specific BPO activities within state & local government, federal/central government, defense, and public sector education with the exception of public sector healthcare payer BPO, which is included within health insurance BPO. However, non-white-collar activities such as buildings facilities management or real estate outsourcing, and highways services are excluded from this definition. The principal activities covered here by type of organization are:

- ❑ State & local government, covering activities such as the outsourcing of child support services, employment/welfare-to-work services, revenues & benefits, and housing administration
- ❑ Federal/central government, covering activities such as the outsourcing of departmental application & case management and associated processing
- ❑ Defense, covering activities such as the outsourcing of supply chain management in support of army, navy, or air force facilities
- ❑ Education, covering activities such as outsourcing the processing of student applications.

4. Healthcare Provider

Healthcare provider BPO covers industry specific services in support of healthcare providers or health care systems such as hospitals and primary care trusts. Examples of services include medical transcription services, and revenue cycle management.

5. KPO

Knowledge process outsourcing is defined as the acquisition, storage, and presentation of secondary data. The major use of KPO is by investment banking firms where it is used by financial sell-side and buy-side firms in support of activities such as pitch book preparation and investment research. KPO also covers the outsourcing of secondary research such as competitor monitoring.

6. Other Middle-Office

Other middle-office BPO covers the outsourcing of white-collar industry-specific services not covered elsewhere such as service provisioning in the telecoms sector, R&D services and supply chain management in the manufacturing sector, legal process outsourcing in the legal sector, and clinical data management in the pharmaceuticals sector.

Back-Office Services

Human Resource (“HR”) Outsourcing Services

NelsonHall defines human resources outsourcing services as the operation of human resource processes for an organization by a third party supplier. These processes can include both mainstream service delivery processes such as payroll provision or training delivery or they may be administrative processes related to these mainstream processes such as training administration services. In some cases, the in-house personnel previously operating or administering the specific HR process transfer to the outsourcing supplier.

In summary, HR outsourcing services is the total market for outsourced services within the HR function, combining all the HR process elements defined in the sections below.

NelsonHall does not include stand-alone consulting services associated with some HR processes within the company’s definition of HR outsourcing services. For example, benefits consulting relating to the design of a retirement plan for an organization would not be included, unless this consulting was part of a wider arrangement where the supplier also provided administration services for the plan.

Within HR outsourcing services, HR processes can be outsourced as either:

- Single HR point services
- Multi - process HR BPO services.

Single HR point services

These services are defined as those provided by a third party supplier to another organization across a single HR process. Processes which can be managed in this manner include:

- Payroll Services
- Benefits Administration
- Recruitment Process Outsourcing
- Learning BPO
- Other HR Services, HR services other than those listed above, such as administration of employee performance and development or provision of relocation services.

Payroll Services

Payroll services is the operation of an organization's payroll process by a third party supplier. Typically, this is provided either as a bureau service, or as a fully managed payroll service.

Bureau service: The third party processing of an organization's payroll, but the bulk of the service remains in-house. Typical service elements managed within this type of arrangement include:

- Data processing
- Provision of payroll stationery
- Backup daily
- Disaster recovery services.

Clients retain responsibility for entering payroll data into whichever system is used to manage the payroll within the organization.

Bureau services contracts do not include the transfer of staff to the outsourcing supplier.

Fully managed service: The management by a third party of the whole of the payroll function within an organization, usually involving the transfer of staff to the supplier. Additional service elements within this type of contract include:

- Production of payroll analysis reports
- Payment transmissions to staff
- Check printing
- Time and attendance
- Electronic payslip history
- Reconciliations
- Liaison with third parties, e.g. tax organizations, medical providers, etc.
- Management of associated tax issues
- Provision of payroll-related call center services.

Benefits Administration

Benefits administration is the operation of an organization's employee benefits function by a third party supplier.

This includes:

- Organizational and employee effectiveness services, e.g. worklife services, management of Employee Assistance Programs ("EAP")
- Retirement plan administration, e.g. defined benefit and contribution plans
- Health and welfare administration, e.g. COBRA in the U.S.
- Re-imbusement administration account services
- Flexible benefits administration services
- Stock purchase administration
- Transportation reimbursement
- Associated benefits administration-related call center services.

Recruiting Process Outsourcing

NelsonHall defines recruitment process outsourcing as the operation and/or administration of employee recruitment for organizations by a third party supplier.

Potential recruitment services covered include:

- Graduate recruitment
- Temporary, contract and seasonal recruitment
- Online recruitment services
- Permanent recruitment
- Executive search and selection
- Outplacement services
- Associated recruiting and staffing-related call center services.

The recruitment process itself typically includes:

- Job Requisition Administration
- Internal & External Job Posting
- Resume Management
- Position Management
- Sourcing
- Screening
- Selection
- Hiring
- On-boarding
- Administration services, e.g. production and distribution of contract letters.

Learning BPO

This is the operation of both the administration and the delivery of learning and training processes for an organization by a third party supplier.

Services provided include:

- Training assessment
- Training content delivery, management and sourcing
- eLearning administration, e.g. administration of eLearning courses, but not just the hosting of eLearning applications and content
- Training administration, e.g. course bookings
- Associated learning and training-related call center services.

Workforce Development Services

Workforce development is defined as the administration of an organization's employees' performance and development by a third party organization.

Components within this process include:

- ❑ Competency management
- ❑ Appraisal management and administration
- ❑ Performance management
- ❑ Succession Planning
- ❑ Career planning
- ❑ Workforce skills management
- ❑ Compensation management
- ❑ Disciplinary and grievance management
- ❑ Associated workforce development-related call center services.

Relocation Services

NelsonHall defines relocation services as the administration of the relocation of employees within an organization by a third party supplier.

Processes provided include:

- ❑ Employee leaving arrangements, such as visa and permit procurement, home sale or property management, rental lease cancellation, etc.
- ❑ Employee arrival and destination management such as searching for a new home, language assistance, school placement and spouse career assistance
- ❑ Logistics associated with the relocation such as travel management and pet transportation
- ❑ Administration services such as expense tracking and reporting, supplier management and reporting, etc.
- ❑ Expat administration
- ❑ Associated relocation and expat-related call center services.

Multi-Process HR Business Process Outsourcing (“HR BPO”)

NelsonHall defines a further market within HR outsourcing relating to the provision of multi-process HR business process outsourcing services.

This is defined as the provision of more than one of these individual HR point processes by the same third party supplier in a longer term (typically 3-10 years) contractual relationship.

The third party supplier may subcontract some of the individual processes to other organizations, but the multi - process HR BPO provider is the prime contractor within the arrangement.

In addition to provision of services such as payroll services and benefits administration, either directly or indirectly, multi-process HR BPO typically involves the vendor in employee administration and support through provision of an HR portal, employee/manager self-service, and service center support. In conjunction with this role, the vendor is typically involved in the management of employee records and information and the provision of related business intelligence to the client organization.

PEO Services

PEO's such as Administaff target small SMEs (10 – 150 employees) and low end of the mid-market (150 – 2,000 employees). The PEO is conducive to companies that do not have HR departments and want to be relieved of the administrative burden of HR. Essentially a PEO provides employment administration relief to employers and takes care of or shares employer liabilities including employment liability insurance, safety, termination assistance, substance abuse prevention, employee relations, etc.

PEO's do this through a co-employment model, where the PEO assumes certain responsibilities and risks providing employee benefits, payroll processing and tax administration, workers compensation, state unemployment insurance, etc.

Essentially PEO's become the employer of record and as they have client employees from multiple PEO contracts, the total number of employees can be pooled to get better rates on healthcare and workers compensation coverage.

Employment responsibilities are typically shared between the PEO and the client, but essentially the client retains management control over the work performed by the employees while the PEO assumes the responsibilities for activities such as reporting wages and employment taxes. The client pays the PEO to cover the payroll, taxes, benefits and administrative fees.

Finance & Accounting Outsourcing

Finance and accounting outsourcing is separated into:

- ❑ Multi-process F&A outsourcing, including the outsourcing of processing activity across more than one of the following ledgers: accounts payable, accounts receivable, and general ledger. Typically multi-process F&A outsourcing contains a mixture of elements of accounts payable, accounts receivable, and general ledger processing
- ❑ P2P (purchase-to-pay), essentially accounts payable processing
- ❑ O2C (order-to-cash), collections and accounts receivables management. This area is dominated by activity in collections. Can be broken down into:
 - ❑ Order entry/billing
 - ❑ Payment application/analysis
 - ❑ Credit review/collections.
- ❑ R2R, record to report.

Indirect Procurement Outsourcing

Indirect procurement outsourcing is separated into:

- ❑ Full-scope indirect procurement covering both sourcing and category management and associated accounts payable processing and supplier management
- ❑ Sourcing and category management.