

## NEAT EVALUATION FOR WNS GLOBAL SERVICES:

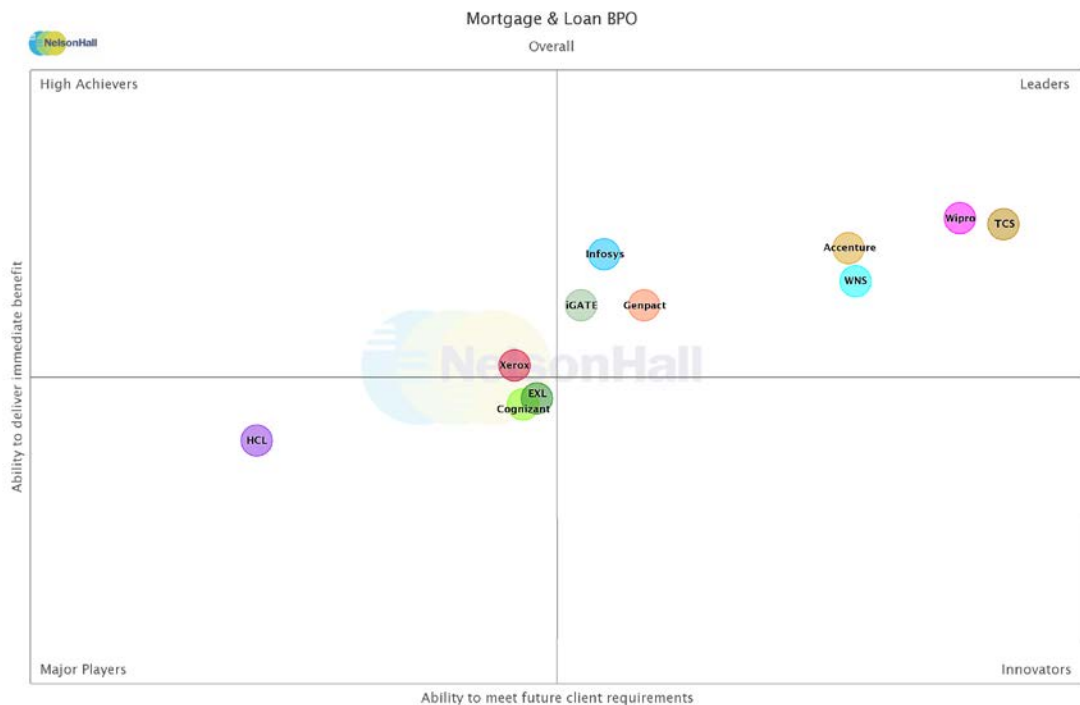
# Mortgage and Loan BPO

### Market Segment: Overall

*This document presents WNS with the NelsonHall NEAT vendor evaluation for Mortgage and Loan BPO (Overall market segment). It contains the NEAT graph of vendor performance, a summary vendor analysis of WNS in Mortgage and Loan BPO, and the latest market analysis summary for Mortgage and Loan BPO. An explanation of the NEAT methodology is included at the end of the document.*

*The vendors researched are: Accenture, Cognizant, EXL, Genpact, HCL Technologies, iGATE, Infosys, Tata Consultancy Services, Wipro, WNS Global Services, and Xerox.*

## NEAT Evaluation: Mortgage and Loan BPO (Overall)



Source: NelsonHall 2015

Buy side organizations can access the Mortgage and Loan BPO NEAT tool [here](#).

## Vendor Analysis Summary for WNS

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### Overview

Mortgage and Loan (M&L) BPO is part of WNS' financial industry line of business, under business process management (BPM). WNS started its M&L BPO business in 2006 when it acquired Trinity Partners, a mortgage processing BPO vendor, to pursue the mortgage services business. WNS' retail banking BPO business grew, primarily from mortgage servicing contracts, until the economic downturn. As the financial crisis accelerated, the mortgage BPO business shrank in terms of revenues (~50%) and clients, consistent with industry experience. Since 2011, the mortgage BPO business has been growing; since the beginning of 2013, M&L BPO has been growing very fast (>100% revenues and new logos over the two year period).

WNS BPM has 600 FTEs working in M&L BPO and delivers service from six delivery centers:

- Gurgaon: 205 FTEs, all M&L processes
- Mumbai: 60 FTEs, origination and support services
- Nasik: 40 FTEs, data entry services
- Colombo (Sri Lanka): 50 FTEs
- South Africa: 215 FTEs
- Columbia: 30 FTEs, supports U.S.

WNS' M&L BPM supports client operations in four markets: U.S., U.K., Middle East, and South Asia.

WNS' employees support the following geographies:

- U.S.: 32%
- APAC: 31%
- Africa: 37%.

WNS' primary targets for M&L BPO are:

- Global banks headquartered in the U.S.
- Mortgage servicers in the U.S.
- Regional Middle Eastern and South African banks
- Tier 1 Indian and other Asian banks
- Investors in mortgage backed securities.

In future, WNS will continue to target global institutions based in the U.S. and regional banks based in Asia, Africa, and the Middle East. The focus in M&L is on loan administration, but mortgage portfolio acquisition services and loan origination are rapidly growing.

WNS has seven M&L BPO clients, with the following geographical breakdown:

- Americas: 40%
- Asia: 20%
- Middle East: 10%
- Africa: 10%.

M&L BPO clients include:

- Leading universal bank (U.S.)
- Leading retail bank (U.S.)
- Top 10 U.S. mortgage servicer
- Leading universal bank (India)
- Middle Eastern bank
- Leading loan provider (South Africa)
- Leading bank (South Asia).

## Financials

WNS' M&L BPO revenues are generated from:

- Origination: 30%
- Loan servicing: 20%
- Default management: 30%
- Secondary market services: 20%.

WNS' M&L BPO generated an estimated \$15.0m in 2014; a growth of 114.0% over the prior year.

## Strengths

- Long-term experience with large complex clients across all mortgage processes
- Significant M&L BPO engagements in emerging markets
- Proprietary strength in loan document indexing
- Willingness to deploy hybrid BPO models including BOT, virtual captive, etc.
- Willingness to co-invest with clients in deals to "put skin in the game"
- Willingness to use variable pricing models tied to operational conditions.

## Challenges

- Expanding its presence in several key emerging markets (specifically the Middle East and South Asia)
- Need to expand client base (in North America) to firms looking to buy loan portfolios
- Focusing on BPM, rather than IT services, may limit its scope of engagements where clients are replacing M&L platforms.

## Strategic Direction

WNS' M&L BPO strategy is to:

- Build an onshore delivery capability within mortgage servicing offerings (contact center, due diligence and compliance KPO) by leveraging WNS' North America delivery center and by pursuing clientele acquiring loan portfolios
- Develop its customer support offerings for M&L and go to market utilizing employee domain based expertise to provide value to clients
- Build out its M&L BPO capabilities in compliance (during the next year), increase the number of mortgage processes, and enhance reporting and analytics
- Develop long-term partnerships based on operational excellence and providing "skin in the game" (WNS investments in operations for clients, such as captive acquisition)
- Provide clients who do not have relevant offshore operational experience with consulting and transition management services, to facilitate the creation of offshore operations and emerging markets entry (e.g. BOT)
- Provide continuing operational savings from process management skills (i.e. Six Sigma management techniques) and scale operations.

WNS has also shown resilience and adaptability by managing a shrinking business in mortgage processing, as that market shut down in 2009/2010. WNS was then able to rebuild and grow the business as markets recovered and clients sought to outsource mortgage processing. In response to changing industry conditions it has continuously changed its focus on processes delivered from origination to servicing, to default management, and now back to originations. It will continue to provide its clients with operational flexibility to help them mitigate the challenges of industry cycles.

## Mortgage and Loan BPO: Market Summary

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### Buy-Side Dynamics

The mortgage and loan BPO market is well established in mature markets, especially the U.S., and U.K. Drivers include:

- Compliance and operational flexibility: BPO vendors bring in project labor as needed, ongoing best practices and standardization
- Cost cutting: reduced TAT for originations, default resolution, and portfolio acquisition (~30% to 70%), delivering labor arbitrage (~20% to 40% savings), and improved accuracy (~10%).

The primary client profile is:

- Tier 1 banks and M&L service vendors selling to residential mortgagees remain the primary adopters (~90%+)
- Single-country support for origination, servicing, and elemental services remains the primary service bundle (~85%+ of revenues).

Clients are buying service bundles including:

- Primarily manual paper processing and acquisition and review of third party supplied documentation
- Process optimization to improve efficiency, accuracy, flexibility, and reduce TAT.

Pricing remains overwhelmingly on a per FTE basis (70%). Cost take-out through labor arbitrage remains a key driver behind the decision to outsource, and service providers now support clients from a wide variety of low-cost near and offshore delivery centers in order to achieve this. Offshore delivery remains the prime driver of cost.

There are other significant drivers for outsourcing buying decisions. The top drivers of mortgage and loan BPO are:

- Improved compliance to adapt to changing regulations
- Data remediation requirements (project work)
- Low process standardization and high error rates
- Reduced turnaround time (TAT) to meet shorter industry processing deadlines
- Lack of process automation or systems to adequately support processes.

For organizations preparing to renew mortgage and loan BPO contracts (second generation), the key challenges focus on how to drive further operations consolidation and standardization/minimize localization of processes through CoEs.

## Market Size & Growth

NelsonHall estimates the size of the mortgage and loan BPO market to be ~\$9,150m in 2014, with projected growth of 3.6% in the period 2014 to 2019.

The mortgage and loan BPO market remains dominated by North America, which accounts for ~66% (\$6,000m) of client spend and is growing at 2.6% over the forecast period. EMEA and ROW are moving rapidly from an emerging to established market status in mortgage and loan BPO; EMEA is expected to grow at 4.0% over the forecast period, APAC at 7.6%, and LATAM at 2.7% over the same period.

## Success Factors

The critical success factors for mortgage and loan BPO vendors are:

- Domain knowledge:
  - Ability to provide consulting support helps develop an M&L roadmap, especially for regulations
  - Key multi-client challenges (e.g. compliance) are best addressed by third party vendors with access to best practices and early adopters.
- Processing skill:
  - Ability to balance workloads across various components of the M&L environment to maintain long run operational effectiveness
  - Cost reductions: Initially >20%; continuing cost reductions of ~20%~50% over five years
  - Standardizing and consolidating process delivery across multiple markets and entities/instruments
  - Ability to convert CAPEX to OPEX by making upfront investment in operations and by taking some volume risk
  - Ability to convert FTE-based pricing (currently industry standard) to transaction based, as utilities are adopted
  - Understanding interaction between IT and process domains to support change management.
- Proprietary IT services:
  - Building automation into manual processing services (e.g. consulting to automate processes, or paperless loan docs)
  - Ability to work with key technology vendors to create useful BPO ecosystems.

Key success factors for clients include:

- Strategy development:
  - Establish a roadmap to increase revenues (new loan types, new markets, and/or greater wallet share of existing customers), while minimizing capital allocation to lending operations. Flexibility for growth and shrink must be built into BPO contracts from the start to anticipate business changes
  - Identify relevant vendors for each major loan process (origination, servicing, default management, and secondary market services). Origination fulfillment and secondary market services require vendors who can consume very large amounts of data quickly and then remediate and analyze the data. Default management and servicing require vendors which can execute transactions quickly, compliantly, and accurately.
- Execution:
  - Operational flexibility and declining cost of delivery are the two top priorities in selecting a M&L BPO vendor
  - Global operational standardization and consolidation are required as regulations synchronize.
- Vendor selection:
  - Key vendor attributes: ITS, ability to commit capital, compliance expertise and customer experience for origination, servicing, default management, and/or secondary market services
  - Reduced internal client staffing requires vendors to be able to suggest operational change and improvement to clients. Look for centers of excellence, consulting and shared service environments.

The key challenges faced in M&L BPO include:

- External challenges:
  - Regulations: this is the primary challenge today. Banks need to increase regulatory reporting and standardization of processing, under conditions of unclear regulatory implementation. At the same time, regulations are synchronizing across borders, which in the short run requires more adaptation by vendors, but in the long run may allow the reuse of IP across borders, unlike today
  - New clients: traditional clients have been tier 1 lenders. The new clients are much smaller, requiring greater investment from the vendors in an engagement and a broader set of operations services
  - New markets: lending is growing in emerging markets, and is stagnant to falling in mature markets. However, in addition to different local regulations, each market has differing cost structures, competitors, and product features
  - New loan products: delivery of fluctuating volumes for loan types (e.g. auto, student) with fundamentally different customers, characteristics, and regulations, requires continuous employee training and platform enhancement
  - Changes to business models: banks generally understand that they must reduce or exit businesses with subpar performance. However, the shift to customer lifecycle management is driving banks to find ways to continue to satisfy lending requests, despite not wanting to be in the lending business. Vendors need to be able to

manage delivery of a service which is undesirable (for universal banks), but necessary. Vendors need to be able to deliver a cost effective service, where the bank is unwilling to pay for increased value.

- Internal challenges:
  - Operational:
    - Flexibility: volume swings, both cyclical and secular, across products and processes (e.g. default, origination) make scaling, planning and managing a challenge for vendors
    - Accuracy: multiple credit/collateral data feeds are notoriously divergent in valuations. Working with vendors, identifying and scrubbing best feeds while handling higher volumes (especially in secondary market services) is required
    - Nearshore/onshore: M&L BPO clients want to move to onshore operations. In mature markets regulators are increasing the pressure for onshore, and lenders in emerging markets usually demand onshore presence. Finally, up-selling additional process outsourcing requires greater onshore delivery in mature markets; vendors need to support this move to remain relevant
    - Flexibility: volume swings, both cyclical and secular, make scaling, planning and managing a challenge for vendors.
  - Standardization of processes:
    - Hosting/systems integration/consolidation: lenders are reducing internal staff, requiring more support for combined IT/BPO offerings. Vendors are challenged to take over client environments to reduce costs and standardize processes
    - Customer treatment: regulators and managements are requiring consistent treatment for fairness and reduced cost of management. Standardizing across multiple markets and products remains a challenge in addressing local regulations.

Key initiatives in new offerings cover five areas, including:

- Expanded coverage of specialty loans: to cover non-residential loan types (commercial, auto, student loans). The key is databases and analytics, to make specialty loans easier to understand and manage
- Secondary market services: facilitating portfolio acquisition with better portfolio evaluation tools and services. Ability to conduct loan evaluation faster on a massive scale
- Support for new market entry: facilitating new market entry (primarily emerging markets). Offerings are focused on origination services, using automation to deliver low cost and operational flexibility
- Process improvement for origination: increase automation and standardization of processes. Increase flexibility to add new loan products to operations
- Process improvement for loan administration: use of portals and analytics to allow greater insight into processing of individual loans.

NelsonHall tracked new offerings (for the last 24 months) show: 100% of new offerings have embedded compliance capabilities, offerings have embedded IT 95%, and embedded analytics 90%.



## NEAT Evaluations for Mortgage and Loan BPO

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NelsonHall's (vendor) Evaluation & Assessment Tool (NEAT) is a method by which strategic sourcing managers can evaluate outsourcing vendors and is part of NelsonHall's *Speed-to-Source* initiative. The NEAT tool sits at the front-end of the vendor screening process and consists of a two-axis model: assessing vendors against their 'ability to deliver immediate benefit' to buy-side organizations and their 'ability to meet client future requirements'. The latter axis is a pragmatic assessment of the vendor's ability to take clients on an innovation journey over the lifetime of their next contract.

The 'ability to deliver immediate benefit' assessment is based on the criteria shown in Exhibit 1, typically reflecting the current maturity of the vendor's offerings, delivery capability, benefits achievement on behalf of clients, and customer presence.

The 'ability to meet client future requirements' assessment is based on the criteria shown in Exhibit 2, and provides a measure of the extent to which the supplier is well-positioned to support the customer journey over the life of a contract. This includes criteria such as the level of partnership established with clients, the mechanisms in place to drive innovation, the level of investment in the service, and the financial stability of the vendor.

The vendors covered in NelsonHall NEAT projects are typically the leaders in their fields. However, within this context, the categorization of vendors within NelsonHall NEAT projects is as follows:

- **Leaders:** vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high capability relative to their peers to meet client future requirements
- **High Achievers:** vendors that exhibit a high ability relative to their peers to deliver immediate benefit but have scope to enhance their ability to meet client future requirements
- **Innovators:** vendors that exhibit a high capability relative to their peers to meet client future requirements but have scope to enhance their ability to deliver immediate benefit
- **Major Players:** other significant vendors for this service type.

The scoring of the vendors is based on a combination of analyst assessment, principally around measurements of the ability to deliver immediate benefit; and feedback from interviewing of vendor clients, principally in support of measurements of levels of partnership and ability to meet future client requirements.

**Exhibit 1: 'Ability to deliver immediate benefit': Assessment criteria**

Assessment Category	Assessment Criteria
M&L BPO offerings	<ul style="list-style-type: none"> <li>Range of M&amp;L BPO: origination related</li> <li>Range of M&amp;L BPO: servicing services</li> <li>Range of M&amp;L BPO: default management</li> <li>Range of M&amp;L BPO: secondary services</li> <li>Range of origination services</li> <li>Range of servicing processes</li> <li>Range of default management processes</li> <li>Range of secondary processes</li> <li>Perception of value: origination</li> <li>Perception of value: servicing</li> <li>Perception of value: default management</li> <li>Perception of value: secondary services</li> <li>Analytics</li> <li>Compliance support</li> <li>Risk management</li> <li>Benchmarking and roadmap support</li> </ul>
M&L BPO delivery	<ul style="list-style-type: none"> <li>Delivery capability in support of U.S.</li> <li>Delivery capability in support of Europe</li> <li>Delivery capability in support of Rest of World</li> <li>Re-engineering of manual processes</li> <li>Application of M&amp;L platform technology: origination</li> <li>Application of M&amp;L platform technology: servicing</li> <li>Application of M&amp;L platform technology: default management</li> <li>Application of M&amp;L platform technology: secondary services</li> </ul>
M&L BPO presence	<ul style="list-style-type: none"> <li>Scale of M&amp;L operations: overall presence</li> <li>Scale of M&amp;L operations: U.S. presence</li> <li>Scale of M&amp;L operations: Europe presence</li> <li>Scale of M&amp;L operations: Rest of World presence</li> </ul>
M&L BPO benefits achieved	<ul style="list-style-type: none"> <li>Cost savings</li> <li>TAT reduction</li> <li>Operational flexibility</li> <li>Pricing flexibility</li> </ul>

**Exhibit 2: 'Ability to meet client future requirements': Assessment criteria**

Assessment Category	Assessment Criteria
Risk factors	<ul style="list-style-type: none"> <li>Perception of T&amp;Cs and value for money</li> <li>Financial rating</li> <li>Commitment to origination BPO</li> <li>Commitment to servicing BPO</li> <li>Commitment to default management BPO</li> <li>Commitment to secondary services BPO</li> <li>Delivery of service innovation</li> </ul>
Suitability to deliver future benefits	<ul style="list-style-type: none"> <li>Perceived impact as a process change agent</li> <li>Perceived ability to support geographic expansion</li> <li>Mechanisms in place to deliver innovation</li> <li>Perceived ability to meet future client needs: origination</li> <li>Perceived ability to meet future client needs: servicing</li> <li>Perceived ability to meet future client needs: default management</li> <li>Perceived ability to meet future client needs: secondary services</li> <li>Perceived impact of benchmarking and roadmap support</li> </ul>

This document provides one of five separate NEAT market segment evaluations for Mortgage and Loan BPO. They are:

- Overall
- Default management BPO
- Origination BPO
- Secondary market services BPO
- Servicing BPO.

For more information on these and other NEAT evaluations, please contact the NelsonHall relationship manager listed below.

**Sales Enquiries**

NelsonHall will be pleased to discuss how we can bring benefit to your organization. You can contact us via the following relationship manager:  
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