Development of Global Sustainability in Finance: A Case Study of Insurance Outsourcing Sustainability

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Abstract

Outsourcing has evolved into more sophisticated global market and as a rapidly emerging sector of outsourcing, the finance outsourcing is getting its way globally. In accordance with the global development of off shoring of the business, this paper aims to follow and investigate the development of insurance outsourcing using the example of the company *Outsource Insurance Professionals – OIP* from Serbia. The main goal of this case study is to recognize the factors witnessing the business growth within the OIP and to investigate the augmenting number of clients and business shown through the number of tasks processed starting from company's founding in 2012 until today. Using the comparative approach, this research will show the change, adjustment and constant ascending development thus the global growth and the sustainability of outsourcing.

Keywords: finance, insurance, OIP, outsourcing, sustainability.

1. Introduction

In order to understand the notion of *outsourcing*, it is important to know that outsourcing is not a new phenomenon. According to some authors, the outsourcing made to light in early thirteenth century "raising the ire of European guild workers" (Buffington, 2007)[1]. Per others, the outsourcing was a part of "corporate landscape since the industrial revolution" (De Vita & Wang, 2006). Regardless of the exact date of its appearance, it is undeniable that outsourcing appeared earlier than thought. The date of the appearance may not be sure, but outsourcing is greater than usually discussed since America itself was „founded from the very concept of outsourcing" (Buffington, 2007). Nevertheless, both appeared from the sheer will to expand, prosper, work better and most certainly using less effort.

The categorization of the notion of *outsourcing* in literature has been very vague. Very often, the notions *outsourcing* and *offshoring* are misunderstood and confused. It also happens that *outsourcing* replaces *offshoring* as well as other terms. Firstly, it is very important to note a difference between *outsourcing* and *insourcing*, as well as between *onshoring*, *nearshoring* and *offshoring*. The author Chakrabarty from Texas A&M University, USA makes a great distinction and gives very simple definitions. *Insourcing* implies that the service provider is a client entity, while outsourcing implies that the service provider is a non-client entity, such as

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[1] See more about history of outsourcing in Buffington, J. (2007).

a vendor or supplier. Citing Lacity & Hirschheim, Chakrabarty explains that „the term *outsourcing*, [...] reflects the use of external agents to perform one or more organizational activities" (Lacity & Hirschheim, 1993 in Chakrabarty, 2006).

The „shoring" strategies imply the location of the service provider. Therefore, Chakrabarty defined the *onshoring* as providing service with the provider located in the same country as the client, also known as *domestic sourcing* or *onshore sourcing* (Chakrabarty, 2006).

Neearshoring implies that the service provider is located in the geographically nearby country. Therefore, those countries that „share borders, or are neighbors can be considered as "nearshore" countries. Ireland and Spain may be considered as nearshore for the United Kingdom, whereas Mexico and Canada may be considered as nearshore for U.S" (ibid.).

Offshoring implies that the service provider is located „in a country which is geographically far away from the client's country. India and China may be considered as "offshore" for both the United Kingdom and U.S" (ibid.). In this research, we will be examining the offshore outsourcing or global outsourcing that we will denominate simply outsourcing.

Figure 1: Sourcing and shoring centric view
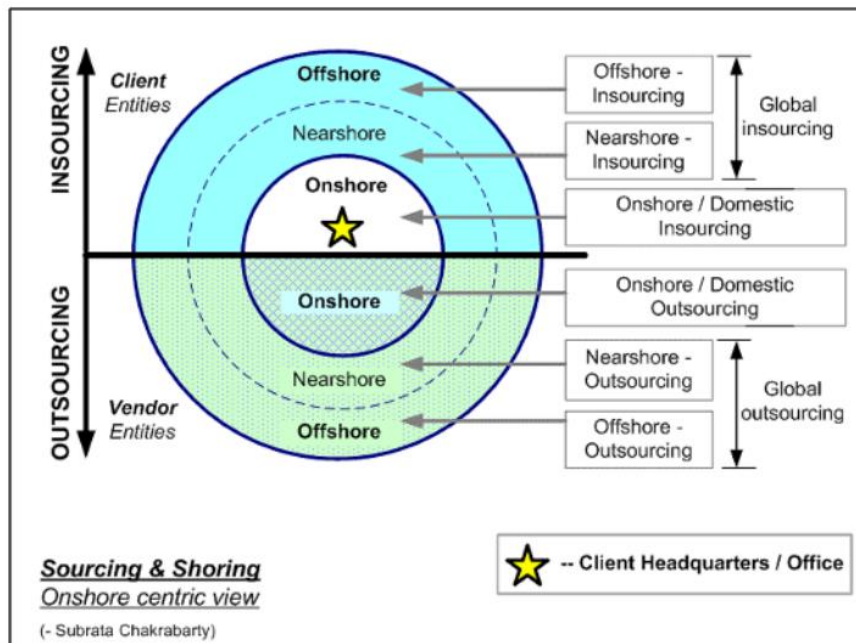
Source: (ibid.)

It is very important to examine the motivation behind the outsourcing. As the goal of every company is the profit, it is natural in the business to develop a sense of competitiveness and to aim to overpass one's competitors. The companies aim to "competitive edge [which] lies in firms' ability to respond quickly to customer demand and satisfy, simultaneously, the multiple industry requirements of efficiency, innovation and adaptation"(De Vita & Wang). With the time and technology evolution, the firms follow and adapt. The expansion of the Internet and

the telecommunication industry made doing work remotely far less expensive and far more efficient. The connection between the clients and vendors worldwide has never been easier and with the technology that keeps on advancing, as well as the business operations that are getting more and more sophisticated, it's implied that „companies struggle to adapt [...] and keep up with the demands of customers and shareholders alike, that focus on core competencies may suggest outsourcing as a potential strategy to remain competitive" (Dominguez, 2006).

The competitiveness is well above obvious in the book *Outsourcing America: what's behind our national crisis and how we can reclaim American jobs.* Authors Ron Hira and Anil Hira depict rather negative impact of outsourcing on America's economy. Decision to outsource should not be taken so easily as American companies do. Looking after only their own benefits, American firms are outsourcing not only business, but also jobs, damaging American economy. Their pessimistic overview is highly contrasted by American ex-president Bush's economic adviser Dr. Gregory Mankiw who „flippantly answered a reporter's question as to whether outsourcing was good or bad, „Yes, it is probably good for America in the long run"" (Hira & Hira, 2005). US companies are enthusiastically embracing offshoring, therefore draining the USA and depriving it of many good-paying jobs. Hira and Hira invoke the research done by experts at the University of California who have estimated that a „staggering 14 million white-collar jobs, nearly one in nine of all U.S. jobs, are vulnerable to being outsourced" (ibid.). However, this pessimistic point of view of outsourcing should be rather in the gray zone. There are many authors who examine the negative but also the positive effects of outsourcing taking into consideration both vendor and client countries, their economies as well as the firms themselves. The decision whether the business should be outsourced or not should not be taken lightly. It certainly should not be as easily dismissed as Hira and Hira do. Some of the authors that researched the positive and the negative sides of the outsourcing are Dominguez (2006), Click & Duening (2005), McIvor, Wall, Humphreys & McKittrick, (2009). We will demonstrate bellow the benefits and the risks of the outsourcing examined by these authors.

1.1   The benefits of outsourcing

One of the most evident benefits of outsourcing the business is reduced operating cost. Accessing the lower cost of the service of the vendor's country is very appealing to companies. Cost saving is becoming even greater motivation as the technology gets better, and the communication easier worldwide. With different communication channels comes increased access to world class capabilities, skills and expertise which represents the next benefit of outsourcing. With greater variety of choice of vendors, there is a greater chance of attaining the best quality of service and reliability, therefore a better business focus and faster service provide. The company that is outsourcing business is not the only one enjoying benefits of the outsourcing. The vendors are mostly located in lower cost of living countries with high number of experts lacking job vacancies. Outsourcing may be the best way for those workers to access world job market giving them the greater choice, exposure and income.

1.2 The risks of outsourcing

Even though it's easier to connect with world's best choice of outsourcing companies, talents and skills, it is undeniable that there is a negative side to outsourcing. Hira & Hira find that one of the greatest downside of this phenomenon is the downpour of jobs that are being yanked out of the hands of the citizens of the source country. Some of the authors beg to differ. Buffington finds that the nominal job loss is leading to net gain. By trading lower payed jobs, the source country is manufacturing the high paying professional jobs. As one of significant risk should also be considered a privacy and security risk. Sharing work with another entity, especially via different online channels increases the security breach chances.

One factor that should not be disregarded when it comes to risks is the human element. Poor communication and language barrier threaten to be a considerable risk. The source company rely on the vendors' linguistic skills that, if poor, can easily harm the company's business. When outsourcing, one must count on the cultural differences as well. Cultural gap and different customs should be researched in order to avoid potential harm. Depending on the location, it is not only the culture that presents a potential risk. The different time zone can affect service as well. For instance, scheduling meetings with a big-time gap between the source and service company can get quite a challenge.

Nevertheless, outsourcing should not be viewed as only positive or only negative phenomenon. It should be approached carefully, with a lot of research, calculation and taking risks because that's what business essentially is, taking risks.

2. Globalization

It would be impossible to talk about outsourcing the business without considering the global aspect of it. The business industry has been growing and expanding leading the companies to expand geographically reaching out to outsourcing. The countries have developed competitiveness and attractiveness through "investments in their telecommunications infrastructure, low corporation taxes, favorable business legislation, competitive labor costs and a strong emphasis on education" (McIvor et al., 2009). In particular, Internet and communication channels' development have cleared the path for expanding the business globally.

The finance services comprise 10% of the nearly $250 billion of the business process outsourcing and according to Terjesen, the total number of finance service outsourcing is expected to increase 71% over the following years (Accenture & EIU, 2004 in Terjesen, 2006). This increase should certainly be understood as a positive change and as the development of the global economy. It means that the globalization helps develop the undeveloped countries with a high rate of unemployment and it also helps transfer the knowledge. A United Nations (UN) report on globalization of services also emphasized the positive aspect of the globalization. According to the report, the benefit of the wealthy nations is that „most offshoring of services still takes place among the wealthiest nations; that offshoring reduces costs, which benefits the home nations; that offshoring allows to shift resources to more productive activities; that revenues from offshoring in host nations is used, in part, for other imports from wealthy nations" (Carmel & Tjia, 2005). Taking this into

account, the globalization represents sharing rich countries' wealth and knowledge with less privileged countries. Therefore, the globalization should keep on making its way and we should tend to make it sustainable.

3. Sustainability

Having in mind the global aspect of outsourcing and both positive and negative, it would be rather irresponsible not to try to balance the benefits and risks. The tendency to establish a balance between pessimist and optimist point of view is what leads to sustainability. Per Babin & Nicholson, the sustainability is "the recognition that all organizations have an obligation to use the resources of society and the planet responsibly, so that future generations will continue to prosper" (Babin & Nicholson, 2012). Therefore, the sustainability includes social and environmental aspects. The social aspect of outsourcing comprehends the tendency to minimalize, if not abolish, the negative effects of outsourcing on society. Job openings deprivation, wage difference, as one of the risks mentioned, should be minimalized in order to comply to social benefit of the outsourcing. Whereas the environmental issues include „power consumption and related greenhouse gas (GHG) emissions, as well as the environmental footprint of the outsourcing provider such as air travel, water consumption and electronic waste" (ibid.).

Figure 2: Overlap of corporate social responsibility, environmental responsibility and sustainability
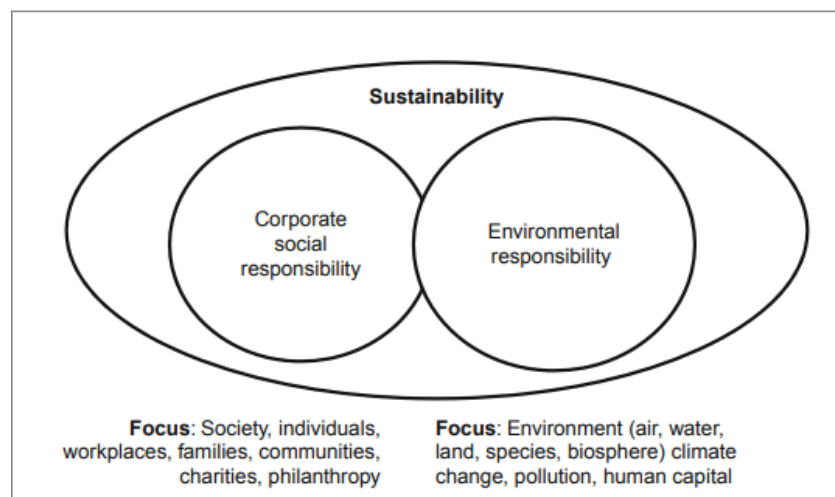
Source: (ibid.)

Today, more and more outsourcing providers and buyers are showing their interest and concern about the sustainability of outsourcing. According to Babin & Nicholson, a 2009 IAOP[2] survey on social responsibility in outsourcing found that when outsourcing buyers and providers rated the importance of sustainability in their business strategy, the response was 3.9 on a 5-point scale, where 1 was somewhat important and 5 was crucial (ibid.). According

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[2] International Association of Outsourcing Professionals (IAOP)

to IAOP, the social issues of outsourcing are more to be looked upon than the environmental issues. Per this research, there are three main sustainability issues: labor practices, fair operating practices and respect for human rights.

Researchers at the University of Hertfordshire conclude that ethical outsourcing requires an agreement between corporations, their shareholders, employees, governments and civil society, that all parties will benefit from the outsourcing agreement. They stress the importance of a key ethical consideration, because „the expectation of low prices often requires low wages and poor working conditions, and engenders fierce competition among providers from national and developing countries" (ibid.). It is important to embrace the social responsibility and to have knowledge about sustainability. Even though the outsourcing industry has not yet defined the standards of the sustainability of outsourcing, there are several reasons why we should embrace the sustainability in outsourcing that Babin & Nicholson underline:

1. Sustainability in outsourcing is new and relevant to outsourcing;
2. Sustainability will be driven by consumer concerns and employee expectations;
3. Sustainability is important to an organization's brand reputation;
4. Environmental topics are increasingly important sustainability issues;
5. Due diligence is required to counter sustainability "greenwashing";
6. Government intervention forces sustainability capabilities;
7. Emerging global sustainability standards will be applied to outsourcing providers.

The importance of the global sustainability in outsourcing is great. The outsourcing helps all the parties involved in the process. The undeveloped countries get their chance to develop and the rich ones to share their wealth by making even bigger profit. Although the outsourcing can be a double sward business process, it also offers a win-win situation for both parties and it should be tended to maintain and sustain that position. The business industry should work its way through to outsourcing and to making and keeping it sustainable.

## 4. Methods, Results and Discussion

Outsource Insurance Professionals – OIP is an American owned Knowledge Process Outsourcing (KPO) company headquartered in Scottsdale, Arizona. Quality work and expertise in the insurance industry, particularly in the Excess and Surplus lines segment led to rapid growth and market expansion to different continents. OIP opened its offices in Europe, providing outsourcing services from Serbia and Croatia. As the company's team crosses different time zones and cultures, OIP enjoys a broader talent pool while simultaneously deepening the thought pool, which leads to innovative ideas while expanding the collective of minds[3]. In this research we have examined the factors witnessing the business growth within the OIP, particularly in Serbia, and we have investigated the augmenting number of

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[3] Learn more about OIP on https://oip.biz/.

employees, clients and business shown through the number of tasks processed starting from company's beginning in Serbia in 2012 until 2021. Using the comparative approach, this research treats the change, adjustment and constant ascending development thus the global growth and the sustainability of outsourcing of the Serbian branch of Outsource Insurance Professionals company.

Services that OIP in Serbia provided for the foreign clients at the beginning of its business in 2012 counted mostly SL Filings tasks before expanding the service to more complex tasks. At the very start, the OIP had 2 clients from California and Michigan. After the period of consolidation for the new business in 2013, OIP gained 4 more clients the following year. That number spiked in 2015 to a balance of 25 new clients. In the following years, OIP expanded the market to almost all of the US states: Alabama, Alaska, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Illinois, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington and Wisconsin. Up until 2016, OIP's clients were located in USA. In 2017, it gained the first client outside of the USA when Canada's companies joined the list of the clients that outsourced insurance business to OIP. Two years later, OIP started providing outsourcing services to United Kingdom's insurance companies. Finally, in 2021, OIP had 21 more clients. OIP's Geo-spread is now Canada, United Kingdom and USA with the majority of business going to USA. This shows the OIP's motivation to grow and expand its circle of the clients to a global one. Although the number of new clients did not ascend constantly, it is undeniable that OIP market is expanding towards the globalization. OIP started with only clients from two US states and expanded to 37 US states, Canada and United Kingdom.

Figure 3: The yearly balance of new clients from 2012 until 2021
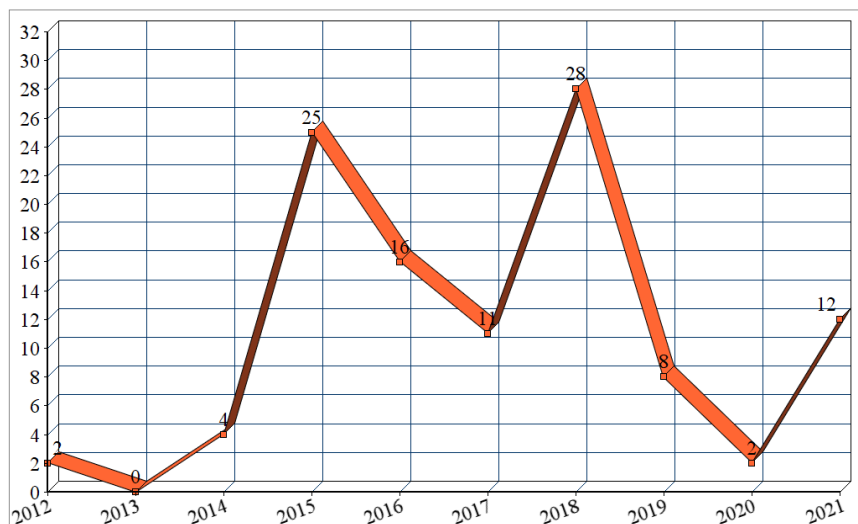
As OIP started growing, it reached the highest number of new clients in 2018, a year before the global pandemic of COVID-19. In the 2018, OIP had the balance of 28 new clients. With United Kingdom and Canada, in 2018, the majority of the OIP's clients were located in the US as shown below.

Figure 4: Visual representation of number of US clients outsourcing the business to OIP per states in 2018
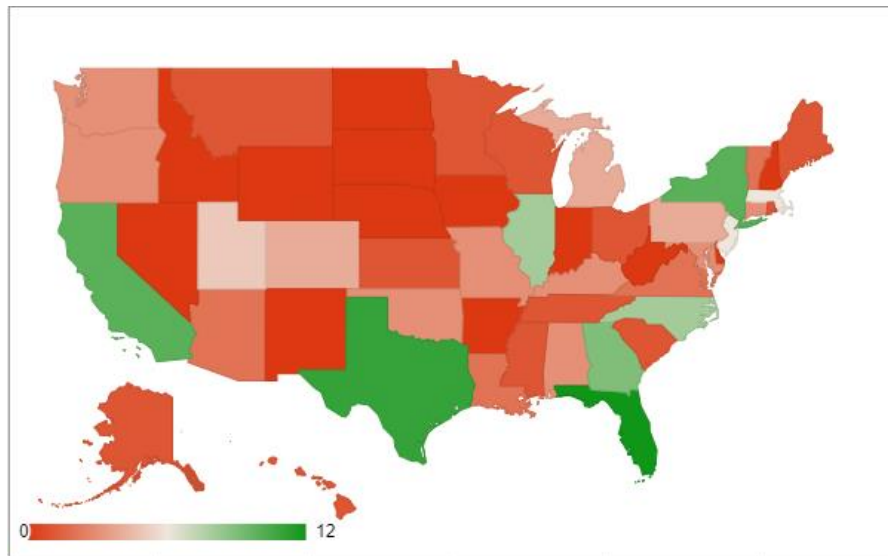
The inconstant ascending of the number of the clients did not imply the inconstant volume of business processed. For some of the clients, OIP has maintained the number of Assistant Underwriters processing tasks. However, there are some clients that have drastically increased the number of Assistant Underwriters due to the increase of the volume of the tasks outsourced to OIP. Although OIP processed mostly SL Filings tasks at the beginning in 2012, it reached the significant number of tasks processed in 2021. Now, besides the SL Filings task that OIP processes, OIP takes pride in efficiently processing non-revenue generating tasks and effectively handling entire back-office procedures. Their client portfolio massively expanded to: MGA/wholesaler, carrier, coverholder, inspection company, InsurTech solutions provider[4], program manager, retail agent, syndicate, third party administrator (TPA) and any entities currently active in the E&S industry.

The most significant services that OIP provides are underwriting support, InsurTech solutions and third party services. The underwriting support is divided into levels: entry-level support (risk clearance / submissions, surplus lines filings, loss runs / MVR order, indexing, data entry / backfill, inspection order, invoicing, certificates of insurance, finance agreements), intermediate support (brokerage account lifecycle, file / renewal setup, bordereaux – aggregate reports, claims processing, follow up on subjectivities, MVR review, quality control / quality assurance), specialized support (inspection review, policy issuance,

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[4] The number of employees and clients analysed in this rsearch doesn't include the OIP Robotics.

policy verification, endorsement issuance, quote / bind / issue, new business prep, pre-renewals, binder issuance) and professional support (renewal underwriting, comparative rating, application review, MGA quality control evaluation report, policy audit formal review, special on-demand reports, standardization, consulting services, processing manager).

The InsurTech department provides different products and services: insurance automation (ARIES – automation re-inventing E&S, end-to-end automation strategy, AI-powered document data extraction, robotics process automation – attended and unattended, RPA processes consultancy), custom development (product development, bordereaux solution, customer relationship management system, agency management system, software (Co) development), managed staff augmentation (frontend, backend and full stack developers, manual and automation QA engineers, business analysts, project managers, data analyst/engineers/consultants), IT support (components and software installation / upgrade / diagnostics / troubleshooting, client system analysis, helpdesk IT Support, training employees and raising awareness of information security).

This evident business growth resulted in the constant need of bigger workforce. OIP has kept the stable hiring pace increasing the number of Underwriting Assistants and Underwriters throughout the years. Even after the 2019 was hit by COVID-19 and isolation, OIP continued developing reaching an average of 436 of revenue-revenue generating staff for AUW services until 2021.

Figure 5: The average number of revenue-revenue generating staff for AUW services from 2015 until 2021[5]
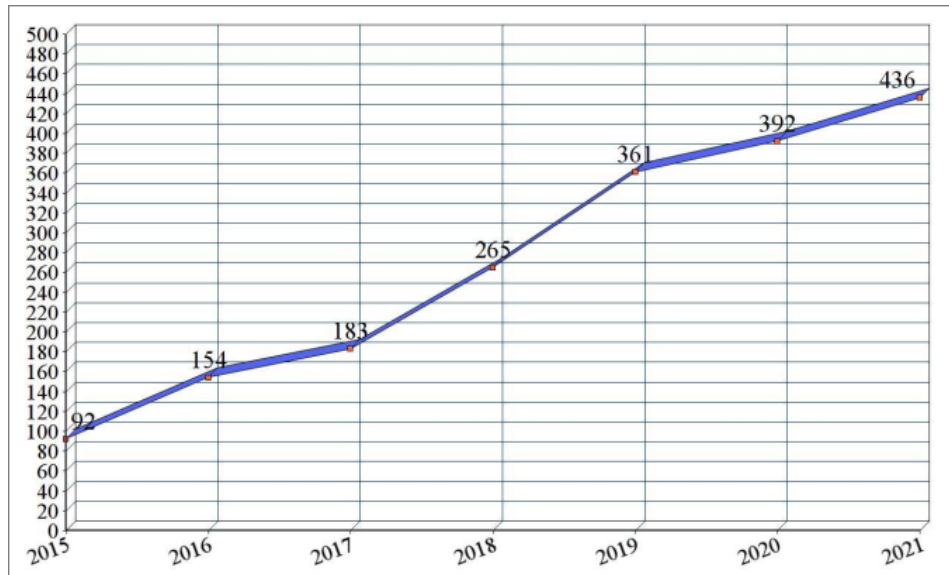
The constant growth of the number of employees can be interpreted as a result of sustainability implementation. As sustainability comprehends both social and environmental needs satisfaction that OIP tended to satisfy, the company growth was inevitable. The satisfied social factors of sustainability are diverse: good working conditions, new modern office building on better location in Nis, recreation and bar corner, variety of benefits, gifts and birthday gift cards, team buildings, social events such as football tournament and creating the football league, creating the OIP library, individual projects funding, private health care flexible working hours etc. The environmental factor is not to be left out. The previous office location in Nis outside of the city that made commuting to work mandatory creating the gas emission has been reduced by moving the office to a new building on a new location in the most inhabited part of the city, reducing the commute, thus the gas emission.

Even if the social and environmental factors are satisfied, for a business and company to succeed, it is important to provide a quality assurance but also to guarantee the information security. Most authors are taking into the consideration only social and environmental factors as crucial for sustainability in outsourcing. However, it is not acceptable to bypass the quality assurance and information security. OIP enjoys the reputation of a company that is grounded in the core values of integrity and superior quality and is led by their very own certified ISO 27001 auditor. Per OIP, the Quality Assurance Department reviews client-specific procedures in comparison with the completed tasks to confirm the process being followed is correct and as agreed upon. Their frequent employee audits ensure that they identify and address inaccuracies before they become an issue of concern[6].

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[5] The number of employees in 2015 and 2016 are year-end values.
[6] Learn more about the QA Department on https://oip.biz/about/quality-assurance/.

As for the information security, per OIP, their security is based on ISO standards and industry best practices, as their information is stratified into various groups, and provided to users on an "if needed" basis. This ensures that information is available only to those with a need for said information, minimizing information security risks. OIP approaches information security from both technical and personnel standpoint. This is why all of the employees must complete two sessions focusing on information security and internet security once they start their employment with OIP. As per ISO27001 guidelines, risk assessments are performed routinely for all circumstances and scenarios, old and new, that could impact the business and the operations of customers. Per OIP, they conduct frequent Business Impact Analysis to evaluate any negative scenarios and determine ways to counter them. Their disaster recovery plans contain multiple options intended to ensure that OIP will provide uninterrupted services to their clients[7].

A part from the quality assurance and information security and with years of experience, training, and knowledge sharing, the OIP team successfully standardized the majority of back-office tasks. Per OIP, the future benefits of standardization are seen through faster employee and task onboarding, cutting the onboarding timeline, but keeping the high quality of processed work which leads to sustainability in task processing, efficiency, speed, giving the team more time to focus on other tasks and expanding the business. Researching the benefits of the standardization of the procedures, OIP has even had the standardization as the subject of their many case studies[8].

5. Conclusion

Outsource Insurance Professionals is a company that started small in 2012. Now, it is undeniable that OIP became a big competitive outsourcing company. It grew from couple of employees to 436 of revenue-revenue generating staff for AUW services, still recruiting to be able to catch up with the amount of work and tasks that have been expanding.

After analyzing the ascending number of clients, employees and tasks processed we can conclude that OIP provides the high quality of numerous services complying to both corporate social and environmental standards. Being socially and environmentally responsible, OIP has gained a great reputation of a responsible employer and service provider. Caring about the quality assurance, thus creating the quality assurance team and caring about the client procedures information security, is what made OIP a company that made its outsourcing business sustainable and desirable among the clients globally. Although the researchers find social and environmental factors important for sustainability of outsourcing, OIP has demonstrated that the quality assurance, information security and standardization are crucial for sustainability which should definitely be listed as necessary criteria for successful global sustainability in outsourcing and it should be examined in further details in the future researches.

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[7] Learn more about the information security on https://oip.biz/about/information-security/.
[8] Learn more about case studies on https://oip.biz/services/case-studies/.

Acknowledgment

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