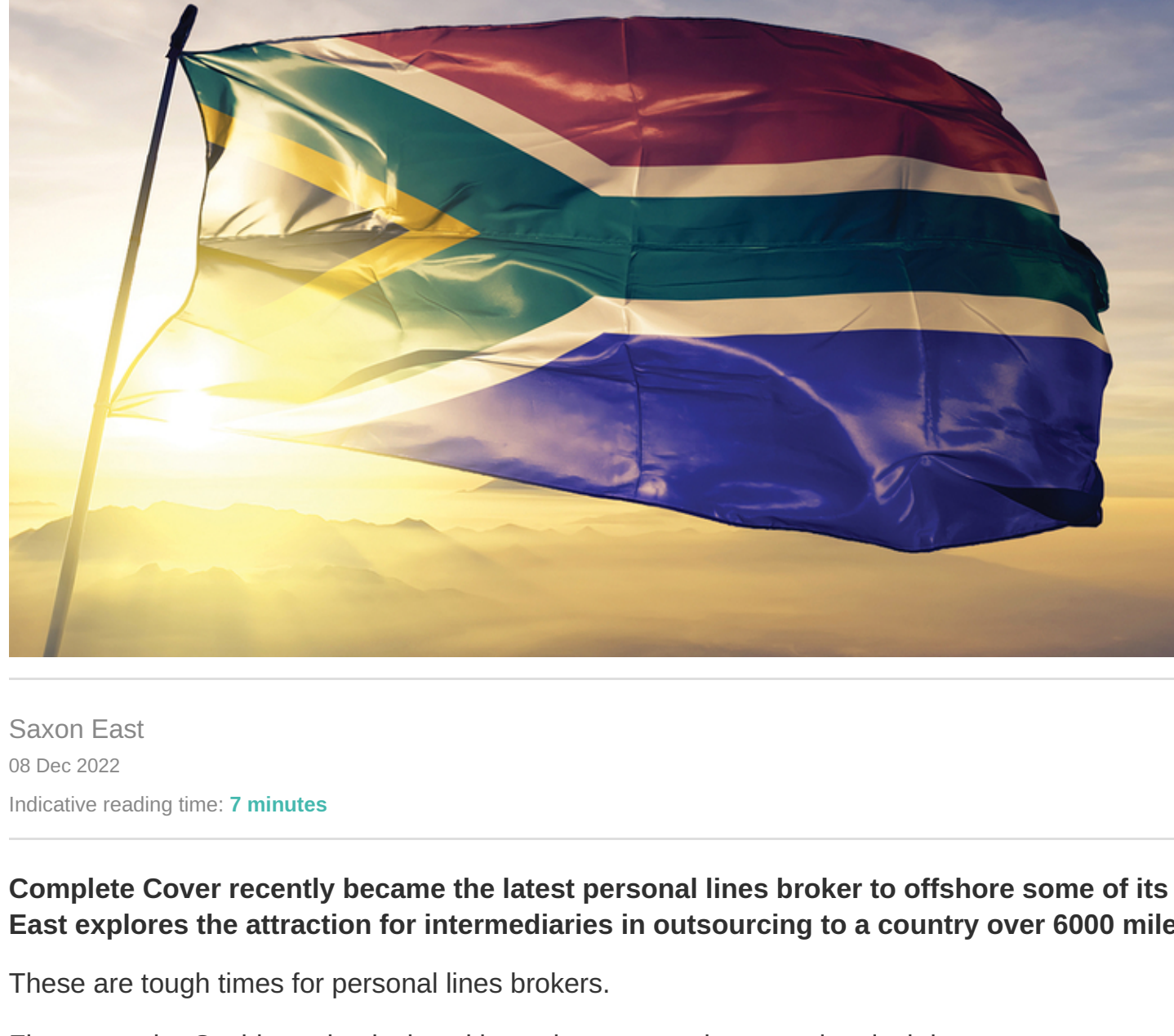


News analysis: Why are brokers offshoring to South Africa?



Saxon East
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Complete Cover recently became the latest personal lines broker to offshore some of its operations to South Africa. Saxon East explores the attraction for intermediaries in outsourcing to a country over 6000 miles away from the UK

These are tough times for personal lines brokers.

First came the Covid-pandemic, knocking sales as motorists went into lockdown.

Then the Financial Conduct Authority hit them with a demand for fair value on products, with lucrative premium finance set to take a big hit (see [pages 6 to 10](#)).

Amid this storm, one broker thinks it has the answer.

As revealed by *Insurance Age*, Complete Cover Group is making a 'significant reduction' in the UK workforce with [a chunk of customer-facing activities outsourced to South Africa](#).

CCG outsourcing will make it a 'lean and efficient' business, propelling it back to profitability after posting £2.49m losses last year.

Flavour of the month

South Africa has become 'flavour of the month', according to Somerset Bridge non-executive chairman Martyn Holman, with a slew of brokers outsourcing their operations there.

In the last 10 years, Somerset Bridge, Premium Choice and CETA have outsourced call centre operations to South Africa.

This year, Atlanta outsourced some of its operations to South Africa, using Durban-based CCI.

Hastings has partnered with OSS in Johannesburg since 2017, doing operations and claims.

The broker currently has 500 outsourced South African staff supporting the business.

Is South Africa the answer for personal lines brokers looking to cut costs and maintain service?

UK outsourcing history

To answer this question, it's important to look back at the history of UK insurance business outsourcing to foreign operations.

Outsourcing call centre operations abroad took off in the 1990s, with Aviva and RSA among those leading the way in insurance during the 2000s. The rationale was simple enough: by outsourcing to India, and then later the Philippines, insurers could better control costs. However, problems soon began to emerge.

Holman explained: "I seem to recall at the time that you could pick up office space and graduate quality-employee at sub-50% of the UK cost. Subsequently a number of bigger insurers, certainly more than brokers, decided to go down that route and offshore a lot of that function primarily to India.

"This sort of experiment didn't last particularly long because most of them seemed to have telephone issues. Bearing in mind we're going back over 20 years, that probably was indeed the case. There were lots of complaints. There was client unhappiness, particularly around claims handling.

"While this was all that was going on, what was also happening was that the costs associated with it were also increasing."

These problems led to insurers bringing back staff onshore, although fewer people came back because of technology improvements.

However, Holman believes the UK insurance industry is now at a 'pinch point' driven by staff recruitment issues.

"Now, of course, we've got a pinch point, in that, you can't get the staff. The UK employment market is such that there's a scramble now for good staff in certain areas of the country. It means that unless you are going to just be prepared to pay way over the odds, you can't get people.

"This is why there is a move back to outsourcing being back on the agenda for a lot of people. The difference this time is that we've now got brokers that are employing a lot of people."

South Africa rising

With the agenda swinging back to offshoring, South Africa has advantages over the old destinations of the Philippines and India.

Backed by both regional and government support, firms such as CCI, Merchants, Outworx and Webhelp have enjoyed a meteoric rise over the last 10 years.

Around half of their business comes from the UK, according to a report last year from ResearchAndMarkets.com.

Contact centre managers worldwide voted South Africa as their second favourite destination, according to the research called *South Africa Contact Centre Operations Market Report 2021*.

Patrick Ruddick, a specialist in digital customer transformation, who has advised contact centre organisations for more than 20 years across the UK, Europe, South Africa and the Middle East, said: "It is in the same time zone as the UK, plus minus one to two hours and that makes a significant difference with India or the Philippines.

"That's because when you're using staff in Philippines or India, sometimes they're working throughout the night trying the help UK customers.

"It can be easier to maintain the quality of customer service and the affinity that an agent can build with a UK customer during the daytime shifts rather than someone working through a night shift.

"There is also an important part around the affinity that a call centre agent can build up with UK customers, and that is due to the proportion of people that are working in the customer service industry in South Africa who are familiar with the UK through tourism or family and friend connections; and there is more understanding of the UK than perhaps some other countries that have an outsourced customer service industry.

"There are a range of contact centres in South Africa that are offering their UK based clients a high quality of service – the repeat business demonstrates that high quality service contracts are on offer and being delivered."

He added: "It generally offers a lower cost base that European competitors – though you have to consider any subsidies and grants that EU or UK governments sometimes offer.

"English is widely spoken among the educated workforce, particularly in the larger cities of Johannesburg, Cape Town and Durban. While it is only the fourth most spoken language in South Africa, it is understood in most urban areas and is the dominant language in government and the media."

Covid-19 challenge

Covid-19 was a big challenge for outsourced operations. Personal lines brokers were watching carefully to see whether South Africa would come through the challenge.

Holman believes it did.

"There was a big question mark around would people be able to work remotely. Would the tech work? All of those things were answered, and South Africa came through it with gold stars. It worked. Standards didn't drop, complaints didn't go up. In terms of the whole kind of disaster recovery, business continuity planning, when faced with a really extreme situation, it passed with flying colours. That was the big takeaway, really."

Ruddick agrees that South Africa came through the Covid-19 challenge well: "Covid-19 was a challenge to many outsourced contact centres, with lockdowns affecting the staff from getting to their homes to the centres.

"It was reassuring to see the contingency plans that a number of the companies in South Africa were doing to mitigate this, couriering their staff boxes containing a desk, a chair, internet capability with a SIM card, a laptop and a hands-free set – everything an agent needs to carry out their work. Combined with a battery, contingency is offered in the event of an electricity shortage."

Power cuts

South Africa has appeal, but there are also risks and challenges that personal lines brokers need to consider carefully.

One of the big question marks in South Africa is around its energy infrastructure. There are regular power cuts across the nation. Most companies, and some homes, have put in their own generators that kick in if the power goes down.

Ruddick says even though the power cuts are more likely to happen in South Africa than India or Philippines, those two countries also have their own risk of power failures.

"It is well documented, the challenges that South Africa are currently addressing with their national infrastructure – particularly the energy sector. But I have been pleased to see that the mitigations that were introduced for Covid-19, and energy shortages have continued with some of the contact centre industry. They are forward thinking and offer contingency for the future – active forward planning and risk management will pay off."

A more subtle challenge for UK brokers looking to outsource is in the contract negotiations. Many firms do not have experience of outsourcing to foreign operations. This is especially true of UK personal lines brokers, as few have used foreign call centres in the past.

Ruddick, who has decades of experience in contracts, believes it is important they strike the right deal.

"In some of the contractual arrangements I've seen in the past it looks like the 'occupied hour' costs of a contact centre are cheaper aboard, but the reality can sometimes be different. If the contract doesn't penalise poor service provision correctly, then you can end up with repeat calls and thus more cost than is necessary – reducing the cost saving that was originally envisaged.

"Also, the outsourcers can over time make efficiencies to the customer service processes that a UK company has procured. But if they managed to strip out some of the inefficiencies in their own processes, you should also be benefiting from the cost saving. It is important for the contract to benefit the UK company and the outsourcer from any cost reduction."

Regulation and legal risk

The other major risk consideration for personal lines brokers is around regulation and liability.

When it comes to FCA regulation, the standard arrangement is for the personal lines broker to become the principal and then the outsourced firm is the appointed representative.

In the event of any misconduct – such as mis-selling of products abroad – the regulatory liability will fall on the personal lines broker.

That could mean fines, bans and legal action coming out of a foreign call centre.

Compliance consultant Branko Bjelobaba says it is unlikely the FCA will have any power to reach into a foreign territory such as South Africa. Therefore, the principal must keep a tight watch over the foreign call centre, including regular visits.

"Every single principal firm must do the due diligence when making the appointment. Any regulatory activities conducted on behalf of the principal comes into the scope of regulation. The broker, or whoever, would have to make that call-centre an AR.

"Then the FCA's concerns will be things such as solvency. There are other questions. Are they doing a proper job? How are you going to supervise them in South Africa? How are you going to train them in South Africa? How are you going to monitor? It's quite a big call."

Another problem is that for the call centre business, being an AR is time-consuming and inefficient.

If a call centre business signs up a new personal lines broker, all the other customer brokers must review the details and sign it off.

Recognising these issues, Durban-based Outworx aims to become directly FCA regulated.

Another advantage is that legal proceedings will be resolved in the English courts, something which should comfort UK business when they sign a partnership.

Outworx chief executive Robin Hoekstra said: "To become a principal and regulated by the FCA, you need to be onshore. We are in the process of opening up an Outworx UK entity, which will then become principally registered with the Financial Conduct Authority. We'll then be in a position to sign contracts with brokers onshore.

"We will be able to appoint ourselves, while on a back-to-back contract, that the UK Outworx entity will then work or appoint under delegated authority the Outworx operation in South Africa to do the work on behalf of various other entities. At the moment, we have several multi-principal agreements, and the difficulty with multi principal agreements, is that the initiating company has to agree to every subsequent appointment."

Even with these challenges around regulation and oversight, Ruddick believes on balance, South Africa is a top destination. One of its shining attributes is an enthusiasm and commitment among South Africa workers as they pursue their career.

He says: "South Africa is a great place to do outsourcing. It is usually cheaper than the UK, you've got the ability to have educated people with good English language skills.

"There's a good proportion of people who see the industry as a career. Let's not forget that if you're in some other markets, including parts of the UK and Ireland, it's seen as just a temporary job. But in South Africa, it is seen as a career with good progression."

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