

# South Africa

Riding the offshoring wave!





# South Africa – riding the offshoring wave!

Offshore outsourcing business can prove to be a major boost for South Africa. While it has established itself as an emerging offshoring destination, it is further evolving to offer a lucrative customer-oriented workforce with capacity to deliver work of varying complexity. The emergence of South Africa has helped companies to provide quality services at lower costs in comparison to onshore delivery centres.

# Contents

Executive summary	5
South Africa as an emerging offshoring destination	6
Current offshoring scenario	7
Factors affecting South Africa's popularity	9

# Executive summary

Under increasing pressures to cut costs and achieve efficiencies in the current global macroeconomic situation, organisations fervently continue to look for destinations that are not only cost-effective, but can also provide quality services especially in terms of high-end processes. In this regard, South Africa has, to a large extent, been able to establish its offshoring mettle.

A number of European, US and Australian companies have started offshoring complex processes to South Africa. As per current BPESA – Business Process Enabling South Africa, the BPO industry association in South Africa – estimates, the South African BPM sector employs 225 000 personnel and accounts for more than a ZAR50 billion contribution to the national annual GDP, with the country accounting for 1% of the global business process and information technology outsourcing market.

South Africa has been able to move up the value chain and is now not restricted to contact centre services only. Organisations are increasingly leveraging South African operations (captive or offshore) to deliver complex work such as financial-industry specific services and legal process services that require specific talent and high expertise. In fact, South Africa is viewed as an entry point for the rest of Africa. Companies are also using South African delivery centres for service delivery to other prominent African nations. A substantial amount of these services are in the BFSI domain; however, South Africa is also being considered as a prospective location within a companies' global delivery network for shared services (back-office), especially in the areas of finance and accounting and human resources for "Africa-to-Africa" support.

The emergence of South Africa's offshoring capabilities is supported by a number of factors including improving the country's risk profile in terms of infrastructure, foreign trade and payments etc., and the availability of a large talent pool which is not only proficient in English but also has linguistic capabilities in French, German and Spanish. Given the helpful presence of large service buyers and service providers in the marketplace, government incentives and schemes, coupled with required infrastructure, are providing the much-needed boost to the rampant growth of the industry.

As South Africa's contribution to the global IT-BPO market and the demand for its offshoring services are poised to grow in the near future, industry participants (government, institutions and corporates) have an opportunity to work in coordination to address pain points such as adequate supply of skilled labour in accordance with the rising demand, and still-high telecommunication costs. By addressing these talent and infrastructure related issues, South Africa can capture a larger share in the global IT-BPO market. As per estimates, if the country is able to capture an additional 3% of this market, it has the potential to export 76 billion rand (\$6.6 billion) per annum of such services by 2030, which is expected to boost GDP by up to 99 billion rand (\$8.6 billion) per annum by 2030, and create jobs to the tune of 192 000. Timely, targeted action to deal with these issues (talent and infrastructure) will be helpful in delivering quality along with efficiencies going forward.

# South Africa as an emerging offshoring destination

In recent times, South Africa has been increasingly considered an emerging outsourcing destination, whether through captive or offshore approach, while competing with locations such as Ireland, Egypt, Morocco and Poland. South African cities are ranked and consistently mentioned in the attractiveness index for outsourcing. In the 2015 Tholons Top 100 Outsourcing Destinations report, which ranks cities in terms of outsourcing attractiveness, three South African cities made the cut – Johannesburg (#21), Cape Town (#57) and Durban (#100).

Importantly, this growing popularity of the nation is not contained in being merely the cheapest offshoring destination. Rather, it is being looked upon as a destination that provides quality customer experience particularly for complex processes such as new business capture and claims processing. Organisations that seek to have customer experience similar to that achieved by the onshore delivery centre, at a substantially lower cost are setting up their customer delivery centres in South Africa. For instance, Amazon is ramping up its customer service delivery from South Africa. At the same time, other organisations are emphasising end-to-end services delivery across a wide array of customer queries due to South Africa's capability to provide support in addition to English language assignments. The delivery centres established in South Africa now also provide services in European languages such as French and Spanish.

## Benefits of offshoring to South Africa

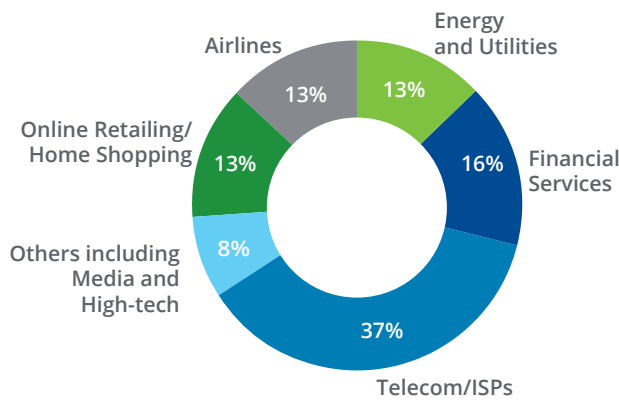
- Cost savings (typically in the range of 30-50%) compared to onshore service delivery from the UK and Australia
- Higher first-call-resolution rates than onshore delivery centres
- Ability to deliver more complex end-to-end processes than other offshore delivery locations
- Better performance compared to onshore delivery in sales and debt collection
- Ease of management due to time zone compatibility



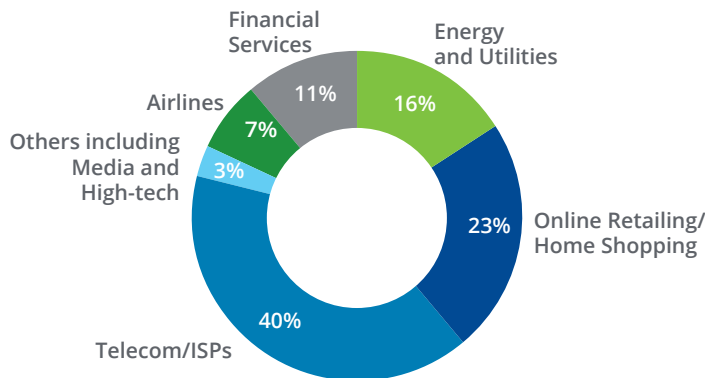
# Current offshoring scenario

The complexity of services delivered from South Africa is on the rise. UK-based utilities are using South Africa contact centre delivery to support billing and meter issues, outages and debt collection. The banking sector uses these delivery centres for application support and collections, while the insurance sector engages these for inbound and outbound sales. Contact centre services have, so far, been the predominant offshoring services offered from South Africa; this trend, however, has been changing recently, with companies offering a number of other offshoring services pertaining to financial services and Legal Processes.

Organisations using SA contact centre services by sector (%)



Sectors using SA contact centre services by number of call centre FTEs



(Source: Analysis of South Africa as a BPO Delivery Location (BPESA-Nelson Hall Report 2015))

Among these is international service delivery pertaining to the financial services industry. The country is being considered a prospective location within an organisation's international delivery network for back-office shared services in the areas of Finance and Accounting and Human Resource for "Africa-to-Africa" support, with organisations gradually using South Africa as the centre for their African shared services hubs. The majority of the financial services provided are specific to the banking and insurance industries.

In the financial services space, South Africa is being used for more complex processing tasks that require higher expertise levels and customer engagement. Computer Science Corporation (CSC), for instance, is using South Africa operations to roll out life insurance BPO services to its Indian operations that support its US life insurance BPO clients. Old Mutual and Discovery are also looking to build global financial services shared service centres in South Africa, which will focus on financial services product development along with processing. Kleinwort Benson engages South African fund administration personnel to develop relationships with clients located throughout Europe. The financial industry specific services delivered from South Africa can be divided mainly into life insurance, fund administration and asset management.

Besides contact centre and financial industry services, quality legal process services (LPS) are also gaining the nation's prominence. The South African LPS market can be divided into domestic and offshore markets. The offshore LPS market is expanding as buyers of offshoring services look for cost savings. South Africa has been able to deliver legal services across the value chain that include dictation, transcription and medium-level legal processes such as claims management, e-discovery and contract management. Also on offer are highly complex jobs such as compliance, due diligence, contract drafting and risk management. Existence of similarities in the legal and regulatory systems, commonalities in the legal background, coupled with already existing legal networks in South Africa, are helping the LPS segment to grow substantially.



## Legal Process Services

Contract Drafting  
Risk Management



Compliance  
Due Diligence

Claims Management  
E-discovery Contract  
Management



Dictation  
Transcription



# Factors affecting South Africa's popularity

The growing popularity of South Africa as an offshoring destination is backed by factors that include but are not limited to the following:

**Lower country risk:** When compared to other offshoring locations such as Egypt and Morocco, South Africa proves to be far less risky in terms of a country's overall-risk profile. Even when compared to well-established locations such as India and the Philippines, South Africa is placed better in terms of tax policy and security risk respectively. South Africa needs to lower its risk scores in terms of security and labour market.



Parameters/Countries	South Africa	India	Phillipines	Egypt	Morocco	Ireland	Poland
Security risk	Low risk	Low risk	High risk	Low risk	Low risk	Low risk	Very low risk
Political stability risk	Low risk	Very low risk	Medium risk	Low risk	Low risk	Very low risk	Medium risk
Legal & regulatory risk	Low risk	Low risk	Medium risk	Low risk	Low risk	Very low risk	High risk
Foreign trades & payments risk	Low risk	Low risk	Low risk	Low risk	Low risk	Low risk	High risk
Financial risk	Low risk	Low risk	Medium risk	Low risk	Low risk	Low risk	High risk
Tax policy risk	Low risk	Very high risk	High risk	Low risk	Low risk	Low risk	Very low risk
Labour market risk	High risk	Low risk	Low risk	Low risk	High risk	Low risk	High risk
Infrastructure risk	Low risk	Low risk	Medium risk	Low risk	Low risk	Low risk	High risk

Very low risk
  Low risk
  Medium risk
  High risk
  Very high risk

(Source: Economist Intelligence Unit)

**Availability of talent pool:** The availability of a large talent pool is a boon for any industry. The English-speaking population (5 million), combined with the availability of other linguistic capabilities, is a major factor for South Africa's success. As per estimates from BPESA – the BPO industry association in South Africa – approximately 410 000 BPO-ready personnel join the talent pool every year. South Africa also has a steady supply of accountants and personnel with financial services capabilities.

Currently, this is close to 36 000 chartered accountants, 1 260 CFA charter holders and 920 qualified actuaries. As per the Human Capital Report 2015 published by the World Economic Forum, South Africa is placed better than Ireland, Poland (working age population and median age of population), Nigeria (Human capital index ranking), Morocco and Egypt (labour force participation). However, it needs to reduce its unemployment level (24.6%) and increase the tertiary-educated population to cater to the rising demand of high-end offshoring services.

Country	2015 Human capital Index ranking	Median age population	Working age population (million)	Tertiary educated population (million)	Labour force participation	Employment-to-population	Unemployment rate (%)	GDP per Capita (US\$, PPP)
South Africa	92	25	34.7	3.8	52.1	39	24.6	12.722
India	100	25	848.5	77.9	54.2	52.2	3.6	5.777
Phillipines	46	22	63.6	15.8	65.2	60.6	7.1	6.986
Egypt	84	24	53.5	6.7	49.1	42.6	13.2	11.073
Morocco	95	26	22.7	2.2	50.5	45.9	9.2	7.666
Ireland	12	34	3.1	1.2	60.5	52.6	13.1	46.770
Poland	28	38	26.5	6.4	56.5	50.7	10.3	24.429
Nigeria	120	18	97	11.2	56.1	51.8	7.5	6.082

**Government support and incentives:**

In order to promote the BPO industry and to create sufficient supply of talent, the government has launched a number of schemes and incentives for providing infrastructure, taxation and skill related support. One of the prominent ones is the Monyetla Work Readiness Programme. The prime focus of this scheme is to increase the pool of entry-level employable personnel. Under this programme, employers lead a consortia to recruit and train entry-level staff, and the government provides ZAR21 236 for every unemployed person trained. Till now, close to 4 500 learners have been trained by the Monyetla programme; in the ongoing third phase, 3 000 learners are being covered. Sector Education and Training Programmes (SEAT), which covers key sectors such as banking, insurance, services, finance and accounting, as well as IT, aims to speed up the development of home-grown supervisors and managers.

In January 2011, the government launched the Business Process Services (BPS) incentive scheme which was later replaced by the revised BPS scheme, which will be in effect till 31 March 2019. The South African Department of Trade and Industry (DTI) estimates, approximately 9 000 offshoring jobs have been created through the BPS incentive scheme. The main objective of the incentive programme is to create employment by servicing offshoring activities. The scheme additionally helps create youth employment opportunities, and contributes to South Africa's export revenue from offshoring services.

**Presence of large service buyers and suppliers:**

The presence of large-service buyers such as ASDA, Amazon, Old Mutual, Carphone, Lufthansa, British Gas and Virgin Mobile, along with global service providers such as Accenture, WNS, Capital, Genpact, CSC and Teleperformance, enables South Africa to establish a robust supply-demand equilibrium. Many of these service buyers have opened their own customer-support operations within South Africa to support international customers, mainly located in the US and Europe. One of the companies reaping the benefits of offshoring from South Africa has been online retail giant, Amazon.

Amazon has established its customer service centre in Cape Town as a major delivery hub (1 000 employees) that provides inbound customer service for the US, UK and German retail businesses, and supports Amazon's Kindle e-reader end users in the US, UK and Germany, including basic "how-to" assistance as well as technical troubleshooting. It also plays an important role in supporting the company's US digital business, including

the MP3 store, Amazon's Cloud Drive and Cloud Player applications, and the Kindle Fire tablet device. The support is provided through phone, e-mail and live chat. The team involved in e-mail support provides services in five languages: German, French, Spanish, English and Italian. To support the growing demand for support services, Amazon is adding hundreds of permanent seats in its Cape Town facility.

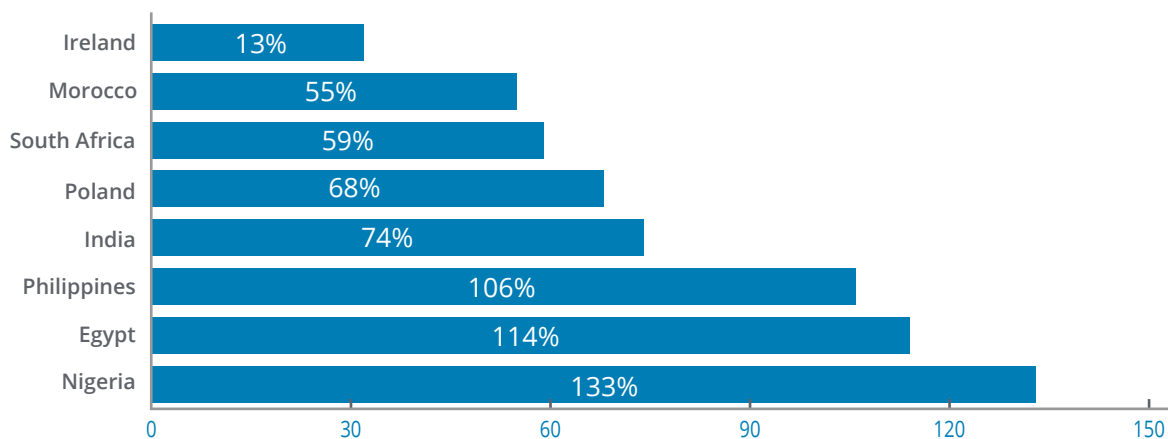
Another company using South Africa's offshore delivery framework is Lufthansa. The company serves its customers through Lufthansa InTouch. Its Cape Town operations – the second-largest service centre within the InTouch network – have approximately 330 employees, while the Durban centre has about 200. Apart from South Africa itself, these centres service countries such as Germany, Austria, Switzerland, France, Great Britain, Ireland, Netherlands, Belgium, Luxemburg, Norway, Denmark, Sweden, Finland, the Baltics, Israel, and the United States. These services are provided in languages like English, German, French, Dutch and Hebrew.

The company provides Business-2-Customer (B2C) as well as Business-2-Business (B2B) services, such as General Reservations, Miles and More status customer handling, Ticketing, Airport Services (baggage tracing and irregularity handling), Web Support for Europe, US, Asia and Africa; Social Media, Travel Agency Support, Group Sales and Lufthansa Cargo Services.

**Infrastructure:** In terms of overall infrastructure, South Africa is placed better than India, the Philippines, Egypt, Nigeria and Poland, but lags behind Ireland and Morocco. Good quality of overall infrastructure (road, railways, airport, electricity supply, etc.) boosts its position.

In terms of physical infrastructure, the quality of buildings and roads in major cities such as Cape Town is equivalent to that in Western Europe. Additionally, the cost of living is relatively low. It is estimated that the cost of living in Johannesburg is 56% lower than that in London, whereas Cape Town and Durban are respectively 62% and 67% lower than London.

**Overall Quality of Infrastructure (Rank out of 140 countries)**

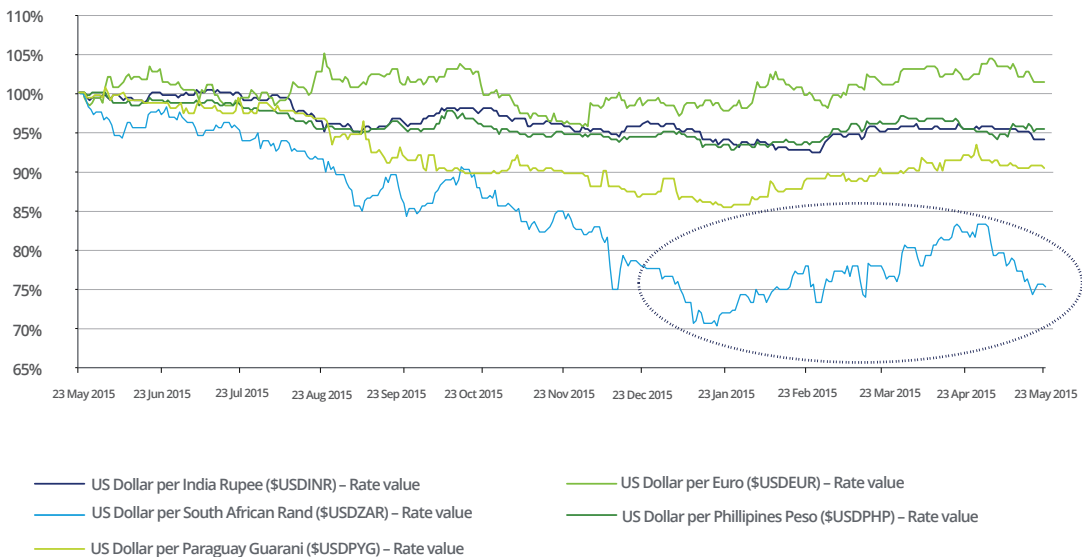


(Source: World Economic Forum: Global Competitiveness Report 2015-2016)(Lower rank being good).

Depreciating Rand: In the recent past, South African Rand has been on a constant decline against the USD. This decline has peaked since 2014/15. The Rand closed at a level of ZAR15.67/USD for the week ending May 20, 2016. For the same day last year, the currency was trading at ZAR11.87/USD. One of the major factors affecting Rand decline is the improvement in the US economy and expectations of rate hikes in the coming quarters by the Federal Reserve. Any rate hike implementation will have a negative impact on emerging economies as the investors will start looking at developed western economies that will result in outflow of money towards the developed economies. Another factor for the depreciation is the Chinese flexible

foreign policy. The rand is one of the most exposed currencies to China, hence any adjustments to Chinese foreign policy has a direct impact on the Rand. After People's Bank of China devaluated Yuan by 2% in mid-2015, Rand lost close to 26% of its value in the next six months.

Currency depreciation has always been a positive factor for the outsourcing industry as it makes the outsourced services cheaper for buyers of the service. A stable lower currency value of the country where the service provider is based usually warrants a higher return on investment (ROI) to the service buyer making the outsourcing decisions.



# Conclusion

Boosted by its large, capable talent pool, better overall quality of infrastructure, improving risk profile, lower cost of services, government support, and depreciating Rand, South Africa has been able to establish itself as the next emerging offshoring hub. To consolidate its position as a quality offshoring destination, the country needs to overcome some challenges, such as matching skill demand and supply and bringing down its relatively higher telecom costs. Positioning of government initiatives aligned to specific sectors such as the financial industry, instead of the entire BPO sector, would prove to be more beneficial for the industry. Again, industry participants such as government, higher education institutes, as well as service providers and buyers need to tap the opportunity to collaborate and anticipate supply demand and develop an adequate availability of skilled workforce. In the process, service providers have the opportunity to invest more in expanding capabilities and marketing their high-end services delivered from South Africa, raising the nation's offshore outsourcing industry to the next level of sophistication.

As South Africa matures as an offshore destination, it needs to address the dual challenge to accommodate the rising demand for high-end complex services and position itself as an offshore destination that delivers value along with cost savings.

# Contact

For more information, please contact



**Sandile Gwala**

Managing Partner  
Business-Process-as-a-Service (BPaaS)

**Tel:** +27 (0)11 209 6899

**Email:** [sgwala@deloitte.co.za](mailto:sgwala@deloitte.co.za)



**Lerato Sithole**

Director, Supply Chain Management  
Business-Process-as-a-Service (BPaaS)

**Tel:** +27 (0)12 482 0241

**Email:** [lesithole@deloitte.co.za](mailto:lesithole@deloitte.co.za)

For further information, visit our website at [www.deloitte.com/za/bpaas](http://www.deloitte.com/za/bpaas)



# Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (DTTL), its network of member firms and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 225 000 professionals are committed to making an impact that matters.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2016. For information, contact Deloitte Touche Tohmatsu Limited

Designed and produced by Creative Services at Deloitte, Johannesburg. (000000/mar)