

Chapter 12

Developments in Global Benefits Administration

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The term “benefits administration” covers a wide variety of benefit-related functions in the modern corporation. These may include payroll processing, pension administration, health and life insurance administration, human resource (HR) information systems, and many other functions. This chapter considers global developments in information technology as it is impacting the administration of modern employee benefits.

Developments in the Structure of Benefits Administration

Three important recent developments over the last decade have profoundly altered the philosophy and structure of benefits administration. The first factor has to do with the emergence of integrated providers. Companies have found that it has become extraordinarily complex and costly to deal with multiple “best-of-breed” providers. These concerns also go further, beyond simple cost considerations. For instance, plan sponsors today tend to seek providers that can provide comprehensive and integrated benefits administration functions spanning the range of human resource services, payroll, pensions, health insurance, disability benefits, and others. Such an integrated benefits approach offers opportunities for reengineering and process innovation that might not have existed with traditional providers each of whom offered a discrete and different benefit product.

The second factor changing the map of benefits administration has to do with the globalization of the workforce and the market for product. Greater competition has led large employers with international operations to consolidate and harmonize support functions and supply chains. This in turn spurs integration of their previously loose federational approach across plants and subsidiaries in different parts of the world. An implication for benefits is that the traditional structure of country-specific benefit contracts

250 Manish Sabharwal

is being challenged by a new breed of providers who are setting up global operations and managing global contracts.

A last factor that has altered the benefits provider landscape is that off-shore delivery is now commonplace rather than taboo. Countries such as Ireland, India, and the Philippines, have become attractive destinations for data processing hubs, since they challenge the cost structure of traditional benefits providers. Managing benefits offshore can often reduce total benefits administration costs, particularly if the provider firms effectively use technology, customer relationship management tools, and lower labor costs. As a result, the new industrial organizational form makes less relevant the traditional trade-offs between costs and service.

In what follows we outline how these trends are producing dramatic changes in the benefits administration industry, altering both delivery and provider structure.

The Structure of Benefits Provision

Plan sponsors all over the world know that collecting contributions, managing payroll, keeping employee records, and handling benefits functions can be complex, cumbersome, and expensive. In developed countries, the costs of benefits administration and delivery can be as high as \$1500 per employee per year. One factor explaining these costs is the continuously evolving regulatory framework facing employers. Other cost drivers include the need to coordinate geographically dispersed operations, handle liability for noncompliance, and provide a verifiable audit trail for human resources (HR), payroll, and benefits transactions. In older companies, the fact that they have inherited legacy computer systems can make it costly to introduce modern information technology (IT) into the HR function.

These challenges are critical in light of the fact that all of human resources management — including pay and benefits — has but one strategic purpose, namely, to recruit, retain, and motivate a high-quality workforce. As a result, we content that other functions such as pay and benefits administration, human resources recordkeeping, and much HRS consulting, can reasonably be outsourced. Figure 1 illustrates the potential range of opportunities.

In practice, this range of choices is translated into four options for benefits administration: in-house, technology outsourcing, administrative outsourcing, or business process outsourcing (BPO). In our view, it seems likely that BPO firms with comprehensive and integrated outsourcing contracts will increasingly assume integrated responsibility for both the technology and functional expertise required to manage one or more HR processes. By offering a common platform wherein data can be shared, sites linked, and results analyzed using one technological framework, the empowering effect of the Internet can greatly accelerate the attractiveness of integrated outsourcing.

Developments in Global Benefits Administration 251

As an illustration of this point, Dataquest Inc. (2001) projects that the HR outsourcing industry will grow from \$14 billion in 1999, to \$38 billion in 2003, a 28 percent growth rate. Web-based HR outsourcing services — a category currently not separately measured — can be anticipated to grow at a much faster rate over the next decade, providing an excellent industry backdrop for companies that effectively use Internet delivery.

More on Integrated Providers

Many plan sponsors today find it almost overwhelming to pick their way through a complex set of multiple arrangements with discrete vendors who are specialists in a single category. Consequently many have sought a single “HR window” with an integrated solution. One factor focusing this pressure is benefits costs: particularly in times of economic recession, many corporations are targeting benefits administration costs for immediate reduction. Costs tend to be driven up due to the need to coordinate and interface efforts across a multiplicity of discrete vendors and few scale economies can be reaped with the many different databases and IT systems.

A second factor driving change is customer demand. Today, employees tend to want more hands-on access to their benefits information and even to benefits choices. Employers too need to respond more quickly to requests for information regarding benefits practices. Employees and plan sponsors also seek data on company policies and practices, and quality of service provided. Substantial dissatisfaction has arisen from having to deal with multiple

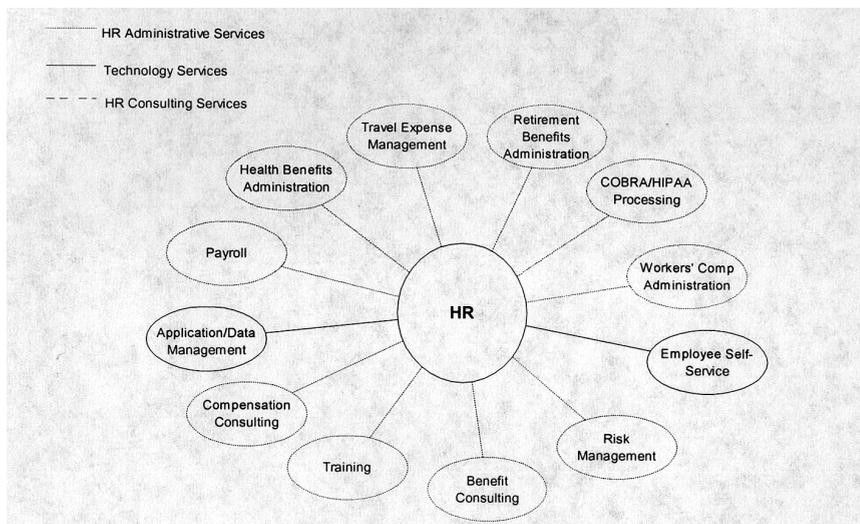


Figure 1. An overview of benefits administration services. Source: Baird and Co. (2000a).

252 Manish Sabharwal

vendors. These pressures are surely driving HR offices all over the globe to seek innovative ways to coordinate worldwide operations, offer organizational design changes, and respond in real time as government regulations change.

Customer confidence with the Internet is also playing a pivotal role in the new benefits delivery format. In the past, an impediment to integrated benefits outsourcing has been access to and control of employee information. Today, effective Internet delivery provides clients with access, reporting, and aggregation capabilities, in a single system. Some argue this is more effective than what was achieved in the past with multiple providers or in-house systems.

Factors shaping the emergence of integrated providers are several.

Higher Responsiveness/Self-Service

A single window for all transactions/inquiries creates an accountability and responsiveness unavailable from discrete vendors. BPO firms have integrated platforms for Web-native self-service that offer round the clock access to company policy (e.g., vacation schedules, training offerings, plan rules), employee information (e.g., payroll, taxation, pension, medical, plan rules, enrollment, eligibility), and management tools (e.g., salary planning, market data, HR reports, performance evaluation).

Lower Cost

Most BPO firms have systems that are integrated or tightly linked. Additional work resulting from having multiple vendors can be avoided, leading to greater efficiency. This includes reductions in transmission loss rework, larger reconciliation efforts, and extensive interface building. In practice, integrated vendors are frequently well positioned to pass on economies of scale.

Best Practice

BPO firms benefit from the scope of their operations, and over time these providers can also transfer learning via best practices, workflow innovations, and best-of-breed formats. Corporate sponsors are increasingly able to reap the rewards of instant absorption of best practice, without the accompanying pain of a learning curve.

Reengineering/Process Innovation

If they were to be set up today, many companies would organize their benefits administration processes very differently from how they currently appear. Legacy systems abound, and often conflict, in a wide range of applications

Developments in Global Benefits Administration 253

from life to health insurance to pension systems. By contrast, newly created BPO firms are able to offer a reassessment of corporate workflows and policy when the outsourcing is put in place. Innovation can include time clock integration, extended mark up language programs that interface with third parties, integration of payroll and HR databases, and much more. The opportunity for firms to unshackle themselves from inherited systems is increasingly appealing.

Accuracy/Faster Turnaround

Better reporting and real-time information with few errors are highly critical in a fast-paced and competitive environment. As a result, plan sponsors value integrated systems such as a single processing engine and database system for core payroll, benefits, pensions, and HR facilitates. Integration can also lead to faster turnarounds: for instance, the time taken to transfer deducted contributions to money managers can be cut by more than half with an integrated HR, payroll, and pension administration system.

The Emerging Role of Global Contracts

Over the last decade, many multinational firms have begun to integrate operations more tightly, moving beyond the loose federation structure of the past. The first wave of integration and harmonization focused on supply chain and support services like financial control and HR administration. Subsequently, corporate reorganization has become a key driver of global contracts for benefits administration. For instance, many Fortune 500 companies are moving away from a geographic concentration focusing only on Asia, say, or Europe and the Americas, toward product structures instead, such as sports utility vehicles, financial services, consumer products, and so on. Following this trend, support functions, including HR, financial control, and others, are now also being united for management purposes, under the rubric of “shared services.” This new shared-services approach simultaneously reveals benefits costs and also requires consolidation essential to take advantage of a single vendor relationship. Heightened merger and acquisition activity therefore support quicker global integration.

Increased global attention to compliance issues is also playing a key role in this integrative process. Global companies, being larger and more visible than average, must be more sensitive to compliance with local regulations. In addition, the regulatory environment imparts another layer of complexity, often requiring intimate knowledge and continuous learning about changing local laws, and imposing substantial penalties for noncompliance. Having multiple vendors also raises the importance of accountability and plan complexity. Payroll processing and benefits administration are more complex than many managers realize.

254 Manish Sabharwal

Finally, of course, concern over cost has spurred changes in the benefit environment. Today most Fortune 500 companies have large global operations, and until now many have duplicated resources across sites in order to improve attention to local customs and compliance liabilities. On the other hand, a single global relationship creates more accountability and allows leverage of the benefits of aggregation.

Cost

The scale of global contracts affords incentives for providers to offer competitive pricing based on the leverage that comes with guaranteed volumes. Such contracts often involve company-specific customization at the time of transition and reengineering.

Harmonization and Integration

Most companies operating on an international scale did not spring into being as multinational organizations. Rather, they grew incrementally over a long period of time. Concomitantly, there has been a growing need to harmonize company-specific compensation and HR practices in this process. This goal will become more salient as new technology and market forces force and permit tighter integration and harmonization.

Reporting/Management Information System (MIS)

Many large firms today have difficulty reporting exact data on workforce and compensation patterns without rather elaborate offline data manipulation efforts. Having a single provider offers reporting flexibility often not available with discrete vendors. A global MIS regarding benefits information is increasingly a key requirement for multinational firms, so global vendors can provide management with the information needed at a global level — a powerful decision-making tool.

Accountability

Single vendors can also provide accountability and quality metrics reporting in consistent, transparent, and enforceable ways. Insuring accountability from discrete vendors in a global context is an ordeal that many corporations would do well without.

Offshore Delivery Systems

The delivery of goods manufactured offshore was the inevitable consequence of emerging markets' cost advantage. This global cost revolution is

Developments in Global Benefits Administration 255

now being felt in the service industry, as a result of several factors. For one, cost pressures are forcing change. Benefits administrators and in-house operations are under pressure to cut their high per-employee per-month (PEPM) costs.

A second issue is that offshore locations frequently offer interactive alternatives flowing from products generated by the technology revolution. In the past, plan sponsors expressed concern over access and reliability when engaging in offshore benefits processing. But today, the Internet allows for process outsourcing without losing the intimacy required for online operations. Online interactivity and real time processing at lower costs are powerful value propositions. Increasingly powerful scanning technologies also allow for the offshoring of hard copy tasks, without requiring complete reengineering of traditional processes.

Other software developments are also important. This software provides much-needed flexibility to plan sponsors, and they are bridges in the journey to offshore delivery. Innovations such as query writers, relational databases, enterprise resource programs (ERPs), virtual private networks, customer relationship management suites, and others represent powerful infrastructure developments to manage the transition, and for recurring operations. Revolutionary advantages in communications infrastructure also make offshore processing feasible. The most important infrastructure has been high-speed, cross-border leased lines. These provide a reliability that was traditionally not available over public networks in the past, particularly in developing countries. Ideally these are backed up by high-redundancy and disaster recovery arrangements allowing offshore centers to commit to very high service level agreements on connectivity, up-time, voice quality, and other productivity indicators. Increased capacity and lower costs provide very high leverage (see Figure 2).

The value of the demonstration effect cannot be overstated. A number of companies and vendors have successfully migrated their back-office operations from headquarters to offshore sites, at considerable cost savings. Benefit call centers have been successful in Ireland for a long time; the move to developing countries is relatively newer. About five years ago, General Electric Corporation (GE) shifted some of its credit card processing and Call Center operations outside the United States, in particular to India. Today GE has more employees in India than in the United States, many of them concentrated in this service sector activity. Other examples include the e-mail response center of American Online in Manila, the shared services center of Motorola in China, and the American Express call center operated in New Delhi. When early adopters clearly do better on cost and quality, this provides a powerful incentive to those who recognized the value proposition but were uncertain of whether it would actually work.

As globalization spreads and infrastructure improves, many nations are beginning to be recognized as offering important opportunities for offshore

256 Manish Sabharwal

benefits processing and delivery. These nations are emerging due to language, technological capabilities, political stability, and human and physical infrastructure. Affordable locations often require trade-offs between the various variables; Figure 3 outlines some of the key evaluation criteria suggested by Nasscom and McKinsey (1999).

Offshore delivery of benefits administration can also provide plan sponsors with several other advantages.

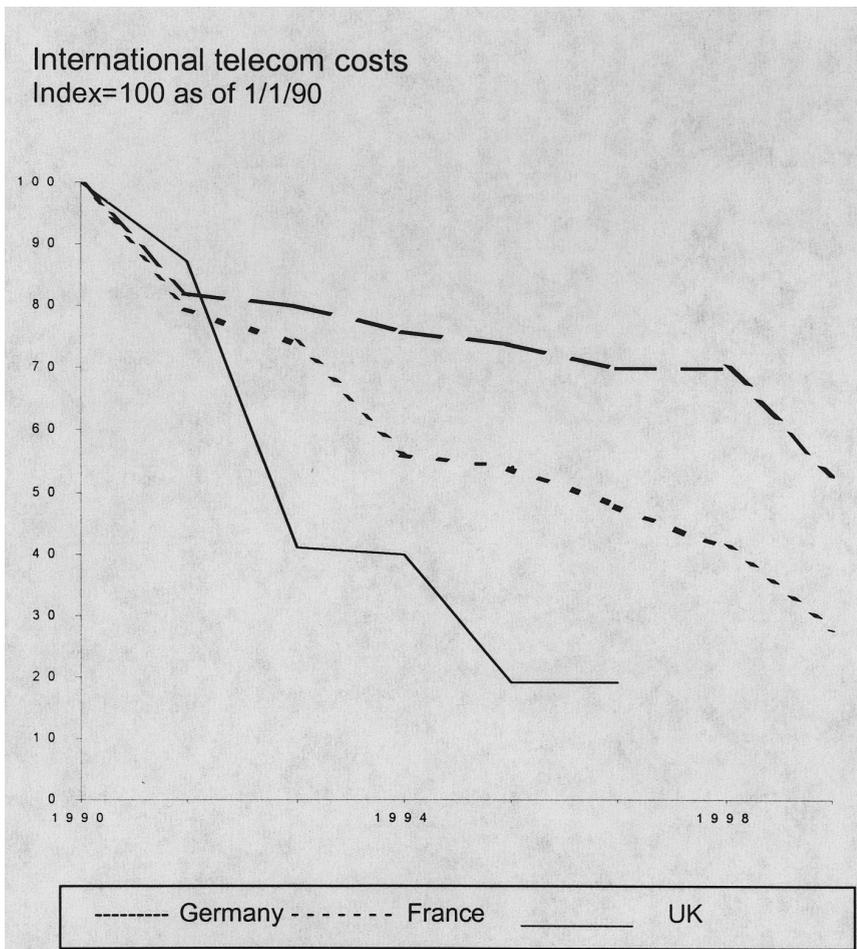


Figure 2. Trends in international telecommunications costs. Source: Nasscom and McKinsey (1999).

Developments in Global Benefits Administration 257

Lower Absolute Cost

The first factor determining “total cost” in benefits administration is technology, covering aspects of customization, programming, database administration, and more. A second has to do with the interface, that is, relationship management between employees, employers, and customers. This involves protocol and practice regarding rule set processing, data manipulation, data entry, and other elements. Offshore processing attacks each of these elements very successfully (see Figure 4).

Technology

The human resources function has traditionally used static record keeping, and it has required a great deal of intensive interaction. Information technology is redefining the role of HR by allowing outsourcing of time-consuming, iterative, administrative tasks. It is also being actively deployed for functions like work flow, query handling, and customization. While

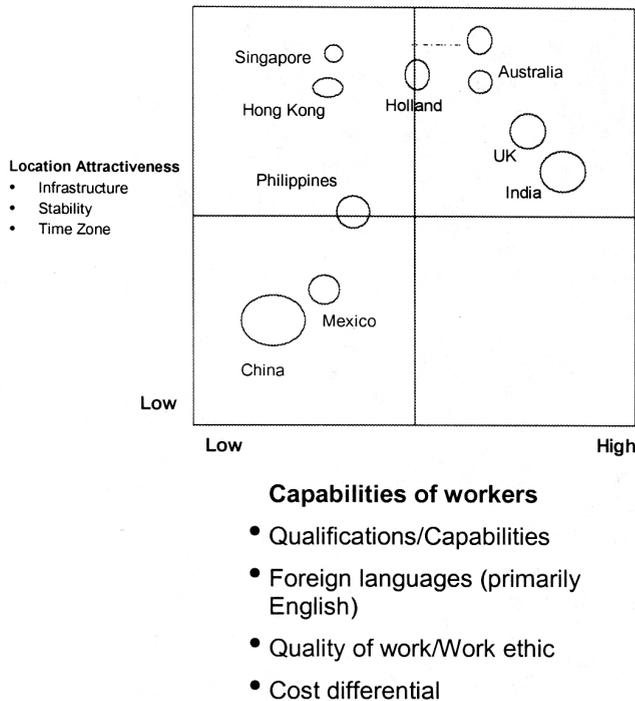


Figure 3. Comparing international outsourcing locations.

258 Manish Sabharwal

investment in information technology is often justified by short-term productivity increases, the long-term value of innovative HR systems arises from the renewed capacity of the business function for sustained competitive advantage. Offshore administration allows for the creative use of technology with high levels of customization. Other customization-intensive tasks like employee self-service, interface building, database administration, and network administration can also be done at considerably less costs offshore.

Customer Relationship Management

Traditional HR contracts assumed that there was an inviolable trade-off between cost and service. “High-touch” requirements included interfacing with employees and providing time-sensitive responses to clients at every level.

Today it appears that offshore processing makes this trade-off less relevant since it is based on different, lower cost structures. This change in approach is prompted by customer relationship management offerings via email, live chat rooms, and call centers, all of which are an integral part of

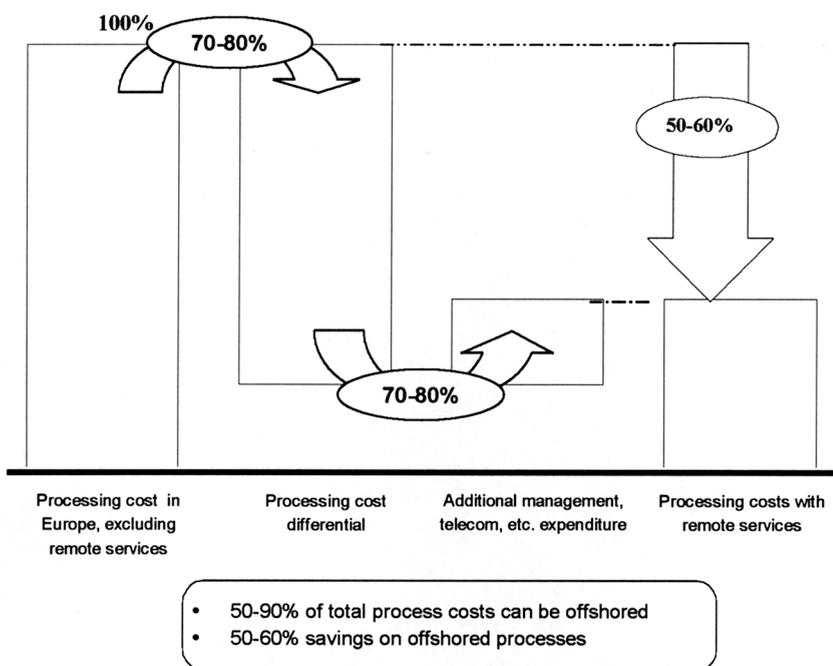


Figure 4. Why offshore benefits processing can cut costs. Source: Nasscom and McKinsey (1999).

Developments in Global Benefits Administration 259

benefits administration today. Self-service suites and online benefits offices, complemented by offshore live customer relationship management (CRM) personnel, provide the functionality of a live branch while costing much less. Just how cost-effective this new approach can be is beginning to be detailed. For instance, GE estimates that its HR website has cut call volume by 25,000 per month, producing over \$2 million in saving. Microsoft Corporation has revealed that by using electronic forms for its 401(k) plan, the employee stock purchase plan, and the stock option plan, the firm saves about \$1 million per year in labor costs.

Conclusions

Three developments — integrated providers, global contracts, and offshore delivery — are prompting a new environment for the benefits administration industry. These changes are having a profound impact on costs and value in the benefits administration area. Customers are increasingly pressuring traditional providers, observing their narrow product range, local geographic focus, and slow processing. Of course, traditional providers and delivery structures will not change overnight. Nevertheless, global developments in business process outsourcing are changing the way employees and plan sponsors see benefits administration. Comprehensive and integrated outsourcing contracts will increasingly take over many processes central to the human resources field, enhancing efficiency, driving down costs, and providing better benefits in the process.

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