

# Lloyds TSB Offshoring Strategy ... Shareholders' Briefing



## Lloyds TSB 'Jobs to India' strategy putting profits at risk...

Though you wouldn't think it if you relied only on Lloyds TSB's Annual Review as your source of information, Lloyds TSB has begun a process of transferring many jobs to India.

It has said it will transfer the work of 1,500 staff to India by the end of 2004, at which stage it will decide on how many more jobs will follow. Already a call centre is closing in Newcastle with the loss of 960 jobs, provoking a backlash from the local community.

The Union representing most Lloyds TSB staff, LTU, is predicting that as many as 10,000 jobs could eventually be transferred to India.

So why has Lloyds TSB omitted to mention such a fundamental – and highly contentious – part of its strategy in its briefing for Shareholders?

### Substantial customer opposition to Offshoring

The results of a series of surveys by leading independent researchers have all pointed to the risk of customers switching to those banks that have insisted they will not offshore work abroad. These include Royal Bank of Scotland, Nat West, Halifax Bank of Scotland, Alliance & Leicester, Nationwide and Co-operative Bank.

A Survey by YouGov (for Alliance & Leicester) found that 87% of people would not be happy to have their bank account or other financial products serviced by staff in an overseas call centre; ICM Research (on behalf of leading analysts, ContactBabel) found that one in seven Britons

who have knowingly used an overseas call centre have responded by taking their business elsewhere. MORI (carrying out an independent survey for LTU) found that 49% of Lloyds TSB customers would consider moving to another bank rather than have their account managed in India.

### DTI study points to dangers for Lloyds TSB

A recent study by the Department of Trade and Industry reported that those companies who offshore work abroad risk losing many customers.

Amongst its key findings were that "UK customers have a negative attitude towards offshoring"; that customer service was significantly better in the UK with "the vast majority of calls dealt with successfully first-time by UK contact centres; a far higher proportion than is managed in Indian contact centres"; that "the success or otherwise of offshoring is yet to be proven"; that the "compromising factor with offshoring is cultural fit"; and most important in the context of other recent independent research, that . . .

*"there is a schism developing between those financial services companies which are pro-offshoring and those which have rejected it for the time being. This situation can be viewed as indicating that the flight offshore is not yet a given, and will in the end be determined by consumer experience"* (DTI Study, May 2003)

To carry on with offshoring regardless of the wishes of customers therefore puts Lloyds TSB at risk of losing many customers and thereby undermining its profitability and returns for shareholders.



This danger is underlined by research by the leading analyst and key participant in the DTI study, ContactBabel. It calculates that a 'typical' UK High Street Bank will save an estimated £9.26 million per year in operating costs by replacing 1,000 UK agents with the same number in India. However, if only an extra 0.343 per cent of customers defect in protest at this, the bank's revenues will be reduced by the same amount.

### Lloyds TSB's contradictory strategies don't add up!

Lloyds TSB has insisted its strategic focus will be on organic growth; that is increasing its profits through cross-selling from, and extending, its existing customer base rather than through an acquisition strategy.

Yet with so many existing and potential customers opposed to offshoring work abroad then there can surely be little prospect of this strategy succeeding. It is more likely that people will look elsewhere for their financial arrangements, turning to those companies sharing their view that their financial arrangements should be managed in the UK.

It is already clear that parts of the Lloyds TSB Group understand this contradiction. Susan Rice, the Chief Executive of Lloyds TSB Scotland which had achieved an impressive 64.4% organic growth since 2000, had at first praised the virtues of offshoring but, in March, appeared to change her mind by distancing her business unit from the Group's wider 'Jobs to India' plans when she made a particular effort to stress that "Lloyds TSB Scotland have no plans to offshore anything at all". As if to reinforce this point she also said "Our focus this year is to get more and more customers to at least try out what we have".

### Lloyds TSB ignoring its own Corporate Social Responsibility Policy

Lloyds TSB has in effect ditched its policy on Corporate Social Responsibility as a consequence of transferring work abroad.

In the section of the Annual Review 2003 titled "The Community and our Business", Lloyds TSB states that a commitment to corporate social responsibility is fundamental to "creating employee motivation and performance, customer satisfaction and loyalty, community endorsement and appreciation...".

However, this statement cannot be reconciled with the fact that to transfer work abroad is damaging to employee morale, against the clear wishes of customers and puts those communities most affected at real risk of economic damage.

### LTU's MORI Survey

A MORI Survey commissioned by LTU, but using questions determined by MORI to ensure the survey's independence, has confirmed that there is substantial opposition from Lloyds TSB customers to having their banking arrangements handled abroad.

The survey by MORI, who are the leading independent market research company, shows many customers would consider transferring their banking arrangements to another bank rather than having their accounts managed in India.

MORI's key finding was that nearly half (49%) of Lloyds TSB customers say they would consider transferring to another bank rather than have their banking arrangements transferred to India.

This would be equivalent to Lloyds TSB losing around 7.8 million accounts to those competitors that have committed themselves to operating from the UK. HBOs has already boasted success in poaching customers from LTSB.

**"Thinking about if your bank moved work connected with the management of your account to India. Which one of these statements comes closest to your own point of view?"**

Opinion	All Adults Aged 16+	LTSB Customers
Would make me more likely to consider moving to another bank	45%	49%
Would make me less likely to consider moving to another bank	2%	2%
Would make no difference	40%	40%
Don't know / No bank account	13%	9%

MORI Financial Services (MFS) interviewed a nationally representative sample of 1808 adults aged 16+, face-to-face, across Great Britain between 18th and 23rd March 2004.

### YouGov Survey

A survey on behalf of Alliance & Leicester by YouGov found that 87% of people surveyed would not be happy to have their bank accounts or other financial products serviced by staff based in an overseas call centre.

According to the survey the main areas of concern were loss of UK jobs (82%), communication problems (78%), security of personal information (51%) and lower quality of service (47%).