

TECHNOLOGY

AI Threatens India's Outsourcing

The industry faces increased urgency to shift to higher-end services

By MEGHA MANDAVIA

Artificial intelligence is upending India's technology outsourcing business. The industry is pivoting to adapt, but the changes could cost a large number of coveted jobs.

The country's big outsourcing companies are already using AI and have plans to integrate it throughout their businesses. That might not save the low-end operations that run call centers or do other basic tasks within the so-called business process outsourcing sector.

"If I am just doing a simple contact center service then generative AI is going to replace that person very quickly," said Keshav Muruges, chief executive of **WNS**, a U.S.-listed Indian tech-services company. "It's as simple as that."

AI is threatening to disrupt most businesses around the world, not just India's \$250 billion outsourcing industry. The outsourcing boom in India over the past few decades created the "getting Bangalore-d" phenomenon in the U.S., often used to describe Americans who lost their jobs to more-affordable Indian talent.

AI's impact could have big repercussions as the industry employs 5.4 million people, according to tech-industry body Nasscom, and contributes about 8% of the country's economy.

More than 80% of companies in the S&P 500 outsource some operations to India, according to HSBC.

Vin Kumar, a tech consultant at Hackett Group, said U.S. companies will stop using Indian outsourcing businesses unless they replace people with automation whenever possible. "If Indian firms are not able to do it then they will



Tech Mahindra CEO Mohit Joshi sees the rise of generative AI as a boost for programming.

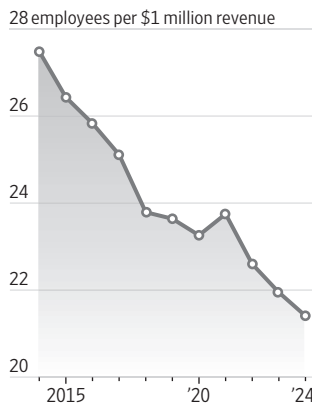
bring these operations back in-house," he said.

The most-vulnerable operations employed more than 1.4 million people in 2021, according to the latest data from Nasscom. One-third of these jobs are in call centers. "The prize is to move up the value chain and go after new processes," said Muruges.

AI might accelerate trends that have already made the industry less labor-intensive. About a decade ago, companies needed about 27 employees to earn \$1 million in annual revenue. That number has now fallen to 21 employees, Nasscom data show.

Companies typically charged clients based on the number of employees working on their projects. Now, fees in some cases are linked to the outcome delivered.

Number of India's tech industry employees hired to generate \$1 million a year



Note: Financial year in India ends on March 31.
Source: Nasscom

"Global demand for people is going to decrease. India's share of this decline is less clear, but I am a little pessimistic," said Danielle Li, a professor at the Massachusetts Institute of Technology's Sloan School of Management who co-wrote a paper titled "Generative AI at Work."

The industry added 60,000 jobs in the year ended in March, the lowest annual increase in more than a decade, according to Nasscom. And at three of India's largest tech companies—**Tata Consultancy Services**, **Infosys**, and **Wipro**—combined head count fell more than 60,000 for the same period.

The industry largely attributes the slowdown to overhiring coming out of the pandemic, when the industry added 450,000 employees in a single year, and not automation. It expects hiring to pick up this year.

"Note that the roles of the

future will require greater levels of critical thinking, design, strategic goal setting, and creative problem-solving skills," said Harrick Vin, chief technology officer at TCS.

Industry executives are optimistic that AI tools will create businesses even as some old operations get cannibalized.

Balakrishna D. R., global head of AI at Infosys, said the projects it has piloted for clients include AI assistance for code generation and development support, and a customized GPT for a bank to address internal staff queries. "It is only a matter of time until more organizations go there," he said.

Tech Mahindra, a smaller Indian tech company, has developed an AI chat tool that helps on-site engineers of a telecom client install fiber networks, replacing a 70-page manual. It also has created a large language model in Hindi that it wants to sell to its clients for customer support and content creation.

"Generative AI gives an incredible boost to the programming workforce," said Mohit Joshi, chief executive at Tech Mahindra. "You may have individual projects that may need fewer people but if companies are spending more on technology then it is a much bigger opportunity for us."

Job seekers are already feeling pressure and growing pessimistic.

On a recent July day, dozens of young job aspirants were lined up with their résumés in a rundown and dimly lit mall in Bengaluru, India's outsourcing hub, where a staffing company was interviewing workers for basic tech jobs.

"I wanted to work for an information-technology company but no one is hiring," said Pooja K.S., a 24-year-old who was in the line. Even if she lands a call-center job, she said, she didn't expect to hold on to it for long. "ChatGPT will, anyway, finish the BPOs."