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# BANKING ON OUTSOURCING?

**Recognised as clear forerunners in outsourcing practice, the financial services industry had a quiet 2009, with minimal new contract activity. If sources are to be believed, this is all set to change, says Kerry Hallard.**

Financial services organisations have largely been advocates of outsourcing. An autumn 2008 report by the Management Consultancies Association, based on a survey of members of the British Bankers' Association, predicted the credit crunch would further drive outsourcing and offshoring in the sector, following the wake-up call served by the credit crunch. The recession, however, saw the majority of new activity across both ITO and BPO considerably slow down, as organisations refocused on immediate priorities brought on by the credit crunch.

After a very poor first half year in 2009, TPI stated the financial services industry in fact increased its total outsourcing contract value overall for the year, and NelsonHall expects the level of new business process outsourcing activity in the financial services sector to increase sharply during 2010, as organisations address their medium-term operational requirements.

A number of key trends are emerging, depicting how the sector will embrace outsourcing moving forward. These include a new focus on the immediacy of benefits and a look at new processes such as Knowledge Process Outsourcing (KPO) and Finance and Accounts Outsourcing (FAO) for further gain. Many will be reviewing their approach to captives and shared services, mindful of their own plans for targeting the emerging markets. Regardless, any focus on outsourcing needs to incorporate the industry's ever increasing compliance.

## KEY TRENDS

Some believe the slow down in contracts awarded in 2009 was due to the upfront costs and no quick savings, which have characterised many an outsourcing deal.

Peter Jolliffe, director of BPO services at BancTec says: "Going forward, we believe the financial community will regain its footing and invest more in long-term initiatives, including BPO. A key factor will be demonstrating a tighter business case for BPO, with banks looking for early payback periods—possibly within a year."

This view was mirrored by Rick Simmonds, partner and head of Financial Services Practice at Alsbridge: "As financial services institutions emerge from the recession, they have an increased focus on cost savings and as such a more efficient business model is needed. Transformational outsourcing has not yet really happened as it requires changing the underlying systems."

According to NelsonHall, banks need to reevaluate their shared service centre strategies. Offshore captives, which often take a lot of time and expense to set up, have not always delivered as planned and onshore centres offer limited flexibility. NelsonHall cites that sales of centres will continue to be difficult, but third party managed centres with options to buy are likely to become increasingly the preferred exit strategy.

Steve Briggs, head of strategic partnerships at the Co-operative Financial Services suggests that banks tend to partner on a range of different levels: "They could conceptually do shared services with other banks," he argues. "To date we have not seen much of that, largely because banks remain cautious about how they work together, with the implications surrounding data security and confidentiality, but this is possible in the future."

Briggs believes we will see quite different trends including insourcing occurring at the same time across the sector. Whilst many will continue with their captive offshoring, he believes many players who have done first and second generation deals will revert back to another model at the time of renewal, as in the example of insourcing at Barclays, as their outsourcing deals with Accenture came to a natural close. This will be exacerbated by the VAT issue, which will no doubt have an impact on the renewals of outsourcing deals, as efficiencies delivered through the outsourcing may well be driven out by the added VAT.

## REFORM AND REGULATION

In addition to having to contend with the imposed VAT regulation, the sector is facing further reform by the Financial Services Authority (FSA). In its discussion paper, Mortgage Market Review, concerning the responsibilities of Third Party Administrators (TPAs) the FSA cited concern that today's more sophisticated TPA, conducting administering activities for a number of lenders, was more focused on meeting processing targets than on the fair treatment of consumers, specifically with regard to arrears recovery, and as such proposes to review its approach to TPAs.

According to the NOA, the changes proposed for TPAs have potentially significant and industry wide implications which need to be fully understood by the FSA, otherwise unintended material consequences will occur. The NOA has asked to sit at the FSA's table to discuss this subject and we'll follow how those discussions evolve into 2010 with interest.

Logic would state that FAO would be a prime area for banks to outsource, but the financial services sector has been a laggard in this particular discipline of outsourcing, as they've opted to prioritise other administrative functions. National Australia Bank's work with Accenture and Credit Suisse's FAO deal with Wipro have now paved the way and many more deals are expected to follow.

Despite false starts, it appears that outsourcing is now moving up the value chain, with more and more investment banks outsourcing their analytical work. Banks and financial institutions are more amenable to companies that can bring intellectual capital to the party and there is now proof that this works and KPO is taking off – players such as Amba Research are cited as ones to watch. Services such as calculating net asset values, credit risk management and doing equity research for fund managers, will become more mainstream.

Brokerage Process Outsourcing is also on the up to help brokerage businesses, investment banks and large conglomerate corporations to manage processes such as: trade execution and clearing services, investor communications and document management.

According to NelsonHall, we should expect to see additional emphasis on servicing native Asian enterprises in their home markets (e.g. Indian banks in India). This represents a significant shift in emphasis for offshore vendors who have been focused on the mature markets for the past ten years.

Insurers' expansion plans for the emerging markets of India, China and Latin America were put on hold during 2008 and 2009 as they struggled to stabilise core markets, conserve capital and reassess their strategies. In 2010, insurers are cautiously returning to these markets and using a BPO approach to minimise risk and upfront investment whilst maintaining operational flexibility.

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Many thought global volatility would push the cause for outsourcing, as banks looked to reduce costs. This faltered in 2009 and was further held back as many organisations waited out the year for regulatory clarity before they acted. It appears that everything's scheduled for take off in 2010. John Willmott, Managing Director at NelsonHall explains: "We anticipate the sourcing logjam to finally break in 2010 and for banks to sign significant deals, especially in mortgage and loan processing and payments processing."

BancTec's Jolliffe shares this optimism: "Ultimately, we envision a more buoyant market for BPO in 2010, where the attractiveness of its long-term cost savings once again assumes a higher priority on the financial industry's strategic agenda."