

# CAN THE TRENDS IN OUTSOURCING CONTRACTS CONTINUE TO MODERNISE FINANCIAL SERVICES INSTITUTIONS?

The Financial Services industry has been facing considerable challenge and competitive pressure in the last decade - regulation and compliance, globalisation and consolidation, legacy systems and increasing competition. The current sub-prime lending crisis has, if anything, heightened the need to address these issues. Financial services institutions need to focus on core operations more than ever, while ensuring that support functions are effective, efficient and compliant.

**As a leader in the financial services sector you will be acutely aware of the questions these issues raise:**

- How can you balance the needs of transparency, data security and effective corporate governance?
- How can you create efficient processing across multiple acquisitions in a variety of jurisdictions, currencies and languages?
- How do you tackle the high cost and inflexibility of ageing systems?
- How do you bring new products to market more quickly with lower cost operations?
- How do you address the increasing demand for diversity of customer interfaces?

## NEW DIRECTIONS OFFER INNOVATION BUT CARRY NEW DEMANDS

In the past, outsourcing has played a key role in helping to meet these challenges. Financial services institutions have been leaders in the outsourcing revolution particularly in the areas of IT and Customer contact – with HR not far behind. Currently, there are three key trends emerging that are breaking up the established pattern of large scale outsourcing in the Financial Services Industry. These are:

### 1. Acceleration of Business Process Outsourcing

Traditional outsourcing deals, for example, where an organisation's entire IT operations serving all business processes were managed by a single technology provider are giving way to more functionally focused 'BPO' solutions where people, processes and technology are combined.

The challenge around compliance has also led organisations to consider 'Knowledge Process Outsourcing' which involves providers taking responsibility for documents that must comply with mandatory regulatory requirements. In the past this would have been considered too strategic to outsource – but the growth in this area is evidence of the growing maturity of the outsourcing industry.

### 2. Increasing appeal of Shared Services

Many organisations will regard outsourcing of core processing and critical (though not core) business functions as a step too far – however the pressures to create efficiencies are still there. Large organisations can realise considerable value by consolidating functions into shared services centres. This may be seen as offering some of the benefits of outsourcing while maintaining greater control of risk. It is important to remember however, that the effort required to implement successfully should not be underestimated.

### 3. Move to Multi-source agreements

Lastly, the traditional deal is also being disaggregated on a horizontal level. For example, in an IT contract, infrastructure, network management and desktop support would be rightly seen as separate disciplines with different competencies involved. As the outsourcing market matures there is a growing confidence in the ability to manage providers and so single supplier deals are giving way to more complex arrangements where providers are selected as best of breed providers for individual components of service.



# “In today’s outsourcing market, organisations expect providers to add capability to their business – not simply lower the cost of operation.”

## 3. Move to Multi-source agreements (cont.d)

One of the key drivers for this approach is the need for innovation. Traditionally, single source outsourcing deals have been poor at driving innovation because the profitability profile, which results in heavy losses for the provider in the early years of the contract, stifles investment in innovation when it is most needed. By introducing a number of providers – all hoping to increase their scope – it brings a keener focus on delivering enhanced capability to the business rather than just managing existing operations at lower cost.

What are the advantages of using multiple vendors? Not only do they create competition, but they could lower the risk of delivery failures, and serve as a defence against escalating fees and inflexible services. However, it will also create co-ordination complexity. It’s not easy to ensure that services will be properly integrated and operate seamlessly. This decision revolves around the risk/reward balance. Multi sourcing can clearly offer benefits but creates additional risks that must be carefully managed.

## THAT’S WHERE WE CAN HELP

This vertical disaggregation and the new off shoring and near shoring options make creating the optimum solution a more complex process. However these solutions can generate value on a different scale from the traditional single supplier deal. There are also opportunities for innovation and the creation of new operating models that the older outsourcing deals often tended to stifle.

Datamonitor suggests that financial services institutions need to develop global sourcing strategies that enable them to choose between operational locations and sourcing set-ups. To do this they must weigh up factors

such as political and operational risk, regulatory issues, cultural barriers, cost considerations, vendor offerings and local skill sets. This is a complex equation – but one that EightyTwenty Insight is very familiar with.

We can help you create and execute a sourcing strategy that makes a positive impact on meeting the challenges faced by the industry. With its increasing richness and diversity, the sourcing world can create the discontinuities required to enable you to become globally competitive in a world where consumer and business behaviour is changing profoundly.

## About EightyTwenty Insight

**EightyTwenty Insight**, the sourcing advisory company, was formed in 2007 to provide strategic and pragmatic advice in a changing sourcing market. It builds clients’ business value through scoping, designing, contracting and helping deliver tailored sourcing solutions. It provides both public and private sector advice across all process areas including human resources, information technology, finance & accounting and procurement.

With EightyTwenty Insight, organisations (multinationals, nationals, public and private) are able to navigate their way through market diversity, a crowded set of providers and the complex delivery models available to them. EightyTwenty Insight prides itself on its expert staff, the experience-rich methodology it uses, its ability to think about tomorrow’s needs as well as today’s, and the empowering way in which it transfers knowledge and skills to its clients.

For more information, please go to [www.8020i.co.uk](http://www.8020i.co.uk)

### INSIGHT

For more information on our thought leadership, methodology and/or additional resources please view the Financial Services section of the EightyTwenty website at [www.8020i.co.uk/finance](http://www.8020i.co.uk/finance)

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