

Rising to the New Challenges of Transactional Services in the Public Sector



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Introduction: A Fresh Perspective

In 2008 Capgemini published a paper on financial transactional services in the public sector¹. In it we explored the general trends regarding transactions in the public sector and compared these to the private sector to see what lessons might be learnt. This is an updated version of the earlier paper as we felt the need to refresh our views on how the public sector could learn from the financial services industry.

Our close relationship with the financial services industry has shown it has comparable challenges with the public sector. For example, the financial services industry has the challenge of multi-channel customer interaction and shareholders seeking efficiency. In the public sector there is pressure from the public and the politicians to cut budgets and spending while improving the customer interaction and experience. Both sectors have industrialized processes with transactions that are replicated for billions of events, with a similar need to reduce the cost of these processes.

Since we published our paper in 2008, much has changed. Due to the financial crisis and the subsequent austerity measures, governments in the developed countries now need to balance cost cutting with maintaining or even improving service levels. Developing countries face the growing challenge of having to deploy new, complex and scalable transactional service capacity for their citizens. Companies and government agencies alike have continued to move their activities online. The rising curve of the online service delivery adoption has raised expectations of the service levels. Yet many transactions in the

public sector are often still provided by systems that were not intended, designed and built to support the exponential user and data growth. Subsequently, the rise of online service delivery not only requires new investment but also adds new risks in making these legacy systems secure an online world with its increasing levels of cyber crime.

Both the private and the public sectors are still under pressure to reduce costs associated with the delivery of transactional services. But since 2008 three other significant trends have emerged. The first is the increased urgency to reduce fraud and non-compliance. The second is the changing nature of Business Process Outsourcing (BPO) and Shared Services strategies, moving away from pure cost reduction to transformational outsourcing. The third trend is the rapid rise of Cloud technology, with dramatic changes to delivery models. In the following sections we will briefly introduce these three trends and explore them in further detail in the ensuing chapters.

In the wake of the financial crisis the concepts of risk and fraud prevention have moved much higher up the agenda in both sectors. Banks and other financial institutions are faced with increasing regulation to minimize systemic risks and stricter requirements on capital and liquidity, while public sector organizations are under increasing political pressure to scrutinize tax yields and benefits payments. In developing countries the need to reduce fraud and increase tax revenues is equally great, although this is driven more by the need to increase revenues to fund government services in a rapidly growing



¹*Rising to the challenge of Financial Transactional Services in the Public Sector*, Capgemini, 2008

environment. The changing economic conditions have also influenced customer behavior. For instance, according to a UK survey in 2009, the number of people who considered it acceptable to file a fraudulent claim during a recession rose by 27% as compared to 2008.²

As a way of tackling fraudulent and non-compliant behavior, both the private financial sector and the public sector have begun to invest in advanced fraud detection solutions. Moving away from manual fraud detection processes that largely depend on the personal expertise of staff, new investigation solutions are based on risk scoring and predictive analytics to identify fraud patterns.

Increasingly this means that fraud detection is moving to the front of the process through the use of risk scoring models that combine rule-based engines, data mining, database searches predictive modeling and (social) network link analysis.³ By applying these methods, client behavior can now be modeled and predicted more effectively. There has been a growth in variables that are now part of the analysis, such as the economic climate, unemployment rates, geography, demographics, etc. These environmental variables in concert with specific empirical and historical collection and payment history create more and more holistic behavioral models that significantly enhance the ability to detect and prevent fraud and/or non-compliance.

In our 2008 paper we explored how BPO experiences from the private sector could benefit transactional service delivery in the public sector. What we have seen is that in the

private finance and accounting sector the trend of offshoring and outsourcing business processes has continued. What has changed following the global financial crisis is that the strategy has moved from offshoring and outsourcing for reasons of costs and compliance control to more comprehensive business outcomes. Sourcing strategies, whether implemented internally through shared services or through an external partner, need to imply cost reduction and standardization as well as creating added value from the back office processes to drive insight beyond transaction processing.⁴ Similarly in the insurance sector, there is a growing realization that outsourcing decisions need to shift from a pure cost saving focus to a more holistic business transformation approach.⁵

Cloud technology has not only seen a rapid rise in adoption, but has moved well beyond the technological perspective. More and more Cloud conversations are about how it will change business models instead of just the IT estate. For financial institutions Cloud can offer a number of advantages, including cost savings, usage-based billing, business continuity, agility and Green IT. Cloud technology in the financial sector is witnessing a gradual transition from on-premise to Cloud-based services. This is especially the case for general business applications such as customer relationship management (CRM) and enterprise resource planning (ERP).⁶ The public sector has also started to explore Cloud, realizing that new approaches are needed to deliver services that are 'twice as good, in half the time, for half as much'.⁷

This paper examines how private transactional service providers (banks, other financial service providers, insurers) have responded to these three trends in order to find commonalities and transferable lessons to benefit transactional service provision in the public sector. We do not believe that the nature of both sectors and their challenges are fully interchangeable. Yet we do think that providing cost efficient and effective transactional services is vital in the public sector and that private sector experiences can be leveraged in order to enhance public sector delivery.

²Insurance Fraud More Acceptable During Recession, *Insurance Daily Article*, 2009

³*Global Trends in Life Insurance: Claims*, Cappgemini, 2011

⁴*The Finance Transformation – The Outsourcing Perspective*, Cappgemini, 2011

⁵*Global Trends in Life Insurance: Policy Administration*, Cappgemini, 2011

⁶*Cloud Computing in Banking*, Cappgemini, 2011

⁷*The Government Cloud: Time for Delivery*, Cappgemini, 2011

Setting the context: twice as good, in half the time, for half as much

For this paper we will use the definition of a transaction as defined by Graham Walker. In his paper “A Quiet Revolution: Government’s Transactional Services”⁸, Walker sets out a simple generic mapping of the transactional process. Transactions can be readily mapped on to this process and typically take place in the public sector for three main reasons:

- **Where the citizen fulfils financial obligations to the state**—for example, the payment of income taxes, municipality taxes, sales taxes, excise duties, road taxes, fines and penalties, health and social insurances.
- **Where the state fulfils financial obligations of the citizen**—for example, payments of social security benefits, unemployment benefits, agricultural payments and pensions.
- **Where the state acts as a service provider** (in some instances a monopoly service provider) and the citizen purchases products or services from the state—for example passports, visas, discounted municipal travel passes and student loans.

While on the conceptual level these processes have remained the same, public sector organizations are now faced with changing customer expectations and new technologies at a time of political and economic strain. The rapid growth in the use of the internet and social media means that the customer requirements regarding the exchange of information, accessibility of the government services, data re-usage and so forth are fundamentally different than what was a decade ago. Public sector

agencies are transforming themselves in an attempt to keep up with the expectations of the modern citizens around rapid, customized and secure online transactions with the government.

Yet this transformation needs to take place at a time when revenue streams that are open to governments have become tighter. The fiscal situation of almost all the advanced economies has deteriorated and economic downturns are now limiting how much the tax burden can be increased. So, the taxpaying public is shrinking as populations are aging worldwide. This has resulted in the multiple challenges of delivering services better, faster and cheaper.

Efficiency & Effectiveness

This challenge can be turned around and the opportunity seized to transform the way that governments deliver services. The public sector has to look at how it can take out cost and drive efficiencies. For example, staffing typically takes up a high percentage of the costs for running government services and there is an opportunity to take advantage of this by:

- Re-examining the current business processes that support transactions, for instance the back office functions;
- Looking at how embracing new technologies can reduce the costs per transaction and improve the customer experience;
- Looking at how standardizing and sharing of business processes and IT



⁸Graham Walker, A Quiet Revolution: Government’s Transactional Services, IPPR, 2005

can create economies of scale with other government agencies; and

- Looking at the option of outsourcing certain routine tasks so that efforts can be redirected to more specialized, effective tasks.

Higher value through specialization

Given the pressures that governments are faced with, it is possible to foresee a fundamental change to the way government services are structured. In essence it will be a move from government agencies 'doing everything' to a new role consisting of 'being focused, efficient and better'. Specialization allows for a level of investment in creating high quality services for users that is difficult to achieve when governments need to operate multiple smaller services. This multiplicity results in a dilution of investment for any particular service.

A similar role change can be observed within the private sector. Many banks have found that the efficiency of the traditional integrated 'produce-to-deliver' or 'doing everything' payments model is no longer optimal. Traditionally, banks handle everything, from developing propositions to producing payments, managing client relationships and offering a whole series of other services to their clients. Through a number of procedures (regulation, liberalization, commoditization and technological development) banks now adapt their business models by specializing, outsourcing or sharing certain services.⁹

Global sourcing has also allowed

insurers to lower administration cost-per-policy compared to insurers with in-house operations. Additionally, outsourcing has allowed insurers to convert from fixed costs to variable costs, which can further lower overall operating expenses. By outsourcing back office functions such as policy administration, insurers are able to focus more on their core competencies of sales and marketing, underwriting and asset management.¹⁰ In our section on BPO/Shared Services and Cloud delivery we explore how public sector agencies can benefit from these specialized experiences in the private sector.



⁹World Payments Report 2011, Capgemini, 2011

¹⁰Global Trends in Life Insurance: Policy Administration, Capgemini, 2011

Public Sector Transactions

Pooling and Sourcing of Services

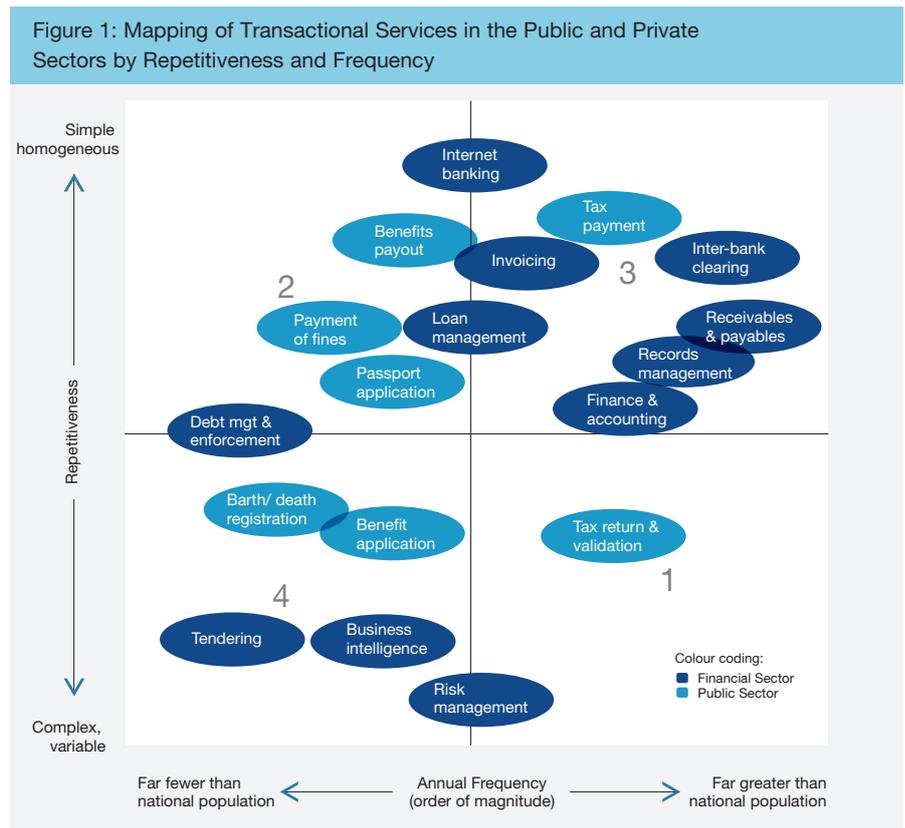
In the UK, the Netherlands and soon the US the tax agency is now the provider of social security benefits, tax credits and other payments. In Denmark the tax agency is responsible for vehicle registration and the associated road taxes, while France is currently preparing a vehicle tax to be collected by the Ministry of Ecology. The UK has recently announced the merger of around 50 separate social benefits into one Universal Credit system, while also merging the operation of income tax and National Insurance Contributions.

All these examples show that traditional transactional services,

administered and processed by separate government entities, are increasingly being pooled and blended together. In some cases transactional services are being sourced to the tax agency, handling payments that used to be paid out by social security agencies. This is in line with the broader trend of providing a joined-up government to the citizen. What has changed is that technological developments (such as Cloud) now allow a fundamental acceleration in the delivery of joined-up transactional services.

Types of Transactional Services

Looking across the public sector we have found that there are significant overlaps in the back office functions



responsible for transactional processes. There is commonality among the transactional services operated in some of the key delivery units of the government and it is clear that there is a great potential for sharing and aggregation of services. This would naturally result in cost efficiencies and economies of scale.

Their position within the framework in Figure 1 will vary between countries, but the question is how to select suitable business areas and processes for improvement. In those that occur frequently (quadrant 1) preventing waste is the business driver, since inefficiencies are multiplied. Conversely, the potential for economies of scale lies here. The more repetitive processes (quadrant 2) are those that could most easily be industrialized leading to reduced costs. So those financial transactions that make the best targets for improvement are areas such as invoicing and tax and benefit payment, both of which are highly repetitive and occur frequently (quadrant 3). The transactional services that qualify for industrialized pan-government solutions (when looking at cost efficiencies) are those that are repetitive and undertaken by multiple agencies.

The scale of the transactional processes operated by advanced industrialized nations is enormous and growing rapidly in developing countries. At this level, any imperfections in individual processes are amplified by numerous factors. When multiple agencies replicate financial transactional departments, there are vast opportunities to be more cost efficient and effective. And when government agencies do not effectively

share information, it will be inevitable that citizens will have to submit their personal information over and over again when transitioning with their government.

Moving towards Standardization

Government transactional services have more in common across countries than is thought. In many countries governmental agencies involved with transactions have already taken the business approach of standardizing and merging their underlying processes.

As shown earlier, some governments are in the process of merging payment processes by making the tax agency the principal payer of social security benefits. But it is not only financial transaction processes that are merging. For a long time, Belgium has been successful with 'authentic registrations', making the basic information components such as user and authorization management systems, citizen identifiers, digital signature cards and secure electronic mailboxes transferable across government. France has successfully created core business data for its citizens and businesses, leading to a single and universal data view of the taxpayer. The single view has allowed the tax agency to be data hub for citizens, businesses and other government agencies.

Standardization and merging of transactional processes can also be observed in the financial sector, the reasons include improving efficiency, reducing costs and streamlining the more automated elements of the payments value chain. Standardization is fueled by banks that are (sometimes

jointly) seeking to boost transaction volumes and scale to expand existing businesses and generate additional revenues and/or facilitate new business models.¹¹

Breaking down transactional services into their basic building blocks shows that they are standardized and common in organizational and process terms and that their lowest common denominator is information and its processing. An information-centric approach to optimizing an organization's people, processes and technology is the only way to guarantee that structures and processes will be able to drive the performance and efficiency improvements in both the financial as well as the public sector.

Capgemini is the partner for the French Ministry of Finance. The multi-year change program, Copernic, has delivered:

- Online tax declaration capabilities for up to 11 million citizens;
- Simplification of citizens' tax affairs and transactions through different channels;
- A system which has better interoperability, scalability and business alignment, while also being much easier to maintain; and
- Authentic registrations, allowing taxpayer and civil servants with fresh, accurate and consolidated data - reliability of business data national and transversal repositories.

¹¹World Payments Report 2011, Capgemini, 2011

Leveraging Private Sector Experiences

Transactional services in the private sector have a lot in common with those in the public sector. Both are about handling transactions on a massive scale, seeking to balance cost optimization with customer satisfaction. But apart from generic observations, we can see that both the private and public sectors are reacting to the three trends we described in our introduction. BPO/Shared Services, Fraud and Yield Management and Cloud Computing are rapidly affecting the way transactional services are delivered. In this chapter we examine private sector experiences with the three trends to see how they can be leveraged to enhance public sector transactional service delivery.

BPO and Shared Services

The pooling of business functions into silos for greater standardization, automation and control is an ongoing trend in the private transactional service sector. The rule of thumb has been that, if tasks can be documented to an 80/20 level or higher, if they are repetitive, and if they can be learned in no more than six weeks given a certain skill level, then they can be outsourced. Private sector experiences have shown that sourcing can be applied to transactional activities, but far less to high value-adding activities such as decision making, strategy or policy. Private sector experience has also shown that transactional activities account for 80% of the headcount.

Figure 2: Typical Division of Business Processes into those that can be pooled into Shared Services or Sourced, and those that cannot.

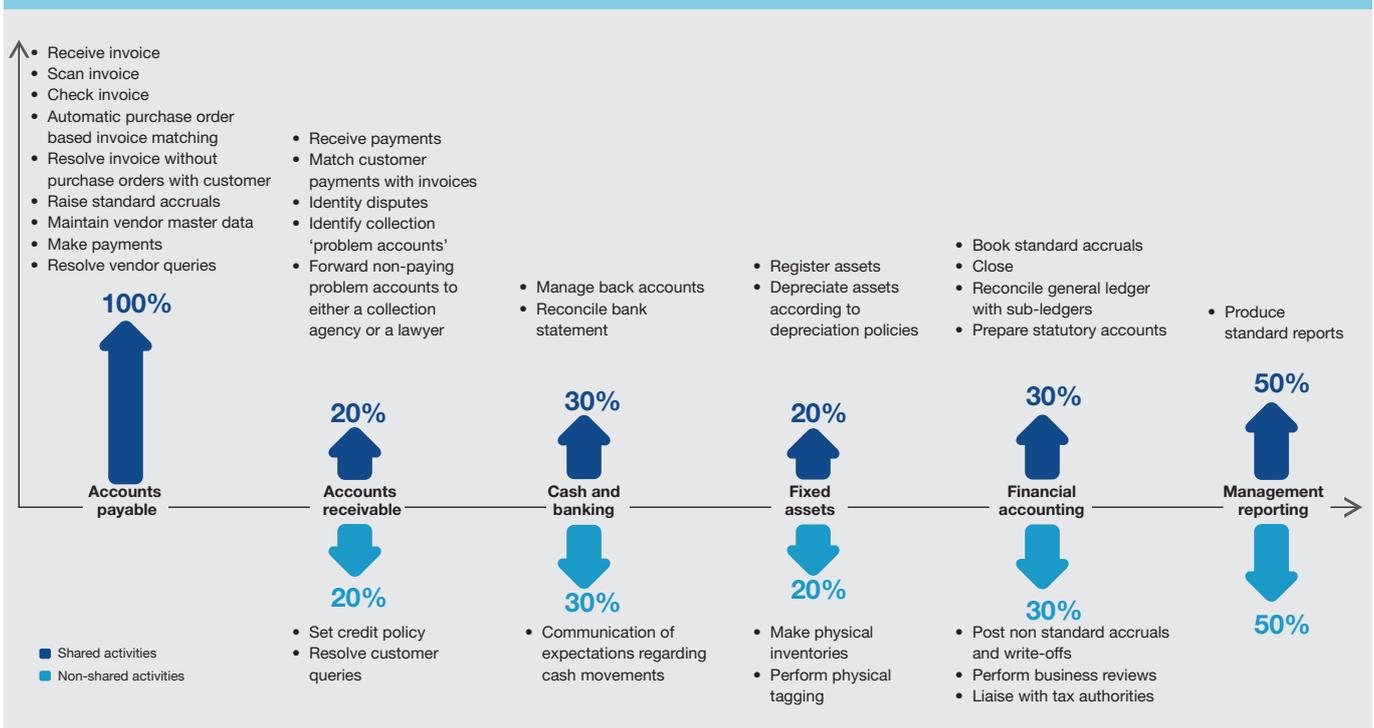


Figure 2 provides a clear overview of the typical scope of private sector Shared Services.¹²

Financial institutions usually follow a structured decision matrix in order to qualify what would be best to keep in-house and what would be best to outsource. A typical decision matrix will look at the interplay of:

- **complexity** – the more complex a process, the more likely it is to be delivered in centers of expertise specialized in the processing of a single function;
- **the relationship with the core business** – the higher the strategic impact of the process, the more likely it should be retained in-house;
- **critical mass** – the higher the volumes and the potential for standardization, the easier it is to achieve economies of scale (see also Figure 1); and
- **the local impact** – the higher the local impact (regulations, language, flexibility of support), the more likely the activity is to be kept in the country, rather than in a central hub.¹³

The irreversible move away from cash and several national and supra-national regulatory initiatives¹⁴ have forced banks to transform their payment services and the underlying value chain. It is not a surprise that banks have particularly looked at how they can take out cost in their operations. The focus has been on the repetitive, highly manual processes that can be automated to lower overheads and protect profits. Driven

by the need to reduce overheads, banks are also looking at other aspects of their financial transactional processes, including risk management, asset management and securities. In this environment, the imperative for payment providers going forward will be to distinguish their propositions and demonstrate their value through increased specialization.

So the response to the changes in the payment landscape has been to reassess how services — back, middle and front office — are structured. But the underlying trend has been towards BPO, Shared Services and specialization.

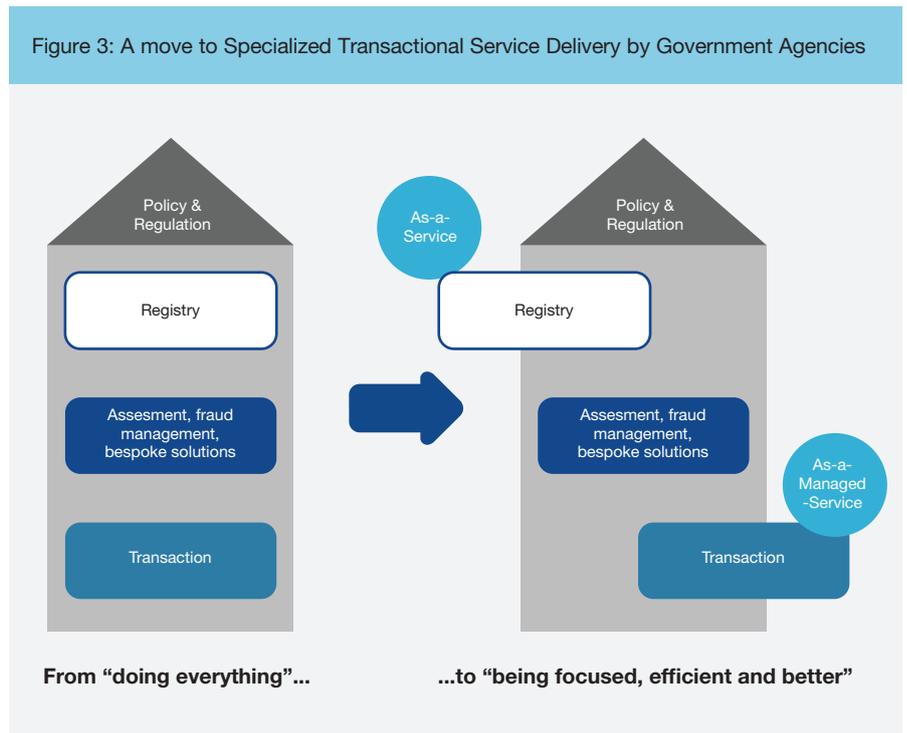
- Similarly to companies in the energy and telecommunications sectors (which have been responding to regulation, liberalization, commoditization and technological advances), **banks have specialized their business models** as underlying products and services have become more standardized.
- Many banks find that the efficiency **of the traditional integrated ‘pro-duce-to-deliver’ payments model is no longer optimal**. The traditional approach in which banks handle everything—from developing propositions to producing payments and other services—may no longer prove optimal when dealing with the current industry challenges. As the payments value-chain disaggregates, a sourcing model becomes more likely.
- Following from this there is a long-term trend in the banking industry to **assume entire new specialist roles**. As the payments industry progressively becomes more

¹²*The Finance Transformation – The Outsourcing Perspective*, Capgemini, 2011

¹³*The Finance Transformation – The Outsourcing Perspective*, Capgemini, 2011

¹⁴Such as SEPA in Europe and the Durbin Amendment that cap credit card swipe fees in the US

Figure 3: A move to Specialized Transactional Service Delivery by Government Agencies



commoditized, some financial institutions are transforming themselves into Wholesale Payments Provider (WPP) or Retail Payment Services Provider (RPSP), which requires fundamental shifts in vision and propositions.¹⁵

If governmental transactional agencies apply a similar approach of BPO, Shared Services and subsequent specialization this would imply that:

- Core policy, regulation, assessment and fraud management functions will remain the core responsibility of government agencies that provide transactional services,

but

- Citizen-based functions— registry, transaction and all accompanying citizen contacts and interactions, can be commissioned ‘as-a-service.’ This could mean sharing services with other parts of the government (registry services) and/or joining forces with the third-party providers to handle (bulk) transactions. This will free up civil servants to focus and specialize on core functions where they can add the highest value (Figure 3).

Fraud and Yield Management

Transactions in the private financial sector closely resemble paying benefits and credits in the public sector. For example, as is the case in the insurance sector, the processes of registry, assessment and transaction (Figure 4), are beset with a growing challenge of fraudulent claims. The public sector is under political pressure to protect or even increase the tax yield and to cut (benefit) spending. So for the public sector, it is worth taking a close look at how the banks and insurers tackle the similar issues of Fraud and Yield Management.

As the adoption of non-cash payments instruments grows, so does the potential for fraud in the financial sector. The payments industry is pursuing various technological innovations to tackle fraud and enhance more secure non-cash transactions—and thereby bolster consumer confidence. The adoption of new chip technology on payment cards (EMV chips) has already proven to be effective with a massive drop in fraud cases. Attention is focused most, however, on e-commerce transactions, especially as electronic thefts are increasingly hitting the headlines.¹⁶



¹⁵World Payments Report 2011, Capgemini, 2011

But it is not just technical innovations and developments that change the nature and propensity of fraud. In our introduction we mentioned that the economic downturn has changed people's perception to filing false claims. Unsurprisingly, since 2008 the topic of fraud has gained more attention within the private sector. According to a North American survey in 2010, 50% of the life insurers reported that fraud detection and identification improvement were top concerns for them, compared to 29% of life insurers in a similar 2008 survey.¹⁷

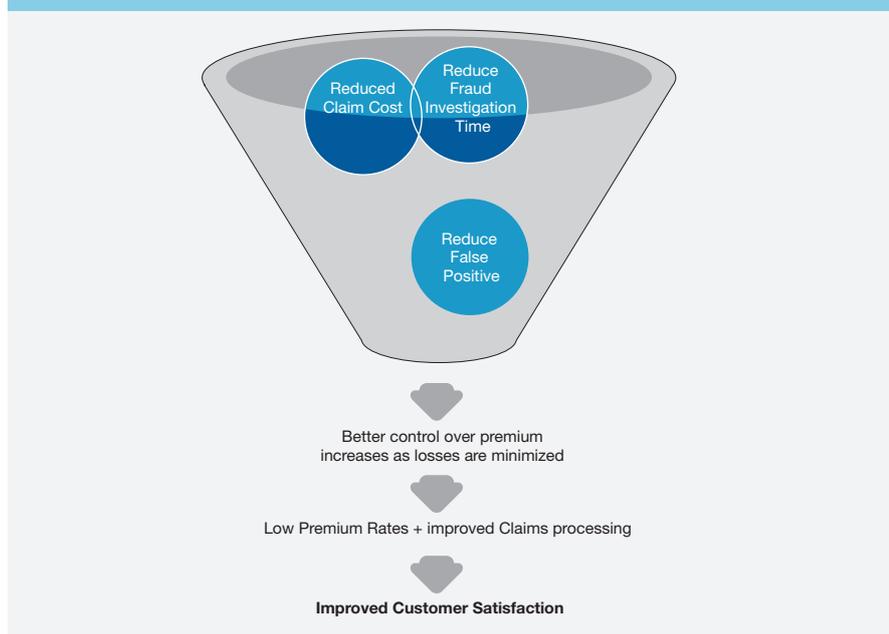
Taking the example of life insurers, our analysis has shown that they have long been using out-dated technologies with limited fraud detection capabilities. In the past, the sector also demonstrated an overall low interest in the acquisition of new tools to help identify fraud through advanced data-mining techniques. However, this started to change in late 2008 and early 2009 as insurers were put under pressure to seek new methods of reducing losses.

The current challenges related to fraud detection have driven increased implementation of advanced technologies in the life insurance industry for three main reasons:

- Manual examination of claims to identify fraud involves a high risk of human error and does not offer protection against new fraud techniques.
- The legacy solutions remain difficult to integrate, making it hard to detect suspicious activity across product lines.
- Older technologies result in poor data quality due to their inability to integrate third party data.

New investigation solutions based on risk scoring and predictive analytics allow more granular analysis of data to identify fraud patterns and thus allow for early fraud detection. The scoring models use a combination of rules-based engines, data mining, database searches, predictive modeling, and network link analysis (including social media) to identify the possibility of fraud in an insurance claim. Enterprise-wide data warehouse systems that capture historical information from fraud cases and integrate information from third-party sources have made the fraud detection processes more powerful.¹⁸ Better fraud detection processes (Early Fraud Detection)

Figure 4: Benefits of Early Fraud Detection at Insurance Companies¹⁹



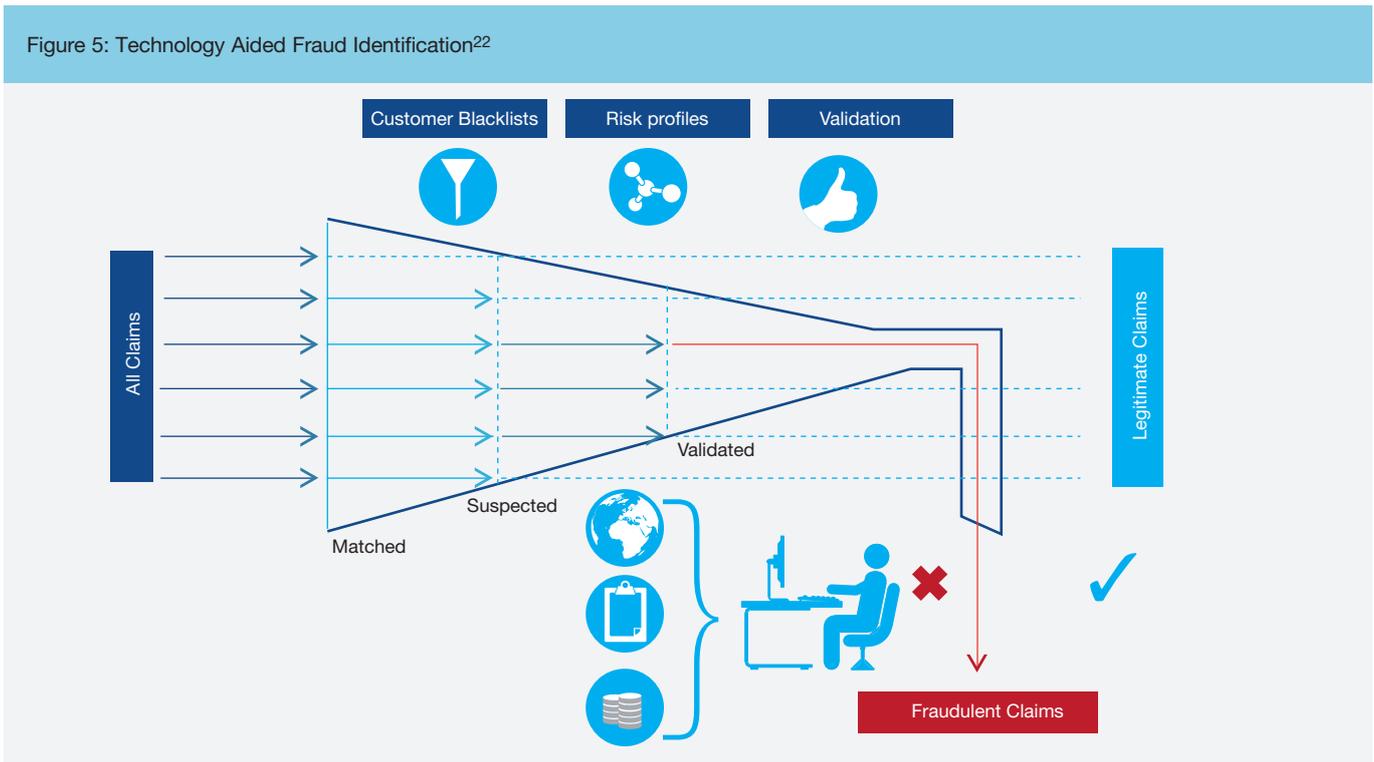
¹⁶World Payments Report 2011, Capgemini, 2011

¹⁷Gartner, Inc.: "Insurers Must Become More Aggressive at Addressing Underwriting and Claims Fraud", Kimberly Harris-Ferrante, June 2011

¹⁸Global Trends in Life Insurance: Claims, Capgemini, 2011

¹⁹Global Trends in Life Insurance: Claims, Capgemini, 2011 – Capgemini Analysis 2011

Figure 5: Technology Aided Fraud Identification²²



leads not only to lower claims expenses, it also increases customer satisfaction (Figure 4).

Public sector agencies involved in large transactional volumes also need (near) real-time insight in possible fraudulent or non-compliant transactions. Just as insurers and banks, tax and welfare organizations handle millions of transactions on a daily basis. Fraudulent transactions account for millions of Euros of uncollected tax and unjustly paid out benefits. As an example, the HMRC states the UK tax gap to be around € 40 billion²⁰ while social benefit fraud is estimated to be around € 1.4 Billion.²¹

In general, the private sector's main focus is on fraud prevention by identifying high risk activities and by refusing the provision of a service or product, or by flagging high risk cases for investigation before a transaction is completed – so called upstream activities. This is in stark contrast to the public sector approach, which is mainly focused on detection, investigation and prosecution

of fraud that has already been committed – so called downstream activities. In downstream processes, once repayment is made, recovery of payment requires time and cost, mostly for people concerned, and may not result in success, especially in identifying the fraud cases. Keeping this in mind, it may be tempting to take the radical approach of 'prevention being better than cure' and limit investments downstream. However in the public sector this is unlikely to be a successful strategy as many tax frauds (in contrast to many banking, credit card or insurance frauds) require a combination of upstream and downstream techniques in order to be successful.

Drawing from the experiences in the financial sector, public sector organizations should implement new technological solutions in order to execute their tasks around:

- Monitoring inbound citizen communication to identify fraudulent transactions through rules, heuristic measures and forensics.

²⁰UK tax gap narrows to £35bn, says HMRC, BBC, September 2011

²¹DWP Website, December 2011

²²*Fraud Detection in Healthcare from Capgemini and Palantir*, Capgemini, 2011

- Applying data in conjunction with agile business policies and business rules across:
 - Advanced data validation;
 - Predictive models and segmentation;
 - Networks linking data items and customers;
 - Risk and propensity models.
- Using input from data and advanced analytics to design and execute outbound public campaigns aiming at driving desired customer behaviors.

In the public sector better Fraud and Yield Management capability is now more important than ever. The likelihood of fraud in those developed countries that are affected by the economic downturn is growing and all governments desperately need the uncollected tax yields. As we have seen in the BPO/Shared Services section, sourcing and specialization can free up staff to focus on assessment and fraud management.

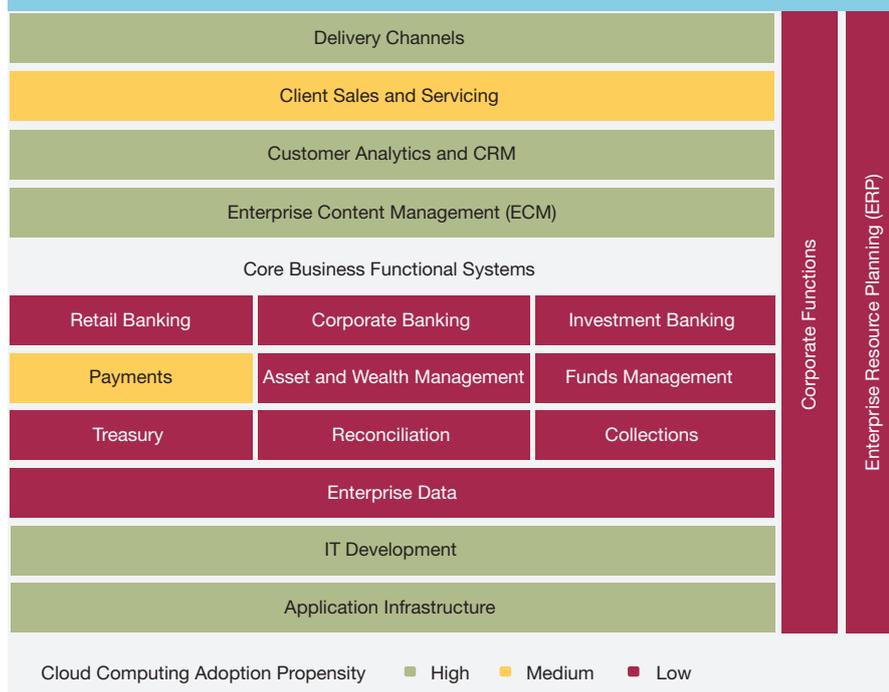
Private sector experiences show that technological solutions can help staff to compile customer ‘black’ or ‘watch’ lists and profile risks ‘upstream’. Combining technology with skilled and focused staff will significantly enhance fraud detection capabilities (Figure 5). Private sector experiences show that better fraud detection capability lowers the cost of service delivery and enhances customer satisfaction (Figure 4).

Cloud Computing

Financial institutions are moving cautiously towards the Cloud, with IT spending on Cloud technologies expected to be €17 billion in 2012.²³ Although the private sector has identified the benefits of Cloud computing (including cost savings, usage-based billing, business continuity and agility), there is no silver bullet for all the demanding business needs. Capgemini’s analysis has shown that banks tend to adopt a gradual evolutionary approach to Cloud computing services, evaluating each project based on the type of applications and nature of the data. Lower risk projects that are likely to

Connect is HMRC’s strategic risking tool that cross-matches one billion internal and third party data items to uncover hidden relationships across organizations, customers and their associated data links, such as bank interest, lifestyle indicators and stated tax liability. It captures information from 30 different data sources, and transforms the data into a standard format for Connect analytical and ‘spider diagram’ visualization tools. HMRC statisticians produce target profiles and risk and intelligence investigators generate campaigns and cases for investigation. Automated feeds into HMRC’s case management system allocate work to the correct caseworkers, and their feedback further refines intelligence in Connect.

Figure 6: Cloud Computing Adoption Propensity at Banks



²³Cloud Computing in Banking, Capgemini 2011

move first to a Cloud model include customer relationship management and enterprise content management. Higher risk projects will involve core business functional systems, such as wealth management or core banking. Figure 6 shows Capgemini's analysis of which functions within banks are applicable for moving to the Cloud.

In the longer term, Capgemini expects banks to have an application portfolio mix of on-premise and cloud-based services delivered across a combination of private, hybrid, and public cloud-based deployment models. We believe the share of Cloud services will gradually increase in the service mix. Private clouds are expected to increasingly become the deployment model for Cloud services among banks, giving financial institutions full control through ownership and operations of their Cloud systems.²⁴

Cloud solutions are also becoming enablers for public sector agencies seeking to introduce standardization, cost efficiency and increased service levels. Typically, payments processing and underlying systems have been designed and implemented in isolation, all with their own separate applications and maintenance. Cloud technology has the potential to reduce the cost of these business processes and the IT that supports them by disaggregation, consolidation and sharing.

Public sector agencies can enhance the transactional and citizen-facing services of the banks by adopting Cloud. Using (private) Cloud technology to transform separate transactional processes into a pan-government function is about:

- Streamlining the current application and process landscape;

²⁴ *Cloud Computing in Banking, Capgemini, 2011*



- Smooth migration, maintaining reliability and consistency;
- Maintaining service levels within the same underlying process;
- Moving towards virtualization, consolidation and potentially outsourcing; and
- Increasing the flexibility of legacy systems and reducing the cost of introducing (legislative) changes.

Cloud technology also has the potential to make transactional services better and more customized by improving communications with citizens and other public sector agencies. This can be done by:

- Innovating with new delivery models;
- Engaging and enrolling the customer in the service delivery chain;
- Better response to user demands, policy changes, and changing customer behavior;
- Enabling services that meet the customer's desire to experience joined-up services from government;
- Enabling the blending of government services with social networks or other private services; and
- Being agile in creating new solutions using Cloud composing services from existing elements.²⁵

Earlier we discussed how BPO and Shared Services allow the public sector agencies to source and handle routine tasks jointly or 'as a Service.' The 'as a Service' concept of Cloud computing means that services, platforms and storage/infrastructure solutions are ordered, accessed and used over the internet, eliminating the need for local implementations,

software management and infrastructure.

The 'as a Service' concept is both the key enabler and, because it also creates demand simply from the potential benefits it offers, a driver. Significant business benefits include reduced costs as a result of the virtualization of the services and a reduction in license costs for software because most Cloud software and platform solutions are sourced on a pay-per-use basis. The concept also reduces the amount of infrastructure required because this too can be sourced from the Cloud, which means saving potential on IT maintenance capacity.

Cloud solutions ensure flexibility towards changes in legislation, product portfolio and political demands. The improved reuse of data, harmonization of processes through standardization, and the easier sharing of existing data ensure that fewer mistakes are made. Massive cost reductions are also anticipated on data entry, whilst improving quality.

The 'as a Service' concepts can facilitate the division between routine tasks and specialist tasks. This will mean that for routine tasks, in which process steps are standardized, the agency can make use of reusable data with little human interaction and intervention. As such, recurring standard bulk processes (such as registration and transaction, Figure 3) can be transformed to a 'Service' and sourced from Cloud providers, whether within government or through commercial third parties. This will not only make delivery of the transactional service more efficient, but will enhance assessment and overall quality. This will free the staff within the agency and they will be able to specialize and focus on compliance and other functions where they can add the highest value.²⁶

Launched in 2002, eProcurement Scotland (ePS) is, in essence, a private Cloud. With Capgemini as a long-time partner, ePS has evolved into a scalable, 'as-a-Service,' multi-tenant and partially pay-per-consumption system. Indeed it was a Cloud before the term was widely used. The ePS platform now processes more than €4 billion per year, representing about one third of the total public procurement influencable spend. According to Audit Scotland, the system generated annual savings of € 528 million in 2008/09. Over 1.6 million transactions go through the system annually, and it is used by over 65,000 registered users and more than 93,000 suppliers. This Cloud platform has enabled ePS to take an evolutionary approach to replacing existing procurement arrangements. The idea of ePS was revolutionary in the way it reconfigured existing practice, but wisely it did not demand an instant revolution for all of the Scottish public sector.

²⁵The Government Cloud: Time for Delivery, Capgemini, 2011

²⁶The Journey towards the Tax Office of the Future, Capgemini, 2011

Summary

Fifty US states are seeking affordable solutions for modernizing their unemployment insurance legacy systems to increase flexibility and efficiency. Our current solution—Capgemini's UI (unemployment insurance) solution—is a shared, hosted software solution that optimizes fundamental processes such as registration, benefits administration, tax calculations, appeals process management, overpayment processing, adjudication, tax audits, collections, accounting, and reporting. This type of solution can be built upon and rolled out to multiple state agencies simultaneously. We are currently implementing the Capgemini's UI (unemployment insurance) solution in the State of Nevada, for the Department of Employment, Training, and Rehabilitation (DETR).

In this paper we have described how the three dominant trends of BPO/Shared Services, Fraud and Yield Management and Cloud are changing transactional service delivery. We have examined the impact on the private sector, along with its response and how the public sector can benefit from these experiences.

The trend to source and/or share business processes has been ongoing since 2008, although the focus has shifted from pure cost savings to more holistic business outcomes. Connected to this trend is the role shift by financial service providers, moving away from doing everything to more specialist roles. We foresee a similar evolution for the public sector delivery organizations, commissioning common processes and bulk transactions 'as a Service' while policy setting and fraud detection remain the focal point of the agency. The topic of fraud and yield management has become more important than ever, both in the developed and emerging countries. Since the public sector is facing fraud challenges similar to the private sector, leveraging new technologies to enhance employee fraud detection and yield enhancement capabilities on urgent basis. Finally, we observed that although adoption is gradual, the promise of Cloud in terms of enhancing transactional service delivery is enormous. Private sector experience shows that customer relationship management and enterprise content management has the most propensity for Cloud delivery. Public sector organizations have a huge potential to move their citizen interaction and transactional service to the Cloud, using 'as a Service' models for facilitating of cost efficiency and specialization.

Although we do not believe that the sectors are fully interchangeable, we do feel that experiences can be transferred for mutual benefit. As a direct consequence of the difficult fiscal situation, now and in the foreseeable future, we believe that many public sector transactional service providers can benefit from private sector experiences. Capgemini has the experience and capabilities to help the public sector agencies in their journey to enhance vital transactional service delivery, and make their services better, faster and cheaper.

Capgemini is one of the world's foremost **outsourcing** providers and leaders in the **BPO** services. We have undertaken more than 60 BPO implementations for top companies including Zurich Financial Services and HSBC. Our BPO services range from traditionally outsourced processes to those at the core of the business. In the public sector, Capgemini has been responsible for all IT systems and IT-led transformation services at HMRC in the UK, including managing a multi-sourced environment. Capgemini is currently implementing the Capgemini's UI (unemployment insurance) solution in the State of Nevada, for the Department of Employment, Training, and Rehabilitation (DETR). Capgemini's UI (unemployment insurance) solution is a BPO solution that optimizes fundamental transactional processes, such as registration, benefits administration, tax calculations, appeals process management, overpayment processing, adjudication, tax audits, collections, accounting, and reporting.

Capgemini has the offerings and

experience to help our clients design their **Fraud and Yield Management** strategies – our business experts have deep knowledge of underlying processes and compliance approaches; our technology experts have the ability to master available solutions and develop new state-of-the-art systems in partnerships with SAS, Oracle and Palantir. Capgemini is the partner of many banks and insurers who face the challenge of transactional fraud, illegitimate claims and money laundering. We also enable healthcare providers and tax and welfare agencies to reduce their exposure to fraud and to protect yield.

For businesses and organizations today, the question of where, when and how to leverage the benefits of **Cloud computing** has never been

more relevant. Capgemini believes that enterprise systems should not move wholly and rapidly into the Cloud, a view that is based on more than five years of Cloud computing experience in the private and public sector. Instead, we favor the adoption of hybrid models where enterprises initially retain centralized IT systems but target services toward Cloud platforms. Capgemini offers its clients a strategy and transformation roadmap that highlights the context and building blocks of this journey, encompassing the enabling technology and the new systems and infrastructure around the new delivery concepts. We are able to leverage our private sector experience (such as with the Royal Mail Group) to public sector agencies that have the ambition to reap the benefits of Cloud delivery.



About Capgemini

With around 120,000 people in 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2011 global revenues of EUR 9.7 billion. Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want.

A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

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