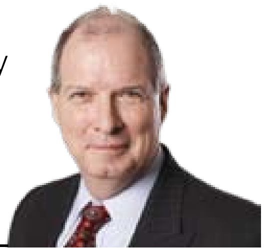
Share the load

There was a time when outsourcing was simply about cost reduction but now service providers are becoming ever more sophisticated. Roy Stansbury, managing director of **Capgemini Financial Services**, tells *Future Banking* why access to experts and specialised talent can give banks the agility they need to operate in an increasingly competitive market. Due to the global economies of scale and a skilled workforce solely dedicated to back-office support, the advantages of shared services outweigh any perceived disadvantages.



Future Banking: What do you feel have been the key drivers behind banks adopting a shared services centre (SSC) strategy?

Roy Stansbury: Historically banks have adopted a shared services centre strategy for economic reasons and that is still a major driver, but an increasing number of banks are realising that SSCs can also add a great deal of value in other ways. Having an SSC enables banks to integrate third-party service providers to enhance bandwidth and access to skills. Banks can also achieve far greater flexibility by no longer having to rely solely on their own back office resources. For example, as banks take on special initiatives, such as post-merger integration, resource needs often exceed their own capability. Having a shared service environment, enables the bank to better meet its manpower needs without adding permanent cost to its infrastructure. Defined service level agreements with providers mean that banks can be clear on what can be achieved by using an SSC. Another key benefit is the access to a wide range of skilled and experienced experts, who can help the bank deal with an ever-increasing level of complexity. Areas such as regulatory compliance, risk mitigation and fraud detection are inter-related and require special tools and often scarce expertise. Leveraging this expertise across many areas or multiple business lines is a genuine benefit of investing in shared services. These factors create very high levels of quality and effectiveness, which are some of the more attractive features of the SSC. Another key feature is standardisation. Be it processes or platforms the entire enterprise gets a consistent and similar service enabling simplification of operations and technology.

_FB_: With banks under increasing pressure from an operational and budgetary perspective, in what ways are banks looking at their outsourcing and shared services strategy differently?

RS: The banks are shifting from cost-based arbitrage to specialised services-based arbitrage where the driver is scale and availability versus cost. This enables them to transform strategically to focus on what they believe are key parameters. Banks that rely on customer service as their USP are keeping their customer contact points in-house and outsourcing even highly skilled roles such as analytics to specialised external providers like ourselves.

_FB_: What are the pros and cons of maintaining captive SSCs over outsourcing to a third party?

RS: Adopting a captive service centre involves building a capability in your business, while shared service centres allow banks to gain access to dedicated staff within a large global organisation that they may not have access to internally. It is this access to economies of scale that is most difficult to achieve with a captive service centre. While many applications are better suited to outsourcing, such as maintenance or accounts payable, shared service centres offer banks far greater flexibility. In fact, the disadvantages of a shared services centre tend to be perceived rather than actual. It is not uncommon for banks to evaluate shared service concepts multiple times before finally making the decision to move forward. It is an evolution where the true cost of internal ownership and the perceived benefits from customisation have to be fairly evaluated and weighed, and that often takes time. For example, there is a perception that financial services companies need to customise all their services and consistently feel under pressure to do so. As an example, if a loan is processed accurately and to a bank's specifications, it doesn't matter if it was processed internally or through an outsourcing partner. So, while financial services companies may lose some ability to customise products, the reality is that back office processes have very little, if any, impact on the business or the brand. Another major advantage of SSCs is that external/outsourced departments often have the ability to completely focus on service and delivery, while clients' own internal offshore departments often have other pressures and responsibilities to deal with. Due to the global economies of scale and a skilled workforce solely dedicated to back office support, the advantages of shared services by far outweigh any perceived disadvantages. One area that captives fare better over outsourcers is unionised labour; most of those contracts don't allow for outsourcing easily. However, if the bank is moving the job to another part of the bank in another country, it is an easier message. We have seen several UK banks go down the captive route for this reason.

_FB_: What value would your clients say they have derived from the use of your global SSCs?

RS: Undoubtedly there is a great deal of economic value to be gained from adopting global SSCs, but our clients tell us that they are benefitting from a better delivery of services than they would achieve in-house, with greater control and improved visibility. As a leading global provider of outsourcing, technology and consulting services, Capgemini is able to attract the best and the brightest talent for our clients, which they often find difficult to do themselves. This means that clients are benefitting from a skilled, experienced and dedicated team who are not facing any of the same internal pressures as an in-house team. This results in the speed to market of banks' programmes being faster than if they built and upgraded them internally. The typical outsourcer is driven by labour arbitrage. Capgemini as an organisation has a heritage in business process optimisation having done this as consultants to banks and other institutions. We apply those process improvement and re-engineering techniques to ensure a better process is in place.

FB: Where are you finding the talent for your BPO delivery centres and how do you manage attrition?

RS: India has long been a key location for consultants serving UK and US financial services sectors due to the shared language, similar culture and the strong expertise and knowledge base among the workforce in this region. By the same token, Latin America is growing in importance for Spanish-based banks. Eastern European countries such as Poland, as well as China, Vietnam and Laos are also carving out a considerable role for themselves as outsourcing destinations for financial services. In India and China, Capgemini regularly attracts and retains the best students from leading universities and, throughout their career, we work hard to ensure that we retain our employees by focusing on their personal growth and ambition. We address attrition effectively due to our collaborative culture, and the ability to offer a number of academic programmes designed to help our employees further their careers. Salary is important but it is not the only reason why we consistently attract and retain the top talent.

FB: How has the appetite for outsourcing transactional banking processes evolved?

RS: In the past, banks have focused on outsourcing paper- based transaction processing, such as cheques and lockboxes. They viewed these functions as commodities and sought to drive cost to a minimum. Now we are seeing a new wave of transactional outsourcing that is driven by the need for the bank to deal with the explosion of electronic transactions across multiple channels. Many banks would not have considered outsourcing all of their reconciliatory processes a few years ago, but the appetite for outsourcing non-differentiating transactional banking processes has grown and continues to evolve. Banks are finding that these processes are far better managed externally, and this trend will continue as electronic transaction volume displaces other forms.

FB: What technologies are you helping clients to leverage to improve efficiency and effectiveness?

RS: Banks that can tame the mountain of data is going to be leaders and banks that can translate this data into information know their customers best. The best practice around how to manage this data today is the holy grail they are looking for. Additionally, there is a lot of streamlining of business processes, so we are seeing significant growth in the field of business process management.

FB: How has the buyer–provider relationship evolved?

RS: The buyer-provider relationship has become smarter on both sides. Clients are asking how they can obtain better value from their providers, while providers are seeking out new opportunities to add more value for their clients. By working even more closely with clients, providers are better able to identify ways to develop and support the most appropriate shared services solutions. This is really an exciting time for the industry.

FB: What best practices are banks exploring?

RS: Ultimately best practice will mean that banks' underlying technology will become standardised as outsourcing and SSCs are adopted even more widely. As the technology becomes ubiquitous, banks will need to think carefully about how they can differentiate themselves from their rivals. The new battleground will be in customer-oriented analytics and the ability to leverage that analytical capability in a real-time fashion when a customer is considering a financial purchase, no matter which channel the customer uses to connect to the bank. Leading financial institutions and many service providers are making huge investments in these capabilities. Others run the risk of a too-little, too-late investment. For banks this means relationships with clients and clients' trust in their brand will become paramount.

FB: What do you feel are the most important technologies that banks must look to invest in?

RS: Investment in real-time technology has the potential to deliver real reductions in costs. Much of the industry's back office functions are built around verifying transactions that occurred on another day, or originated from a non-core system. Moving to a real-time environment significantly reduces back-office demand. Bank distribution systems were primarily built for the baby boomer generation. The new consumer places less value on the channels, such as branch and phone, where banks have traditionally invested. Moving banks forward to the next level of web-based functionality and mobile-based banking and payments will require significant investment. State of the art systems are now needed and although this has been on the agenda for some time, it is only now that we are seeing significant movement in this area. Many banks' core financial systems are fragmented and out of date and need to be replaced or significantly upgraded in order to ensure banks can fulfil their risk management and reporting obligations. ■

Further information

Capgemini
www.capgemini.com/banking
Email: banking@capgemini.com