

Rising to the challenge of Financial Transactional Services in the Public Sector



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Introduction

Every year trillions of euros and billions of data-points in countless forms move within and between the world's governments, citizens and businesses through myriad transactions. In this paper, we discuss this complex process of financial transactions within the public sector—and explore how we might begin to think differently about the provisioning of some of the core transactional services. Our aim is not to provide specific answers, but to stimulate thinking around this subject and contribute to the debate on this vital area of public service delivery.

Globally Capgemini has a close relationship with both the public sector and the financial services industry. This has shown us that there is much to be learnt and shared between two seemingly dissimilar sectors. For example, the financial services industry faces the challenge of multi-channel distribution and shareholders wanting to see efficiency; in the public sector it is the citizens and politicians demanding efficiencies and ease of access to services and information. And both have industrialized processes with transactions that are replicated for billions of events.

There are also less obvious, but nonetheless relevant, similarities—for example, risk management and risk profiling. Is risk management, which

decides if an individual is credit worthy, really that different to risk management that assesses if an individual is avoiding paying tax or fraudulently claiming benefit?

This paper explores some of the general trends in the public sector, comparing these to the private sector to see what lessons might be learnt.

But first, what do we mean by financial transactional services? A dictionary definition tells us that a **transaction** involves the transfer of money and/or information between people and/or companies. So a **transactional service** can fall into two key categories:

- Services to people or organizations that involve one or more transactions.
- Automated services to organizations to enable repetitive transactions on a massive scale.

Examples in the private sector (more specifically financial services) include credit card services, currency exchange and inter-bank transaction processing. The public sector on the other hand features tax return filing and tax payment, enabling benefits applications and payout, enabling and supporting passport applications, and the delivery of new passports.

Setting the Context: Achieving More with Less

A fundamental shift is currently taking place in public sector organizations. They are responding to the demand for 'citizen-focused Government' and this requires a radical rethink about the use of different channels for delivering services as well as fundamental changes to the culture and behaviors of public sector employees.

But the revenue streams open to Government have become tighter—there is a limit to how much the tax burden can be increased and the taxpaying public is shrinking as populations age.

More for Less: Efficiency & Effectiveness

This challenging situation can be turned around and the opportunity seized to transform the way that Governments deliver services. The public sector has to look to how it can

take out cost and drive in efficiencies. For example, staffing typically forms a high percentage of the costs of running Government services and there is an opportunity to take advantage of this by:

- Investing in new, cheaper ways to deliver frontline services to the citizen.
- Looking at how to make back office functions more effective and cheaper.
- Looking at where third party service providers can deliver at a lower cost.
- Embracing technology.

At the same time, new technologies have changed the way in which services, private and public sector, are delivered. Technology has created flexibility in how and where services are delivered and has offered new ways to take out cost.

Where could we end up?

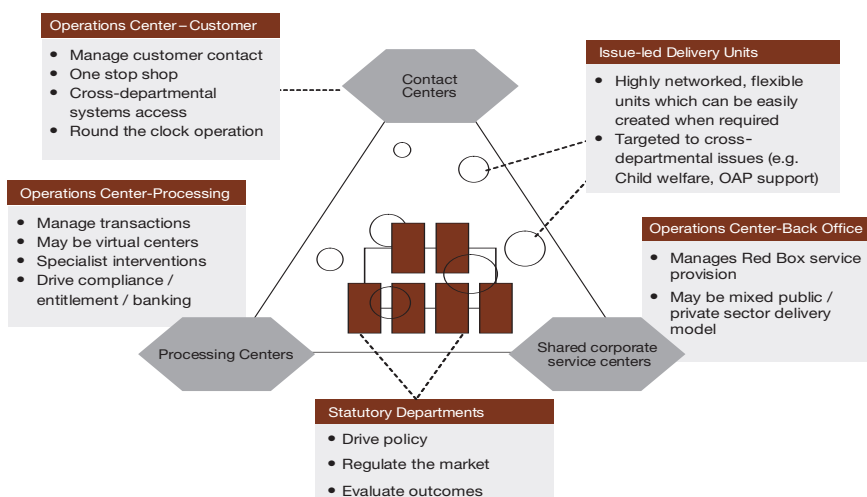
Given these pressures it is possible to foresee a fundamental change to the way Government services are structured, with the boundaries of Government departments broken up and services traditionally provided by individual agencies pooled.

Figure 1 illustrates Capgemini's view of this potential future world. It is a conceptual model of how Government services might in the future be structured.

This suggests that:

- Core policy and regulation functions will remain at the heart of the role of Government in some form of departmental functional structure, **but**
- Citizen-based functions—customer service centers, processing centers and delivery units—will essentially be pooled so that they can be more flexibly shaped and re-shaped around the needs of the citizen.

Figure 1: The future of the public sector?



It is within this context that Governments are looking increasingly at their back office functions and at how they might reduce cost. And this includes looking at approaches to Shared Services, as well as business process methodologies such as LEAN and Six Sigma.

Financial Transactions in the Public Sector

In his paper “*A Quiet Revolution: Government’s Transactional Services*” (Figure 2), Graham Walker set out a simple generic mapping of the transactional process.

Financial 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 & penalties, health & social insurances.
- **Where the state fulfils financial obligations to 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.

These core financial transactional services cut across the whole of the public sector and there is an emerging trend to blend some of them. In the Netherlands and the United Kingdom, the Tax Agency is now also the provider of social security benefits to those in work. In Denmark, the Tax Agency is responsible for vehicle registration and the associated road taxes. In the United Kingdom, the Education Department sets policy on student loans, a student loan company manages the process and provides the loans, but it is the Tax Agency which acts as the loan recovery service. The Canadian Government has gone a step further, aggregating all Government services that entail customer contact into a single department, *Service Canada*, which is, by implication, responsible for all accompanying financial transactions.

Case Note

Denmark’s new electronic invoicing system is a great example of how the aggregation and industrialization of simple, repetitive services can yield significant benefits. Although a small country, Denmark’s Government sector still issues 15 million invoices annually – three for each citizen. The recent introduction of a compulsory e-invoicing system for all public sector bodies is expected to save taxpayers €120 million a year, or around 0.1% of total Government expenditure. This excludes savings from the simplification of administrative processes, which would boost benefits even more.

Figure 2: *A Quiet Revolution: Government’s Transactional Services*, Graham Walker at the UK’s Institute of Public Policy Research

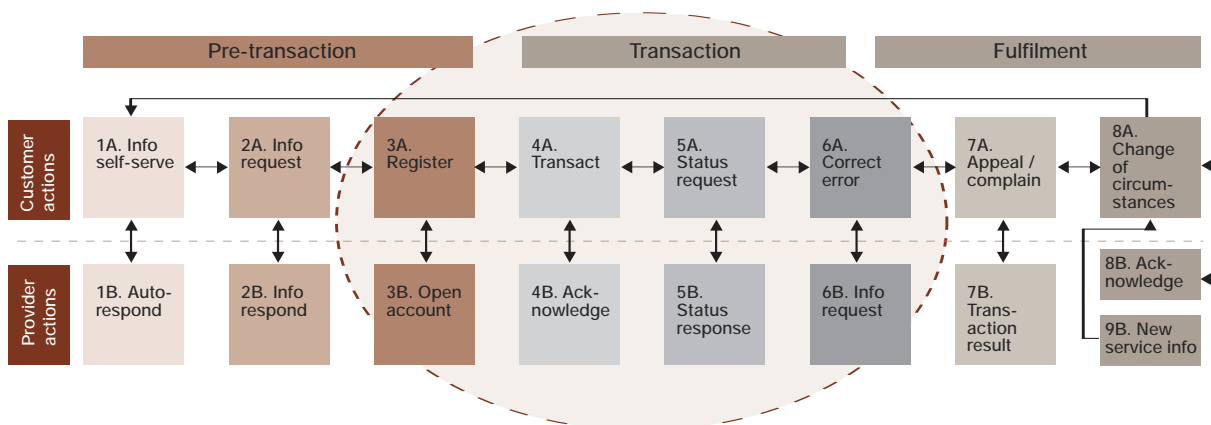


Figure 3: Typical financial business processes and where they occur in the public sector

Financial Process	Tax	Social Security	Student Funding	Municipal & Regional Government
Receivables & Payables Management	✓	✓		✓
Financial Accounting	✓	✓	✓	✓
Collection, Debt Management & Enforcement	✓	✓	✓	✓
Online Financial Services	✓	✓		✓
Loan Management			✓	
Inter-Bank Clearing	✓	✓		✓
Business Intelligence	✓	✓		✓
Records Management	✓	✓	✓	✓

Common Business Processes

Looking across the public sector we have found that there are significant overlaps in the back office functions responsible for these financial transactional processes (Figure 3).

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

Financial transactional services also bear examination through a different lens. Their position within the framework in Figure 4 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). But in our view, the transactional services worthy of examination for industrialized pan-Government solutions (when looking at cost efficiencies) are those that are repetitive and undertaken by multiple agencies (see Figure 5).

Figure 4:

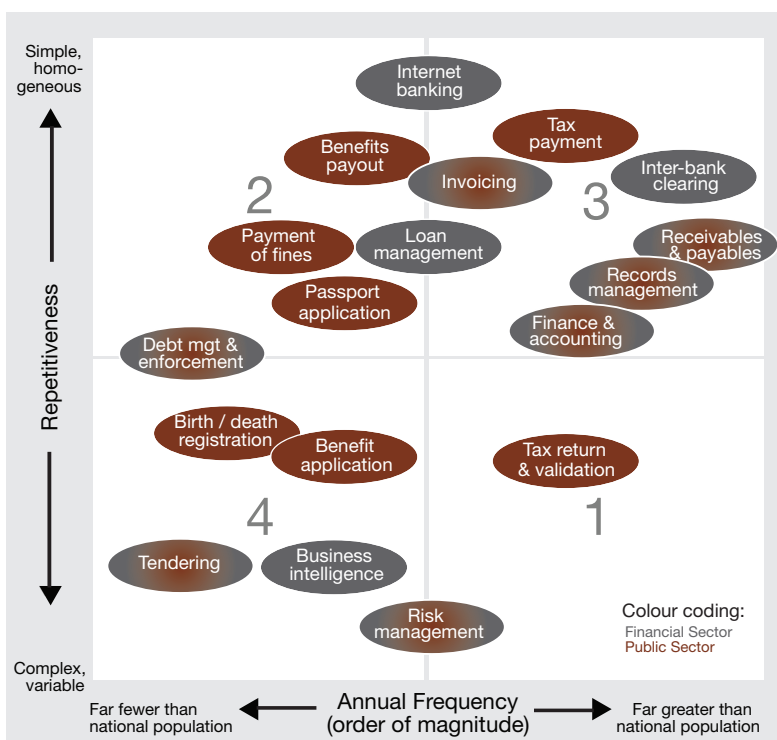


Figure 5: Financial figures drawn from published French Government data

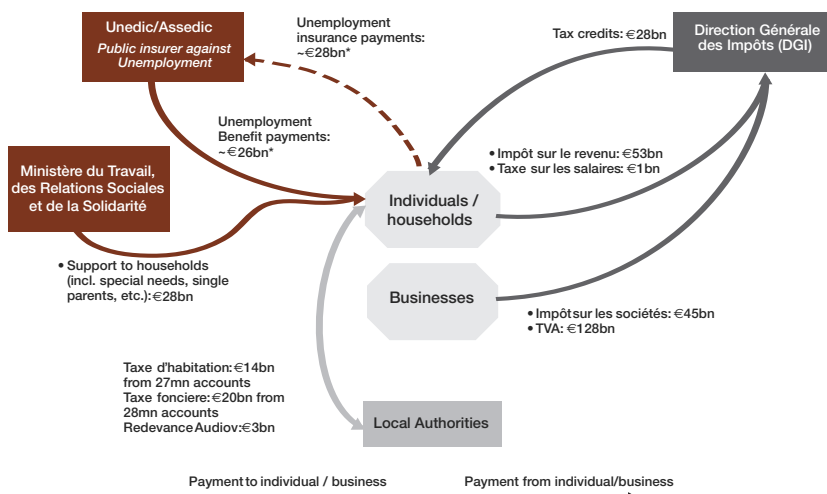
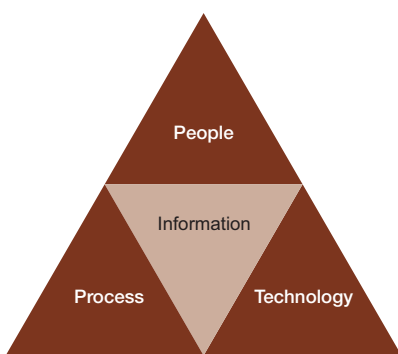


Figure 6: The “Intelligent Enterprise”



The scale of the processes operated by advanced industrialized nations is vast. At this level, any imperfections in individual processes are amplified by factors of millions and billions. Can it really be cost efficient to have multiple agencies replicating financial transactional departments? Given the challenges facing governments (the drive for cost efficiency, the demographic time bomb, reducing the administrative burden and client-focused delivery) is this really the way to manage financial transactional services of Government?

An individual agency might be the most client-focused agency in Government, but is the public sector really all that customer focused when the citizen has to undertake multiple financial transactions re-submitting personal information again and again?

Common Business Approaches

Financial transactional services of Government have more in common across countries than might be thought. Sweden and Britain for example have already enquired after Denmark’s e-invoicing system. Promoters of the Belgian system highlight the transferability of basic components such as user and authorization management systems, citizen identifiers, digital signature cards and secure electronic mailboxes that support electronic service delivery across Government. 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. Capgemini believes that where information is at the heart of an organization this defines the way the business should be managed. It is what we call the “Intelligent Enterprise” (see Figure 6).

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 now required in the public sector. This is becoming common practice in the private sector and Government needs to learn more about how other organizations have made changes to their financial transactional services to achieve greater efficiency and effectiveness.

Is the Public Sector really unique?

Case Note

In Belgium, responsibility for social security payments is spread vertically across all levels of Government and horizontally across a range of Government 'segments', extending to around 2,000 different organizations. The Government wished to achieve interoperability of all of these, as well as standardized information collection. All are now able to use the same information, which is therefore collected once and only once from each citizen, with the accompanying cost savings and service improvement. In addition, all now share a single network, so that each of the 380 million-plus messages that circulate annually among them is processed in less than one second.

The nature of financial services, in particular retail and commercial banking, is not that dissimilar to the large financial services businesses in the public sector, such as tax and social security agencies. Typical public sector financial business processes can also be found in the financial services sector, which:

- Handles large-scale payments in and payments out.
- Has a large customer base.
- Undertakes risk assessment and management.
- Is information-driven.
- Has huge standardized and industrialized processes.
- Has complex technology needs.

As an example Figure 7 gives an overview of the typical payments services of a bank.

Even at this level we can see some discernable similarities in trends, with changing customer preferences, a shifting regulatory environment and an escalating rate of technological

innovation common challenges for financial services organizations in both the private and public sector.

What Capgemini has also seen through its extensive relationship with some of the world's leading banks and financial services businesses is that they are facing a number of internal and external challenges. Some of these, such as the challenges of sustaining revenue growth and retaining market share in the face of increasing competition and decreasing profit margins, are specific to the private sector. But there are challenges which we believe are mirrored in the public sector, such as:

- Maintaining strict cost, capital, and risk discipline.
- Improving internal efficiency by reducing complexity, increasing speed, and tight management of processes.
- Better servicing of customers by maintaining customer intelligence and know-how.
- Addressing service quality issues.

Figure 7: Payments services overview in the banking sector

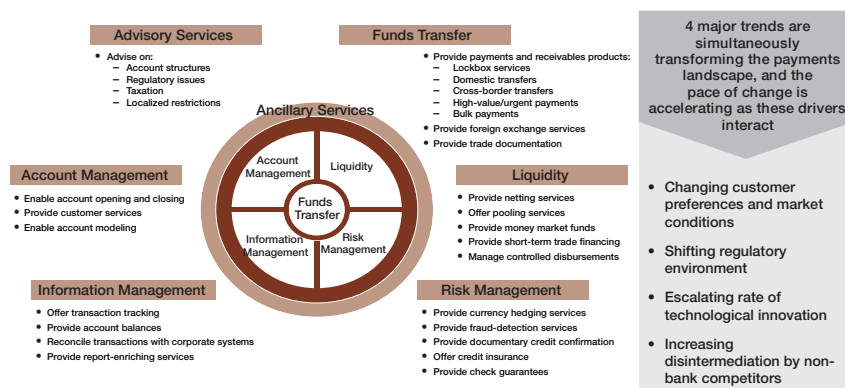
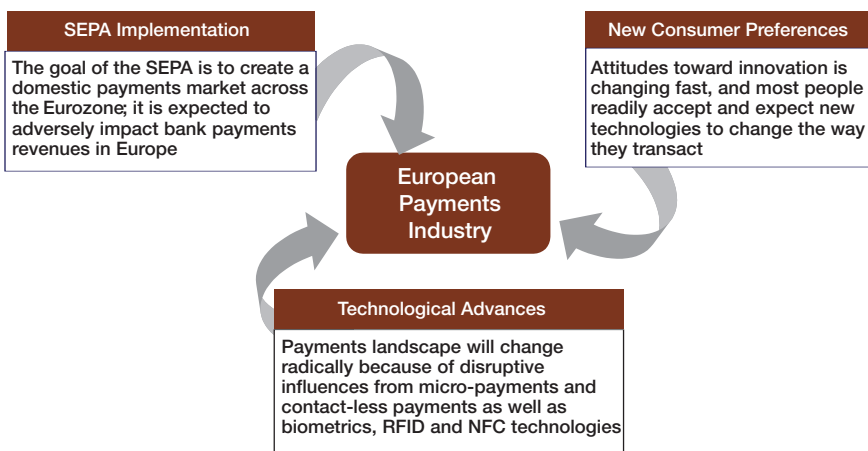


Figure 8: The changing European payments world



- Adopting new regulatory requirements.
- Getting the most effective use out of existing technology and responding to technological trends.

A Case in Point: The move away from cash

The biggest trend in financial services has been the growth of non-cash transactions. This is due to the rise of electronic transaction methods, direct debits and other means by which purchasing and paying for goods and services is now conducted through non-cash based methods. Capgemini analysis shows that cash transactions are now no longer profitable to banks and we expect that banks will look to reduce cash transactions, and replace them with non-cash.

Within Europe this consumer trend—supported by technological

changes—has been further impacted by regulatory changes in the payments industry with the advent of a Single Euro Payments Area (SEPA)¹ which will have far reaching impacts on bank payment revenues unless banks respond. An overview of the changing European payments world is set out in Figure 8.

Banks in Europe are now revisiting their payments strategies because they need to maintain profitability. In its report “European Payment Profit Pool Analysis”, McKinsey suggest that SEPA will reduce payments business profit margins and force banks to cut costs. So SEPA is forcing banks in Europe to look again at how they can reduce their overall costs.²

Unsurprisingly, banks have looked at how they can take out cost in their operations. The focus has been on 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.

Responding to these Cost Drivers³

The response to these challenges has been to think again about how services—back, middle and front office—are structured. But the underlying trend has been towards shared services and business process outsourcing (BPO). Added to this there is a trend, whether these operations are in-house or outsourced, to offshore them to reduce costs. Capgemini’s analysis reveals a rise in BPO as an integral part of the banking payments process chain. This is mapped out in Figure 9.

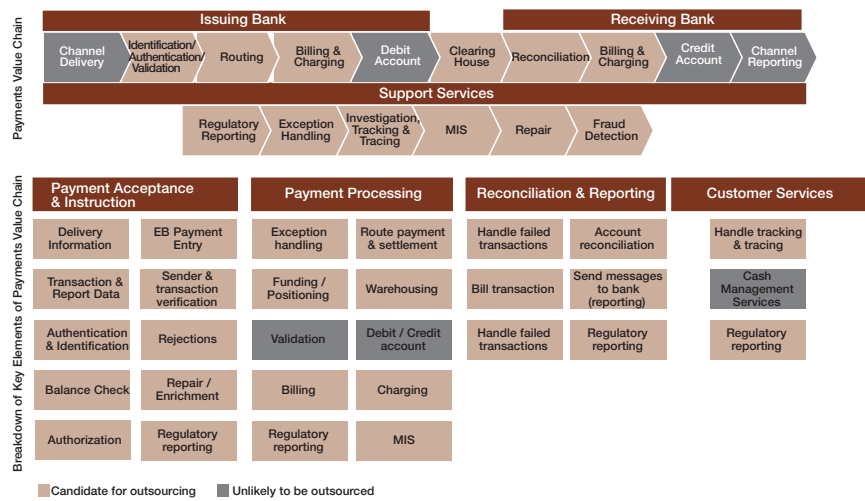
What is noticeable is that this value chain (and the underlying processes) is not that dissimilar to financial transaction processes within the public sector.

So the major trends in the banking sector include:

- The evaluation of all options for cost reduction, from keeping processes in-house to moving them to captive off-shore low-cost locations such as India.
- An increasing move to outsource legacy paper-based, heavily standardized and relatively low-value added tasks that involve huge manpower.
- BPO as an option for smaller or

¹ See appendix: SEPA Brings Strategic Value to the Payments Business. ² See appendix: World Payments Report ³ See appendix on BPO

Figure 9: The banking payments value chain



based ultimately on issues such as:

- Current company capabilities.
- The business case to change sourcing approaches.
- Internal factors relating to areas such as security and culture.

What is certain is the ability to maintain the status quo is an ever diminishing option.

domestically focused banks, which do not have the volume to enable them to invest to meet challenges such as SEPA.

- Banks buying stakes in payments processors in order to have some control over the processes they have outsourced.

Cost reduction drivers are pushing banks to look more and more to BPO solutions for some areas of their business, such as payments processing. They are prepared to use commercial vehicles such as joint ventures as a means to reduce cost while retaining some degree of control. In some countries—for example Germany—this is manifesting itself in larger banks providing payments processing services for other banks and for banks to come together to co-operate on processes.

Figure 10: From an in-house/BPO perspective there are six main models of delivery



Cost, regulatory changes and technology are forcing significant changes in the way banks and other financial institutions think about the delivery of transactional processes. It is driving a fundamental re-think of sourcing strategies and sourcing models. As Figure 10 shows, they are faced with multiple sourcing options

Concluding remarks: Are we really comparing like with like?

The simple answer would be to say that the public sector is unique. But this is too simplistic.

At a global level, the public sector is faced with real pressures to become more cost efficient, but this can only be achieved by innovative thinking in what are generally seen as the more mundane areas of the public sector. There has to be a move away from problem solving based on individual agencies towards a pan-Government approach (both centrally and locally) to meet these challenges. The public sector also has to look to other industries to see what it can learn and how it can adapt successful approaches used elsewhere to meet these challenges.

There are clear similarities between financial transactions services in the public sector and those in the financial sector?

- Both sectors have complex processes.
- Both sectors have large customer bases.
- Both sectors need to become more efficient and reduce costs.
- Both sectors traditionally relied heavily on people but now have the option to harness technology to automate (and outsource to industrialize) manual processes.

Thinking back to Figure 6, there are three key areas where the public sector will have to make tough decisions: business processes, technology, and sourcing. It should also be looking at how the financial services sector has successfully tackled multi-channel client distribution,

CRM, the removal of the silos in the delivery and IT architectures to bring flexibility, and approaches to outsourcing, partnering etc.

Business Processes

Public sector agencies with financial transactional services need to look at the underlying processes and consider if they are still fit for purpose. If they are still highly manual processes, is this sustainable? If processes are going to move toward automation, then they should be re-engineered first to avoid inefficiency creeping into the changed process and thereby reinforcing higher cost. Private sector experience suggests these are inefficiencies that the customer will not pay for. Examples include:

- Activity to rework incorrect payments.
- Multiple handoffs in a query process, all requiring the same information.
- Excess activity to produce items for a customer due to an inflexible process.
- Excessive variability in data resulting in an inconsistent output.

Technology⁴

Technology will be a critical enabler and therefore solution sets will depend on Service Oriented Architecture as well as on 'out of the box' solutions that enable public sector agencies to introduce standardized processes with cheaper standardized products. But for this to succeed, it requires the IT market and vendors of standardized packages to provide solutions that are stable and scalable to ensure they have the confidence of public sector agencies.

Sourcing

Capgemini believes that BPO in the financial services sector is no different from pan-Government financial shared services—a banking shared service? We saw earlier in this paper that cost drivers are forcing a re-think by banks of their sourcing options. Figure 10 shows options that the public sector must now also be considering. Perhaps the vocabulary is different but the underlying options are probably not.

Smaller agencies, like smaller banks, need to consider if they have the transactional volumes to justify continuing to make the technological investments needed to become more efficient. And larger agencies have to consider how they, like large banks, can support smaller agencies by providing the services or by entering into joint ventures with other Government agencies to create shared services. And maybe not today, but at some stage in the future the public sector will need to look at the options for BPO or perhaps joint ventures with banks.

A Final Thought

Insights and experience sharing are critical. Capgemini does not believe that there is ever one unique solution to a client's business challenges but we do believe that those challenges have some common threads. So sharing experiences and insights is key to enabling clients to find solutions that work in their environment. But equally, this requires public sector agencies to broaden their horizons and look beyond the traditional public sector boundaries to other sectors in order to find those insights and those common business challenges.

⁴ See appendix: SOA in Retail Banking and Insurance.

Appendix

1. Public Sector

Shared Services: <http://www.sharedservicesjourney.com/>

Transformation Journal: <http://www.transformationjournal.co.uk/pastissues.htm>



Global CIO Survey 2007 - IT agility: enabling business freedom

The escalating rate of business change poses a serious challenge to any organization. Proactive businesses able to manage this changing business climate are steaming ahead, watched by their envious peers. These are companies clearly equipped to react to the changing environment in a competitive way, capable of turning threats into opportunities. Agility, the ability to adapt and refocus the business, is the difference between success and failure. The purpose of this survey is to explore the views of CIOs of major companies and organizations on the subject of agility and its impact on IT. How does the changing environment affect companies and organization? What does agility mean for a business? How does IT contribute to the needs of the business? Is there such a thing as agile IT? How do IT functions become, or plan to become, more agile?

The survey is based on one-to-one interviews with over 300 CIOs across the world, with representations in all industries.



More for less: A reality for Tax Agencies?

Tax agencies are being challenged to provide better more cost effective services. What skills and capabilities will they need to succeed? Throughout the world Public Sector organizations are being challenged to deliver better, more customer-focused services to citizens who are at the same time demanding more at less cost. Tax agencies are part of this fundamental change to the public sector. Discover what the tax agency of the 21st century will look like.



Strategic Sourcing of IT Services

IT Strategic Sourcing options for Tax Agency CIOs are more critical now than they have ever been. Research from the private sector tells us that initially CIOs considered outsourcing as a way to reduce IT costs. There has, however, been a marked shift away from cost reduction. The focus now tends to be on value-adding drivers.

2. Financial Services



World Payments Report 2007

The 2007 World Payments Report was produced by Capgemini, ABN AMRO and the European Financial Management & Marketing Association (EFMA). It explores the evolution of payments transactions and the current payment landscape in 18 countries. Findings indicate it is unlikely that a critical mass of SEPA payment instruments will be achieved by the end of 2011 unless regulators provide incentives. See how key players are preparing now to drive revenues across the entire payments value chain, and generate capital efficiency through strategic sourcing partnerships.



Outsourcing: Transforming Operating Models in Retail Banks

This study is based on the 2007 World Retail Banking Report results: state-of-play and 5-year outlook. Discover how retail banks consider outsourcing as a key way to transform their operating models, to adapt to a continuously changing market.



SEPA Brings Strategic Value to the Payments Business

The Single Euro Payments Area (SEPA) is becoming a reality. New research highlights the need for banks to consolidate their position in the payments market quickly, and it notes many banks will need to pursue strategic sourcing partnerships to succeed.



Changes in the payment industry drive strategic sourcing decisions for banks

Banks have a small window of opportunity in which to consolidate their payments position. Many will need to pursue strategic sourcing partnerships to continue to thrive in the payments environment, according to the World Payments Report 2007. While early movers are already leveraging these partnerships to deliver the fuel needed for business growth, experience show that partnership skills have never been more important than today.



Finance & Accounting: Capturing the Value

The low-risk managed transformation route. As organizations have become more comfortable with the benefits of outsourcing transactional processes, they have progressively started to outsource higher value-added services and more comprehensive processes. The need to outsource finance processes has led to the evolution of the relationship between client and supplier. Today, the relationship is based on a collaborative approach to working.



About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of Consulting, Technology and Outsourcing services, has a unique way of working with its clients, called the Collaborative Business Experience.

Backed by over three decades of industry and service experience, the Collaborative Business Experience is designed to help our clients achieve better, faster, more sustainable results through seamless access to our network of world-leading technology partners and

collaboration-focused methods and tools. Through commitment to mutual success and the achievement of tangible value, we help businesses implement growth strategies, leverage technology, and thrive through the power of collaboration.

Capgemini employs approximately 80,000 people worldwide and reported 2006 global revenues of 7.7 billion euros.

More information about our services, offices and research is available at www.capgemini.com

