The outsourcing game

Scott Thompson reviews the latest *FStech* roundtable, held in conjunction with HML and Invest Northern Ireland and covering the hot topic of outsourcing

WC: Before we get into the first question, when I was with RBS I was involved in a strategic, essentially an outsourcing plan for the technology department. I spent three months on that and from a personal perspective it's probably the most depressing plan I have put together. When you look at a balance sheet you don't want to put faces to it but when you've worked for 30 years in the company and the teams are there, you know every individual in the team so from a personal perspective it was quite a traumatic thing and I wasn't one of the people that was getting hit which made it even worse. I guess over and above that it introduced a lot of challenges from an operational level: how do you keep the business going because it's a huge transition, and how do you keep the teams motivated when you are actually slicing and dicing parts of it and what's the best transition model? At RBS we were transitioning 3,000 - 4,000 people so it was a huge exercise. I'm hoping we can cover all of those areas. First up, outsourcing location considerations…what are the key considerations or driving factors?

JW: You could be talking on a national or a global level so I guess there are a lot of cultural considerations to bear in mind as well as the location. Some firms have chosen their outsourcing locations based on business synergies and subsequently found things have fallen over because there's not a cultural fit between the people doing the work and the people in the organisation that is outsourcing. But clearly the business requirements side is fundamental as well - you've got to have the right skills, the right infrastructure, the right technology, the time zones have got to fit…it's an extensive list of considerations.

Attendees:

WC: Wil Cunningham, disaster recovery consultant, Lloyds Banking Group (chairman)

JW: Julian Wells, director of marketing, HML

MN: Mark Naylor, business development director, Invest Northern Ireland

NE: Nic Evans, director, Evans Global Associates

RHa: Rob Handicott, chair - financial services group, BCS

RHo: Rob Holman, datacentre specialist, consultant

SM: Stephen Murgatroyd, BCS

RN: Richard Norris, IT director, Cullum Capital Ventures

MS: Mark Silverstein, deputy head, legal global transation services, Citi

MS: It varies, doesn't it? I may keep harking back during the discussion to what we've done in Belfast. It is outsourcing, it isn't your usual outsourcing but it's giving work that we were doing in London and moving that work to people in Belfast and one of the things that was really important for us was the ability to get over there and see the people easily because there was a relatively small group of people that we were working with that were doing legal work, specialised things we needed to have close contact with. We needed to be able to get over there in an hour or so, spend the day and come out again. It makes a big difference.

NE: From my experience on the commercial finance side, you probably need to differentiate between the business process outsourcing and the IT outsourcing. Looking at it from the former you are talking about a deal length which is anywhere from about three to thirty years or longer for a commercial mortgage and in that case, looking at it from a purely commercial point of view the company has this long tail of its business and there's no commercial advantage. Once they've sold the deal they just have to service those contracts. So that's where you can look at doing the business process outsourcing but you still want to be able to have that cultural fit.

MN: I totally agree. I think it depends on where you are outsourcing to. If it's somewhere relatively nearby, it's not such an issue as going halfway around the world but the one thing I think is important is having the business knowledge contact between the two parties, to make sure someone can actually be in contact with somebody who has got the experience with the company that is outsourcing so that people don't totally run away with their own ideas, ensuring there is good communication with the business and the culture fit there. It's a compromise between half the cost of London with the same skill sets and therefore the cost-quality balance is reasonably good but the challenge is in determining what functions can be done effectively in the regions that you are looking at. As somebody mentioned at the beginning, when you are talking about outsourcing the real skill is knowing which elements of whatever it is being outsourced, can be done in those regions and not taking a blanket approach.

SM: You can outsource almost anything if you put your mind to

it. Business processes being one of them. I guess if you are going to outsource business processes it depends on which ones but the ones that are relatively stable might be easy to outsource, the ones which are likely to change frequently, possibly due to regulation, that might be trickier because you need to have a close handle on it.

WC: I thought I would hear a lot about costs and selecting the correct processes but quality seems to be a big factor.

RN: NatWest's advertising campaign for the last two years has been, 'You will speak to an English person based in the UK.'

WH: I've had personal experience of that where I couldn't really hold a conversation with a lady I spoke to repeatedly. Her English was broken and she couldn't understand me because of my thick Geordie accent. So there was a breakdown straightaway, but there are other things to consider here. One of the exercises I had time to take was - this was for a multi-national insurer who is no longer with us - and they asked me to look at various locations around Europe and beyond for their datacentres. They were looking at things like latency, all the risks, so I had to look at political corruption, weather, likelihood of earthquakes and so on, what's the condition of the roads, how many aircraft crashes have there been in the area? It was an amazing exercise, it brought a few things home but one thing that did come out of that was how important it was to have the right people there in each location with the right training, the right linguistic skills. So places like Frankfurt came up very strongly, places like Paris didn't do so well because of the language barrier.

MN: I had an interesting conversation with a company based in London and they have a lot of people on the phones, they are effectively a call centre. Fairly sophisticated in terms of the knowledge that the guys on the phones need, because it's FS

related, but their issue wasn't the cost of these people - they were expensive because they were in London - but the fact that they weren't there for very long. Pretty much out of university and they've got two or three years deciding what they're going to do and the issue was that a lot of the clients of this particular company were quite mature and the guys in the call centre were early to mid-20s, doing this job because it was reasonably well paid and it gave them a foothold in FS but actually what they were looking for was a more established call centre culture in terms of geographical location, where they have people that have been doing this for a number of years and able to converse with people of a similar age and outlook.

SM: That's fascinating because when I used to work in a call centre one of the first questions we asked a client was, 'What kind of service are you providing?' There are essentially two types of call centre, one is knowledge-based and the other is rule-based for which you pay less. If you are selling car insurance that is more on the rule-based side, but if you are selling more sophisticated financial services, maybe you want people who have got knowledge or people who can make a decision whereas generally people in call centres don't get to make a decision as such because they don't have the knowledge. I think the perception a lot of customers have is that the call centre is set up as a wall to prevent you getting to the right people.

Repercussions

WC: How big a role should you expect the repercussions on brand image and customer experience to play when deciding on an outsourcing location?

JW: That plays out of with what we've just been talking about, doesn't it? From an outsourcer's perspective, recent conversations have centred around customer experience, rather than cost and

The view from Tower 42, the venue for the outsourcing roundtable.

practicalities We're increasingly finding questions in tender documents about our people, our culture, training and development and the way that we would align our brand and values. There's a stronger focus on this when we are responding to a request for information than there used to be.

SM: It's part of the cost, isn't it? Clients are segmenting their customers before they even approach you so they may say, 'Well, we're not going to outsource a call centre with a high net worth of customers.' They've got to talk to their personal bankers or whatever the equivalent is. The run of the mill guy who is getting free banking or is going to be in unauthorised overdraft every couple of minutes, that's a different case. Frankly you are not going to spend the money on those customers, that's where the bulk of or some of the complaints come from. And that's often not about the call centre, it's about the processes and the rules that sit behind those call centres.

RN: I outsource my IT helpdesk specifically to increase the quality of the service delivered to the customers whilst maintaining the technology skills at the back end because that's then the outsource provider's job to make sure those people are skilled up. However, it actually costs me more to do that than to host it internally but obviously it reduces management overheads and it's investment into those people who then ultimately might move on. Also for a growing business - you know I work for CCV and we've gone from nothing in 2006 to 800 users and we are growing by about 150 users a year. If we were running that service desk internally we would struggle to keep up with the hiring and training and management of that expansion so it really works for us in that arena because we can just go, 'Here you go guys, there's another 150 users going onto the environment in three months' time, get yourselves ready.'

WC: How do you know that they're not struggling?

RN: Well, at times they do struggle but part of the effective management of the outsource arrangement is monitoring the service with specific KPIs to measure responsiveness and effectively trace it that way. We've got all the measures in place to track it but we also go and ask the customers: what is the service like, tell us?

WC: Call centres is one aspect but if your recovery teams were slower because they were less experienced and then the services were affected, who would the business blame? Would the business blame the IT and then IT blame the outsourcing

company? Is that what's going to happen in the future?

JW: Firms may choose to appoint blame in that sense, but ultimately it's their brand that's on the line. Whoever holds the end customer relationship ultimately has to take ownership of any service-related issue.

RN: It lives with the service owner, doesn't it?

SM: That leads me to think about multiple outsourcing because a lot of businesses now rely on multiple outsourcers and they outsource the call centre, the technology that the call centre is running on, the database that the call centre is accessing is outsourced in another way. And also it's not just the outsourcing, the direct outsourcing, it's third party outsourcing as well where the outsourcer is also outsourcing and the lines of responsibility, particularly in FS and data, where data is required to be kept within the EU more or less, and call centres in India. I've always wondered about the fact that the data may be sitting on a server in Europe and is being viewed on a screen in another continent and what safeguards are there against abuse?

JW: We are an outsourcer and we outsource alot. We have always said to our clients, if someone else can do a particular task better then in the interests of providing the best service possible, we'll outsource. We manage hundreds of thousands of mortgage accounts, for example, but we don't send out customer statements. A specialist printer prints and distributes these and does it much more efficiently than we could because they have scale and specialism in that particular area.

SM: Printing is one of the first things that banks outsource.

JW: Yes, but if our printer were to send the wrong statement out it would be our fault in the eyes of our client, and we would have to rectify it. And in turn our client would be held responsible by their customer.

Around the world

WC: OK, let's push the conversation on. Let's take a look at global considerations...considering developments across the Middle East in 2011 and in countries such as Greece, how has your outlook and nearshore and offshore outsourcing been affected? Additionally, with regard to the global financial crisis in recent years, how have outsourcing trends in the FS sector been affected?

NE: I was asked by someone if we would look at doing offshore disaster recovery and it turned out that they were based in Pakistan. I thought, 'Why would you put your disaster recovery site in Pakistan where a lot more could go wrong - you would want to put your disaster recovery in a safe place.' But I think you obviously need to look at cultural differences as well as all sorts of other things. One of the issues around Indian-based call centres is that you've got the legal differences and you do have to accept that in some of those cultures corruption is a lot more prevalent. While they may happily sign up to say they will comply with your banking secrecy requirements, at the end of the day you do have to take into account all sorts of factors, broader cultural and economic factors and general corruption factors when dealing with offshore situations.

MS: If you also think about the people making the decisions - typically for large companies, they will have a team of people that have to deal with due diligence and make recommendations on places. You are not going to lose your job if you recommend somewhere that literally is as safe as houses - it might not be the best in terms of cost or the best in terms of this, that or the other but if you recommended somewhere that two weeks ago was in the news because of a civil war then you are possibly putting yourself in a difficult position politically. People will make a safe decision because their job is to advise and do a due diligence exercise on a particular place.

NE: I think 'perception' is the key word, when it comes to the crunch you have to be able to justify the decision to locate where you are and I used to have a disaster recovery site out in Hounslow and they called it the Heathrow Disaster Recovery Centre. That was fine because it was right at the hub of all communications. Post 9/11 you don't say you're near an airport.

JW: Mark, your points are valid. A lot depends on who the decision makers are and who is being asked to look at what. People that investigate outsourcing options are sometimes impacted by the end decision directly themselves, and this could impair their judgement. From an outsourcer's perspective this is why stakeholder management is so important

WC: Absolutely and when you were not invited you feel really sorry that you weren't.

JW: Yes, so the impact of that for an outsourcer is that you've got to consider all of the stakeholders that might be making a decision because the person contacting you may ask you to give

them a lot of information, do a lot of work for them, but not necessarily reach the conclusion you'd like them to arrive at.

WC: You talk about decision makers here…the government - post credit crunch-era - have got a conundrum. They have to be seen to be saving money, at the same time why would you offshore jobs when you are trying to recover the economy? How do you get around that?

JW: We have used that as a strong part of our sales pitch for the last two years. We are UK-based, with virtually all the work we do carried out here. When pitching, we argue that using HML keeps jobs in the UK.

Regulatory requirements

WC: How do regulatory requirements impact on the outsourcing decision making or operational process?

MS: There are all sorts of ways. I'll start with one which might not necessarily be obvious - a lot of the regulation that financial institutions now have to deal with and the cost of dealing with that will push more and more of them to outsource just from the perspective of compliance. It's so difficult and so costly that it's actually better to concentrate that expertise somewhere else, whether it's with another bank or some sort of technology outsourcer, because it's just so difficult to actually keep up with the regulations and comply with them.

RHa: Certainly initially there's been a lot of downsizing as a way to try and resolve the problem and reduce the cost but whether that's a long-term solution, probably not.

SM: One specific of that is a number of people want to go into cloud-based databases, even Google who I think are the biggest cloud-based database. The problem with that is you don't know where your data is going to reside.

MS: They are trying to define the standard for it at the moment.

NE: I think that the legislation is still trying to catch up with cloud computing and outsourcing.

SM: It is doable. I was talking to a chap whose company offers a cloud database service and he has a number of corporate clients and a unified database. It's only the fields in the database that are flagged for individual access by the customers but of course if one customer requires the database to be encrypted and the

What's on offer?

WC: Let's talk about technology offerings and limitations in terms of operational processes or even operational transitions. What are you seeing in that area?

JW: I think we can relate that back to the regulatory question as a starting point which is that regulatory change often means organisations need to change their technology and that is something they can find very draining on resources and costly to their business.

WC: Do you think it also opens the door to innovation?

SM: Absolutely.

WC: Because again I think you come full circle to what's your target model, what innovation…so you shouldn't just be moving as is, you should be thinking about what changes, what innovation you can pick up, how can you make the business better?

SM: That is the benefit - the outsourcers have the advantages, in as much as that they can benefit from experiences in servicing multiple clients and thereby divide the cost of research and development and innovation and apply to all clients for the benefit of all. Whereas doing it in-house is starting to become prohibitive.

MN: If you are a software company and you've got 20 clients, you have an effective user community and they can share all of their experiences. If you extrapolate that, if you are an outsourcer with hundreds of clients, that's incredibly powerful. If you're doing that in-house you can very easily back yourself into a corner that you are going to struggle to get out of and it's incredibly expensive to do that.

SM: You'll find yourself up a technological cul-de-sac.

WC: The thing about adopting better ways of working, what we've found, in some instances it was the language barrier, we all have accents and therefore asking somebody 'What did you say?' two or three times slows up recoveries. Some of our teams decided to use Instant Communicator so that the people we were talking to, even though they had accents, had perfect written English. Recoveries were going really, really fast because they were using this new way of working, new technologies. OK, I am going to

move on and I'm going to ask - in the FS sector what outsourcing trends can we expect to see within the next 12 to 24 months, given that our government now owns some very large institutions?

SM: Well, given that on the retail side, reading that the FSA and the Bank of England are just going to become mouthpieces for the European regulators, then there is an opportunity for pan-European based outsourcers to come up with products and services which will span borders which didn't otherwise apply because the regulations were different in each country. But if the regulations are going to be unified then there is a huge opportunity there for pan-European outsourcers.

NE: I think we are looking at economies of scale, like shared service centres, by doing everything the same way across different geographies rather than looking to just make savings by using cheap labour.

WC: I guess Rob, the next 12 to 24 months - the CRC penalties, do you think anybody is going to outsource their datacentre to Europe to try and avoid that?

RHo: It's certainly something that has been discussed a great deal but it's whether in practice it will be enforced and the level of penalties - the people controlling that legislation, what is it they are there to do? Will it backfire?

RN: Technology is an interesting one because we've all heard about the cloud for the last year or so, but it has a different marketing slant on it now, and virtualisation of infrastructure. But I'm in the position where most of my estate is virtual anyway, the servers are virtual.

WC: You must have a very young company.

RN: The IT function is four years old so those servers are coming into year four now and all I am going to do is, as soon as those servers come up for renewal, I'll just switch to a managed service for virtual hosting, so my datacentre albeit not very big now, I mean I've built three datacentres in Tower Gate, all of which are not seriously large but they're not small by any sense. It's actually going to dwindle and that will just be a service delivered to me. From my perspective that's great. I don't want the capital expenditure, I don't want to have to power it, to run it, to light it, to cool it. I want somebody else to do that so it then gives me the flexibility to adjust the infrastructure as I want.

RHo: There is a big can of worms here, because there are costs, obviously risk mitigations etc. and it's who owns your data, where

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is it, how reliable is it? You have lag and latency, security…there's a lot to think about here. I think in terms of cost there's a lot to look at. Anything less than five years, I think outsourcing and putting it in the cloud, security issues and all that aside, it could be a winner.

RN: I wouldn't put it in the cloud, I'd put it in a private cloud.

RHo: I agree. I think when you get to five years and beyond in terms of getting your investment back, it still makes more sense to build your own facility and run it. But the way I see things going, particularly in the public sector is league tables. Everything is awash with them at the moment, certainly in academia, if you go to universities you now have estates managers, facilities managers, you've got your datacentre managers, your carbon education managers and you've got energy managers and they are all fighting amongst themselves, usually on the same side but not always, to try and raise each university or college up.

WC: I'll throw another trend in. Given there are several large institutions divesting in terms of having to move several hundred branches to other sort of companies, given that one company may have an outsourcing model and another company has an insourcing or a standard model, what's the trend going to be? Are they just going to swap insourcing or outsourcing companies, what do you think is going to happen in this respect?

SM: I think it's interesting because of what the Chancellor is announcing tonight at Mansion House. It seems a foregone conclusion that he is going to insist on ringfencing. Ringfencing doesn't just mean ringfencing the business but the technology and for a lot of banks, their technology is highly interwoven.

WC: Good luck there.

RN: It's going to be a difficult time for the banks no matter what, just unravelling that technology.

WC: I don't know whether it's going to become a case of big outsourcing players buying up smaller specialists. I don't know whether that's going to be a trend…what do you think?

JW: It could be, I suppose it's happening already. There are several big outsourcing outfits that have acquired different specialties, divisions and smaller businesses. Going back to the previous point, I think there is clearly a significant opportunity for outsourcers in respect of the legacy systems of the big banks.

SM: I think the other trend that regulation might well drive is standardisation. There's a lot of standardisation in the wholesale market but in the retail market there's less in terms of data models and I think that's an opportunity for businesses rather than a threat. The opportunity is that the greater the standardisation, the greater choice you have on technology and you might be able to save some money, but also if everybody is doing the same thing then it leaves less for you to get some competitive edge on.

WC: The big problem with standardisation has always been - 'What did we do with the legacy? How do we convert this legacy so that there can become a trend of moving all this stuff? And no one has yet answered that question.

RN: The challenge that you describe is probably what a lot of companies face and there's a big opportunity for outsourcing because if you think about the legacy part of the business or a process, then you can outsource that and not really worry about it and think about your future operating model.

JW: What you have just described is a fundamental part of our current proposition to the big banks. Outsourcing can help them clear up a lot of the 'problems' created by mergers and their consolidation strategies.

RN: Some of the risks, particularly in terms of having to build these barriers around your investment casino banking and High Street banking. There's a certain amount of overstating the costs, perhaps generated by the banks themselves because they don't want to have to go through this. It's not an insurmountable exercise to go through your list of systems - there are a lot of systems but you can clearly say, 'This system is to do with investment banking but it is using the payment systems of our High Street bank' and to that extent I think that the banks are going to have to do a fair amount of work but it's not going to be a showstopper, particularly with the political demands of avoiding the problems we had back in 2008-9.

WC: We're running out of time here so I'll let Julian wind things up.

JW: I really enjoyed the discussion. Thanks for all the input, it's been fascinating. I think we've talked about quite a lot of issues on everyone's agenda, like systems, culture, locations, regulations. It's clearly an interesting time for the FS outsourcing industry, let's hope it's a prosperous time that lies ahead. Thanks to Will for chairing and we'll continue the discussion over dinner.