Delivering Service Transformation for Banking

Making the most of your service provider partnership

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Delivering technology or business services to the banking industry has its unique challenges and drivers for success. Even though the banking Industry moved to outsourced service delivery models decades back, only a few service providers have been able to establish strong and lasting relationships with banking clients. Why the lack of strong partners in this growing and profitable business?

Firstly, it can partly be attributed to a complex operational environment due to hectic mergers and acquisitions. The technology systems and business processes underpinning banks' operations have evolved in the same fashion—multiple legacy systems cobbled together from different sources continue to operate at a less-than-ideal capacity. Banks and their service providers have invested significant resources to create transformation models for their IT and business process services, sometimes with questionable returns.

Secondly, external factors have also played a key role. Regulatory and cost pressures have increased, which means banks and service providers have had to develop solid governance and internal audit capabilities to mitigate risks. Changing consumer demands in an increasingly social and mobile enabled environment have forced banking executives to prioritize quick fixes over strategic transformation.

Thirdly, banks are expecting ever-more complex services and long-term value from their providers. In order to be competitive in the business process services marketplace, providers now need to bring deeper industry expertise and solution offerings specifically tied to improved business outcomes—be it customer experience, operational efficiencies, or improved responsiveness.

Too often, transformation engagements fail to deliver expected results because project teams overlook key design aspects of outsourced delivery models. We would like to highlight some of the key design principles that our clients have found useful as they look to improve critical business operations. Keep in mind that the relevance of each of these principles may differ depending on the services a provider delivers, type of business (retail or wholesale banking), or its product line (loans, deposits, credit cards, commercial finance).

Strategic objectives and goals

The lack of clarity on what a transformation initiative seeks to achieve is more commonplace than we would expect. A bank may set one or more goals, including immediate and long-term cost savings, improved service quality, customer experience transformation, risk mitigation or flexible delivery models.

Banks and providers need to collaborate to establish and agree on short, medium and long term priorities for transformation programs, depending on the key business imperatives facing the bank. For example, budgetary pressures may enforce a focus on cost savings, or customer experience may be a top priority. Aggressive expansion plans may require a focus on flexibility and risk management. It is important to communicate the goals at all levels to establish a strategic and tactical alignment at the onset of a transformation initiative.

Scope definition

Banks must create a clear scope definition before outsourcing a transformation initiative. They must decide what's core and strategic to their business to get the best value from engaging a service provider. The approach could be top-down or bottom-up, but a deeper analysis and evaluation of scope and business priorities is crucial. For example, for a business process transformation initiative, some of the relevant questions to ask are:

- How integrated is a process to our core business, internal stakeholders and clients?
- Does transforming or outsourcing the process pose risk to our business, and how can we mitigate the risk?
- Is the customer experience going to be affected? How will we manage the change for our end customers?
- Is the business process too complex to change? Can technology changes help in reducing complexity instead?
- Do we need specialized skills to run the operation, and are those skills core to our business?

It is helpful to pose some of these questions upfront, and the bank must be willing to invest in detailed planning and analysis. Experienced service providers and advisory firms will have well-established methodologies to assist banks in this process.

Viable business case

A key milestone in the decision making process, the business case for service transformation needs to be realistic. A business case that misses key elements of costs that banks will incur can cause significant financial issues later. Some suggested aspects to be considered are:

- Project Management Office (PMO)
- Governance and change management
- Regulatory compliance, audits, and operational risk management
- Transition/migration support
- Service taxes
- Human resource costs: retention plans, incentives, etc.
- IT changes and maintenance
- Contract administration

Accounting for all anticipated costs is only one aspect of business case development. We also recommend investing time to create scenarios that include upsides related to transformation—increased revenues, improved customer experience resulting in lesser customer attrition, better resource optimization, etc. This will help business leaders provide their executives, board members and regulators an accurate financial picture and garner support for transformation initiatives.

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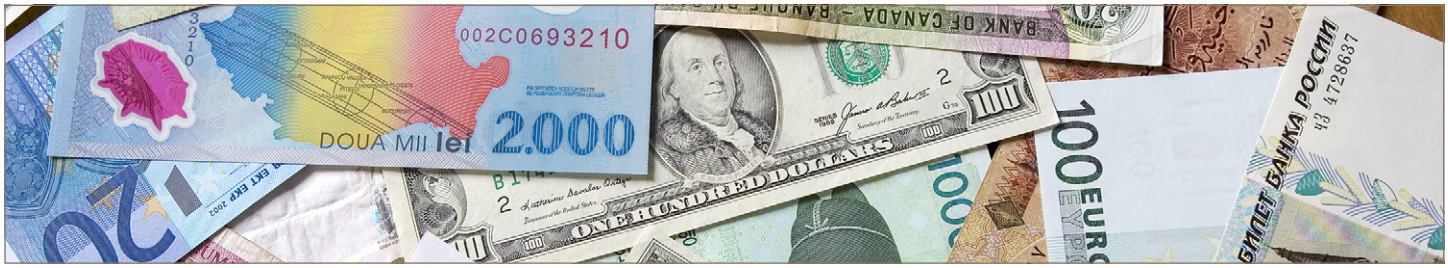
Due diligence

Banks today face unprecedented scrutiny from their shareholders, employees, and regulators. Regulatory agencies will have the ability to watch your governance system for flaws. It's paramount to have a stringent due diligence process to manage the risk associated with using external providers for critical business services. Assembling a team of experts to conduct this due diligence process is highly recommended. The process can be time consuming and resource intensive, involving detailed site visits, reviewing policies and practices of providers, compliance checks and audits, technology and security reviews, and other elements. For best preparation, create a structured project plan with clearly defined requirements, data requests and timelines, and share this plan with service providers to avoid delays and confusion in the contracting process.

Change management and governance

Governance and change management are critical aspects of managing transformation initiatives. After all, transformational change is all about people, processes and technology. The goal is to establish a governance model that interlocks seamlessly between banks and their service providers to cover strategic and tactical actions. This model is best supported by a designated Project Management Office (PMO) that can help resolve and act on issues in a timely manner.

Change management, similarly, needs to be a multi-functional initiative. It starts with creating alignment within the various functions at the bank through a well-defined communication plan. Departments that are directly affected need to be involved and their concerns addressed well in advance of the initiative. End customer impact needs to be assessed as well. Define an execution plan to migrate customers to different processes and technology as the bank undergoes transformation. Lastly, establish a change management process that can address evolving business needs over time. The contract should specifically outline how the bank will manage operational and process changes with service providers.



Balancing cost and risk

Transitioning services to a provider can be an overwhelming experience. Sponsoring executives worry about investments required, risk of disruption in services, and post-transition stabilization. Designing a phased approach to transition services mitigates risk, but entails significant upfront costs. Creating a balance between risk and savings, therefore, becomes an important decision point.

A solid contractual framework that reduces a bank's upfront costs can also help take the edge off transition costs and risks. It can include pricing clauses such as milestone-based fee payments and delay penalties, or other customizations. However, what's most helpful is detailed and collaborative planning, a clear segregation of responsibilities during transition, and understanding of the support required from the bank by service providers. This upfront planning effort can be resource intensive, but is time well spent to avoid fire-fighting and cost overruns during the transition phase.

Risk management and compliance

Banks have comprehensive compliance requirements (for example, FFIEC, PCI, SSAE16 in the US) that service providers need to support. Also, operational risk related to transaction processing (such as loan and credit card processing) becomes crucial in an outsourced, possibly international service environment. Service providers need adequate process and quality controls, along with technology solutions, to mitigate these risks. Lastly, business continuity and disaster planning is essential to manage mission-critical business operations. Clearly define service recovery timelines and contingency plans in your contract. Costs associated with implementing and monitoring risk management practices need to be incorporated in the business case.

Service level agreements

Designing the SLA framework is integral to the contract management process. However, this can be challenging for banks, especially for the mid-tier banks that are new to outsourcing. Defining target performance becomes a challenge without established baseline performance. Without established performance standards and accurate measurement methods for business processes and IT, how do you know what service levels define a best-in-class customer experience?

Providers now also offer sophisticated reporting and performance analytics solutions for business process and technology services. Providers can use innovative service level management constructs (such as bonus and penalty mechanisms) to improve quality over the term of the engagement.

Leveraging technology

The business process services marketplace today offers a variety of innovative technology solutions–automation of processes, fraud and risk mitigation, and operations analytics to name a few. Advancements in deployment models like SaaS and BPaaS in cloud-based environments make a strong case for banks to use technology innovation to drive their transformation objectives. On the other hand, technology changes also pose risks related to data residency and governance that the banks' technology teams need to thoroughly evaluate.

Where we have seen banks succeed in deploying innovative technology solutions, the business and technology teams have been closely aligned on the transformation goals, with a strong CEO support and buy-in.

Flexible pricing models

Last but not least, banks should look at pricing constructs that enable a variable cost structure for their operations. Traditionally, services contracts have been built on input-based pricing, such as Time and Material models. However, the banking industry is increasingly demanding output-based constructs (per-transaction pricing, for instance) from its service providers. Without adequate measurement and tracking systems, or established benchmarks, output-based pricing models can seem risky. With close collaboration between banks and their service providers, banks can establish a services pricing model that suits their needs.

Exploring service transformation benefits through outsourcing can be a challenging project for a bank's business leaders. But, the returns through such initiatives can move the bank towards a more attractive business model. Critical to success is a collaborative partnership with a service provider that can support the bank's progress with its transformation. Concentrix, an industry leader, can give you the support and expertise you need.

About the author

Siddhartha Sharad leads Concentrix's solution offerings for the Banking Industry in Americas. As a subject matter expert for banking, he has over 15 years of experience helping clients design and implement transformation based outsourcing programs for their business operations.

For more information

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Concentrix Corporation
44201 Nobel Drive
Fremont, CA 94538 USA

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