Business Process Outsourcing: A Push for ROI in the Financial Services Industry

INTRODUCTION

Business process outsourcing (BPO) refers to contracting an individual or team of people to complete a specific function or group of functions. Traditionally, BPO consisted of outsourcing straight-forward processes such as payroll and employee benefits. Trends within the financial services industry show an increasing acceptance of BPO as a means of achieving organizational objectives. With the commoditization and maturity of traditional back office outsourcing functions, leading asset management and information technology service providers have shifted their focus to improve operating efficiency. To meet the changing needs of the financial services BPO market, these providers have developed and expanded their service-level offerings.

Most asset managers already outsource some of their back office functions, and are likely considering outsourcing more, if not all, operational business processes. Investment firms, whose focus is on increasing shareholder and client value, realize significant ROI from outsourcing activities.

KEY BUSINESS PROCESS OUTSOURCING (BPO) BUSINESS DRIVERS

Investment firms look to business process outsourcing (BPO) as a means of achieving greater operating efficiency. For some firms, the decision to outsource is based solely on which functions represent the firm's core competencies and which do not – and are often outsourced. Other firms look strictly at processes where they can better achieve economies of scale. In any event, several key business drivers underpin all outsourcing decisions including in order of ROI:

1. Cost Savings
   a. Shifts development costs, which promotes scalability
   b. Converts fixed costs into variable costs
   c. Moves IT assets and employees "off the books"
2. Risk Mitigation of functions outside of the firm's core competencies
3. Technology
   a. Reduces technology and legacy system dependencies
   b. Enhances regulatory and compliance reporting
   c. Safeguards access to backup facilities and technology for business continuity
   d. Automates labor-intensive activities, reducing error rates and failed trades
4. Improved Business Focus
   a. Expands products and improves performance and distribution channels
   b. Drives sales and marketing
   c. Improves client segmentation
   d. Expands market share

CHALLENGES FINANCIAL FIRMS HAVE EXPERIENCED WITH BPO

BPO can end up costing more than anticipated due to deteriorating quality, failure to factor in oversight roles, and inaccurate estimation of project scope and duration. Firms need to incorporate oversight roles to maintain the expectation for high quality. Many companies jumped to outsource to India, only to discover that turnover was much greater than anticipated, eliminating the expected cost and efficiency savings. As a result, many investment companies ditched offshore outsourcing programs in favor of bringing operations onshore or nearshore.

A failed engagement poses significant risk to financial services firms. Cost overruns from having to reset project parameters and objectives, along with operational and reputational risk, place an unnecessary burden on firms. The most common causes of failed outsourcing engagements include:

1. **Lack of Accountability** – Accountability is critical to achieving results. Outsourcing must be viewed as a key part of the company's overall business strategy. Further, every company resource, from senior management to interns, must understand that outsourcing is vital, and be accountable for their role in the engagement's success.

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CHALLENGES FINANCIAL FIRMS HAVE EXPERIENCED WITH BPO (continued)

2. **Limited Strategic Buy In** – Without strategic buy in from senior management, key stakeholders, and teams that own the business processes, the engagement is doomed to fail. Most successful engagements have the presence of a senior-level decision maker who champions the project, takes full responsibility for the initiative, and manages all aspects of the engagement.
3. **Choosing the Wrong Service Provider** – Organizations considering BPO must conduct due diligence before selecting vendors. One of the biggest mistakes a firm can make is to select a BPO based solely on the vendor being the lowest cost provider. The result can leave the firm in disarray and cost exponentially more to correct. Large experienced global service providers can be excellent partners because they have scale, stability, and consultative expertise in making strategic investments.
4. **Staff Turnover** – High staff turnover lowers productivity. Project managers need consistency to keep projects on track and manage resources appropriately. Without project team consistency, project timelines are often extended, which leads to additional costs that inflate budgets and incur the ire of cost-sensitive senior management stakeholders. Everchanging project teams create confusion for internal and external groups, stakeholders, and clients.
5. **Lack of Leadership and Oversight** – With an onsite and visible management presence, the likelihood of a project or engagement's success rises significantly. As such, it is imperative that investment firms deploy these key resources to keep projects on track and provide the necessary oversight to ensure that all deliverables are met. Service level agreements provides firms with the ability to effectively manage these relationships. Having an internal leader onsite to manage the outsourced team minimizes the risk of failure, while significantly improving the odds of success.

KEY QUESTIONS TO ASK BEFORE MAKING ANY BPO DECISIONS

1. Would outsourcing specific functions or groups of functions help achieve key organizational objectives?
2. How closely aligned are our core competencies to the skills of the outsourced staff?
3. Have we identified which core functions will be outsourced?
4. How will our key stakeholders including clients, employees, investors, competitors, and fund boards respond to functions being outsourced?
5. In what ways might outsourcing impact IT – will we need to implement new risk and security measures, or protocols to support outsourcing?
6. How closely aligned are the businesses' risk and timing requirements to implement with those of the outsourced solution?
7. Are there conflicts of interest with any of the potential outsourced service providers?

CONCLUSION

Business process outsourcing is an initiative worth exploring when it's based on sound criteria. Organizations that have adopted a successful BPO model will increase scalability and their capability to access new skills, resources, and markets.

Firms perpetually seek opportunities to cut costs and improve scale, which drives an increase in BPO. Cost savings once realized by employing offshore outsourcing centers are shrinking due to their costs associated with high turnover. This coupled with the ongoing introduction of new onshore technology solutions and partnerships, have changed the BPO dynamic. Cloud-based BPO, known as BPaaS, or Business Process as a Service, marks an age in BPO driven by technology and adopted by a growing number of firms.

While BPO expenditures are expected to increase, the main beneficiaries of this growth will likely be companies that provide investment firms with the ability to 'buy' services rather that 'build' (hire staff). As business globalization increases, it will become critical for large financial services firms to have a diverse portfolio that addresses all of these factors influencing organizational objectives.

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Meradia specializes in strategic advisory and implementation services for the investment management industry.

Since 1997 we have helped our clients enhance their processes, productivity and profitability through improvements in operations and technology. Meradia leverages its time-tested methodologies to solve business challenges, including strategic assessment, workflow optimization, vendor selection, and system implementation.

Our extensive client portfolio includes seven of the top 10 global asset managers, institutional asset managers, OCIO, wealth, trust, and global insurance companies. We pride ourselves on our 93% client re-engagement rate.

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