

Financial services organisations are increasingly looking for more from their sourcing advisers to get the full value from their offshoring deals, says **Stephen Warrington** of Diamond Management & Technology Consultants.



# THE EXTRA MILE

**T**he explosion of interest in outsourcing has seen many banks follow other industries in seeking external service providers to handle non-core processes in a more cost-effective way. Now that many of these processes have been effectively outsourced, the pace of growth in the sector has relented a little, but this does not mean that outsourcing has delivered all of its potential value.

Instead, the slowdown is symptomatic of a more mature approach among client firms and outsourcing providers, which is leading to the formation of closer relationships and the outsourcing of more complex, business-critical processes.

## Room for growth

Stephen Warrington, managing director of Diamond Management & Technology Consultants, says: 'The pace has slowed somewhat, but we still see outsourcing growing significantly. The low-hanging fruit has already been harvested, as many firms have outsourced the obvious processes.'

'The biggest driver is still cost savings through offshore outsourcing, but gradually there is a move to include more strategic processes, with firms looking for flexible capacity to free up internal resources. Companies are looking to tap skills that are available elsewhere and are looking to outsource more complex and knowledge-based processes.'

Although confidence in outsourcing is growing among banks, the move towards outsourcing core processes means there is now more pressure on client firms to closely match their needs with the capabilities of service providers, wherever they may be based.

According to Diamond's study of banks' experience of outsourcing, after the initial cost savings in year one, some have

been disappointed not to see similar savings repeated in subsequent years.

Furthermore, issues have been raised about the complicated aspects of change controls in service contracts and the associated costs of altering service levels.

Warrington adds: 'Because of these issues, people are now more thoughtful about outsourcing arrangements and how to allow for the possibility of shifting outsourced service levels in line with changes in their business strategies. The better service providers also want to ensure a more equitable division of the economic rent to create a win-win relationship with their clients.'

## More detailed advice

Much has been said about the changing relationships between service providers and their clients in recent years, with partnership the key word. It is only now, however, that firms are truly focusing on the detail of what is required to develop true partnering.

According to Warrington: 'Partnership means sharing more information early on. It means transparency, rather than creating a game where there is a winner and a loser. We are seeing more growth in the use of advisers to help this process develop, but there is a change in the kind of advice that client firms are looking for.'

Any contract requires the advice of a lawyer, and there are plenty of companies that can provide advice on the documentation and the process required to formalise outsourcing agreements. What is increasingly needed, however, is more in-depth advice on the business elements of outsourcing relationships. This is where companies like Diamond feel they offer added value.

Diamond advises companies in many industry verticals, but it has a specialist team focused on the financial services sector. Its teams comprise experts in strategy, technology and operations, and they take a collaborative approach to helping organisations in the sector, including some of the world's leading banks and payments processors, to achieve optimal value from their outsourcing relationships.

The company has drawn more interest from major banks and insurance companies recently, and feels that its key differentiator is its in-depth knowledge of the business needs of financial services organisations. It continues to build a strong track record on that premise.

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Warrington says: 'People are getting the message about advisers, but they need to keep exploring the different roles that advisers play. When an adviser can offer business knowledge, both parties in the outsourcing deal appreciate it. Advisers can help improve transparency and facilitate more dispassionate discussions and contractual negotiations.'

Business advisers are in a position to help their clients with all steps in the value chain, beginning with a detailed examination of a client's business strategy and how outsourcing might best serve the goals it lays down, right through to an independent review and selection of appropriate service providers and the formalisation of agreements.

This kind of service goes beyond simply identifying a list of likely partners, though this is also a helpful part of the toolkit.

**An external view**

Warrington adds: 'Our knowledge of service providers' capabilities

helps us to draw up a shortlist, but we feel that every client should have multiple proposals. Independent help in evaluating these proposals is useful, especially if an organisation already has its own favourite service providers. We can help defuse internal scraps.'

Another area in which sourcing advisers can help defuse potentially damaging issues is in the perceived backlash against offshoring that has emerged in regard to call-centre operations – an issue that has been a hot potato for many organisations in the financial services sector.

The reaction against offshoring such operations has emerged on two fronts. Firstly, customers have reported growing dissatisfaction with offshore call centres. Secondly, the manner in which offshoring decisions have sometimes been implemented has caused much concern and discontent among employees engaged not only in call-centre operations, but also back-office processes.

The majority of offshore outsourcing undertaken in the financial service sector no longer relates to customer-facing activities such as customer support. In fact a growing number of banks and building societies have made much marketing capital out of informing their customers that such operations are being brought back to the UK. Employees and the unions that represent them have, therefore, become more concerned about the shipping of processing and back-office functions to overseas locations.

Warrington explains: 'It is mainly back-office and IT functions that are being offshored today, but in the future there will also be more outsourcing of more knowledge-based processes, such as research, analysis and document production, which is cheaper in a place

like India but is handled by people who are just as well qualified. The cost is lower, but organisations are getting skills that are as good as or better than they find in the UK.'

This kind of perceived value may well limit the effectiveness of any efforts to stem the flow of offshoring, which may result in employees and the unions that represent them taking a different tack.

Warrington adds: 'We don't see unions becoming more strident in their opposition to offshoring. They increasingly accept it. So, the focus is more on making it happen in the best possible way.'

Sourcing advisers with a broader business focus are well positioned to help their clients achieve a smoother transition to offshoring.

**Covering all the bases**

With the right kind of sourcing advisers, banks can take a more holistic view of their outsourcing activities, with guidance at many levels of the process.

Strategic advice, along with advisers' knowledge of service providers and the potential risks of different locations around the world, can go hand in hand with guidance on the mechanics of developing the right kind of service agreements and the best methods for developing partnerships between clients and service providers.

Warrington says: 'We look at the full range of options to best serve the business needs of our clients. Our edge is that we work at the intersection of business strategy, execution and technology. We can look at the whole range of issues, both strategically and tactically as part of a broader view of sourcing – which does not just mean outsourcing. We help clients decide what should be insourced, what should be run as part of a captive operation and what should be handed over to third-party providers.'

'We are also totally objective, as we don't sell any downstream service,' adds Warrington.

The burden of choice for banks considering outsourcing is steadily shifting away from decisions about which service provider can best serve their needs towards choosing which kind of adviser can best guide them through the entire sourcing process. With the emergence of sourcing advisers like Diamond, which can assist their clients on many different levels, this choice seems set to involve less risk and deliver more opportunity. FBA

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**Stephen Warrington**

Stephen Warrington is the managing director of Diamond's UK and European activities. He has extensive experience in leading management advisory businesses and has worked widely in the UK and continental Europe serving the top management of major companies.

Warrington's principal industry focus is in financial services, covering retail and investment banking, insurance, asset management and cards. His functional expertise includes strategy, marketing, operations and broad performance transformation programmes.

Warrington has MBA with high distinction from Harvard and a first class BSc in finance from City University London.

**Further information**

Diamond Management & Technology Consultants Ltd  
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