

Recent research suggests that companies are now seeking more value from their IT outsourcing agreements, placing a greater emphasis on quality alongside price. **Paul Burgess**, managing director of financial services outsourcing at Accenture, says it may be time to change the name of the game.



# THE NEW NAME OF THE GAME

Outsourcing of technology applications and services has been around a long time, especially in the financial services industry. But in many respects, IT outsourcing today bears little resemblance to that of ten or even five years ago.

As outsourcing practices (as well as the vendors themselves) have matured, the focus of outsourcing arrangements has broadened from cost to performance improvement and quality. This is especially important as more financial institutions look to entrust core activities and applications – long considered ‘untouchable’ for outsourcing – to qualified third parties.

A recent Accenture survey of senior executives in the financial services industry – which included banks, insurers and capital markets firms around the world – sheds light on this evolution and maturation. The 230 participating executives largely agree that their outsourcing arrangements have met or exceeded expectations. Yet they also concur that the quality of the outsourcing provider will play a much bigger role in future decisions about what to outsource and to whom, and that how they structure future service level agreements (SLAs) can go a long way towards creating even more effective outsourcing relationships, enabling them to achieve high performance.

## Quality moves to centre stage

According to the survey, conducted in conjunction with the Economist Intelligence Unit, the quality of the outsourcing provider has become increasingly more important to experienced users of outsourcing as compared to pure cost considerations. Nearly half of the survey respondents were C-level and all of whose companies had experience of outsourcing some aspect of their operations. The financial organisations represented spanned Europe (37%), North America (37%) and Asia Pacific (20%). The IT services and application outsourcing

issues covered by the survey included lessons learned from outsourcing experiences, satisfaction with past and existing outsourcing arrangements, obstacles and success factors in outsourcing, and likely trends in IT services outsourcing over the next three years. The findings provide clear evidence that outsourcing is maturing in the financial services sector, as well as the fact that outsourcing vendors are generally meeting or exceeding clients’ expectations.

One of the most compelling findings of the survey is that financial services companies are giving more weight to quality in their outsourcing decisions. Although the vast majority of respondents said their outsourcing arrangements met or exceeded expectations, many still saw room for improvement. Of those who said they would have done something differently given the chance, 28% indicated they would have chosen a higher-quality outsourcing vendor – even if that vendor was more expensive. This

represented nearly six times as many respondents as the 5% of executives said they would have chosen a cheaper vendor even it would have resulted in lower quality delivery.

What is so striking about this finding is that it clearly demonstrates the maturing approach to IT outsourcing among financial services companies. While the original mandate for outsourcing was to reduce costs, financial services executives who have been through the experience now recognise that cost – while still

important – is not the only factor in outsourcing.

## Discerning quality

But if that is the case, what does ‘high-quality vendor’ actually mean? For starters, a high-quality outsourcing vendor has global reach, a strategic and seamless delivery network and deep experience in its clients’ industry – experience that enables the provider to understand the unique business challenges that its clients face and devise innovative ways to address them.

In other words, it is not enough for a vendor to be skilled in applications development and maintenance, IT infrastructure management or software testing. To generate more than cost benefits, an outsourcing vendor must have in-depth knowledge of the business processes unique to financial services.

Such knowledge enables the vendor to make informed judgment calls when faced with a specific challenge and to pinpoint underlying root causes of problems instead of simply fixing problems as they arise. Furthermore, experience in a client’s industry enables a vendor to better understand how specific technologies and applications align with the client’s overall business

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**Outsourcing troubles**

- Difficulties in managing a remotely located service
- Barriers caused by geographic or time differences
- Language and cultural differences
- Poor coordination between in-house and offshore teams

operations and, consequently, ensure that applications closely meet their users' requirements.

**IT outsourcing keeps expanding**

Another example of the maturity of outsourcing in financial services is the increasing willingness to consider outsourcing more IT-related activities – even those that are considered core to the business. For instance, according to the survey, 46% of application management of secondary systems, such as marketing or human resources applications, is currently outsourced. In three years, respondents expect that figure to rise to 56%. Similarly, while 36% of software testing and certification is outsourced today, 47% of those activities are anticipated to be handled by external providers in the next three years.

The biggest increases in outsourcing over the next three years are expected to be in website management (from 39% to 51%), IT helpdesks (from 31% to 46%) and desktop management (from 29% to 43%). And though the percentage of application management of strategic/primary systems is only anticipated to rise from 35% to 38%, it is noteworthy that nearly 40% of such core systems are considered suitable for a third party to manage.

The fact that financial services companies are growing more comfortable sending these and other IT activities offshore is also significant. This is especially true of website management, IT helpdesk, application management of secondary systems, software testing and certification, and IT infrastructure and architecture design.

Not surprisingly, India is the most popular offshore destination (cited by 57% of respondents), but China is becoming increasingly prominent, named by 28% as the second most popular destination for overseas outsourcing.

That is not to say that domestic outsourcing providers will be left out in the cold. Indeed, a higher percentage of companies will outsource eight of the ten IT-related activities covered by the survey to domestic vendors in the next three years than is common today. The percentage of companies outsourcing the other two activities domestically is expected to remain the same during that timeframe.

Overall, the percentage of financial services

executives reporting use of only domestic outsourcing vendors is projected to drop from 47% to 28% three years from now. Conversely, the percentage of executives planning to use a mix of domestic and offshore resources will rise from 32% to 45% in the next three years, while the percentage of those using only offshore resources will jump from 8% to 13%.

**Lessons learned**

As they turn to IT outsourcing engagements in the next three years, financial services companies can learn from the experiences of others in overcoming some of the obstacles commonly faced when teaming up with a third party. This is especially valuable for institutions that intend to increase their use of offshore resources, which have their own unique set of geographic and cultural challenges.

For instance, when asked to indicate the main difficulties their companies have encountered in establishing and managing their outsourcing arrangements, the vast majority of executives selected at least one challenge from the list provided in the survey. However, nearly half of the executives laid the blame for such troubles squarely at their own feet: 48% said a lack of internal expertise in managing outsourced functions effectively was the biggest difficulty they faced. And about 25% indicated a poor understanding of their business goals by the outsourcing provider was a significant problem.

When asked what they would do differently when negotiating an outsourcing contract to minimise such challenges, the largest percentage of executives (39%) said they would make sure the SLA was better defined to eliminate ambiguity and guesswork – both on the part of the vendor and themselves. Less than a third said they would include a financial bonus/penalty framework to ensure closer alignment between their interests and those of the service provider. And 29% reported they would outline a more robust governance structure to deal more effectively with any problems that might arise during the contract.

Interestingly, 25% of executives said they would choose a contract of shorter duration, even if it meant the annual cost of the arrangement was higher. Such an approach would give the organisation greater flexibility in the relationship and put pressure on the provider to perform at a consistently high level over the course of the contract.

Yet, despite the fact that a large percentage of executives said they would improve their SLAs the next time around, it is worth noting that this is not because they were dissatisfied with their past or existing SLAs. In fact, a majority of respondents reported their SLAs either met or exceeded their expectations in terms of process efficiency, predictability and clarity, as well as vendor flexibility and personal service.

IT outsourcing today is considerably different from what it was ten or even five years ago. In the past, most financial services companies outsourced to gain cost efficiencies in areas deemed non-core to their businesses. Now, outsourcing has matured into an established business practice that enables institutions to do much more than save money.

Indeed, the most effective outsourcing arrangements help companies improve IT activities of every kind and level – core and non-core alike – by providing access to resources and capabilities that are critical to high performance in an exceptionally challenging environment. FBA

‘Outsourcing has matured into an established business practice.’

**Further information**

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