BUSINESS PROCESS OUTSOURCING
Four questions to ask when developing a strategy for your bank.
INTRODUCTION

Why should banks consider Business Process Outsourcing (BPO) today? A better question to ask may be why wouldn’t a bank consider Business Process Outsourcing today? Given the ability to identify specific tasks and functions that can be outsourced on the latest technology, financial institutions address many of the business drivers facing them today – with selective outsourcing.
Margin pressures and rising operational costs aside, two critical business drivers of the momentum in banking BPO are dealing with an older, aging workforce and managing multiple vendors.
Aging Workforce

According to a Government Accountability Office (GAO) report issued in 2006, the number of workers over age 55 is projected to increase significantly over the next 20 years, with this demographic group compromising as much as one-fifth of the nation’s workforce by 2015.

Banks will not remain immune to this national trend. Older workers with critical knowledge and intricate back-office experience will leave their respective financial institutions. Banks will need to think creatively to fill this labor and skill void.

Vendor Management

In addition to addressing an aging workforce, banks are under increased pressure to manage their key suppliers more closely. Financial institutions are responsible for the services their key partners provide, making it costly to develop deep relationships with all vendors. Fewer tightly knit partnerships will replace wider lists of bank vendors. This trend will cause banks to look for single solution providers that can offer bundled packages of banking technology, combined with the staff to support business functions.

Regulators expect banks to carefully manage and obtain information from their vendors. As such, fewer quality partnerships will replace multiple arrangements with a wide variety of different vendors.

Not a Cost Takeout Play

Given these current trends and market drivers, many financial institutions need to evaluate their BPO strategies with a fresh set of eyes. Bank buyers will migrate away from the “lift and shift” BPO model, where the only value metric is based on cost per employee.

Source: GAO, 2006
The following four questions will assist bankers in developing a more refined and comprehensive BPO strategy.
Four questions to ask when developing a Business Process Outsourcing strategy for your bank.

1. What are the gaps between our bank’s growth strategy and the organization’s ability to deliver?

Most financial institutions base their strategic plans on growth – organic, through acquisitions, or a combination of both. As executives consider specific tactics necessary to support these growth objectives, they need to consider alternative sourcing options. Thinking creatively and working with an outsourcing partner can leverage capabilities to support many different growth tactics.

A bank may want to vigorously pursue consumer lending, but may hesitate to add the support staff required to ramp up the business. A BPO partner familiar with the bank’s loan origination platform can supply people on a variable basis. This allows the bank to scale consumer lending operations quickly (and to easily adjust them downward if market conditions change).

Growth through acquisition (never an easy process) requires a bank to consider temporary resources to ease the consolidation of two disparate operations. BPO can assist in many facets of merger consolidation activity. Call center resources familiar with banking technology can supplement existing call center resources to ease customer concerns and offer valuable front-line support during the transition.

Whatever the institution’s growth strategies, the variably priced expertise offered by a BPO partner can help realize topline benefits while avoiding fixed expenses.
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What processes do not add unique value to our bank, but must be provided to maintain service levels?

All bankers need to assess the activities their institution does well and which provide unique value to the customer. In that assessment process, executives will also identify many tasks their bank does merely to get by. These functions are the mundane, common tasks that become a requirement for doing business for financial institutions – jobs that need to be done to satisfy customers, but also jobs that do not offer the ability to charge a premium price.

Tasks that do not add value to your customers are prime candidates to outsource to a more efficient provider. Many common banking tasks can be delivered easily by a third party if they have expertise in the banking technology supporting the task. Two examples of such process outsourcing are signature card management and transaction dispute management.

Transaction Dispute Management

Certain BPO providers can help banks address transaction dispute management efficiently, with superior customer services. FIS can handle the entire life cycle of the dispute process. FIS Virtual Back Office supports the transaction review, research and resolution of the consumer’s dispute. The steps in the process cover the following and are represented in the graphic on this page:

a. Analyze the dispute along with merchant-supplied information and make a decision.

b. Make appropriate financial adjustments and handle decisioning for credits, chargebacks, etc.

c. Notify the consumer and merchant regarding the final disposition.

d. Handle all consumer communications required by the regulation.
What processes do not add unique value to our bank, but must be provided to maintain service levels? (continued)

**Signature Card Management**

A BPO provider skilled in deposit operations can manage the entire signature card process on behalf of a bank. Resources familiar with the bank’s deposit and imaging system can take over coordination of the multistep signature card process. This removes a time-consuming process from bank staff that may be prone to errors. Benefits of outsourcing signature card management include:

- Faster turnaround of signature cards, improving customer service levels
- Fewer card handling errors due to standard processes and procedures
- More management able to focus on other operations that add value to the bank
How can my bank compete on customer service?

Many (if not all) banks desire to provide exceptional customer service as a strategy to differentiate themselves from competing financial services providers. Certainly the personal touch that smaller community bankers can provide helps them raise the customer service bar. However, new technology such as mobile banking and online loan applications are increasing the need for personalized call center customer service.

As online technology offers customers banking on their schedules, it also increases support demands during non-business hours. Financial institutions must offer immediate, quality support for prospects who may be having trouble opening a new account online at midnight. They must also assist mobile banking users who may need help connecting to their account during the middle of the night.

Outsourcers can provide after-hours customer service that supplements a bank’s call center staffing. The outsourcer’s staff should be experts in online banking products that may prompt customers to call for assistance at unusual times. Extending customer support after hours provides a strong plank in the competing-on-service-level strategy to which many banks simply pay lip service.

A Prime Example

One example of a BPO provider helping a bank provide call center services is the case of FIS and Astoria Federal Savings. When Hurricane Sandy left many branches literally under water, call center support from FIS was implemented within 24 hours to supplement the bank’s available call center staff. The FIS resources understood the bank’s primary technology platform and were able to assure both bank customers and employees that business would return to normal as soon as possible.
How can I best align resources to meet fluctuating market conditions and demand?

Bankers considering outsourcing business processes must evaluate those business activities that tend to have dynamic and unpredictable volumes. The mortgage business is a case in point. In times of low interest rates, originations tend to grow significantly, and recede as rates become higher. Servicing demands respond inversely to originations, as higher rates find more mortgage loans needing to be serviced. The graphic on this page illustrates this market dynamic.

Operational efficiency and profitability goals drive banks toward easily scalable resource models. And unless banks are large enough to deploy resources between functional areas, carrying a staff to meet peak market demand does not make much sense.

In these cases, a BPO partner can offer variable pricing and carry the overhead for the staffing needed to meet market demand. Nothing demoralizes employees faster than unexpected layoffs, which BPO can help avoid entirely.
Banks need to consider the BPO offerings that best meet their strategic objectives. Consideration of solutions such as Virtual Back-Office services that combine banking technology and skilled human resources helps create both cost savings and unique service advantages for savvy bankers.