2022

OUTSOURCING INTELLIGENCE FOR FINANCIAL INSTITUTIONS

Expert insights on how to get the most from outsourcing, from selecting providers and service models, to the Return on Investment firms can realistically achieve.

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INTRODUCTION AND THANKS

A host of factors have conspired to make operational innovation a priority for financial institutions. Margin pressures have made cost control a real concern for many firms amid simultaneously soaring expectations around technology and the user experience from both clients and personnel.

Financial institutions have an urgent imperative to deploy cutting-edge technology, yet it can be assumed that relatively few want to become technology experts in themselves. Outsourcing is now well recognised as a sensible path for institutions seeking to focus on core business areas where they can differentiate, rather than trying to maintain expert capabilities in an area where they aren't experts - and likely don't wish to be.

Attitudes towards outsourcing and Business Process Outsourcing (BPO), the activities being outsourced and what the drivers and challenges might be are all topics which *WealthBriefing's* research touches on regularly. We are delighted to be taking a deeper dive into them with this research paper and **webinar** partnership with FIS Platform Securities Holdings Ltd, which sees a host of new angles explored.

A DEEPER DIVE

As well as looking at the ripest processes to be outsourced, attitudes towards outsourcing, and the key drivers in outsourcing decisions, this paper tackles some of the most important practicalities around these engagements - the appropriate length of contract and how long institutions should expect to wait to see value from outsourcing decisions being chief among them. Our expert commentary on this point is a particularly illuminating read.

We also examine what firms should be focusing on when weighing up potential outsourcing providers, this being an incredibly consequential decision with a lot for financial institutions to consider if they are to make the right one. As our expert contributors discuss, it is also one which all too many rush into, with predictably sub-optimal results. Read on for some extremely valuable insights into the attributes that firms should have on their "shopping lists" as they navigate the flourishing ecosystem of service providers.

WealthBriefing is very grateful to the following expert commentators for this report, all those who were kind enough to take part in our global survey and FIS Platform Securities for supporting this important study.

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Head of Research
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CONTRIBUTORS

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EXECUTIVE SUMMARY

1 Our survey confirmed that financial institutions see lots of “low-hanging fruit” when it comes to activities which could usefully be given away to third parties: although custody and trading are seen as the activities most ripe for outsourcing, securities processing, data and cybersecurity were not far behind.

2 Although minds have greatly opened towards outsourcing in general in recent times, perhaps the most remarkable development has been in attitudes towards Business Process Outsourcing (where whole business activities, often IT-intensive ones, are outsourced). Now over half (53%) of respondents said their institution’s attitude towards BPO is favourable or very favourable, while just 7% are negative.

3 While the prospect of better cost control and efficiency gains are seen as the strongest motivators towards outsourcing, survey respondents gave a great deal of weight to a range of other factors, underscoring just how broad their ambitions are when contemplating this operational approach. Significantly, an improved ability to upgrade or adopt new technologies is seen as the third strongest driver towards outsourcing; indeed, as this report discusses, outsourcing is increasingly seen as a route to technological future-proofing.

4 Correspondingly, the quality of a provider’s technology and their level of innovation tied with brand and reputation as the most important attributes financial institutions are assessing when they enter a selection process. Although institutions do of course expect to see a significant Return on Investment from outsourcing, cost factors do not seem to figure that highly at all in their deliberations in themselves, suggesting that a broad-based appreciation of the business benefits achievable through good though not necessarily cheap provision, is now entrenched.

5 When it comes to how long institutions expect outsourcing decisions to take to deliver Return on Investment, respondents are largely split between those expecting a 1-2 year timescale to value (46%) and those happy to wait 3-5 years (40%). Happily for outsourcing providers, only 8% expect to see value within a year, although immediate cost-savings are achievable.

6 The question of how to settle on a contract term that is long enough to be meaningful and allow value to manifest, versus financial institutions tying themselves in for too long yielded more mixed responses: while 37% of participants believe 2-3 years is the right length of contract, for 39% 4-5 years is more appropriate. Interestingly, a full 25% would be willing to tie up with an outsourcing provider for 6 years or more.

7 Outsourcing seems to increasingly be a point of pride: as an overall score, institutions are split 46-54 between those which prefer to be “quiet” and perhaps white-label a third-party solution, against those who are happy to be known for outsourcing and would cite their partners.

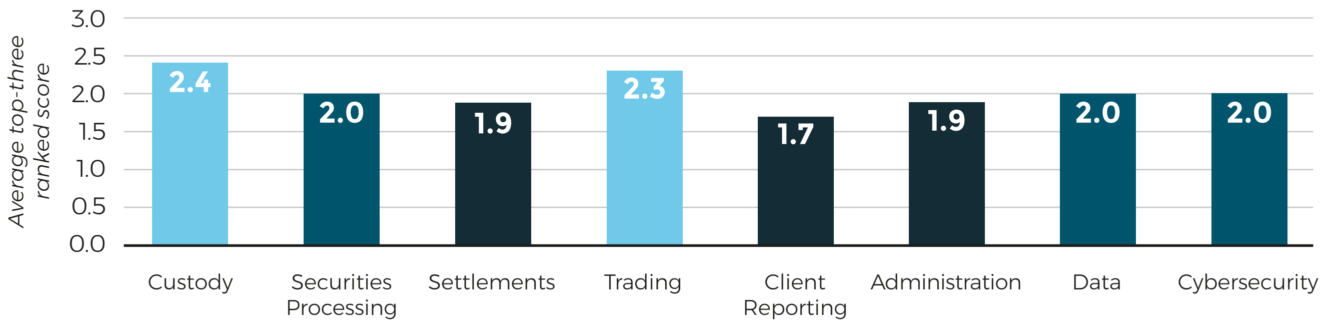
8 Institutions are cognisant of the barriers to outsourcing that do remain, however: change fatigue is seen as the biggest barrier to outsourcing, with expectations of pain integrating with existing systems close behind.

SECTION 1

LOTS OF LOW-HANGING FRUIT (BUT CHOICES WILL BE SECTOR-SPECIFIC)

The rise of outsourcing in financial services has been one of the biggest trends in the past decade or more. It has been enthusiastically embraced even by private client institutions which had hitherto preferred to keep all operational and technological capabilities closely held in-house.

FIGURE 1
What are the top-three processes most ripe for outsourcing at your firm?



To give a sense of the change which has taken place, back in 2013 *WealthBriefing's* annual "Technology and Operations Trends in Wealth Management" report found 69% of respondents believed outsourcing was underdeveloped in the sector; whereas in 2021 four in ten firms were outsourcing some if not all of their middle- and back-office activities.

"An increased ability to focus on core competencies is, or should be, a big driver because clearly there are operations which confer no advantage and where you can really benefit from outsourcing through the scale effect."

Rising profitability and competitive pressures, particularly around the digital experience for both clients and advisors (and other personnel), have forced the realisation that processes need to be streamlined and automated end-to-end in a way that allows firms to focus on core strengths while keeping up with cutting-edge technology. All this has powerfully opened minds to alternative operating models where even a very high level of reliance on third parties can be seen as a wise strategic move. It perhaps wouldn't be a stretch to say that the strategic question now seems to be just how much to outsource and to whom, rather than whether to at all.

So, what is the "low-hanging" fruit? As Figure 1 shows, our survey participants see custody and trading as being the processes most ripe for outsourcing at their institution, but securities processing, data and cybersecurity were not far behind.

As the experts pointed out, securities processing is one of those activities which is just expected to be correct and therefore adds little value to the perception of the client experience (although it certainly detracts from it if something goes wrong). "An increased ability to focus on core competencies is, or should be, a big driver because clearly there are operations which confer no advantage and where you can really benefit from outsourcing through the scale effect," said Ian Woodhouse, Lead Wealth Management Transformation and Thought Leader for Europe at Accenture Wealth and Asset Management.

It is significant, meanwhile, that data management is not seen as a particular area of strength by many institutions: participants in *WealthBriefing's* 2021 "Technology and Operations Trends in Wealth Management" report gave their firms an average score of just 74/100 for the management and use of client data, despite 71% having said that improving data management was a priority in the previous global benchmark.

A widespread desire to seek third-party expertise in cybersecurity could also be seen as a response to a known weakness: our 2021 "Technology and Operations Trends" report also found that cybersecurity confidence had hit strikingly low levels: respondents rated their firms just 72/100 on average globally and, while worries were most pronounced among European firms (66/100), even the most confident Asia-Pacific ones still only awarded themselves 81/100 on average.

And the threat level has been ratcheting up dramatically. According to Accenture's latest "State of Cybersecurity Resilience" report, cyberattacks were up 31% year-over-year in 2021 as investment management firms gained visibility as attractively lucrative targets and hacking tools became more accessible. Many financial institutions are therefore probably acutely aware that they lack the digital infrastructure (and potentially also the internal expertise) to effectively fend off cyberattacks of the level of sophistication frequently found today.

START WITH WELL-DEFINED FUNCTIONAL AREAS

On the very long list of activities institutions could look to outsource, the first thing to remember, according to Woodhouse, is that "Across the board, outsourcing works best when you have a well-defined functional area and particularly around IT." Then, what the best candidates for outsourcing are varies by business model, and of course the type of institution. "In investment banking, for instance, it tends to work well in securities transaction processing and treasury, which are big, high-volume areas for those institutions, while in asset management the most obvious candidates are trade settlements and core custody," he continued.

> "Across the board, outsourcing works best when you have a well-defined functional area and particularly around IT."

"There has been an uneven adoption of outsourcing in financial services, leaving wealth managers probably less evolved in terms of outsourcing compared to other financial services sub-sectors," Woodhouse pointed out. As with technological enhancements generally, however, this might give wealth managers a degree of late-mover advantage in implementing new solutions at their most sophisticated stage of development (and with outsourcing providers who by now may be very experienced in implementations indeed).

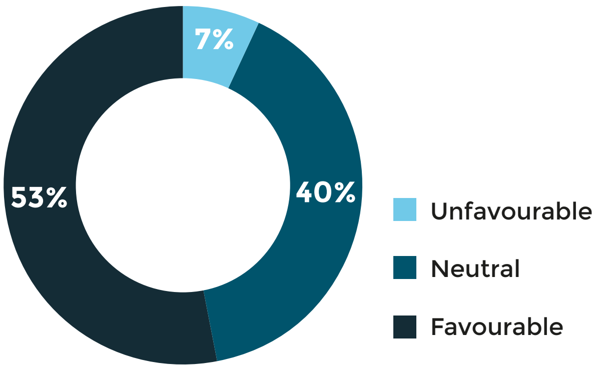
Woodhouse also highlighted how KYC/AML is a key growth area for outsourcing in wealth management, evidence that not only do firms see enlisting third-party expertise as a robust way to mitigate against risks in business-critical areas of compliance, but also that institutions are indeed happy for third-parties to be involved in activities which very much touch upon the client experience.

John Beeston, CEO, FIS Platform Securities Holdings Ltd – UK Wealth Management, agreed that institutions are increasingly looking at third-parties for activities which are more integral to the client journey and even for them to take over important milestones of day-to-day servicing like onboarding and statements. However, as he and others pointed out, firms will only be happy to allow third parties to touch the client experience insofar as integrations are seamless and friction is not introduced into processes. As Figure 9 shows, fears that integrations with existing systems will not go smoothly are seen as the second biggest barrier to outsourcing.

FIRMS FAVOURING BPO ARE NOW IN THE MAJORITY

Alongside an opening of minds to outsourcing generally, there is now a marked willingness for firms to outsource whole business processes, particularly IT-intensive ones: over half (53%) of respondents said their institution's attitude towards Business Process Outsourcing (BPO) is favourable or very favourable, while only 7% are negative (a negligible 1% said this wouldn't be considered at all).

FIGURE 2
What is your institution's attitude towards BPO? (amalgamated)



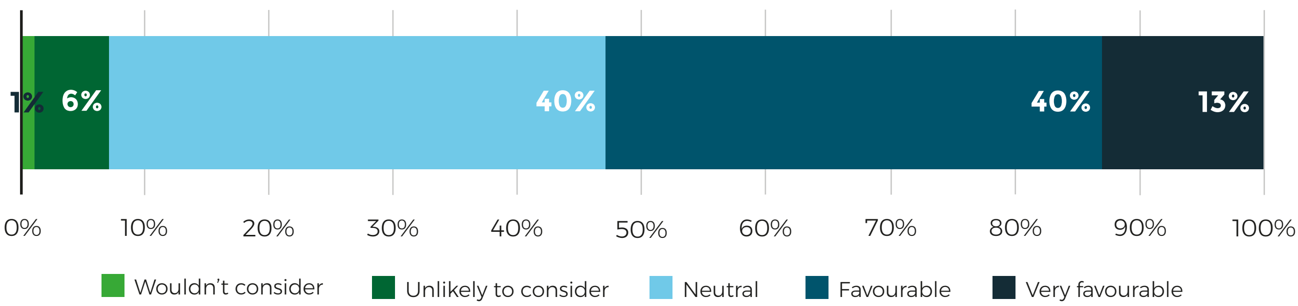
Shifts in thinking may have been percolating over a number of years but, in the words of Ian Willis, Director, Quai Administration Services, "the pandemic period represents a watershed in attitudes towards BPO". "Historically, firms may have been in favour of BPO in principle, but many have been wary of that level of outsourcing as being a one-way street it's difficult to come back from," he said. "But then the pandemic forced new ways of working so that a more decentralised and collaborative approach is now much more accepted."

> "The pandemic period represents a watershed in attitudes towards BPO. Historically, firms may have been in favour of BPO in principle, but many have been wary of that level of outsourcing as being a one-way street it's difficult to come back from. But then the pandemic forced new ways of working so that a more decentralised and collaborative approach is now much more accepted."

OPERATIONAL RISK AND RESILIENCE

The crisis taught institutions a tough lesson in how an inability to quickly pivot to a technological new

FIGURE 3
What is your institution's attitude towards BPO? (breakdown)



normal - like remote working and meeting clients only virtually - could rapidly become an *existential* threat. As Woodhouse pointed out, it also highlighted specific weaknesses in operational resilience even on what should have been the good news side of the equation: “Many firms saw huge increases in trading activity in the early stages of the pandemic, and some found their operational platforms couldn’t cope with the increased volumes.”

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It is often said that the pandemic brought the sector’s technological progress forward by several years, or even more; it has certainly shown firms how much can be achieved at speed when the requirement is urgent enough. Important too is the heightened visibility over operations created by this crisis period, and greater clarity over what firms do – and do not – see as strengths. “Firms can now see more easily which activities they can define and outsource, which means you see engagements with outsourcing providers getting underway far more quickly today,” Willis said.

“The UK wealth and asset management sector has been consolidating at all-time high levels in recent months, partly fuelled by private equity, and this drives the need to scale. The need for speed, cost control and scale, particularly in an M&A context, are changing attitudes to BPO dramatically.”

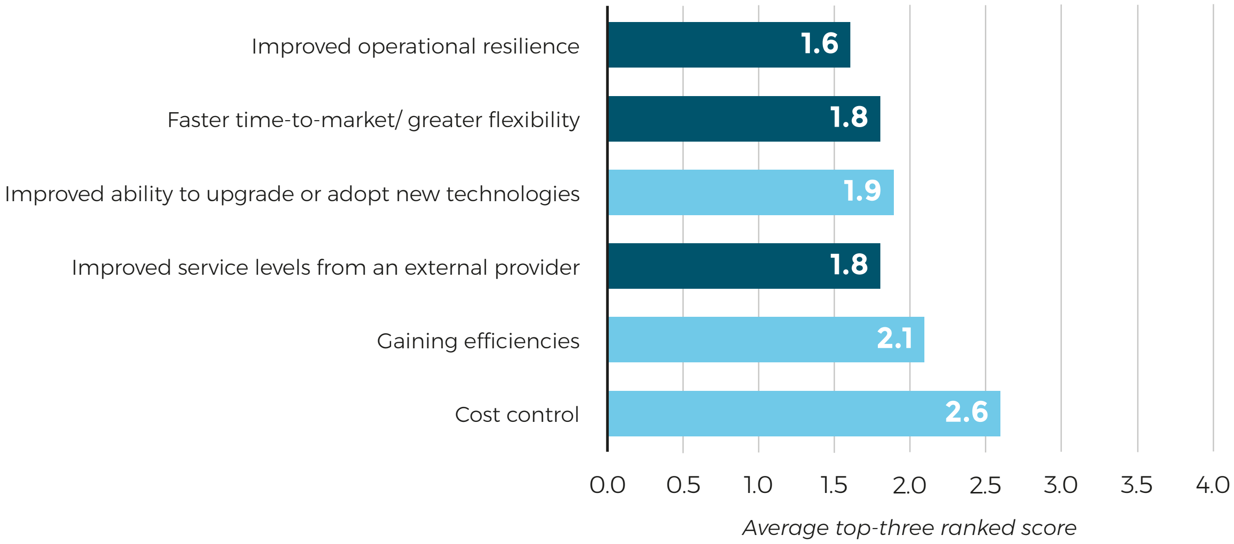
As the experts observed, there now seems to be a far greater appreciation that BPO, and outsourcing generally, can be a highly strategic and perhaps even fairly short-term choice, so that institutions can achieve scale or superior service quickly in a specific target area. This, Woodhouse argued, also means that the frenetic pace of M&A seen across so many markets, but particularly in the UK, is also providing a major boost to the outsourcing movement. “The UK wealth and asset management sector has been consolidating at all-time high levels in recent months, partly fuelled by private equity, and this drives the need to scale,” he said. “The need for speed, cost control and scale, particularly in an M&A context, are changing attitudes to BPO dramatically.”

SECTION 3

TECH AMBITIONS ARE CLOSING IN ON COSTS AND EFFICIENCIES AS AN OUTSOURCING DRIVER

Perhaps predictably, our survey showed that the prospect of cost savings and efficiency gains are the strongest motivators towards outsourcing. As Willis explained: “Cost control is certainly almost always among the strongest initial drivers because it’s the most tangible element to the institutions. Firms know their current costs are for executing a certain discipline and so they can clearly see what they stand to save by giving it away.”

FIGURE 4
What do you see as the strongest drivers towards outsourcing?



As expert commentary for *WealthBriefing’s* recent wealthtech-focused research has emphasised, the plethora of paths institutions could pursue in technology means that it can be very helpful to focus with great discipline on areas which will clearly deliver the most “bang for their buck”. The same goes for outsourcing decisions, the contributors to this report said.

“The ability to move from a fixed cost model to a variable model, and one which is moreover highly transparent, is a big motivator for our clients today.”

There is also a real sense that providers are working hard to provide pricing and service models which suit individual firms in the broad church that is financial services. Here, Beeston emphasised the importance of the *type* of costs firms would prefer due to their desire to build cost implications into their growth projections more easily and be more accurate (and competitive) with things like client fee schedules. “The ability to move from a fixed cost model to a variable model, and one which is moreover highly transparent, is a big motivator for our clients today,” he said - adding that there is also a lot of scope for cost models to be aligned with a particular firm’s growth phase with smaller, boutique-type firms often preferring to work on a usage model while larger ones might opt for an Assets under Management (AuM) charging.

MANY MANIFESTATIONS OF VALUE

The experts also urged firms to distinguish between what might be termed marque drivers which are easy to quantify in terms of gains, and those which might be harder to measure (and take longer to manifest), but which may be just as important over time.

> "Cost will always be key but institutions are now looking beyond that to the new technologies. We're only just starting to scratch the surface of AI and machine learning to build what you can call intelligent operations."

Costs count, clearly. Yet the popularity of a range of other choices in our survey underscores just how broad firms' ambitions are in this area. It was no surprise to the panellists that ambitions to be able upgrade or adopt new technologies figured so highly in the motivating factors towards outsourcing. "Cost will always be key but institutions are now looking beyond that to the new technologies," said Woodhouse. "We're only just starting to scratch the surface of AI and machine learning to build what you can call intelligent operations."

TURNING TO TECH SPECIALISTS

As is often pointed out, few financial institutions are well set up to pursue innovation in-house in all the directions modern firms must today, or at least not in a way which is scalable and cost-effective, and so at a time when technology is increasingly one of the primary battlegrounds for winning and retaining clients, a growing reliance on third-party specialists can be seen as a natural result.

> "Cloud is a key focus because it allows you to move so much faster in partnerships and product development."

Happily, the dramatic proliferation of providers and solutions means that financial services firms now have more choice than ever when it comes to the composition of their operational platforms, and it is perfectly possible for an institution today to opt for a completely modularised approach, adopting various plug-and-play capabilities as their needs change. The desire, or perhaps more accurately need, for faster and less costly integrations with third parties has made Application Programming Interfaces and cloud-first design principles central to the innovation conversation. "Cloud is a key focus because it allows you to move so much faster in partnerships and product development," said Woodhouse.

> "Ultimately the outsourcing movement is trending towards service quality and client experience."

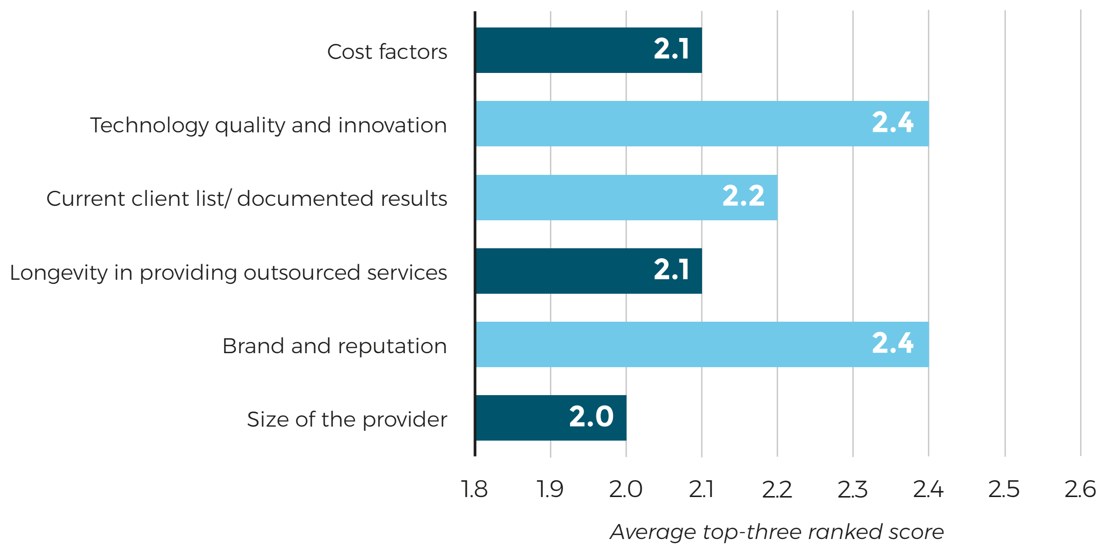
But nor is even a trifecta of cost-control, efficiencies and technological prowess the end of the story. In the words of Woodhouse, "Ultimately the outsourcing movement is trending towards service quality and client experience", and this too was very much represented in our survey findings (along with a desire to attain faster time-to-market and stronger operational resilience through outsourcing). As several of the experts observed, being able to re-focus on core business with the confidence that specialists are taking care of ones which might be seen as somewhat extraneous is a common objective when outsourcing.

SECTION 4

TECHNOLOGICAL PROWESS; BRAND AND REPUTATION RULE WHEN SELECTING PROVIDERS

Given the array of business benefits institutions are seeking through outsourcing, firms need to be looking at a wide range of attributes when weighing up providers – and they very much are, according to our survey. However, given previous results, it is as to be expected that technology quality and innovation was ranked as the joint-first consideration alongside.

FIGURE 5
Which attributes are most important in an outsourcing partner?



Here, Willis made the salient point that "the operational service institutions want having outsourced is not the same as they currently have provided to them in-house". "They are moving out for a reason and that reason is often that they might have outdated systems or infrastructure, yet don't want to completely overhaul these from a cost perspective," he continued.

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And, just as important as accessing modern capabilities without making significant capital outlay, is the intellectual capital an institution can gain from the partnership. "It enables firms to stay informed about cutting-edge developments which, since they aren't technology firms, they wouldn't necessarily know about otherwise," added Willis.

OUTSOURCING AS A PATH TO FUTURE-PROOFING

Sarah Soar, CEO, Hawksmoor Investment Management, agreed that partnering with leading outsourcing providers can be a vital conduit to technological prowess which financial institutions may find it difficult, expensive and certainly not quick to achieve for themselves. But she also sees this as a long-term strategic benefit as well as a solution for right now. "The industry is progressing technologically at a really rapid pace, so we need to be future-proofing what we're doing," she said. "We need to be working with organisations which aren't just thinking a few years ahead, but rather 10 or 15 years ahead, and have the capacity and size to be able to move at speed."

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"In our global consultancy and systems integration work we're also starting to see a real focus on determining how forward-looking the outsourcing provider is because it's becoming more about forging an innovative partnership due to the need for speed and client experience expectations ratcheting up quite considerably," agreed Woodhouse. EY's 2022 "Future of Advice" report predicts that client expectations in wealth management will soar by more than 40% between 2020 and 2025, with demand for sophisticated products and services very much coming from mass affluent investors as well as those further along the wealth spectrum.

"We're a global organisation providing payment solutions, risk management and trading on a global scale. Having the ability to tap into that intellectual resource and experience is phenomenal and can only benefit not only existing clients but also future ones because it gives you a forward-looking, cross-disciplinary view."

For Beeston, "the collegial learning and collective IP element is really important" to that future-proofing, and this can be particularly powerful if the provider has a diverse portfolio of clients crossing jurisdictions, regulatory regimes and business models.

"We're a global organisation providing payment solutions, risk management and trading on a global scale," he said. "Having the ability to tap into that intellectual resource and experience is phenomenal and can only benefit not only existing clients but also future ones because it gives you a forward-looking, cross-disciplinary view." And, as he further observed, this also better enables institutions operating in various countries to have their outsourcing wishlists drawn together and rolled out either at a global or local level.

BRAND AND REPUTATION RULE

The rapid growth in outsourcing providers has provided a level of choice impossible not so long ago. However, as Woodhouse pointed out, this means "it's becoming increasingly difficult to choose the best-fit provider." Correspondingly, brand and reputation was borne out as the joint-top factor in this process.

As Soar observed, "Brands and reputation take years to acquire and seconds to lose, so when you're looking to outsourcing you absolutely want to ensure you're choosing a provider who is not going to damage your brand and reputation, let alone their own." The vital importance of these factors is clear, yet assessing them is not necessarily easily and calls for a mixed methodology, in her view.

"Brands and reputation take years to acquire and seconds to lose, so when you're looking to outsourcing you absolutely want to ensure you're choosing a provider who is not going to damage your brand and reputation, let alone their own."

Here, she advises that institutions should combine formal due diligence, like examining certifications and technical specifications, with more informal due diligence focused on perceptions in the marketplace. Existing client lists can certainly be an element of this, but she sees a faster and potentially more accurate route in executives leveraging their networks and simply asking around. "The best thing to do to my mind is to speak to people who actually use those providers to find out how their experience has been, as although their firm might be different to yours that will still give you a good feel for whether their provider will work for you," she said.

"Taking time to research and find the right partner is imperative to achieving the right result. I think sometimes people rush because they're being pressurised, but then end up spending more time unpicking what they've done."

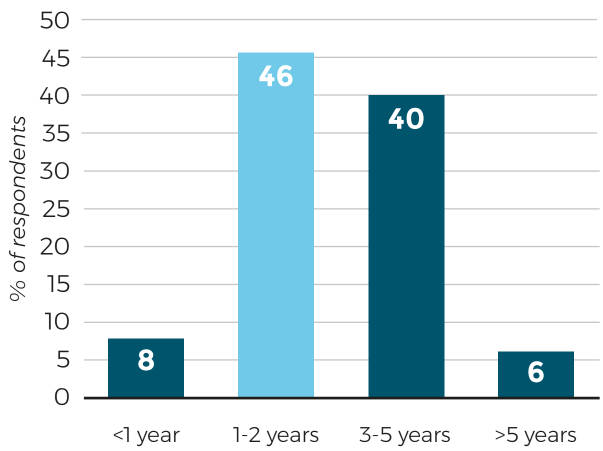
Most important of all, she argued, is not to be rushed into decision, even if the imperatives to outsource are starting to weigh heavily. "Taking time to research and find the right partner is imperative to achieving the right result," Soar said. "I think sometimes people rush because they're being pressurised, but then end up spending more time unpicking what they've done."

SECTION 5

INSTITUTIONS ARE SPLIT ON WHEN VALUE SHOULD BE DELIVERED

When it comes to how long institutions expect outsourcing decisions to deliver Return on Investment, our survey sample was largely split between 1-2 years (46%) and 3-5 years (40%), although those voting for the shorter timeframe were slightly in the majority.

FIGURE 6
When should an outsourcing decision deliver ROI?



Here again the experts cautioned that timescales for value delivery very much depend on the nature of the engagement and the client, particularly its size and stage of development. A couple of years or even less might be reasonable in certain circumstances, argued Willis, as "the perception of ROI might be fairly immediate if the firm in question is a young, hungry company which might be outgrowing its small capacity internally".

"Yes, there are potentially immediate cost savings to be achieved, but if you consider keeping technology at the cutting-edge, coping with regulatory change and your vision for the next 5, 10 or 15 years, then ROI actually becomes more about outsourcing as a means to achieve growth. It's about the forward view: do you put £10m into your own technology or invest half into an outsourcing relationship and half into your digital client experience?"

He would expect things to necessarily go slower with a larger company where there is a well-established back-office and infrastructure, but in that case the ROI is likely to be bigger, albeit taking longer to achieve, because of the need to pay great attention to any risks facing the company. "A big bang brings larger risks," he said.

OUTSOURCING AS AN INVESTMENT

Beeston agreed that FIS usually sees 3-5 year expectations for achieving cost savings, but he also advocated firms taking a longer view and a broader conception of what ROI means. "Yes, there are potentially immediate cost savings to be achieved, but if you consider keeping technology at the cutting-edge, coping with regulatory change and your vision for the next 5, 10 or 15 years, then ROI actually becomes more about outsourcing as a means to achieve growth," he said. "It's about the forward view: do you put £10m into your own technology or invest half into an outsourcing relationship and half into your digital client experience?"

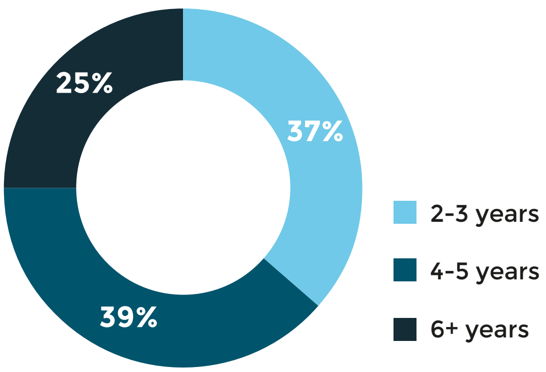
Such a relationship may be seen as more of a permanent arrangement, but interestingly Woodhouse recalled some recent examples from his consultancy and systems integration practice where outsourcing was a short-term means to operational service improvement and ROI was seen in that sense. "Firms may want to establish a shared service centre but lack the skills in-house and so they're looking for a provider who can lift it, shift it, improve it and then, in some cases, return it back, so outsourcing options and approaches can be flexible as a source of improvement," he said.

SECTION 6

A SLIGHT MAJORITY ARE CONTEMPLATING A CONTRACT LENGTH OF 4-5 YEARS

It seems clear that institutions want to see ROI (although perhaps not in full) from outsourcing within 5 years, and their views on the optimal length of contracts are broadly aligned, albeit with a significant 25% who would be willing to look at 6 years or more. A slight majority are contemplating a contract length of 4-5 years in an outsourcing arrangement.

FIGURE 7
What is the right length of contract for an outsourcing relationship?



Total >100% due to rounding

As Beeston observed from his experience, a 3-5 year view is sensible for well-established companies, and particularly those with lots of legacy business to transition in, because of the length of onboarding required – including the time it takes to bring back-office, advisors and clients themselves along on the journey. He also cautions that shorter contracts can be self-defeating "because once you've embedded the solution and all the stakeholders have started to get comfortable with it, the last thing you want is upheaval."

Contracts of a meaningful length - of not less than 2 years and ideally closer to 5 - seems to be the broad advice from the experts. That said, due to the multiple goals institutions are likely to be pursuing, and the different ways that value might manifest for them over time, firms should really be in continuous assessment mode. "You need interim checkpoints all the way along, in the short, medium and long term, to ensure you continue to get the value you require," said Woodhouse.

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For their part, outsourcing providers also have to be very attuned to how things are going, and any changes that may need to be made. "You also have to be assessing ROI along the way and potentially remapping your project plan, because client relationships rarely stay static," said Willis. "It is vital to be able to flex with the client institution as they evolve and align with their business plan, rather than enforcing your vision on them."

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And of course, the process of developing a deep understanding of a particular financial institution's vision should never neglect those who really matter most: investors themselves. "Outsourcing providers need to remember that there's always a client at the end of the client, so it's vital to understand how *they* operate too," said Beeston.

SECTION 7

OUTSOURCING CAN BE A POINT OF PRIDE (WITH THE RIGHT PROVIDER)

Although openness to outsourcing has been on the rise for a good many years and the pandemic boosted the movement more to a huge degree, there remains the matter of just how comfortable financial institutions are about making these arrangements known to clients, or even talking about them publicly.

FIGURE 8
How open about outsourcing would your firm want to be?

Average scores on a 1-100 scale (100 being happy to talk publicly)

Naturally, such questions take on even greater significance in high-prestige sub-sectors like wealth management where reputation and discretion rule, and where, as a consequence, firms may have preferred to keep third-party technology choices a fairly quiet affair. However, our survey - which focused heavily on the wealth and asset management sector, including the UHNW family office and private banking space – found that such reticence is actually a minority position: institutions are split 46-54 between those which prefer to be "quiet" and perhaps white-label a third-party solution, against those who are happy to be known for outsourcing and which would cite their partners.

This growing openness was seen by the experts as another facet of the core competencies piece which fuels so much of the outsourcing movement, to the extent to which engaging the right third parties can be – and increasingly is - seen as a point of pride.

"There's nothing to hide if you've made the right choices."

"As the CEO of a wealth management firm, I'd like to be known for looking after clients and their portfolios rather than for having a fantastic IT department - I'd rather outsource, and proudly outsource," Soar argued. "If you've done your due diligence properly and chosen the right partner, then why not say 'We're proud the technology is powered by X so we can focus on what we're employed to do', which is to manage people's wealth. There's nothing to hide if you've made the right choices."

A BADGE OF HONOUR

In fact, this kind of publicity is already being embraced by firms at both ends of the longevity spectrum, according to the experts. "Although some prefer to be fairly quiet about it, you do now also see large, well-established institutions happy to acknowledge or even publicise that some parts of their operations are outsourced. If you're powered by a specialist in a certain area, it's like the 'Intel Inside' messaging," said Willis. "On the flipside, a young, growing company may wish to leverage the reputation of the outsourcing provider and use that as a 'badge of honour' if they are well established and well respected with a good footprint in the market, because people will know that in order to get there you have to be serious."

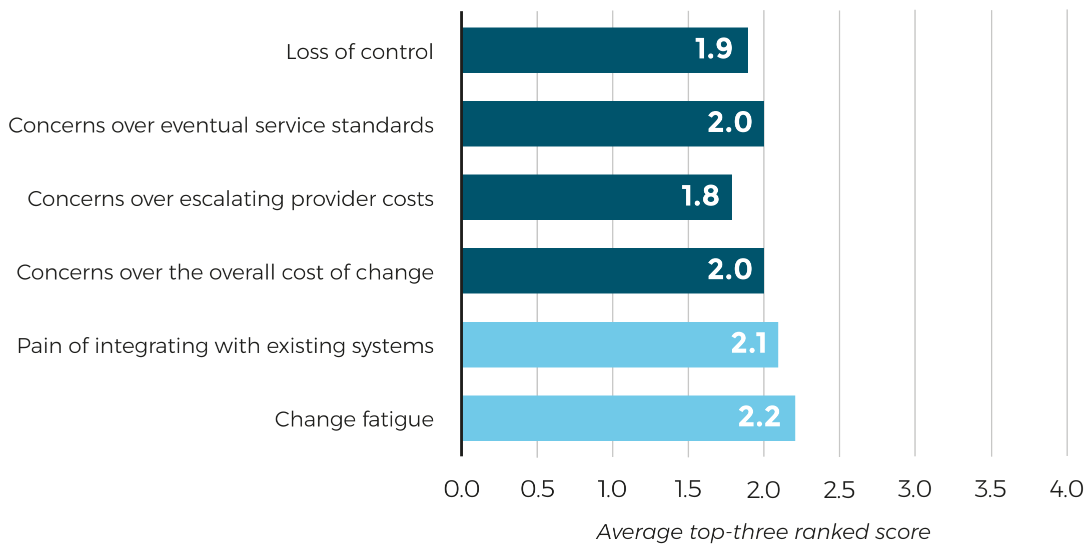
Financial institutions do then seem to be rapidly coming around to the view that (done correctly) outsourcing can add to their brand value and client experience in myriad ways, as well as bolstering their bottom lines in more prosaic cost-control and efficiencies terms. What then might be standing in the way of those staying strictly in-house to this point?

SECTION 8

CHANGE FATIGUE IS SEEN AS THE BIGGEST BARRIER TO OUTSOURCING

Given the frenetic pace of technology change in financial services – which has been even more dramatic in the wealth sector due to its slower start in digitisation – it is unsurprising that our survey respondents saw change fatigue as the biggest barrier to outsourcing facing financial firms. There is, however, much that can be done to address this possibility, keep personnel happy and ensure that adoption is maximised.

FIGURE 9
What are the biggest barriers to outsourcing business processes?



Soar first advises that institutions do concede that change fatigue can be a real challenge (something made all the more necessary by the all-round disruption to working environments everyone has suffered in recent years). The corollary, she observes, is that change shouldn't happen too regularly, bringing us back to the importance of making the right choice of provider and contracts of a reasonable term.

She then advocates a structured deployment plan which recognises the significance of outsourcing as a strategic decision, and aims to bring everybody along right from the start. "To make it work I think you need to engage with all the relevant stakeholders in the business to make them part of the journey; they need to understand the rationale in the first place, which is likely to have come from consistent feedback on what isn't working as well as it might," Soar said. "Then it's about consultation, managing expectations and keeping everyone updated every step of the way – you can't just plough ahead and drop something on the business, because then you might see real resistance."

WHAT DOES SUCCESS LOOK LIKE?

Beeston agreed that a clearly defined – and understood - rationale is imperative. "Outsourcing, or indeed any technology project, can fall down when there's poor communication, scope creep or a poor understanding of why they did it in the first place – and there's a trail of that out there in our industry," he said. "It's very much about communication, at the beginning and all the way through, and a shared sense of what success will look like that reaches across the business. That in turn rests on understanding the client and what their needs are, their infrastructure and how they operate." The broad skill sets, experience and communication skills required mean that a leading provider should have dedicated onboarding teams at both the local and global levels as FIS does, in his view.

"It's very much about communication, at the beginning and all the way through, and a shared sense of what success will look like that reaches across the business. That in turn rests on understanding the client and what their needs are, their infrastructure and how they operate."

Although providers obviously have a huge part to play in setting up and following through on outsourcing engagements optimally, our experts were however united in the view that the institution itself should have its priorities and vision for the change largely clear before even thinking about selecting a provider. "Setting out priorities and vision for the change in a business requirements document or the equivalent is absolutely key right at the start - although you rarely see a perfectly formed version straight away, which is why outsourcing providers must take a highly consultative approach," said Willis.

The need to set out a shared vision which is carefully thought through and yet can flex as the financial institution does, cannot be emphasised enough, the experts argued; as they advised, enthusiastically embracing the possibilities of outsourcing should never mean rushing on the plan, the rollout, and - most important of all – selecting a provider.

"Setting out priorities and vision for the change in a business requirements document or the equivalent is absolutely key right at the start - although you rarely see a perfectly formed version straight away, which is why outsourcing providers must take a highly consultative approach."

As Beeston concluded: "Like any change programme, outsourcing isn't necessarily easy, so you have to get it right up front and go on the journey together as one team.

"Both the institution and the provider need to have a perfect understanding of why the business wants to outsource in the first place and what, among the plethora of benefits it can bring, will really move the dial for them. After all, if you can't articulate what success will look like, then how can you achieve it?"

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CONCLUSION AND METHODOLOGY

CONCLUSION

We can expect outsourcing to continue to be central to the operational innovation and technology conversation in the financial services sector although, as the expert contributors to this paper have emphasised, outsourcing and BPO partnerships tend to play out on almost a case-by-case basis - making it difficult to predict trends across the sub-sectors, let alone across the whole of financial services.

Our survey has shown that institutions are seeking to achieve a very wide range of objectives via outsourcing, and will be taking a close look at a potential provider's brand and reputation, and its technology roadmap for the future, when making a selection. Outsourcing organisations can expect rigorous due diligence processes from institutions as part of their growing reliance on third parties in critical areas of operations.

Yet our survey also makes it clear that wealth managers see outsourcing as something that should be a fairly lengthy commitment and that although cost savings can kick in almost immediately, that they can be patient in waiting for full value to manifest. If things are set up correctly, they can be very good clients, in short.

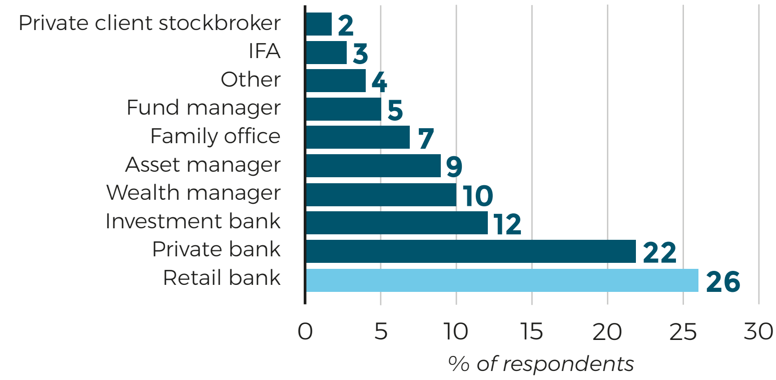
The symbiotic evolution of the financial services sector and the outsourcing providers which serve it may form just one part of the technology and operational innovation landscape, but it is a particularly revealing one as it speaks to so many of the industry's ongoing challenges and opportunities. We would be delighted to hear reader's thoughts on outsourcing, or any other topic they think worthy of further investigation.

WENDY SPIRES
Head of Research
WealthBriefing

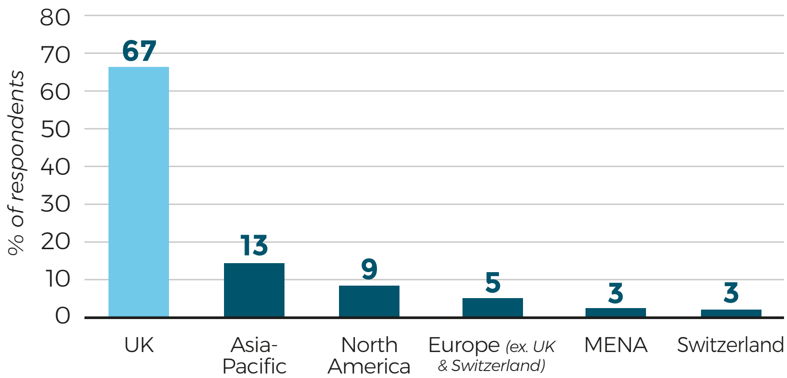
METHODOLOGY

100 financial services professionals were surveyed for this study in Q1 2022. The characteristics of this sample was as follows:

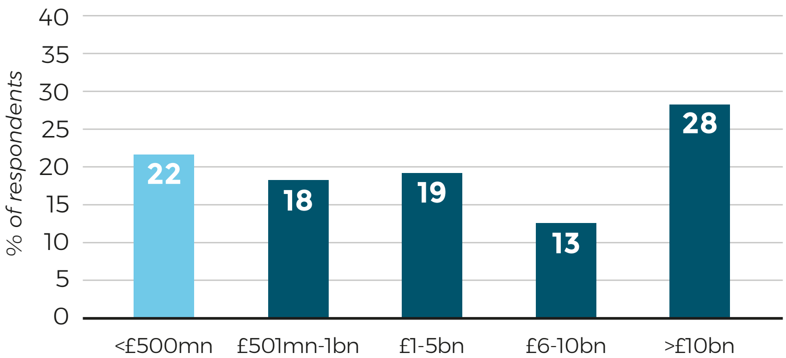
TYPE OF INSTITUTION



RESPONDENT REGION



ASSETS UNDER MANAGEMENT



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