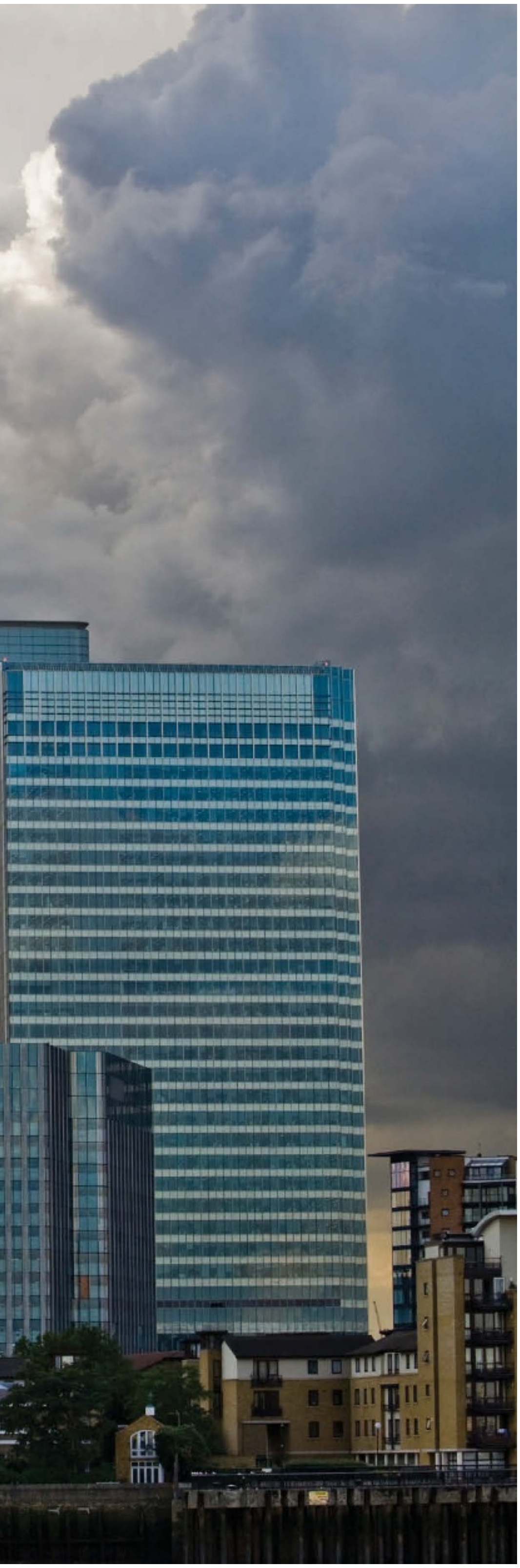
AFTER THE CRISIS

In our new "Provider Perspective" series, each issue Outsource *will be gauging the views of members of the provider community on key topics and trends within the outsourcing space. This time round, we look at the new financial services landscape in the wake of the financial crisis: what have been the consequences and how has providers' business changed since those fateful days two years ago?*

By the end of 2010, banks' losses as a result of investing in toxic assets are expected to exceed $2.8 trillion. (Source: Bloomberg)



outsource: What do you see as having been the most significant consequences of the global financial crisis and subsequent downturn for the global outsourcing space? Why?

Tony Collins, MD, OPAL: There has been a lack of decision-making in financial services companies since the crisis. Part of the reason for the "paralysis" in these organisations is that many of the senior figures fell victim to a cull following the crunch, and their replacements have not yet been to make many significant strategic decisions.

We have also seen a swathe of M&A activity which has resulted in fundamental organisational change in the industry. This also affects decision-makers in these organisations, many of whom have either moved up, on or out. This is especially true of the UK life insurance industry.

Finally, most financial services companies are now aware that they need to start moving forward and offering new products and services - the worst of the crunch is (hopefully!) over and it's time to embrace change and rebuild market-share. This will be a good thing for outsourcers.

Gary Page, Chief Financial Officer, ADA: The global financial crisis has caused a reluctance to invest from banks which, in turn, has placed restrictions on companies wishing to embrace a transition into outsourced solutions. In some cases, companies that were considering outsourcing have chosen not to, due to the perceived risks around unfamiliar territory and a desire to keep the money within their business.

Interestingly, ADA Technology Services has seen an increased uptake in IT managed services as financial organisations become keener to outsource their IT function to allow them to focus on their core businesses strategies. As opposed to viewing outsourcing as a risk, many financial services companies have been reassured by the predictability and flexibility of costs associated with a managed services offering.

Looking at our business, we can honestly say that the financial services sector represents the fastest growing market.

outsource: Similarly, what do you see as having been the most significant consequences of the global financial crisis and subsequent downturn for the outsourcing space in your particular geography? Why?

Les Mitchell, Director, FusionExperience: My long-term concern is that just at the time when outsourcing has finally achieved credibility, an environment may have been created that encourages in-sourcing. In effect, small and start-up businesses are unlikely to find outsourcing to small operators a satisfactory experience.

Today's start-up is often tomorrow's scale player and innovations such as cloud computing are giving access to technologies at affordable cost. It also facilitates migration to more advanced solutions as the company grows. When these companies become self-sufficient at reasonable cost, the need to outsource is less imperative. We may find ourselves with a generation of companies who may not be convinced about the merits of outsourcing.

Sergei Levteev, CEO, IBA Group: Outsourcing of IT services in Eastern Europe and the CIS was less affected by the crisis than the entire global outsourcing industry, primarily because this sector is not highly developed in the region. Budget reductions impacted on hardware and software sales, while IT services remained largely untouched. However, many IT outsourcing providers in Eastern Europe were affected by the downturn because they depend on outsourcing projects from Western Europe and the US. For instance, most of IBA's outsourcing revenue comes from Germany and the US. A diversified service portfolio and a client base consisting of solid western and eastern vendors, as well as strong reputation, saved the company from downsizing and enabled it to grow further.

"Any idiot can face a crisis, it is this day-to-day living that wears you out." – Anton Chekov

outsource: Did the role played by outsourcing in financial services firms' strategic visions change long-term as a result of the crisis, and if so how and why?

Walter Schulze, Head Business Consulting Services EMEA, HP: Outsourcing proved to be an attractive opportunity for customers who were feeling cost pressure during the economic downturn. In the UK, financial services organisations reviewed various outsourcing options but ended up administering IT needs in-house.

In terms of long-term strategic vision, banks have started to collaborate on reducing costs and complying with industry regulations. For example, the Open Data Center Alliance, a new IT consortium [is] bidding to create open, interoperable data centre and cloud computing standards.

outsource: How did the crisis and downturn impact upon providers in terms of a) their offerings to their existing financial services clients; b) their proposals to potential financial services clients; c) their own corporate strategies?

Walter Schulze, Head Business Consulting Services EMEA, HP: Service providers aimed to give customers more choices, improved services and more competitive pricing. In light of the economic downturn, HP Enterprise Service announced an enhanced set of applications and infrastructure management services that use flexible pricing and tiered levels of service to help clients contain costs.

This reflects what's happening in the financial services industry – customers are seeking more options. The flexible pricing enables clients to choose higher service levels for critical applications and lower service levels for less-strategic applications.

Financial services organisations are also seeking best shore locations, allowing them to operate in time-zone-relevant countries which offer a significant employee base that can deliver various highly scalable services. These centres can offer multiple capabilities such as applications, infrastructure technology and business process outsourcing services.

Pete Smith, Sales Director, ProArtemis: Talking to our financial customers the downturn has placed them under a lot of pressure to create a leaner and more efficient organisation. In times of crisis financial services customers become much more discerning about the levels of service they are willing to accept and this motivates them to have as efficient a service as possible. It appears companies are moving more towards a web-enablement model, which in turn forces them to tighten up on security to ensure this does not make them vulnerable to hackers. This explains why there is a trend among financial services organisations to do more penetration testing. Efficiency drives are also responsible for another trend: deployment of Blackberry Enterprise Servers to securely manage all kinds of mobile applications.

outsource: Can you give examples of any outsourcing decisions taken by financial services firms during or immediately following the crisis which have since been reversed as the global economy has stabilised?

Tony Collins, MD, OPAL: Several projects or new product launches were shelved during the credit crunch. Structured Products launches in particular have been affected. Things have stalled but it is now starting up.

Pete Smith, Sales Director, ProArtemis: The financial crisis forced many financial services companies to look for ways to cut costs. Traditional courses of action such as outsourcing of support services to call centres in India, Pakistan etc have fallen out of favour. Many firms are now reversing this decision. Many of the call centres were unable to deliver customer satisfaction with negative consequences for market share.

outsource: How have those financial services firms which required state support or even the state acquisition of equity utilised outsourcing, and have there been significant political obstacles to overcome before this could be carried out?

Sergei Levteev, CEO, IBA Group: State-owned banks use outsourcing to the same extent as private banks. In the CIS countries, there were no cases when financial firms were acquired by the state to save them from bankruptcy. However, national risk insurance funds were created, and both private and state-owned banks contributed financially.

@jesse___: What if the lack of crisis is pausing the momentum?

Walter Schulze, Head Business Consulting Services EMEA, HP: Financial services organisations, state-owned or not, are all seeking to reduce costs and be more efficient. Decisions to outsource depend on how cost-effective it will be, the quality of service and solutions, the increased flexibility, the manageability and efficiency it offers, or by specific project requirements with a need for specialised skills.

outsource: How far do you see the crisis as representing a fundamental shift in financial services firms' attitudes towards outsourcing rather than merely accelerating existing trends?

Tony Collins, MD, OPAL: For years the same institutions have dominated the FS market, but the crisis has transformed the playing-field with the twin forces of nationalisation and new entrants such as Tesco. The "nationalised" banks are having to work on thinner margins and at some stage they will want to buy their banks back from the government! Consequently they will need to bring more profitable and innovative products to market in order to gain market share and rebuild margins. The industry has been shaken but it is still not moving fast enough: confident leaders need to emerge in FS institutions to drive things forward again after the stall.

outsource: Have some sub-sets of the financial services sector embraced outsourcing more fully than others?

Tony Collins, MD, OPAL: In short, yes! Investment banks have been advocates of the outsourcing model as they don't want to be bogged down in technological issues and would rather focus on what they know best. Equally the life insurance industry has been happy to offload legacy systems to outsourcers. Retail banks have been the slowest to react - many of the banks seem to hold the view that outsourcing is too big a risk for key product areas. Hopefully, the realisation that outsourcers are subject to the same regulatory scrutiny the banks are will start to change this mindset.

Walter Schulze, Head Business Consulting Services EMEA, HP: Insurance, Retail Banking and Capital Markets have embraced outsourcing. Reducing costs for functions such as payment services, addressing regulatory compliance and customer behaviour have become priorities for clients in these sub-sets. In addition, firms in these industries are also seeking new ways to be agile, including incorporating best shore strategies, and transitioning infrastructure services to outsourcing partners if that proves to be a more cost-effective approach.

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outsource: What do you see as being the major drivers for change in the global financial services sector over the next few years and to what extent will these drivers have ramifications for the outsourcing space?

Daniel Mitchell, Lifeline IT: The financial services sector, especially accountants, were early adopters of technology, embracing remote and home-working which has led to a greater need for robust, reliable and secure IT infrastructure. With outsourcing, companies can have access to very specialist and skilled resources without building or maintaining these in-house. This is particularly relevant in rapidly changing areas such as IT security. External suppliers… bring expansive knowledge and know the benefits and potential risks that the fast-moving technology world can offer. Cyber-security is a major issue for UK businesses, especially the financial services industry. The nature of the data accountants handle, coupled with the fact they may be representing high-profile clients, could make them vulnerable to attacks. This threat will only accelerate the shift towards further IT outsourcing, as the industry wises up to both the financial and security benefits of using external IT suppliers.

Pete Smith, Sales Director, ProArtemis: Globalisation is happening rapidly and therefore outsourcing is becoming more popular in general. Companies would generally prefer to use one company for all of their outsourcing than two or three companies for different areas of the business. The systems you are running have to be running 24/7 and at capacity which is hard on the business. Outsourcing allows the business to become more proactive in the way that they work. We understand that emerging markets are becoming a threat for outsourcing and therefore need to be more diverse in our solutions, products and where we deliver them to.

Les Mitchell, Director, FusionExperience: The most important driver is going to be gaining access to major technology platforms which are currently out of the reach of all but the largest players in the industry. The investment cost, particularly in technology, of being a top player in the provision of outsourcing services is now so significant that it serves as an important barrier to entry. The gap between the best and worst providers is also considerable. As a result of these factors I do not envisage a significant increase in the number of providers and I would expect a small number of exits from the industry.

As always cost is a major driver, but I believe that, as the outsourcing market settles after the crises, major cost-savings will be increasingly difficult to achieve. There will also continue to be a large number of new entrants to the market who will be less convinced about the merits of outsourcing. Finally, emerging markets will also have a significant impact on the FS sector and will initially create opportunities for the big providers who have a global reach.

By September 2009, 9.2% of all US mortgages either were delinquent or had gone into foreclosure. (Source: MBAA.org)