

FEATURE ARTICLE

Driving more of an outsourcing culture in Asia

The launch of Avaloq Sourcing Asia Pacific in november 2014 signifies a formal commitment to offering private banks a way to tackle the pressure they are under from the escalating operating costs due to the mounting regulatory and compliance burden they face.

Avaloq's official launch of a business process outsourcing (BPO) centre in Singapore in November 2014 represents a significant next step forward for the group in its foray into Asia.

It follows on from the vision the company had when it first entered the BPO market back in 2011 – to build a global processing network.

With Avaloq's senior management flying in to Singapore for the launch, which was attended by a group of senior wealth management practitioners, it has been able to move closer to achieving its objective.

Commitment to Asia

The company's BPO model in Switzerland has seen tremendous growth over the last few years, underpinned by the growing challenges in the domestic private banking industry – in turn forcing banks to re-think their strategy and business model.

The launch of Avaloq Sourcing Asia Pacific represents the expansion of this disruptive financial services capability to the banking community in Asia Pacific.

“Avaloq has made a commitment to Singapore and the investment by putting the BPO centre here in the regional hub”

Peter Scott, Avaloq



“Costs in bank processing is a volume business and the consolidated volumes arising from our BPO service will translate into increased efficiency and profitability for participating institutions.”

Peter Scott, Avaloq

According to Peter Scott, general manager for Avaloq Asia Pacific and chairman of the board for Avaloq Sourcing Asia Pacific (Singapore), one of the reasons the firm finds Singapore attractive is because of the quality and the training of the staff on the ground, the educational base and the resources available in the local market.

“Avaloq has made a commitment to Singapore and the investment by putting the BPO centre here in the regional hub,” says Scott.

“The banks in Singapore and around Asia Pacific generally are suffering continuing pressure on cost-income ratios from the combined impacts of compliance costs, pressure for greater relationship manager efficiency and client demand for greater sophistication from digital channels,” he explains. “Costs in bank processing is a volume business and the consolidated volumes arising from our BPO service will translate into increased efficiency and profitability for participating institutions.”

Yet the managed banking services offered by the firm is a much richer proposition than just simply BPO.

Adds Francisco Fernandez, Avaloq’s group chief executive officer: “In a networked world we need to think of banking as a value network more than a value chain integrated into one big institution. But if everybody sticks to their core competence and is interconnected with others who are playing to their core competence, you can add more value to the end customer.”

Ultimately, Scott says BPO is important to banks in Singapore because it is all about dollars. “It is all about profitability and the way in which by using this service, the banks actually get a series of benefits which translates into the bottom-line.”

When looking at other mature markets, like the US, where federal and state regulations have driven up the cost of compliance, nearly 85% of all the financial institutions have decided to outsource their banking operations, adds Scott.





Some of the key take-aways from the launch event included:

Managed banking services in Asia

- Avaloq sees Singapore as a huge opportunity to service clients in the Asia Pacific region given that banks from Europe are setting-up shop in Asia and trying to make a valuable wealth management proposition
- While Singapore is still an emerging market in terms of BPO, a conservative Avaloq estimate is that S\$947 million (US\$727 million) of the S\$6.3 billion in overall back-office and IT costs will be outsourced by 2020
- Avaloq is in talks with several clients to service through its newly set-up BPO in Singapore – from which it can be more attractive to potential clients in China and India

Beyond cost control

- The benefits of BPO have expanded beyond just contracting business functions to a third-party to lower labour costs
- The second and third generation of BPO models is about industrialisation and also value-chain fragmentation
- The level of standardisation offered by a BPO brings down costs due to efficiencies of scale. Banks can therefore focus on the core capabilities
- The freedom that comes with outsourcing essentially gives the firm a variable cost structure and the bank can scale up or scale down operations easily, depending on their regional needs
- A variable cost structure also allows a degree of flexibility in terms of strategic decisions which allow for swift sale or purchase of units or operations of one bank of department

Reaping the benefits

- Avaloq isn't looking at only delivering operational excellence through BPO – it is aiming to create a digital client experience
- To become a marketplace, Avaloq plans on linking the participating banks' street side product creation capabilities with the advisory channels offered by other institutions in other financial centres
- While some banks in Asia have ignored the trends suggesting the rise of the digital age in banking, technology can be used to leverage resources
- A platform which puts the power in the customers' hands is something symbolising the future of banking
- People are increasingly going to their friends and peers for advice, rather than their bankers
- Concerns around loss of control of information, or cyber threats and security issues should not be a stumbling block