

FEATURE ARTICLE

Inside Avaloq's Asian journey

Banks in Europe today are comfortable embracing technology to drive efficiency, at the same time realising the benefits of outsourcing core business processes. It's now time for more banks in Asia to do the same, says Francisco Fernandez, Avaloq's group chief executive officer, speaking exclusively to Hubbis at the firm's launch of its Singapore-based BPO hub for Asia.

The global financial crisis in 2008 dramatically changed the conversation between regulators, banks and clients. The upshot, in the name of protecting the interests of key stakeholders, especially the end-investor, are much stricter requirements to ensure, among other things, that banks have more robust policies and processes in place for all aspects of their back-, middle- and front-office operations.

The focus for banks, should be on what they're best at, meaning product creation and client advisory.

In striving to find solutions to confront mounting regulatory and compliance challenges and focus on their core capabilities, an increasing number of private banks in Europe – especially Switzerland – have been outsourcing various elements of their operations. Initial concerns in relation to the concept of any information or data moving outside the organisation have been surpassed by the efficiency gains.

Spotting this opportunity early on, Avaloq has positioned itself in the European, and especially Swiss, banking landscape as a key provider of business process outsourcing (BPO).

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While initially just an extension of the firm’s traditional business in providing solutions in the form of integrated, modular banking suites to enhance back-, middle- and front-office functionalities, the BPO offering now outshines other aspects. Roughly two-thirds of all revenue, for example, now comes from the BPO business, and 60% of Avaloq’s staff is dedicated to it.

“In a networked world we need to think of banking as a value network more than a value chain integrated into one big institution,” says Francisco Fernandez, Avaloq’s group chief executive officer. “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.”

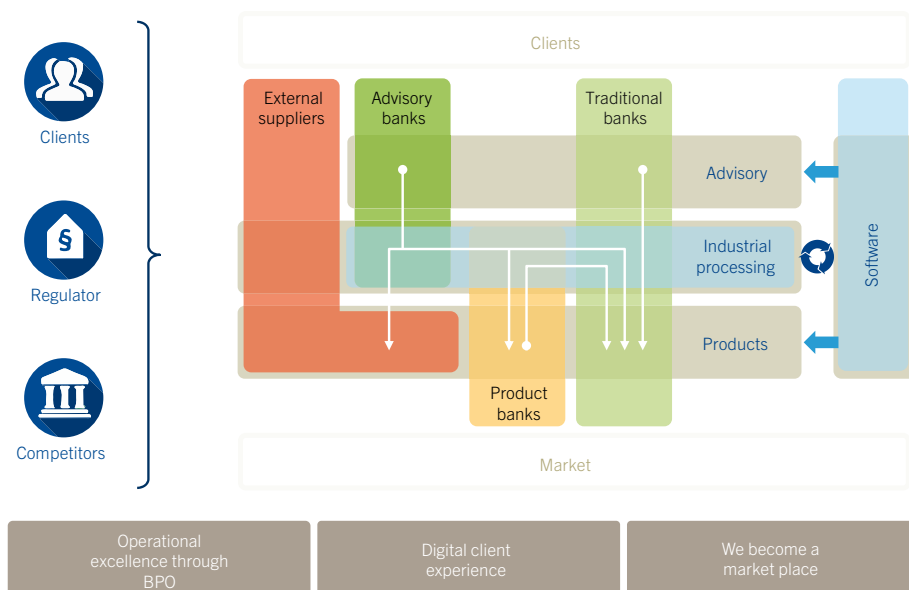
Avaloq has now brought this expertise and experience to Asia. In November 2014, it completed the formal launch of its BPO service capabilities from its new Singapore-based BPO subsidiary.

Untapped potential

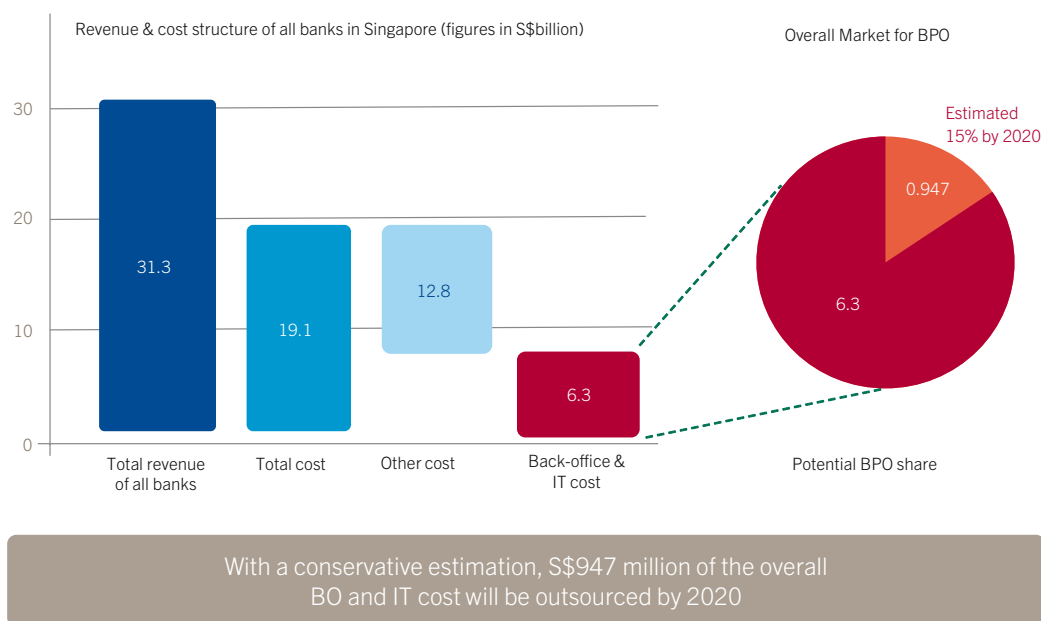
When it first entered the BPO market in 2011, Avaloq’s vision was to build a global processing network.

The official launch of the BPO centre in Singapore represents a significant next step for the group.

Traditional banking value chain is breaking



BPO market potential in Singapore: S\$947 million



“We are becoming a market place by linking the participating banks’ street-side product creation capabilities with the advisory channels offered by other institutions in other financial centres,” says Fernandez. “Today that vision is one step closer and we look forward to seeing the network continue to grow in the coming years.”

More specifically, there is a clear and growing need for banks in Singapore and around Asia Pacific generally to find a quick and reliable way to ease the continuing pressure on cost-income ratios from the combined impacts of higher compliance and staff costs, and shrinking margins.

Since cost in bank processing is a volume business, the expectation is that consolidated volumes arising from the BPO service will translate into increased efficiency and profitability for participating institutions.

“This is an industrial game, and this is what we are good at,” says Fernandez, meaning controlling costs, operating low-margin businesses, and creating scale for the processing components beyond the border of a single bank. “We can put 100 banks on one system.”

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.

But it isn’t only about reducing costs. Outsourcing provides a lot of strategic flexibility as well, to enable institutions to react much more quickly to market demand, explains Fernandez. “It enables banks to react much more effectively in bringing services, discontinuing businesses, adding products, and even in M&A transactions.”

Selling off a bank or part of a bank, or buying a part of a bank, are easier to manage if processes are outsourced, he says. “The bank just transfers the customers and the front-office people and it is done; the whole operation is able to reside where it was before, namely outsourced.

Scope for growth in Asia

Fernandez is visibly excited about basing the new BPO centre in Singapore. "Singapore is said to be the Asian Switzerland, and the Asia Pacific region is served out of Singapore," he says.

He couldn't have asked for a better start than the contract to supply back-office services for the wealth management business of Deutsche Asset & Wealth Management (DeAWM) in Singapore. This was agreed in two phases: the first in late 2014; the second, involving the transfer of the core IT platform to Avaloq's technology platform, planned to take place in 2015, subject to compliance with the local requirements.

At the same time, he believes the firm can eventually win business in other parts of the world if it helps clients solve their problems in Asia first.

Avaloq cut its teeth in Asia with Barclays being its first client. Since then, it has built up a track record, including providing its Avaloq Banking Suite and other solutions to banks such as DBS, Nomura, Bank Sarasin, BSI, Coutts and others. And in early 2014, it announced the successful implementation into operation at the Hong Kong branch of Agricultural Bank of China – its first customer in Greater China.

Tapping more opportunities in China, as well as in India, is a logical next step from the BPO centre in Singapore. Plus, it will mean Avaloq is closer to its clients in Australia like Westpac.

The main challenges Fernandez sees relates to the language and cultural issues which can slow progress.

Yet the mentality he witnesses in Asia of "getting things done" will help counter this and help growth. "I like the Asian mentality. People work with passion; they want to change things and conquer the world," he explains. "I believe in this market very much."

Fernandez's big-picture vision is for Avaloq to be renowned as a provider of solutions which deliver a top-notch digital customer experience at the front end, and operational excellence for banks which follow the outsourcing route. And as banks across the globe try to create synergies and reduce costs however they can, he highlights a current project with all 320 banks in the Raiffeisen Group to make the group 30% more efficient.

With global aspirations, he reveals the firm's plans to open a BPO centre in Luxembourg for Western Europe, ones in the UK and Latin America, and after 2017, in the US.