

FEATURE ARTICLE

Making the most of Asia's outsourcing potential

The business process outsourcing (BPO) model has evolved to the point where it can now provide real strategic value to private banks looking to tackle rising costs and the need for more efficiency, according to speakers at the launch event of Avaloo Sourcing Asia Pacific in november 2014.

While business process outsourcing (BPO) started out as a way to simply save money on labour, it is the value-add it creates throughout the organisation which has made it a more compelling proposition than continuing to rely on in-house capabilities.

The second and, more recently, third-generation BPO models promote standardisation, can assist in meeting compliance obligations, and free up time for front-office services — all without causing any loss of control over information or data.

In an era of adding value to specific areas of the banking value chain, BPO today is focused on industrialisation and value-chain fragmentation.

This was according to speakers at the launch event of Avaloo Sourcing Asia Pacific in Singapore in mid-November.

"Today [BPO offers] a completely different level of value generation," says Michael Gerber, managing partner and group chief executive officer for Solution Providers.

The next generation of the model will provide integration where different outsourced operations are connected to provide strategic advantage to the client, he predicts.



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Anantha Ayer, Avaloq Sourcing Asia Pacific

These newer generations of the BPO model are particularly relevant to banks looking to expand in Asia, given the size of the opportunity the region represents yet the barriers which exist such as costs and changing regulations.

Meeting key challenges

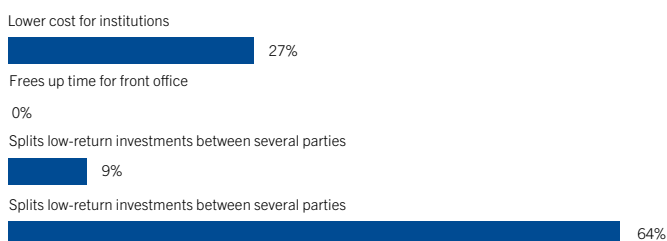
The demand for solutions to these challenges is supported by the findings of an Ernst & Young study on outsourcing published earlier in 2014.

“Cost savings remain a key objective, but now these objectives have extended to include benefits such as process efficiencies, standardisation, additional value, career opportunities for employees; talent sharing across traditional boundaries, innovation and the integration of mergers and acquisitions,” says the study.

“All resulting in the better use of time and resources for the retained business.”

For some banks, the preference is to outsource certain processes to create a global standardisation. Know your customer (KYC) procedures represent one example.

What do you view as the main advantage of BPO?



Source: Hubbis - Launch of Avaloq Sourcing Asia Pacific, November 2014

“The optimisation [in this area] gives us the scale, the globalisation and the capability to integrate information across the world,” says Sandipan Ray, head of technology, asset & wealth management, for Deutsche Bank in Asia Pacific.

Time and focus are critical advantages gained from BPO. For management, outsourcing frees up time to really focus on what is important and critical to the business, says Gerber.

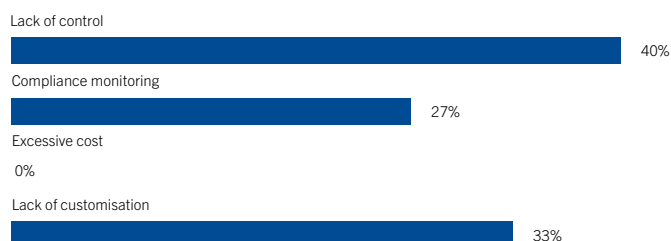
At the same time, it ensures the front-office can spend more time focusing on servicing clients more efficiently.

Responding to new regulations

Dealing with today’s ever-changing regulatory environment is another driver of growth in BPO take-up.

In Singapore, for example, isolation of customer information is under the spotlight, and the regulators expect institutions to ensure this, says Manish Chawda, senior manager, financial services industry practice, at PwC.

What is the biggest perceived risk / challenge with outsourcing?



Source: Hubbis - Launch of Avaloq Sourcing Asia Pacific, November 2014

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In line with this, Avaloq is already doing this on behalf of the banks it services, applying a best-practice regulatory compliance framework to the client's processes to ensure compliance. “Avaloq has a regulatory group which scans all the regulatory requirements across the board,” says Anantha Ayer, chief executive officer of Avaloq Sourcing Asia Pacific. “This is where we provide utility.”

Dispelling myths

A common concern with outsourcing is the perceived loss of control, says Ray.

However, the Ernst & Young 2014 study shows that risk ownership and oversight responsibilities are maintained by the executive management team, the board, and the risk and audit committees of the bank.

It is also important for banks to remember that they're outsourcing tasks at the bottom of the pyramid, and it is imperative for senior management to have a finger on the pulse of issues, adds Ayer. The liability remains with the bank to follow and ensure compliance. That's why there is a requirement to periodically submit an independent report to the authorities to inform them about compliance of processes and services outsourced, explains Chawda.



Achieving cost control

Inevitably, a lot of what standardisation refers to is in the direction of cost control. Although the second generation of BPO isn't just about finding a labour cost arbitrage, it does provide an element of cost savings which is very important for the banks, especially at a time when profitability is hard to come by.

Ayer explains that while customisation is possible for those processes which are outsourced, it is the standardisation which lowers costs due to efficiencies of scale.

As a result, it is a question of how much customisation a bank requires and what the institution is willing to pay for that. “It creates a discipline of asking if the money allocated to customisation is being put to work in the right way,” adds Ayer.

BPO also removes the burden of governance in terms of monitoring costs and efficiencies, he explains.

In turn, banks have more breathing space to respond to market changes, says Gerber.

“Banks can invest when they want to build up capabilities and ramp up services, and can ‘pull the plug’ on costs when they want to conserve resources,” he adds.

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