BUILDING COALITIONS AMONGST COMPETITORS THROUGH SHARED SERVICES

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I would like to dedicate this article to my late father, Mr. K Sivagananathan for his vision and dedication to the banking world. - A.S.

Introduction

Economists have long realized the importance of competition. Building coalitions amongst competitors is efficiency at optimum level. An example of such an entity is the Association of Professional Bankers (APB) where the banking and financial institutions as competitors have come together to form an association to serve the nation and to compete with international community. This allowed sharing of best practices and innovative products amongst the competitors. With this trend, many Fortune 500 companies across the world realized that outsourcing work to organisations that serve similar industry or direct competitors was not a risk to the company and allowed competitive advantage for the organisations. This was a new trend that started in the late 90's and today Sri Lanka is in the 16th position globally for such services. It allowed businesses to concentrate and focus their resources on their core activities. Most of the US and UK banks such as Citi, HSBC, Barclays, JPM etc decided to form their own outsourcing arm in either India, Sri Lanka or Philippine, called the shared service center. Which means the shared services only served the respective entity and not a third party organisation. However some banks and financial institutions have decided to go down the BPO (Business Process Offshoring) route which means they allowed other bank work also to be done under the same roof. This gave a higher cost advantage than general shared service centers.

History of BPO

As an industry, BPO was unheard of until the late nineties. Those were the days when few businesses connected to the Internet using dialup lines and slow processing time. At the time, information was received in a paper format or by fax and then captured in to a floppy disk and couriered to be uploaded in to a database. With time and technological advancement larger organisations were experimenting to do the same process at a lower cost in the service departments. By this time outsourced manufacturing functions had matured to a level where developed countries were looking for low cost manufacturing centers to set up their own plants

under their own brand but with a local partnership. Organisations such as MAS and Brandix were able to capitalize on this opportunity.

The advancement of technology allowed entrepreneurs to carry out processing at low cost primarily data capture business which is now known as Business Process Outsourcing. With relaxation of international telecommunication regulations and new technologies that allow home users to enjoy Internet and large corporates made outsourcing a possible business venture. With the introduction of voice over internet protocol (VoIP), the BPO took a new turn in the late nineties, with the birth of call centers. VoIP technology which was still in its commercial infancy got the all clear from regulators across the world to allow businesses to have telephone conversations over data networks. This made way for large scale international call centers to open up in places like India, Philippines and Ireland. Call center outsourcing remains a primary BPO business to date and, led by the Philippines. After many years, Sri Lanka followed this trend and local banks and institutions have now started to outsource their call center and front line inquiries to third party BPO companies.

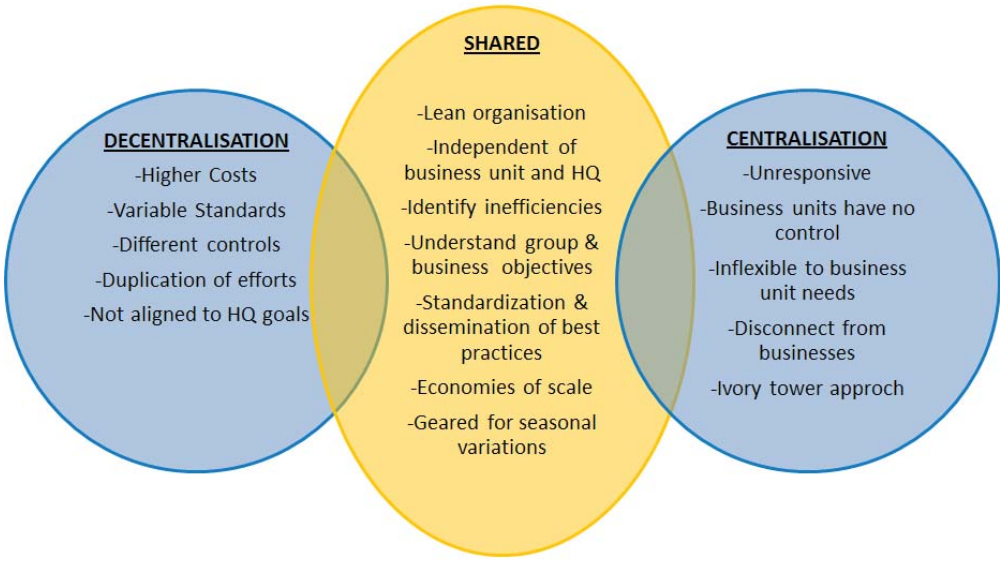
With the birth of the new millennium, came the first wave of data related BPO services. The first generation of outsourcing was purely a cost cutting measure. Large corporates, banks and financial services institutions in the western hemisphere were looking at basic functions such as data conversion, customer service, credit card application processing, bank account data services, cheque clearing services etc to be outsourced to a third party as they were considered non-core activities. This type of work was seen as low risk, low end processing work. However there were controls and measures to mitigate data loss, personal information security etc. With BPO buyers seeing the benefits and quality of services received, offshore-outsourcing became a norm in the business world and a serious topic in the board rooms. The BPO service providers and BPO buyers began to take a more sophisticated and enlightened view of this concept and realized the potential of the new business model. BPO providers too started to compete based on their specialized training, quality of service, availability capacity and knowledge of their workers who were mainly unemployed graduates. BPO companies then started specializing in specific industries such as financial services, airline booking, hospitality industry etc.

As the reputation for BPO improved, companies began to trust more complex operations to outsourcing firms with higher risk processes being outsourced. Today BPO is at a different platform altogether. It is sophisticated and a matured industry and in many countries is a top 5 export revenue earner for the country. In Sri Lanka outsourced services is now the fifth largest export revenue earner for the country at USD800 million and the industry is poised to become the number one by 2022 at USD 5 billion with 200,000 direct and 600,000 indirect employees. On the supplier side, BPO companies have invested heavily on quality such as sig sigma and infrastructure changes to make it a fun place to work with 24/7 culture. BPO suppliers have also moved up the value chain and are now specialized in either industry based such as banking or service based such as finance and accounting or legal outsourcing firms.

Shared service

The philosophy behind the shared services model is to leverage different competencies of the business and drive economies of scale and efficiencies. Traditionally an organisation's approach to pursuing a shared services model is often driven by potential for financial savings in high volume, low risk, low complexity and less regulated work. The trend seems to be to develop a centre of excellence (CoE) for their back office functions to free up front end staff to concentrate on their core businesses (Fig 1).

Fig. 1 : Centralised vs decentralised vs Shared



Three phase approach to creating a shared service

Phase 1: Consolidation – primarily to co-locate in to a single location and co-managed by a single Service Delivery Manager (SDM). Consolidate people and similar processes along with possible efficiencies / cost reduction with low hanging fruits. Primarily low risk and low impact processes.

Phase 2: Standardisation – Unlock best practices from different business units / divisions / organisation and share/standardise the processes across the center to deliver optimum results with operational excellence. Scale up to transition similar processes of all business units to provide end to end services with best practices in the industry. This allows organisations not to train individual businesses but to only train the centralized staff. The key is to have end-to-end processes outsourced than retaining bits and pieces of the processes within the entity. E.g.: Capturing of credit card application on to the system can be outsourced completely. The challenge is some institutions worry about personal information of customer being leaked out.

For this there are software that will breakup application on scanning so that the person capturing the information will have distorted data to enter than full information about the customer. This then gets re-coded by the system for the banks to have full customer information. Many organisations go for ISO27001 certification for information security at this stage.

Phase 3: Transformation – Create value addition through forward and backward integration of the processes and benchmark to world class delivery standards. Simultaneously optimise the IT/ERP (Enterprise Resource Planning) solution to maximise investment.

The four main areas to consider in optimisation of shared services center (SSC) (as shown in Fig. 2):

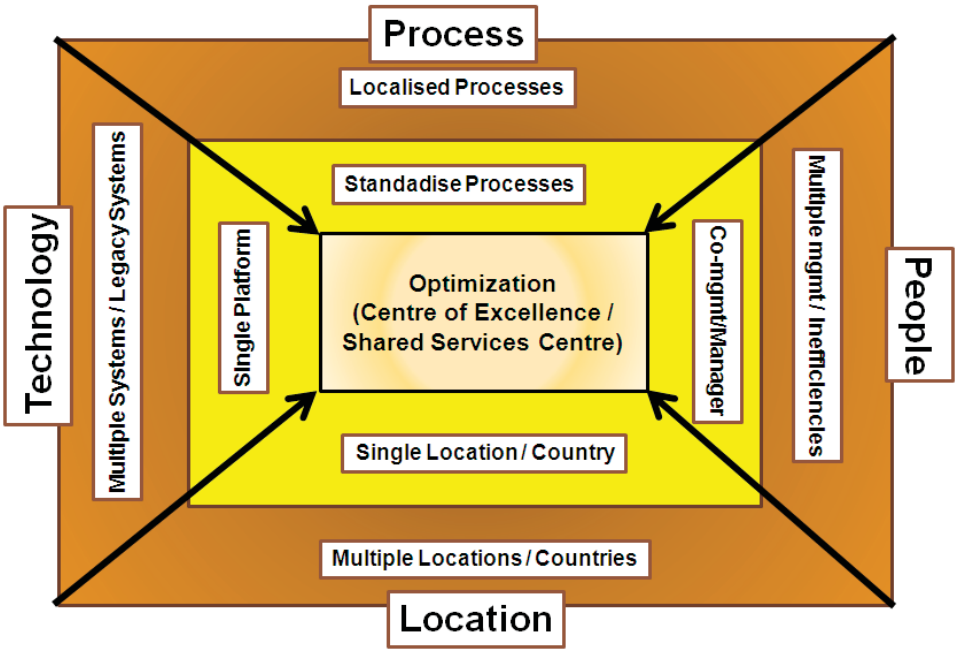
Process – Most of the time, the processes will be completely different at different locations, countries and organisations. Hence the processes need to be changed from a localised approach to one standardised method of delivery. This requires agreement with key stakeholders and auditors and sometime even with regulators. The processes and output will be measured with specific key performance indicators (KPI) which would vary from organisation to organisation.

People – The biggest change would be the mindset change as it is a paradigm shift in the way people will work and manage. From a functional division to a co-management approach would be a big change with multiple reporting lines and delivering to multiple stakeholders/ business units. However the cost benefit will be achieved through specialisation and removal of inefficiencies.

Location – From multiple locations, multiple countries and multiple business units to shared service center of a single location. Organisations will have huge benefits by co-locating to a single location for their centre of excellence (CoE). They will be able to provide world class, streamlined services across the businesses from a single site. The quality and standards will be the same across the locations with innovative reporting while optimising resources.

Technology – Each institution or bank will have its own legacy systems and multiple ERP systems for reporting and for data warehousing. One of the biggest benefits is to use technology across these different systems and move them all on to a standard platform with risk and controls in place to perform their tasks and increase the synergy of the organisation. This will reduce manual interference and reduce labour intense processing. Through innovation and automation, management information and reporting can be made to be more efficient and accurate. It will also pave the way to customise the reports as required for corporate needs. Institutions can continue to have their core banking system while the outsourced arm will have a consolidated system that will be able to integrate and interact with multiple banking systems.

Fig. 2: Optimisation of shared services:



Key success factors in creating shared services:

1. Delivery structure - Creating an optimum structure and reporting lines in shared services is a key success factors as there will be multiple business units or entities. People transferred would need to change from serving their superior to now treating them as a customer.
2. KPI/SLA – Agreement of right service levels and base-lining of the same.
3. Regulatory and Board buy-in is the most important factor for a successful shared service
4. Mindset change to adapt to the new working environment and willingness to look at processes improvements and innovation
5. Communication at all levels is key. Communication should continue even after processes have been moved to the shared services unit.
6. Formal change management team comprising of staff from all levels.
7. Delivery of promise and execution of services will help convert negative vibes. This can be done by quick win solutions and easy fix to problems.
8. Expectation setting – People and leadership tend to expect miracles from day one. However a full-fledged shared service would take up to 18 months to deliver superior service.

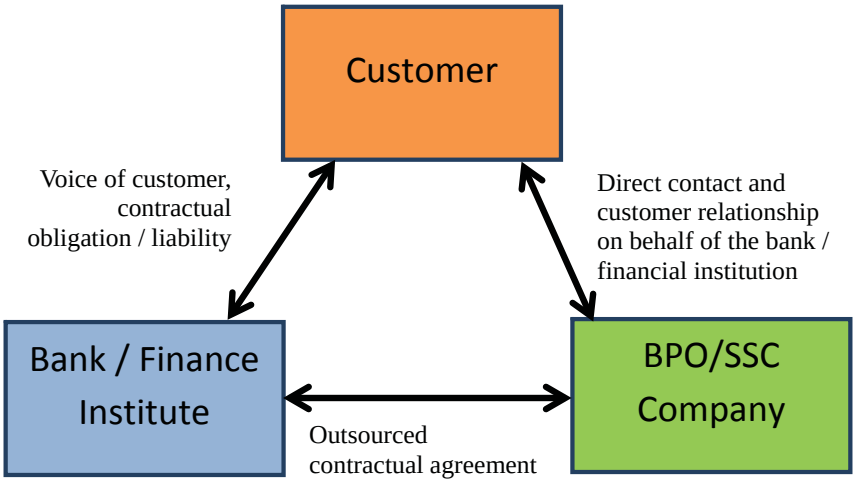
9. ERP/IT integration and data management is a critical component as data inflow and outflow will comprise of multiple channels. A shared service center works as a paperless office and hence it is even more important to have the right systems in place.

10. Finally the will to change at all levels. Without this, even a localised shared service for a specific entity will not be successful, let alone sharing resources and work with competitors.

Customer delight in outsourced operations

Customer satisfaction is a key measure when it comes to selecting an outsourcing partner. There are two types of customer relationship for a BPO/SSC company. The first is the partnership between the outsourcing company and the BPO/SSC company. The second type of customer relationship is the BPO/SSC company serving the customers of the outsourcing partner. The three way relationship as demonstrated in Fig.3 is a key to the success of any outsourced business.

Fig.3 – The three way customer relationship in BPO/SSC



The three way relationship needs to be healthy as there are reputational and brand risk involved. Hence BPO/SSC companies have now started doing a direct survey with the end customers following an inquiry or interaction. The survey is commonly known as the voice of customer (VoC). This is to check the levels of satisfaction in relation to the services they have received from the BPO/SSC companies (without indicating that the call centre is actually outsourced). There are either sms reply to say how satisfactory the experience was or on completing a call, a quick question to ask how the service was.

On the other hand, focus is also required to satisfy the BPO/SSC company to ensure the service levels are met (SLA's) and the quality of service delivered to their customer is of a higher standard than before (KPI's).

Ten key measures in BPO/SSC?

The need to control costs and effectively manage the customer relationships has never been so important as in today's economy. BPO/SSC is not just about "outsourcing", rather, it is an ongoing partnership which allows the banks and financial institutions to focus on their core business while providing excellent service for their end customers. Hence the key to success in BPO/SSC is to provide customer delight to both the end consumer as well as the outsourcing company.

1. Image / Brand –Many BPO/SSC companies even brand their floor or allocated area with Bank's logo and layout so that anyone could walk in and feel the same pulse / image of the bank
2. Attitude – A positive attitude towards their end customer. This is a key measure to ensure the end consumer is retained rather than leave a doubt in their minds.
3. Knowledge – The outsourcing company expects the BPO/SSC staff to be fully aware of various products and services offered to a customer for cross selling purposes as well as to feel as part of the company.
4. Listening skills – How the call handler is listening to the problem or query while making notes online for record purposes.
5. Language skills – Whether the agent is able to understand the query and speak in the same tone and voice as the caller. Also some companies give the caller the right to speak in any of the national languages. Hence BPO/SSC companies need agents who are multi-lingual. For example an agent answering a call on behalf of an insurance claim after a death needs to be sympathetic at the same time resolve the issue in any language.
6. Follow up – How the queries were followed up and resolved without passing the buck. Where required the matter should be referred to high authority for resolution without leaving the issue unresolved.
7. Team work – How the overall performance is as a team rather than an individual performance. This is a key measure to ensure cross training, backup for each other and work as a team to give the best service to the end consumer. Constant on-the-job games are introduced to keep the staff motivated and active.
8. Training – Constant training and development of staff is key in preparing them to handle various scenarios and situations that may arise over a call. For example to be calm and collected in an accident reporting case, to be sympathetic when someone is reporting a death situation, and being bubbly and jovial when selling a product or handling a product inquiry.
9. Prioritization – Doing what is important first and where required to multi task to make sure the outcome is achieved.

10. Delight the customer –The whole experience of dealing with someone at the other end of the phone. A final measure to ascertain how the customer feels about the experience of dealing with a call centre unaware that it was from an outsourced partner. The turnaround time of a call is key at the same time achieving the objective.

Most of the BPO/SSC as well as other outsourcing companies carry out random checks by dialling in to the centre as a customer or listening in on calls for feedback and training purposes.

Outsourcing and creating a common shared services center for Sri Lanka's banking and financial institutions

Banking and financial institutions have significant opportunities to leverage from BPO/SSC by outsourcing their non-value adding functions. Partnering with the right BPO/SSC provider brings capabilities and skills beyond just outsourced solution. This will help to improve the financial institution's overall competitive advantage. However Sri Lanka should go a step further and create a common banking center of excellence for all the back office functions as a common company similar to how Lanka Clear was formed.

With lessons learned from the 2008 banking crash, the banking and financial institutions need to be more forced to be cost averse and credit aware. However the industry is also forced to continuously innovate and develop new products and services to satisfy their customers. Individual banks in Sri Lanka have to outdo a growing number of competitors and meet the requirements of a fixed customer base of the country. The customers are also constantly demanding more personalisation, better data security, higher quality of service and ease of access at lower prices. Hence outsourcing banking processes have been the norm for the global banks to meet the customer needs. However there are some local regulatory issues which needs to be overcome and that could be done if all the banking and financial services together form the shared service center.

The processes that are outsourced vary depending on the type of banking sector. The retail banks usually outsource their reconciliations, account opening and maintenance, customer service and complain handling, payment processing, lock-box services, deposit administration and reporting.

The investment banks on the other hand outsource their research and analysis, debt and equity structured products, order management, post-trade processing, clearing and settlement, reconciliations and asset servicing

The credit card service providers outsource their card trend analytics, fraud detection, application processing, data management, customer service, dispute management and some parts of the risk management services.

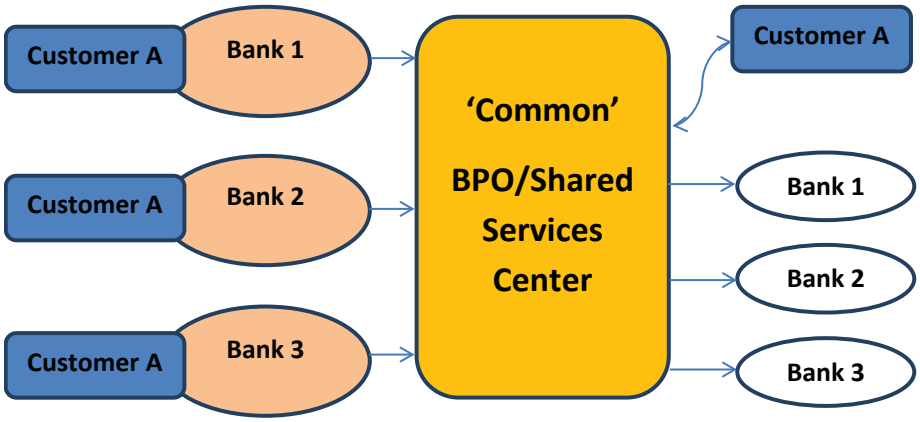
Some banks and financial institutions have also outsourced their finance and accounting functions, data analytics and product development to BPO/SSC companies to capitalize on their larger experience of dealing with many international banks.

Example of one such initiative is that a leading global bank was one of the pioneers in outsourcing their data centre and investigation arm to Sri Lanka in the mid-nineties employing over 2000 people today and providing services globally 24/7. This includes voice services, fraud detection as well as data analysis.

To replicate this model in Sri Lanka for the local banking sector, the strategy should be to form a consortium amongst the competitors guided by the CBSL. The country's banks already enjoy the cost arbitrage and the benefits of working in this sector. Some banks have already partnered in various ways to provide better services to their customers at marginal prices. A good example is, sharing of ATM's across the country. Hence for Sri Lanka the ideal outsourced model for banks would be to have a shared service amongst the banks and capitalise on the specialised bank processing centres. This may raise some alarm bells in terms of customer confidentiality and information security; however this will also speed up services and reduce the transactional work and cost. Banks will always remain cautious when it comes to such initiatives but with shifts in modern banking trends, it won't be long before transactional services are consolidated under one roof. See Fig-4.

Common 'Customer-A' banking with three banks: Processing of information being carried out at 3 different locations. Need to call 3 different numbers to get his banking work done. Three different banking staff involved with handling one customer. A common Shared Services will help the customer. The customer will need to dial only one number to complete any banking transaction and all processing of information will be carried out under one roof. This will create an efficient banking system that is lean and more customer friendly for a customer. However data and information remains secured for each bank under their own IT platform and data center.

Fig – 4 Common banking and financial shared services



Recently in with UK banks announced that cheques to be phased out by year 2018, shows that the modern tread is towards electronic banking. This in turn will help outsourcing of the banking processes as cheques were one of the most commonly used physical payment instrument still in circulation by banking customers. The challenge with cheque payments are that, modern vendors want guaranteed payment and hence cheques are getting phased out. With this in mind, outsourcing becomes even easier as there won't be a need for physical paper movement. Another example is Travellers Cheques which is seeing the tail end of its use. With time Sri Lanka will need to leap frog to the modern banking system and keep up with the changes being made across the globe. Outsourcing is just another example of such global initiative.

With these initiatives BPO/SSC industry is also looking to become an extension of the enterprise and not only just provide services but looking to add value to their customer who in turn can create value to their end user. The term BPO is also being re-coined as BPM (Business Process Management) to make wave to the next generation of offshore outsourcing which will be outcome and performance based. BPM will globally change the way outsourcing business is done in the future, especially in the BFSI (Banking, Financial and Insurance Industry) sector as there are no tangible products to be sold. End of the day, it's all about the service and value to the customer.