NEW DIMENSIONS IN OUTSOURCING FOR BANKS

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Since the 1990s, banks have outsourced expertise for a few non-core product and service functions, such as internal audit, regulatory compliance, and information technology. Outsourcing these services has helped banks address quality issues, leverage resources, manage work flow, and reduce costs. Some banks have additionally relied on outsourced vendors to provide capabilities where they lack internal expertise, such as fiduciary trusts or highly complex products and service.

But today's market leaders have gone beyond outsourcing merely as a way to lower the cost of processing work flows or to plug a resource gap. Today, the most successful banking organizations are viewing outsourcing as a strategic partnership, which can take the business model in a new direction. These outsourcing services are viewed as a venue for learning industry "best practices" as well as helping identify and mitigate strategic risks.

Outsourcing has evolved into a powerful and effective management tool. To use a metaphor, a bank can be compared to a high rise building laid on a firm foundation provided by its strategic partners. This strong foundation helps to ensure the institution has the necessary tools and resources to accomplish continuing growth—the building of its many stories.

High-Level Outsourcing Considerations

Today's outsourcing partners are not mere service providers but are integrated into the financial institution's business model. Together, both bank and outside experts work in harmony to achieve common goals.

While the needs of each institution differ and every relationship will follow different models, successful partnership carries certain common threads, including:

A flexible, risk-based approach allows for adjustments in the partnership as the financial institution's needs change. For example, in order to report to the Board of Directors on the advisability of strategic changes or on risk-related matters related to mergers, acquisitions and other transitions, the outsourcing partners must have a thorough understanding of how well the bank is administering and monitoring internal controls.

The selection of the right outsourcing partner must be based on relevant criteria to achieve the desired results. Whether the financial institution is seeking help in managing high-risk areas, filling in a specific skill set, or a co-sourcing partnership, they need to look for skills and expertise that fit their needs, not just for the present but for the future.

While pricing is important, it should not be the deciding factor in selecting an outsourcing partner. More critical questions are how well the two parties work together over the long term and whether the bank's partner can provide the expertise the bank seeks. Among the desired qualities that should factor into the decision are: length of experience; various and specific expertise; integrity; accountability; quality; diligence; professionalism; ability to ensure continuous process improvement; cost reduction; profit improvement; and, most importantly, the ability to focus on the institution's core business using a holistic approach.

Set success measures. Managing expectations on both sides of the equation are essential for successful outcomes. Knowledgeable outsourcing partners establish specific success factors and align the institution's expectations and business model to help meet these goals. They will know and communicate best practices they have identified from other engagements over the years as well as from peer and regional industry standards. The ability to communicate at all levels is essential to achieve success.

An institution's reputation is on the line. Only by doing due diligence before selecting an outsourcing partner and specifying outcomes can a financial institution ensure that its reputation is in good hands. Outsourcing partners must maintain the highest level of performance with regard to information security, quality control and regulatory compliance.

Managing the relationship — or governance — involves both formal and informal processes. Continually meeting, discussing, and reviewing performance strengthens the relationship and helps bridge any gaps between management and the Board of Directors.

Consider the Benefits of Outsourcing

The sophistication of today's financial requirements means that most financial institutions are best served by considering outsourcing or evaluating current outsourcing partners to make sure they are meeting their goals. Institutions that are successfully working with outsourcing partners are gaining more than cost savings; they are gaining the expertise of professionals who can help them build the future on a firmer foundation.

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