BankersHub
Getting from Here to There

Newsletter Article

January, 2017

WHAT'S FUELING THE KPO EXPLOSION IN FINANCIAL SERVICES?

By Ritesh Wadhwa and Bob Olson

ABOUT THE AUTHOR(S)

Ritesh Wadhwa is vice president, head of KPO, and Bob Olson is senior vice president, financial services, for ThoughtFocus, the New York-based consulting, software engineering and business process management firm. They can be reached at ritesh@thoughtfocus.com and bob.olson@thoughtfocus.com

Only recently, financial services executives were uncomfortable talking about offshoring anything other than low-skill, non-core jobs. That has changed dramatically lately. Today, if we don't bring up the topic of KPO (knowledge process outsourcing), they do – bankers, brokers, mortgage lenders, and others. They want to explore the potential value of outsourcing vital functions performed by highly skilled, highly credentialed people who exercise judgment and make decisions impacting customers and company.

Key Findings Summarized

As we explored why this change has taken place, this is what we learned:

Speed – Today's financial services firms have no tolerance for latency. Waiting costs money. A loan file held up because flood insurance hasn't been verified represents the potential loss of a customer to the competition. A delayed background check on a recruit means lost productivity and possibly the loss of the recruit to a competitor. Outsourcing insurance verification and background checks to resources who focus exclusively on those tasks enables those tasks to be performed faster, reducing delays and improving competitiveness.

Also at BankersHub

- Jan 18 – HSA Fundamentals
- Jan 18 – FFIEC Call Report #051
- Jan 19 – Insights for Growing Your Institution with Bank-At-Work
- Jan 20 – Basel III Capital Conservation Buffer
- Jan 24 – Same Day ACH Equals Faster Payments
- Jan 30 – Asset Quality Ratings, Managing Portfolio Credit Risk and ALLL
- Jan 31 – Bank Accounting Analysis Tools and Procedures (3-part Bootcamp)
- Feb 2 – Managing Vendors from Selection and Due diligence through Reviews

ABOUT BankersHub

BankersHub was founded in 2012 by Michael Beird and Erin Handel, 2 Financial Services professionals dedicated to educating and informing banks, credit unions, solution providers and consultants in the U.S. and worldwide. BankersHub delivers best practices, research insights, opinions, economic trends and consumer views through online web education, virtual events and conferences, live streaming activities, custom training and content development.

Productivity – Knowledge workers are most productive when they can remain focused on the main requirements of their position. One example: Financial analysts at an investment banking firm spent the first two hours of their day performing reconciliations before they could start on their primary analysis activities. But now when they can come in each morning, they find the reconciliations already done overnight by their partners overseas. They begin their day addressing core high value problems instead of cleaning up the mundane.

Agility – Financial services firms are challenged to be agile in the face of constant change – new product innovation, personalized marketing approaches, rapid technology advances, faster payments, better customer engagement, a shifting regulatory climate, new security challenges, more data and faster access to it, real-time analytics and decisioning. As one bank executive put it, “I can cope with constant change, or I can focus on managing back office functions that already run like clock-work, but I can’t do both. So why not find a reliable strategic partner for those smooth-running back office functions like HR, finance, accounting, tax reporting, and so on?

Compliance – The growing compliance burden on financial services firms can’t help but diminish productivity. For example, new mortgage regulations caused underwriter output to drop from five loans a day to two at one institution. Underwriters skilled in assessing credit worthiness were getting bogged down handling the added compliance activities. By outsourcing the new compliance activities to a reliable strategic partner, underwriters were able to increase their output again.

Cost – “I’ve been reducing our costs for the past ten years, and I don’t see any let-up in sight. That’s why we keep broadening our outsourcing horizon to high-skilled functions,” said a financial services COO. Financial services margins continue to be squeezed by years of low interest rates and the high costs of the digital transformation and regulations. Under those circumstances, the opportunity to significantly reduce the cost of key functions is particularly attractive. In a direct comparison, a highly skilled offshore resource of equal caliber costs less than 25% of such a resource onsite.

Technology – This might be the most exciting driver of financial services firms' interest in KPO: New technologies simply make it possible for more of their functions to be performed remotely – all the while doing it better, faster, safer and at lower cost. These advances include technology that protects privacy and security of data transferred between the U.S. and offshore, telecommunication innovations that enable collaboration internationally, innovative management reporting that gives clients full transparency into their outsourced operations, and technology so tightly integrated with supporting systems that it can accomplish in a few hours what used to take days.

Security – There's no doubt that in the past, security concerns made financial services firms reluctant to outsource certain knowledge functions. "We just weren't going to take any risk with customer privacy and information security even just a couple of years ago." But today's offshore operations are compliant and highly credentialed in matters of security, including SOC1 certification and membership and representation in professional associations formed for the purpose.

Skills Gap – It's no secret that in many places in the U.S., there is a vast skills gap. Employers have long-standing vacancies for good-paying jobs. Part of that is due to a dynamic marketplace that depreciates skills rapidly. When the market need outstrips available resources, costs rise.

The U.S. skills gap is also attributed to less rigorous instruction on communication skills and insufficient STEM instruction (science, technology, engineering, and math). Employers report that hundreds of thousands of skilled jobs go unfilled. The list changes from year to year but it stays long.

This skills gap is being exacerbated by the digital transformation which requires specific technology related skills not traditionally cultivated at financial services firms yet necessary for core critical functions.

Demographic Shifts – Once again, the Baby Boom generation's sheer size is creating mass impact by its every move, in this case reaching retirement age and taking certain skills out of the workforce in large numbers. So far, many employers are complacent about the trend, possibly because it's gradual. But with the oldest boomers just turning 70 during a recession that caused many to delay their retirement, employers so far experienced just the thin edge of the wedge; the thicker edge is making its way in and will be hard felt in the coming years.

There's another demographic factor at work. It's no surprise that highly skilled, highly credentialed functions are performed faster and better by people with ten years of experience instead of two. But today's workers are likely to be peripatetic, uninterested in staying with any one company for any length of time. The overall U.S. employee retention rate is 4.4 years. For millennials, it's only half that, and millennials will soon make up half the workplace. Imagine: half your workforce turning over every two years or so.

Experience – For financial services firms that formed captive (or hybrid captive) offshore operations years ago for outsourcing IT and low-level resources, this may be the most compelling driver for now adding knowledge processes to their offshore profile. According to NASSCOM, "BPO captives have been a key driver for India becoming a hub for high-end knowledge process service delivery accounting for almost 50% of India's total knowledge based services revenues." Financial services firms have seen their captives perform beyond expectations. In the process, they have learned how to manage offshore operations effectively. As a result, they have an enhanced trust level with relinquishing high-skilled jobs to that captive operation.

But beyond that, they also see that effective KPO partners focus on specific tasks and use the large scale of their operations to attract additional functions from the parent firm.

The key to successful KPO is to build the skill it takes to perform the function into the process itself, so that the process is not impacted by employee attrition or workforce expansion. Instead, in many financial institutions, we find the skill is “built into” the person performing the job. They’ve been performing it skillfully for years on end and using individual training methods to bring new workers up to speed. Job documentation tends to be cursory and technical, useful only if accompanied by extensive on-the-job training in the company of experienced workers.

That increases training costs, delays workers becoming productive after they are already on the payroll, and raises the premium on retaining already experienced employees. When KPO partners rigorously build the skill into the process, new employees can come up to speed quickly, and the risk of inconsistency is minimized. It is not unusual to see a 16-week training period reduced to two weeks after the process is documented, outsourced and then refined. That’s 14 more productive weeks from every new employee added to the payroll and near-perfect assurance of consistently performed work.

According to Everest Group research, banking’s broader business process outsourcing market, already nearing $4 billion, is poised to grow at a steady pace of 7-10% CAGR for the next few years. With much of the “low-hanging fruit” of lower-skilled BPO activities already outsourced, more knowledge-intensive activities are in play and offering great potential financial institutions.

 Visit us at www.BankersHub.com