OUTSOURCING IN REGULATED MARKETS

5 ESSENTIAL CONSIDERATIONS FOR YOUR FIRM
THE SUBJECT OF OUTSOURCING HAS NEVER BEEN MORE TOPICAL...

There has been much talk in the news recently of the demise of outsourcing.

The fall in some outsourcers’ share prices and the spectacular collapse of the government’s biggest contractor, Carillion, have generated much debate around the effectiveness of outsourcing in regulated markets.

WHilst much of the talk relates to public sector contracts, what lessons can we learn from recent developments?

What are the key considerations for organisations looking to outsource activities in regulated markets?
Huntswood recommends that you consider the following five aspects:

1. Value Creation
2. Regulatory Assured Processes and Fair Treatment
3. Continuous Improvement
4. Transparent Governance
5. Organisational Culture
COST IS JUST A PART OF THE EQUATION

Cost efficiency is clearly a key driver for organisations across regulated markets, such as finance or insurance. Companies continually highlight that operational costs in complex and ever-changing markets are their key challenge; and an unrelenting one at that.

Organisations should think about value rather than cost alone. ‘Value’ is a much broader measure that includes:

- QUALITY
- INNOVATION
- RELATIONSHIP MANAGEMENT
- STRATEGIC FLEXIBILITY

It’s therefore worth investing additional time during the initial stages of the outsourcing relationship to ensure alignment across these broader measures.

THIS SHOULD ENSURE THAT VALUE IS ACHIEVED THROUGHOUT THE DURATION OF THE CONTRACT.

YOUR OUTSOURCER SHOULD BE ABLE TO HELP YOU WITH ARTICULATING THIS BROADER VALUE.
When choosing a supplier, ensure that they understand the complex regulatory market you are operating in. Organisations have responsibility to make sure their customers are treated fairly. For example, this is highlighted in the Financial Conduct Authority (FCA) principles (PRIN), and include both explicit and implicit guidance on the fair treatment of customers.

**PRINCIPLE 6 OF THE PRINCIPLE FOR BUSINESS STATES:**

A FIRM MUST PAY DUE REGARD TO THE INTERESTS OF ITS CUSTOMERS AND TREAT THEM FAIRLY...

From a **customer experience** perspective, outsourcing should be viewed as a prime opportunity to improve the end-to-end customer experience. This can be achieved through effectively utilising technology, and by partnering with a specialist provider.

**ENSURE YOUR CHOSEN OUTSOURCER UNDERSTANDS THE IMPORTANCE OF EXISTING, COMPLEX REGULATIONS APPLICABLE TO YOUR COMPANY (E.G. INFORMATION SECURITY, DATA PRIVACY, ETC).**

**KEEP YOUR CUSTOMER IN MIND**
A partnership of continuous improvement should be high on the agenda.

As the saying goes:

“A BUSINESS THAT DOESN’T CHANGE IS A BUSINESS THAT’S GOING TO DIE.”

A common complaint about service providers is that they are not reactive enough and lack innovation. So, as well as the day-to-day operations being taken care of, your company needs to see continuous improvements being made.

Key to fostering a successful continuous improvement culture is the ability to complement manual activity with Robotic Process Automation (RPA).

An internal drive to integrate RPA into an outsourcing partnership can yield multiple benefits for both business and customer.

It's worth investigating how much of the contract value is set aside for innovation or managing talent and performance? Do you think their teams are well-rounded to cover all of your organisation’s future needs?

GOOD DISCIPLINES OF CONTINUOUS IMPROVEMENT SHOULD BE AT A CORE OF SHARED OBJECTIVES.
Ensuring appropriate ongoing governance is an organisation’s responsibility, as companies cannot contract out their regulatory obligations, and should therefore take reasonable care to supervise the release of outsourced functions.

Before entering into an outsourcing arrangement, an organisation should analyse how the arrangement will fit with their own:

- Reporting structure
- Business strategy
- Overall risk profile
- Ability to meet their regulatory obligations

Service Level Agreements (SLA’s) should have regard to:

- The identification of qualitative and quantitative performance targets to assess the adequacy of service provision
- The evaluation of performance through service delivery reports and periodic self-certification
- The independent review by internal or external auditors
- The remedial action and escalation processes for dealing with inadequate performance

Firms should also allocate responsibility for the day-to-day and strategic management of the service provider to a designated person.

This is crucially important in the context of the new Senior Managers & Certification Regime (SM&CR) - a key focus of the regulator, which aims to ensure that those in charge of UK organisations are accountable and regulated.

For example, if a firm breaches an FCA requirement, the senior manager responsible for that area could be held to account by the regulator if they did not take reasonable steps to prevent, or stop, the breach from occurring.

Other considerations should include the following:

- Do contractual agreements enable clear communication and the sharing of important information?
- What management information (MI) do you propose to receive from outsourced providers, and is it insightful and actionable?
- Will your monitoring activity give a clear view of customer outcomes?

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TRANSPARENT GOVERNANCE

All of these factors and more should be considered prior to outsourcing.
The right fit, in terms of the company’s culture, should be a critical element when choosing an outsourcer, as there is a clear link between poor culture and poor conduct.

Investigate whether your chosen service provider has the right ‘tone from the top.’

Business processes and people all contribute to the overall culture of an organisation: they should ‘live and breathe’ the values.

ORGANISATIONAL CULTURE: “DO THEY REALLY WANT YOU TO SUCCEED?”

IT IS IMPERATIVE THAT OUTSOURCING IS VIEWED AS A PARTNERSHIP.

YOUR PROVIDER SHOULD UNDERSTAND AND EMBRACE YOUR COMPANY’S VISION AND VALUES.
IN SUMMARY

The theme of the five action points we’ve covered here are all consistent.

All involve a high level of collaboration between parties, continuous improvement, and of course - true to a regulator’s ultimate goal - all are focused on delivering better customer outcomes.

It’s imperative that firms of all sizes and positions with potential outsourced agreements stay focused on this collaborative approach. It’s this which will ensure firms’ responsibilities to customers are correctly apportioned and fulfilled - rather than passed around or dropped altogether.

Remember you can’t ever outsource ‘risk’ itself - but a strong outsourcer can help you effectively manage and minimise risk.

IF YOU FEEL THAT, AFTER ‘LOOKING UNDER THE BONNET’ OF YOUR POTENTIAL OUTSOURCER, THE BALANCE MAY HAVE SHIFTED TOO MUCH TOWARDS EFFICIENCY AND AWAY FROM OPERATIONAL EFFECTIVENESS AND OUTCOMES, THEN IT MAY BE TIME TO ASK FURTHER TOUGH QUESTIONS OF YOUR POTENTIAL OUTSOURCED PARTNERS.
ABOUT THE AUTHOR

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Kirk joined Huntswood in October 2015, and previously worked with Huntswood as a both a client and an Associate.

In his current role as Managing Director for Managed Solutions, he is responsible for Huntswood office-based projects, as well as our Outsourcing solution.

Kirk’s experience spans the financial services industry as a whole, but retail banking and telecoms in particular - where he has managed award-winning, large-scale operations.

He has previously worked for RBS, Morgan Stanley, O2, National Australia Group, as well as experience of working internationally.

Kirk is a Chartered Banker and a Fellow of the Chartered Institute of Bankers in Scotland (FCIBS). He was also the first UK winner of the European Call Centre Professional Awards.
ABOUT HUNTSWOOD

Our aim is to drive better outcomes - for our clients and our clients’ customers. For us, better outcomes means helping firms deliver high quality services to customers in a cost efficient way, while effectively mitigating business risk.

From working with clients, we know that they are faced with a number of competing challenges: an increasingly complex regulatory landscape, the need to maximise the efficiency and effectiveness of their operations, and the imperative to drive advocacy by meeting customers’ ever-changing needs.

And, critically, firms need to navigate all of these concurrently while ensuring they achieve business goals.

We help clients thrive in this environment by combining expertise, technology and operational services to deliver practical solutions that help regulated firms efficiently achieve better business and customer outcomes:

- ADVISORY AND ASSURANCE
- RESOURCING, RECRUITMENT AND LEARNING
- OUTSOURCING
- TECHNOLOGY DELIVERY AND DATA ANALYTICS

We work with firms across a wide range of regulated industries, including financial services, payments, utilities, travel, pharmaceuticals and gaming.
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