What are the key areas Financial Services organisations need to focus on for future **Business Process Outsourcing** success

Introduction

The UK outsourcing market is highly competitive, suppliers can't just stand still and wait for the next big thing to come along; they must innovate to keep up or risk being left behind. At Sopra Steria we are focused on delivering the best services for our clients and their customers, a key part of this is to understand and define what the Next Generation of BPO services look like.

In this article we will explore what future services will look and feel like, as well as touching on the history of BPO contracts and how we have arrived at this point.

Business Process Outsourcing (BPO) is not a new phenomenon. It has been around in some shape or form since the early 1990's when many organisations started to review external suppliers who could help them to deliver non-core business operations such as finance, HR, Payroll and IT Management. Outsourcing allowed organisations to focus on their core business activities and realise cost savings enabled by the outsourcer being able to deliver the services more efficiently and effectively than their incumbent in house teams.

Outsourcing models, as you would expect, have evolved considerably over time. Like in most industries, the evolution of outsourcing has been fuelled by technology advancements such as the growth of the Internet, adoption of mobile phones and recently Robotic Process Automation (RPA), as well as global economic trends such as labour rates and global property prices.

According to Statista.com in 2019 the global outsourcing market amounted to 92.5 billion U.S. dollars, of this approximate $26 billion is estimated to come from BPO and $66.5 billion from Information Technology outsourcing. If you compare this to 45.6 billion U.S. dollars in the year 2000 you can see the true scale of the market growth in the last 20 years.

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Sopra Steria has been providing outsourcing services in the UK and Europe throughout this period and has first-hand experience of this evolution. Unlike some consulting firms in the market, we don't just talk about delivering outsourcing services we do it daily, working with over 1500 financial institutions in 80 countries around the world, and a range of UK government clients. That's not to say we haven't had our challenges along the way, we certainly have. But we have learnt from these and continue to use these learnings in order to improve the services which we deliver for our clients and their customers.

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How have outsourcing models evolved over time?

Our *first-generation outsourcing contracts* were all about delivering quick cost savings. Often, we and other outsourcing organisations would take on service provision in situ, delivering the same services from the same locations, using the same technology solutions which had previously been used by the in-house teams. We would bring workforce management techniques and process improvement measures, backing ourselves to manage the services better and more efficiently than the client. In doing so, we delivered the services with a leaner operation and at a reduced operating cost allowing us to pass on savings to the client, whilst at the same time making a small margin for our shareholders.

Many outsourcers core business processing capabilities grew through taking on non-core services from clients. We still occasionally see a contract like this today, but whereas they were all the rage in 90's and early 00's they are much less common in today's market.

Next came *second-generation contracts,* these were driven by increased competition in the market, greater client confidence and a desire to take and share risk in order to deliver greater operational benefits. Second-generation contracts were much more transformational than their first-generation counterparts. They often involved the introduction of modern technology systems and significant operational change affecting people, delivery locations and processes.

These contracts coincided with the growth of offshore outsourcing and the emergence of a number of large Indian outsourcing companies. With growing UK salaries, accessing these global labour markets offered the potential for significant operational savings. Whilst the offshore labour rates in India and other parts of the world are now much higher than they were, many organisations particularly in Financial Services still take advantage of labour arbitrage in order to reduce the cost-of-service delivery and access skilled global resources.

As part of these types of transformational contracts we also started to see the start of the digital revolution. The era of the **"digital portal"**, allowing customers to self-serve, shifting demand from more costly operational contact channels to cheaper digital channels such as email, chat, and interactive voice recognition (IVR) solutions. This change provided benefits to the end customer in terms of improved customer experience and satisfaction; benefits to the outsourcer enabling them to further reduce operational delivery costs; and benefits to the client in terms of further reduced delivery charges.

Some progressive organisations also started to invest in shared services. The principle of a shared service is simple, where multiple organisations require the same type of work to be done, such as HR, Payroll, financial accounting etc., and are happy to share people, process and systems then not only can they reduce redundancy of tasks and employees, but are also able to save money and time. Shared services in the UK government are now common and Sopra Steria has first-hand experience of implementing and managing these through our two Joint Ventures NHS Shared Business Services and Shared Services Connected Limited; but are perhaps less common in today's Financial Services BPO market.

We could write a whole separate article on the benefits and challenges of shared service delivery, and may well do so in the future, but for now we will focus on the broader business process outsourcing trends.

The **key drivers behind Second Generation outsource contracts** remained similar to first generation contracts, in that organisations were looking to continue to deliver operational cost savings - the principle *"they can do it cheaper and better than we can"* remained a key business driver. However, second generation contracts were not always limited to non-core business functions, they often included what would have previously been considered core business functions such as Customer Services, Mortgages and Savings Administration, and even decision making. With this change came the requirement to contract on business outcomes, outcomes which aligned more closely with core business objectives.

These outcomes could include things like revenue generation, targeted sales, improved customer satisfaction, and market share.

The step change between second and third-generation outsourcing is much smaller than between first and second. *__Third generation outsourcing__* in our view builds on the key principles of second generation outsourcing with the exception of one key change. Whereas typically in second generation contracts, lower complexity activities would be migrated offshore to global delivery centres in order to take advantage of lower labour rates, the key driver in 3rd generation contracts is to remove human interactions where they are not required.

This transformation has been fuelled by improvements in Robotic Process Automation (RPA) and Artificial Intelligence (AI). Typically, a robot costs significantly less than an offshore employee. Robots unlike their human equivalents are 100 percent accurate and can consistently operate twenty-four hours a day seven days a week, 365 days a year, do not have holiday and do not go off sick! They are up to 20 times faster than humans, and every keystroke is tracked, reportable and traceable from a compliance perspective. To put this into perspective the global robotic process automation market size was estimated at $2 billion worldwide in 2020 and is projected to reach over $10 billion by 2023 **(statista.com)**!

This change not only allows outsourcers to further reduce operating costs, but it also allows outsourcers to increase customer satisfaction. This is achieved in two ways. Firstly through reduced transaction

times, waiting days for a financial decision is not acceptable in today's highly competitive market as customers expect decisions in real time 24 hours a day. Secondly, it allows human time to be spent on more complex cases, dealing with customers who are more vulnerable than others or those who require greater attention.

It's fair to say that the evolution of RPA has shaken up the BPO market, and most outsourcers are only just starting to come to terms with the seismic shift this will have on their operating models and the savings they can offer to their clients. It's also making many organisations consider the ongoing benefits of global delivery models particularly when coupled with the impact of the global pandemic.

So the question we are asking ourselves at Sopra Steria is 'what's next?

In this highly competitive outsourcing industry suppliers cannot just stand still and wait for the next 'big thing' to come along; they must innovate to keep up or risk being left behind.

At Sopra Steria we are focused on delivering the best services for our clients and their customers. A key part of this is to understand and define what the Next Generation of BPO services looks like. These new ideas and innovations are continually being tested and piloted with our existing clients, and where appropriate being implemented as part of our continual service improvement programmes. We are continuing to work on a daily basis with new and exciting suppliers and SMEs to help us innovate through programmes such as **Chemistry.**

We believe that the brightest ideas are born when creative, passionate, and experienced people across the industry work together. What makes them happen is having a shared and meaningful purpose and a clear role to play in bringing them to life.

The Chemistry team specialise in Design, Digital Ethics, Data and Analytics, Customer Experience, Systems Integration and Operations.

In the next section of this article we describe our view and vision of what the Next Generation of business process services will look and feel like.

So, what does a Next Generation BPO Service really look and feel like?

True customer centricity is the goal for outsourcing providers

Previous generations of BPO services have all talked to some degree about customer centric design and customer experience, but if we are honest most are only scratching the service. **In recent years there have been some huge steps forward, but are outsourcers really delivering the same level of personalised customer experience that customer now expect and receive daily from leaders in customer experience such as Amazon and Netflix? The simple answer is NO.**

Personalisation is becoming increasingly important across all industries and Financial Services is no exception. As competition for customers increases with the emergence of challenger banks, neo – banks and non-traditional banking organisations entering the market, ease of change, and increased availability of personalised products, in a market where organisations cannot differentiate in terms of interest rates, they must find other ways to attract and keep customers.

So how can we measure and track customer satisfaction? We will all be aware of measures such as Net Promoter Score (NPS) which are routinely used and have been for the last ten years or so. Over that period of time customer expectations have changed dramatically. NPS certainly still has a role to play however it has its flaws, for example it's retrospective and doesn't give you any insight into why a customer feels that way.

Next Generation BPO services will focus on customer centricity and provide outcome-based services that emphasise quality rather than just incremental cost savings. As we move to true outcome-based contracts, we will need to be able to measure customer satisfaction using something much broader than NPS, new measures will need to be developed, tested, and accepted by industry to track against these outcomes and to compare them against the wider market.

Standard platforms and processes

The growth in technologies such as **software-as-a-service (SaaS)** and mobility are and will continue to further fuel evolution of BPO and ITO services. In case you have not come across SaaS before, SaaS is a software licensing and delivery model in which software is licensed on a subscription basis, and is centrally hosted and supported by a 3rd party. Essentially, it is another form of IT outsourcing where a shared service is provided by a 3rd party to multiple organisations. The provider delivers a managed service and is responsible for support, maintenance and the security of your data within the platform.

The major change here is these services are not delivered by your traditional IT outsourcers they are delivered by global software providers such as Oracle, Microsoft, or newer market entrants like Workday, or Salesforce.

These new advancements have not just shaken up the traditional IT Outsourcing service providers who would have previously provided these services on dedicated cloud or on-premise infrastructure, it has also shaken up the BPO market.

The key thing about SaaS platforms is that by their nature they standardise business process. By adopting a SaaS solution, you are by default agreeing to follow the same process as other organisations using the platform. Yes you can make configurations, but the underlying process and system operates in a set way.

Previously BPO providers brought their own intellectual property in terms of how they delivered services, they optimised processes in order to deliver value. By streamlining processes through SaaS you are now enabling the next generation of BPO contracts to be bought and delivered as commodities. For example, supplier A and supplier B both using the same SaaS solution will follow similar processes and thus this will enable organisations for the first time to truly compare supplier A and supplier B. Market benchmarking just became a whole lot easier! The impacts of this to the market are truly ground-breaking.

This change also acts as an accelerator to service disaggregation. Whereas in the past a BPO service provider would typically also provide the core software applications which underpinned its service, now organisations have the option of procuring the SaaS separately to the BPO contract. Disaggregation brings with it a whole host of advantages including access to Subject Matter Experts, greater control of supply chains, and cost savings. You can find further detail in terms of our views around service disaggregation in our previous article - **Click here.**

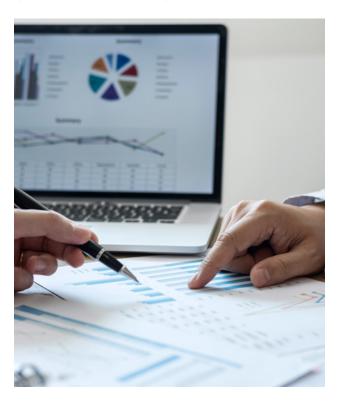## Service decisions will be underpinned by Analytics and Insight

How many times have you asked a question about data analytics and insight, and someone has given you a report, or perhaps pointed you at a self-service reporting portal? There is a huge difference between analytics and reporting.

It has long been recognised that in order to make timely informed decisions operational managers need access to data. This is evidenced in outsourced contracts by the availability of hundreds of reports such as financial reports, accounting reports, service level reports and many others. Often there are so many reports that people can't remember why they were first created!

The format of these reports has changed over the years, from paper-based reports, excel reports to self-service reports and reporting dashboards, however the demand has always been there.

Analytics, on the other hand, is the process of taking the data and analysing it to gain valuable insights on how the service is performing and how its performance can be improved.

Essentially reporting turns data into information, analytics helps outsourcers turn that information into real operational and customer insights. Next generation BPO contracts will use this data to improve service performance, initially this will be a manual process but before long this process will be automated using RPA and AI in order to use this insight in real time in order to focus resources more effectively and deliver more personalised customer experiences.

Straight through processing

Automation of manual processes through RPA is hugely important and should not be underplayed, but it is an interim step in the world of BPO. It enables previously manual process steps to be automated using robots, by its nature it's designed to drive efficiencies without fundamentally changing the underlying business process. In doing so, outsourcers and organisations can realise quick benefits by reducing head counts and/or reprioritising staff to more value adding activities.

The next step in the evolutionary journey of BPO is Straight Through Processing (STP). STP is an end-to-end electronic process which doesn't require human intervention and therefore doesn't require RPA. Think existing financial services STP processes such as making a credit card payment or transferring funds from one bank account to another. These processes have been designed from the ground up not to require human intervention.

Implementing further STP will enable outsourcers to massively speed up transaction processing time. This will improve customer satisfaction and will significantly reduce operating costs. STP is critical for middle and back-office services, and future financial services customer origination and servicing journeys will surely adopt STP.

In short STP is considered as the holy grail for many outsourcers! Think to a future world where you can compare service provision and products by the percentage of processes which are STP. How good would that be!

However, achieving STP requires complete integration and often requires transformation of business processes, application platforms and people and thus RPA will remain with us for some time.

Wider Ecosystems

Over the past few years there has been a significant drive away from large single supplier contracts, to shorter multi-supplier disaggregated services. In our view this approach will continue, and Next Generation services will increasingly be made up of multi-supplier ecosystems. These ecosystems could be contracted under a prime agreement or contracted separately with multiple suppliers. This will enable organisations to access best in class specialist providers, with specific industry expertise, and to enable organisations to benefit from improved competition between suppliers.

Remote Working

The long standing debate around remote working, has now finally been answered. As a result of the COVID-19 pandemic outsourcers have been forced to operate front and back office services remotely. As we look forward to how next generation services will be delivered we can expect a much more flexible approach to working. We expect services to be delivered as a hybrid of home and office based working. It is clear that certain services are better delivered from an office environment, and that some employees are not able to work remotely, however for others there are significant benefits in doing so. This hybrid approach will enable BPO services to be delivered more efficiently and more flexibility, empowering our employees to work in the most efficient way.

Innovative Commercial Models

Commercial models could perhaps represent the largest change when we consider the Next Generation of BPO services. Over the year's outsourcers have explored a range of models through mutual funding, innovation funds and exploring various partnership models, such as embedded teams, concession payments, shared centres of excellence, and joint ventures.

As we move to more disaggregated and truly outcome-based services it becomes imperative that organisations align incentives with providers. The Next Generation of contracts will see outsourcers putting fees at risk on non-traditional strategic performance categories, such as innovation, customer satisfaction, the percentage of RPA, and creative gainsharing on superior results.

As discussed earlier pay per use is now common in SaaS software and cloud provision, so why can't this model also work in business process outsourcing?

These new more innovative commercial models may not replace the existing models in entirety, rather they will augment the existing more traditional models working side by side.

Contract and Service Governance

As we move to a future world of Next Generation BPO contracts, we also need to consider how contract and service governance will also need to evolve. The process of monthly or in some case quarterly performance reviews are now well and truly outdated. Imagine for a moment if your bank told you that they would now only send you a monthly statement, a practice which until recently was commonplace. In a world where you expect data to be available at a touch of button, the process of reviewing the performance of your outsource partner surely needs to change.

Next generation partnerships will become more transparent and open, and as such Contract and Service Managers will have access to performance information in real time. Governance meetings will still take place, but these will be forward looking and not retrospective. Focusing on how performance can be improved, and joint objectives and outcomes can be delivered.

Final thoughts

All of these changes will make Next Generation Business Process Outsourced services feel very different to customers and clients. These changes won't happen overnight, services will evolve. Legacy IT Platforms, and challenges changing organisation culture will still remain. But the future is coming, and history shows us that these challenges will be overcome!

We hope you have enjoyed reading this article. It's an exciting time to be providing Business Process Outsourcing Services.

About Us

Sopra Steria Group operate in over 80 countries, have in excess of 45,000 employees and an annual turnover of €4.4 billion. Sopra Steria has an end to end service offering including consulting, software, application and infrastructure management, and business process services.

Sopra Steria has large UK footprint with over 6,400 employees. Providing IT and Business Process Services in the Public and Private Sector. Approx. 46% of our UK Revenue is delivered through Business Process Services.

Sopra Steria's fully owned Subsidiary Sopra Banking Software provide core banking software and services to over 1,500 financial services institutions in 80 countries around the world.

In the UK we also have two large Public Sector joint ventures. Shared Services Connected Limited, and NHS Shared Business Services.

Shared Services Connected Ltd (SSCL), is a joint venture with the Cabinet Office delivering services to Central Government including DWP, Environment Agency, Defra, Home Office, Ministry of Justice, and Metropolitan Police.

NHS Shared Business Service (NHS SBS) is a joint venture between Sopra Steria (50%) and the NHS (50%) providing HR, Payroll, Pensions and Finance services to all of the Commissioning groups and over 30% of the Trusts.

25
countries

45,000
employees

€4.4 billion
annual turnover

Sopra Steria affiliates

More Information

At Sopra Steria we provide a bespoke range of Consulting, IT and Business Process outsourcing services to Public and Private Sector organisations across the UK. In September 2020 **TechMarketView** rated Sopra Steria as a top 3 IT outsourcer to UK government, and the fastest growing Business Process Service Provider.

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The world is how we shape it

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