Understanding why a service disaggregation approach for **Financial Services** organisations is critical in helping them achieve their outsourcing goals

The world is how we shape it

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Introduction

Business Process Outsourcing (BPO) and IT Outsourcing (ITO) are not new phenomenon's in the Financial Services Industry. In fact they have been around in some shape or form since the early 1990's when many organisations started to review external suppliers who could help them run their operations and IT departments more efficiently and effectively than their incumbent in house teams. By outsourcing it meant that many organisations could free up staff's time and energy to focus on core competencies, their customers, and the creation of competitive differentiation.

So why is it that **25+ years** later many organisations still feel they are not receiving value for money, improvements to their operational processes, innovation through collaboration or seeing the realisation of productivity savings from their service providers? Or feel their service provider does not fulfil the requirements from the contract which has been awarded to them?

Unfortunately, there is not a one size fits all answer to the above questions. However, from our experience at Sopra Steria we usually find when a potential client is dissatisfied with their incumbent outsourcing partner that it's often down to how the contract itself has been structured. Many Financial Services organisations have been caught in a trap of literally trying to outsource everything in their operations or IT functions to one supplier believing one large contract over many years will be easier to manage, and more cost effective.

As BPO and ITO offerings have matured so have the types of suppliers. Many outsourcing suppliers now specialise in fewer outsourcing areas rather than trying to have specialisms across everything. This change in dynamic, coupled with dissatisfaction by Financial Services organisations who are tied into multi-year single vendor contracts means the service disaggregation discussion is back on the agenda.

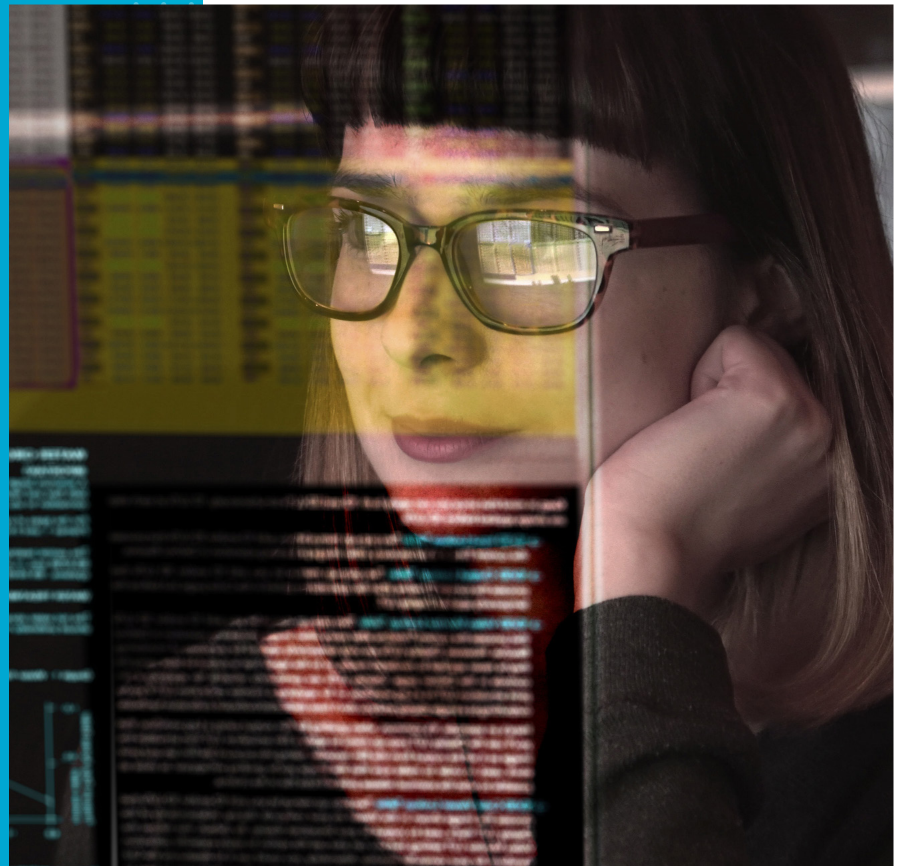
So what do we mean by service disaggregation, and what can the Financial Services industry learn from the UK Government?

It isn't often that we point to government as an exemplar, and it's fair to say that over the years government departments have made their fair share of mistakes when it comes to outsourcing. However, following the introduction of the Government outsourcing playbook, the UK Government are leading and learning from past mistakes, providing a forward looking model of what 'good' looks like when it comes it outsourcing on a vast scale.

Back in 2017 the UK government set in place a policy to move away from large, single vendor outsourcing contracts to multi-vendor, disaggregated environments, combined with in-sourcing where appropriate, and adopting a cloud-first principle. As part of this policy UK government have been seeking to break up large monolithic contracts into smaller, disaggregated services.

Just like in Financial Services, government organisations often entered into large outsourcing contracts, which were often single vendor, lasting 10 years or in some cases longer.

After a detailed review the conclusion government came to was that in many cases these types of contracts no longer offered value for money and often constrained the relevant organisations from modernising technical environments and services.



Understanding the benefits of service disaggregation

As many organisations have discovered, no individual provider, no matter how big they are, has deep expertise in all domains that can be potentially outsourced. Industry-specific and functional knowledge is required so organisations can innovate and achieve their business goals quicker through an outsourcing relationship. Disaggregation enables an organisation to access best in class suppliers for all of their needs, not just some of them.

Lower barriers to entry and access to the right suppliers

Service disaggregation lowers barriers to entry, enabling organisations to access best in class specialist providers, with specific industry expertise. These providers can form part of a wider ecosystem, allowing organisations to benefit from improved competition, with contracts with market leading service providers being put in place. In turn this enables the organisation to access the right skills and knowledge to help achieve its financial, operational and strategic goals.

Less exposure to risk

Disaggregation ensures organisations have less reliance on one provider and in turn less exposure to risk. For example we only have to look back to 2018 to see the impact of the Carillion liquidation and its impact on a number of industries. Carillion were once the second largest construction company in the UK, and held substantial contracts across the UK Private and Public Sector. Since then we have all been looking round to see which outsourcer is next, and the risk of another following is only increased as a result of the financial impact of the Global COVID-19 Pandemic.

Better strategic and financial outcomes for each service

By its nature service disaggregation enables the procurement of shorter contract durations. This allows organisations to switch between suppliers, generate competition and continually make sure they receive value for money and are achieving their strategic and operational objectives. By breaking large monolithic outsourcing contracts into smaller, shorter durations, organisations can benefit from more commoditised and standardised products and services which in turn leads to easier benchmarking against market standards for services received.

Unlock innovation and potential cost savings

A disaggregation strategy can also provide direct access to vendor ecosystems which might have previously been hidden behind a prime contract. This enables organisations to understand and manage services better as well removing hidden costs which have been created by margin stacking.

Why are more organisations not exploring a service disaggregation approach?

So in summary, disaggregation enables organisations to access best in class suppliers, it encourages less reliance on one provider – reducing risk, and it enables them to obtain better value for money! So if service disaggregation is so great why aren't more organisations exploring this approach?

The simple answer is it takes time to unpick large complex multi-year contracts. Providers have often spent years entwining themselves into organisations trying to make themselves unreplaceable. It requires the right level of investment, access to the right resources, and it needs to be well thought through with relevant processes, people and risk management frameworks identified before the service disaggregation programme of work takes place.

Often providers are the only ones who really understand the underpinning processes and technology, and let's be honest they aren't going to help you disaggregate when it means losing revenue. It's therefore critical to start to wrestle back control, gain understanding and make sure your outsourcing providers are fully documenting the processes they are following and more importantly make sure your internal teams understand how your systems actually work.

By the nature of service disaggregation it means that organisations need to take more control themselves. Instead of having one service provider to manage they will have several providers, additionally procurement teams will have to shift in focus and mindset from running one procurement every ten years to a procurement team who are continually reviewing, managing and amending contracts. This comes at a cost, but in most cases the benefits of doing this outweigh multiple times over, as the Crown Commercial Service have discovered since implementing its multi sourcing strategy.

An important point about disaggregation is that different services are procured in different ways, there is no **"one size fits all"** methodology. In many cases disaggregated service models are seen as 'not working' because the important step of understanding what user needs are and what the business expects in terms of strategic and operational benefits throughout the lifetime of the contract are not agreed up front or forgotten quickly after the transition honeymoon period. Similarly, it is critical to ensure that all partners within a disaggregated model are commercially aligned and incentivised in order to deliver the same business outcomes.

"A good disaggregated service model needs a strong Service Integrator with clear responsibilities given to the partner or in house team playing this role. The right service integration partner will be able to advise the in house procurement or operational team on what combination of skills, technologies and service levels will work best for what their organisation wants to achieve from the service."

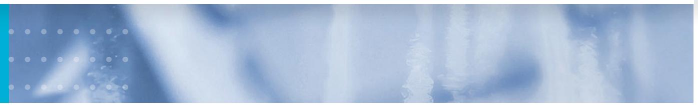
Final thoughts

All industries are now facing up to the financial impact of the COVID-19 global pandemic. Financial Services and Government organisations are no exception to this. Financial institutions are being challenged to quickly adapt in order to compete and stay afloat against ultra-low interest rates, rigorous regulation and increasing customer demands for a personalised service. Government organisations are being challenged to keep core public services running against an ever changing macro environmental backdrop due to COVID–19 and Brexit on the horizon.

As competitive pressure increases due to changing consumer behaviours Financial Services firms must make sure their service offerings are what users inside and outside of their organisations expect.

It is no longer 'good enough' to hide behind a poor customer experience due to the wrong supplier being chosen or legacy technology as the excuse. Instead Financial Services organisations should be using this time during the COVID-19 pandemic to examine their existing BPO and IT service delivery contracts and ask themselves are they really meeting customer expectations? Are the services and processes they have in place the right fit for their organisation today and in the future? Are they really using best in class service providers to help them achieve their strategic goals? And of course is their service provider really providing their organisation with access to the right technology, skills and services roadmap which will help their organisation to evolve and adapt to a post COVID–19 world?

"At Sopra Steria we believe now is the right time for Financial Services organisations to start exploring the service disaggregation discussion and make sure their organisation has access to the BPO and IT services needed for the future."



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.

In the UK Sopra Steria has a significant 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 25 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

NHS Shared Business Services

SSCL

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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 Outsourcing Service Provider.

For more information on our Business Process Outsourcing Services please contact Ash Smith at the details below:

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We look forward to working with you.

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