SMA TECHNOLOGIES

Outsourcing Optimization Guide for Financial Institutions

What You Need to Know

Leaders of financial institutions are a remarkably resilient group. Faced with increasingly complex regulatory, security, and technology environments, over 77% of retail banks have outsourced one or more primary service offerings. The benefits are well-known, but don't always tell the full story. The purpose of this guide is to arm financial institution leaders with knowledge to make the decision that delivers the maximum value to their organization.

Table of Contents

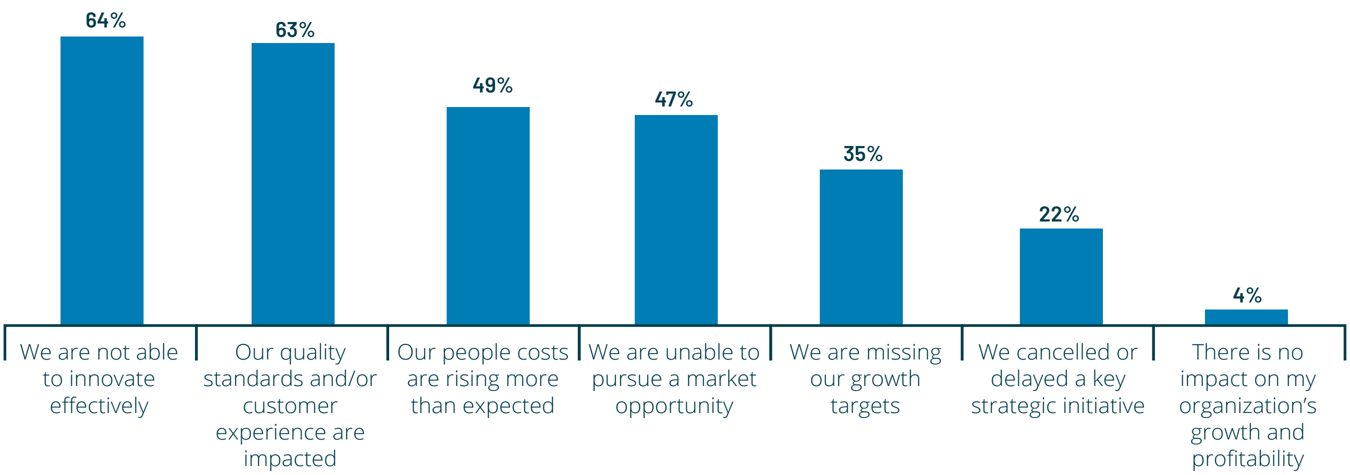
Workforce challenges leading to outsourcing

Not everyone is Apple – talent retention is a major struggle for financial institutions

It's a significant challenge to gain, train, and retain talent for any organization. The nightmare scenario for most leaders is investing considerable time and resources to develop an employee for a critical role, and then watching them depart for greener pastures. The potential disruption to operations and derailment of key initiatives can directly impact the ability of the team to effectively deliver services to members/customers.

Skills shortages hold back innovation, quality and growth

QUESTION: What impact is 'availability of key skills' having on your organization's growth prospects?
(Asked to those who selected 'extremely concerned' for availability of key skills)



Data sourced from PwC white paper: Banking and Capital Markets Trend 2019.

> "Today's low unemployment rate coupled with intense competition for IT talent from other industries has made it extremely difficult for credit unions to attract and retain the necessary IT talent in house."
>
> Gary Lee, Credit Union Business News

Rather than get stuck in a draining cycle of hiring and training new people, it makes sense for organizations to simply outsource some of the services that require expertise that's difficult to keep on staff. The skillsets to manage core processing solutions, in particular, are not common and it's tough to find people with a level of experience that inspires confidence. Outsourcing this area lets leaders focus on business growth instead of maintaining a deep bench of in-house technical experts.

Here are some concerns, and possible solutions, leaders need to examine before they go down this path:

- Impact to existing team members – How will your organization look before, during, and after the transition?
- Reallocation of team members – Which team members are ready to step up and contribute with more strategic work that helps grow the business?
- Find ways to leverage existing vendors – Your team won't be buried in daily operations work, so can you put them in a position to focus on high-ROI work like leveraging your vendors for automation initiatives?

Control: What ROI justifies giving it up?

Before any outsourcing initiative leaves the planning board, a few key questions must be answered:

- How will customer satisfaction, both internal and external, be quantified as a measure of ROI?
- After outsourcing is complete, what kind of agility to pursue further innovation initiatives will have been gained?
- Will the ability of the organization to react to problems or implement new initiatives in a timely manner be compromised to an unacceptable degree?
- What kind of risks will the organization take on by giving up direct control of critical services?

Let's take a moment to more closely examine that last point about risk, since it informs almost any initiative a financial institution undertakes.

Deloitte identified four categories of risk that can help leaders of financial institutions evaluate those questions and answer them as objectively as possible.

Strategic Risk

- Clearly articulate objectives
- Define metrics for evaluating quality of service
- Select tools to monitor performance

Operational Risk

- Perform due diligence on vendors
- Explore ways of maintaining control of critical systems and jobs
- Establish risk indicators

Regulatory & Compliance Risk

- Prove vendor's familiarity with applicable regulations
- Ensure vendor has strong internal controls
- Mitigate harm to customers/members

Reputational Risk

- Check quality of outsourced processes
- Establish protocols to manage vendor services
- Create metrics and goals for vendor

Once an organization has sufficiently evaluated how they'll manage the risks of outsourcing, they're in a much better position to make a compelling argument for moving forward toward implementation.

Can you outsource customer satisfaction?

According to The Financial Brand, 80% of financial institutions have improving digital experiences for consumers as a top priority.

Outsourcing seems idyllic at first, as the team feels the burden and stress lifted from their shoulders and shifted to the vendor. But then something goes wrong; a file doesn't get processed, a service is down, and team members instinctually try to open an interface that isn't there any longer. The operational risk of outsourcing has manifested. You were supposed to be reducing costs and risks by outsourcing, and now your team is scrambling to fix problems rather than focusing on new initiatives.

You've given up control, and with it, visibility into your critical processes.

If the problem happens during work hours and it impacts member services, this can be a serious event for leadership. This carries significant risks to the reputation of the organization, which is why due diligence and vendor management must be integral to the outsourcing strategy.

Having that visibility allows organizations to more effectively monitor mission-critical processes and keep their vendor accountable for delivering 100% of the services contracted for. This capability is critical to maintaining high member/customer satisfaction and validates the effectiveness of outsourcing initiatives.

Can outsourcing break down data silos, or will it build more?

Fragmented data is a very solvable problem. But keep in mind that outsourcing may create a new silo if your organization doesn't have free access to data from the vendor. This generates a host of issues that impact the speed of communication between applications, creating inefficiencies that are avoidable.

The top three barriers to maturing digitally as an organization, according to this Liferay survey, are:

- Lack of availability of IT resources
- Compliance requirements
- Fragmented data resources

Outsourcing can certainly do a lot to increase the availability of IT resources, by freeing up existing team members to work on rolling out new services that they simply didn't have time to accomplish before. Here's a one-pager with a few examples of areas where an organization can focus their IT efforts to bring new value and create cross company functionality.

VIEW ONE-PAGER:

Fatten the Bottom Line: Top Business Automation Use Cases for Financial Institutions

Most outsources offer some sort of addon that can move data to and from the core, but it might not be fast enough or offer the level of detail and flexibility internal customers require. A popular alternative is to use a dedicated workload automation platform that can automate all the data movement for an organization, greatly reducing the number of silos.

We hope this document cleared up some of the challenges that go hand in hand with outsourcing. **Are you currently experiencing any of them at your organization, or planning to implement outsourcing soon?** SMA Technologies provides an automation platform that financial institutions rely on to remove chokepoints and operate their enterprise with more efficiency and scalability.

We'd love to partner with you to solve the most vexing challenges facing your business.

SCHEDULE A CONSULTATION

SMAtechnologies.com

contact@SMAtechnologies.com