The New Future State Outsourcing Model: Build / Operate / Transfer

Preparing for this Future Model

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Beyond Long Term Outsourcing

For decades now, lending organizations have come out of refinance booms with laudable intentions to address their back office. And, as before, these efforts include a consideration of functional business process outsourcing (BPO) as a means to lower costs and gain from another company's efficiencies, scale, infrastructure investment, and focus. While this model has addressed the needs of several major institutions in the past, most lenders have seen the typical long term, 10 year locked in arrangement as being too inflexible and ceding control over important customer-facing parts of their business. And yet, the organization's needs remain.

There will be, therefore, a new model for the future, designed to better address an organization's value chain.

Before proceeding, however, the lender must develop its own vision of its future state and consider how far it can go and is willing to go on its own. Specifically, lenders will have to tackle the following:

(i) Define the Future Organizational Model

The first step requires developing a set of principles to guide the decisions around the future state organization structure. These principles will vary by organization, but can have the following common themes:

- Enhance processing efficiency

- Enhance customer responsiveness and experience

- Enable development of high staff morale and job satisfaction

- Prepare for driving utility benefits

Enhanced processing efficiency can come through three key routes: 1) Minimize hand-offs within and between processes (which will support processing efficiency and quality); 2) Match authority with accountability (authority for decision-making should reside with those most capable of making and implementing the decisions); and 3) Consolidate like or logical process activities within one role.

Enhanced customer responsiveness and experience can be accomplished by making teams and individuals (where viable) responsible for end to end processing within the core processes and balancing efficiency vs. customer experience. A customer focused / customer driven organisation can better deliver both customer experience and maximized process efficiency.

Enhanced staff morale and job satisfaction can come through the following: 1) Developing tiered roles within teams with clearly defined roles and responsibilities to enable career path development; 2) Pay for performance via compensation models that recognize can reward expertise and performance; and 3) Minimizing management hierarchy by ensuring management layers are necessary to achieve optimal performance.

Finally, developing a utility, or shared-services, approach to process improvement will ensure that scale and complexity can be incorporated into the model without major restructuring.

(ii) Define the Governance Model

Clearly, cost reduction and efficiency are the primary drivers of overall organizational design. To put these goals in the proper context, you should define cultural principles that will frame the end state organizational model. These could be, for example, the following:

- Collaborate in new ways: Actively participate in team development and be willing to be collectively accountable for overall results

- Eliminate boundaries: Always strive to work better and smarter, finding new ways to achieve outcomes

- Establish trust: Maintain clear and open communication and deliver on commitments

- Continuously seek improvement: Strive to learn and build knowledge, while continuously making every effort to exceed individual performance

- Take Ownership: Develop staff that take accountability for their own actions and that will be responsible for their overall outcomes

- Service Excellence: Always a focus on the customer - internal and external

(iii) Define the Operational Model

The next step requires designing operational principles and best practice elements. Consider, for example, whether structure should be based on a functional approach, a team approach, or a hybrid. Other considerations could include management reporting - should there be a channel/segment based alignment or a process based one? These principles can then be evaluated against key criteria, such as the following:

- Enhance excellent service delivery to internal and external customers
- Reduce management overhead and increases process efficiency
- Engender job satisfaction

- Facilitate ease of implementation
- Create synergies with future utility concept
- Align with design principles
- Review the end-state process model for alignment of teams
- Review future technology enablement
- Review best practice in team sizing and management models

Reviewing the pros and cons of the three structure options (function/team/hybrid) will enable the decision around how the work will be done. Then consider how to view and evaluate the business, whether by channel or by process.

CxO Agenda

If you are your organization's CxO (CEO, COO, CFO, CIO, etc.), how far down through your management chain can your staff clearly state your business agenda and goals? Do you, conversely, understand your key issues, even after time and investment in improving the customer's experience? Consider the following:

- Is the customer's experience defined based on the buyer's values and preferences?
- Is the customer's experience differentiated according to growth and profitability potential?

Option	Pros	Cons
Functional Based	• Centralised control • In-depth functional expertise because of single business focus • Functional-Based competitive advantage • Builds on existent capabilities, enhancing effectiveness of routine/repetitive tasks	• Rigid inflexible jobs • Difficult to manage across functions • Information/decisions-making on a "need to know" basis slows processing • Focus on control of people • Profit responsibility at management level only • Limited customer focus • Insufficient attention to employee desire for "value-add" • Additional cost driven by hierarchy • Lack of understanding for individual of their contribution
Team Based	• Flexible, multi-skilled roles • More autonomy and self-directed teams • Information, decision and work in same place • Strong customer orientation • Increased quality due to ownership and accountability	• Extensive implementation support • High human resource costs due to need for increased skill levels • High training and development costs due to high skill levels
Functional/Team Hybrid	• Enhanced accountability and responsibility • Flexible, multi-skilled roles • Flatter organization structure reduces costs • Focus on breadth of role function • Strong customer orientation • More cope for job satisfaction and career enhancement • Enhanced focus on people management	• Extensive implementation support • Commitment needs to be organization wide • Higher training costs due to increased skill levels

Option	Pros	Cons
By Channel - In that the management reporting structure is based on the core channels/segments for example: Brokers, Branch, Premium Customers	• Management accountability of each channel is for the complete end-to-end relationship, being receipt through to settlement and servicing for groups/segments of the overall loan portfolio	• Matrix structure for process performance and management • Minimizes scale efficiency associated with process teams accountable across channels • Replication of work across channels • Split accountability for the end-to-end process and customer value
By Process - In that the management reporting structure is based on the core processes	• Management accountability is for the end to end process performance • Single point accountability for the end to end process performance within teams • Enables scale to be added without major restructuring of the business • Enables a focus on the customer experience and value across the core processes • Maximizes process efficiency by minimizing hand-offs	• Servicing of the loans are managed by a different organizational area • No single point accountability for service delivery and client relationship

• How will you ensure a consistent customer experience across all channels and customer contact points?

• How will you transform the roles of your customer-facing resources to focus on customer acquisition, growth and retention?

• How will you operationalize the customer experience vision to get results quickly as well as ensure a focus on continuous improvement?

The New Model for the Future

We believe the model of the future, for lending organizations, will move from the current 'all or nothing' *long-term, Pure-BPO* (Business Process Outsourcing) of the entire vertically integrated value-chain towards a *medium-term BOT (Build/Operate/Transfer)* construct with desegregation of the value-chain.

The BOT model will combine process transformation, customer service improvement, and offshoring for relevant parts of the value chain and the model will put the responsibility for the delivery squarely in the hands of the outsourcer. However, in this new construct the outsourcer will at a point (or points) in the future return operational elements to the Lender and retain only those functions which both agree remain appropriate for outsourcing.

This is a radical change from the view that outsourcing success combines a long term anchor client-led contract with a number of contracts with small to medium sized organizations. It can be, however, the more appropriate solution in a business environment where the elements of the value chain are maturing at different speeds and lenders expect their own business models to change consistently and more rapidly over time.

Particularly useful in moving Offshore

Business process offshoring is now a widely accepted mechanism to significantly restructure the cost base of financial institutions. While in the last 12 months there have been a flurry of announcements by institutions to relocate major parts of their operations, evidence of offshoring of complex vertically integrated processes is still thin.

The key problem in moving loan processing offshore appears to be the business criticality of certain activities and the significant experience required to affect such a move, especially in a captive model (as opposed to a shared-services/outsourced model) where the institution owns and governs the operation in an offshore environment. To implement a captive model requires immense knowledge and hands-on experience of the business practices in the target market, which typically can only be acquired through a significant operational presence.

While outsourcing mortgage and loan processing onshore is widely understood as a means of injecting world class process management, improving the service and cost profile and restructuring the balance sheet, outsourcing critical business process activities to offshore locations is not as yet widely accepted. The desire not to lose management control, coupled with the immaturity of the supply market and evidence of early movers who have used captive models, appear to be the main reasons.

While outsourcing options will mature and become increasingly attractive as providers acquire scale and experience in the near to medium term, the BOT model allows institutions and global outsourcers essentially to combine the benefits of outsourcing - injection of external expertise,

technology and perhaps investment - with the flexibility, control and culture of an in-house operation.

In this context, the institution transfers the responsibility for set up and initial operation to a third-party provider with the option for the client organisation to acquire full control at a certain point in time. BOT type models will be useful in offshore strategies, to accelerate time-to-market, acquire local knowledge and, in particular, manage the many risks associated with business process offshoring.

Of course, BOT models can also be used entirely onshore, where a lender wants to make a substantial step change, move rapidly into new markets or products, or take even more wide-ranging radical steps to transform its organization. In any case, the disaggregated BOT model can allow a lender to outsource a level of work and which better fits its timescales and risk profile.

Summary

A Build/Operate/Transfer provider's review of your business can encompass all these areas and assist you in deciding whether a BOT solution most closely meets a lender's needs.

Even if the third party service model of the future moves from vertically integrated outsourcing to disaggregated BOT, the fundamental principles will remain:

- Any partnership must meet the strategic thrust of the organization. Also the organization must be clear on what creates value and which elements are commoditized in the business system, to be able to allocate investment dollars and construct a meaningful disaggregated arrangement,

- Relationships with partners must not be based on vanilla service level agreements constructed by the procurement function or lifted from previous experience - it is essential to focus on and measure attributes of service quality, and performance that lead to tangible top-line growth,

- For ventures of this nature to be successful, it is critical to ensure that both partners inject the quality of management talent required to run such large complex relationships.

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