



SUCCESS STORY

THE BUSINESS CASE FOR OUTSOURCING

SUPPORTING OUR STRATEGY

Although banks have often built the majority of their technology solutions in-house in the past, this has changed gradually in recent years for a number of reasons, including costs, speed to market, and access to innovation and expertise. One SkySparc banking client's outsourcing-focused approach has been led by its desire to concentrate resources on meeting clients' banking needs.

Part of a larger Swedish financial services group, the bank has a small but growing share of domestic household lending and retail deposit markets, with growth driven by marketing to the parent group's clients and by generating new business. The bank serves customers via both digital channels and a branch network, with a particular focus on high levels of automation and investment in self-service delivery channels.

"Any bank's systems must provide high availability, high levels of security and have the ability to cope with periods of high transaction volumes. Indeed, the ability of a bank's underlying operating infrastructure to deliver on these expectations is critical to maintaining client trust," said the bank's head of IT.

From an IT perspective, the bank's strategy has been to outsource system support and development as much as possible: it bought in all of its 80–100 systems - from

core banking to reporting to applications supporting its digital channels. This means the primary responsibility of its 30 in-house IT staff is to govern and manage relationships with third-party vendors.

As part of its multi-sourcing approach, the bank chose five core partners, as well as around 25 smaller vendors. To ensure systems work well across the whole of their lifecycle, it employed a 'pm3' maintenance model, which is increasingly common in Sweden. The model aims to ensure that business and IT staff work toward the same business objectives within a unified organizational structure, rather than operating separately as has often been the case historically in many banks.

MEETING CLIENTS' NEEDS

The key reason for choosing an outsourcing strategy was to help the bank to focus on meeting customers' banking needs; IT supports this aim, but it is not a core competence integral to the bank's ability to serve customers.

"Rather than competing to recruit today's developer skills, the bank decided it was better served hiring staff that can combine a number of skills, including developer experience, project and vendor management to ensure that we work effectively with third-parties to deliver superior banking services to clients,"

explained the bank's head of IT. The bank's approach to service development is customer-driven and agile, which means it tends to make a lot of incremental changes on an ongoing basis, rather than launching big projects or releases. Despite only hiring around 30 in-house IT employees, the total number of people working on the bank's IT infrastructure across all vendors runs into the hundreds.

As a small bank, it is not easy to maintain the in-depth competence required to keep 80–100 systems running optimally on a continuous basis. To attempt to do so would not only suck up substantial financial resources, but would also use up valuable management bandwidth, which may be better spent on continuous improvement and development of client-facing services. After all it can be all too easy to lose sight of delivering to the customer if a company acquires too many staff with skill sets other than those directly related to its core competence.

In contrast, in-house development of a proprietary solution would subsequently require the bank to secure the skills to maintain and manage that solution, not only at the outset but across its life-cycle. These resources and requirements can be handled more effectively if the solution is developed to the bank's specifications by a third-party technology vendor.

ACCESS TO EXPERTIZE

Moreover, the current pace and scale of technology change is so significant as to make it extremely hard for any bank - large or small - to keep up. By partnering with a range of well-chosen vendors that are constantly looking at how to take advantage of the latest technological advances as part of their service proposition to a variety of clients, banks can access and deploy technology innovations more quickly and cost-effectively.

"By working with an array of partners, the bank can scale up and scale down its access to IT expertize and resource in line with need, rather than acquiring fixed costs on a permanent basis," he added.

In 2012, for example, the bank was able to double the size of its product portfolio without increasing headcount, by leveraging its partners' ability to scale their operations. Moreover, it can be more efficient and effective to partner with external vendors on an important new initiative, as they know they will need to perform and deliver in order to maintain business relationships, rather than rely on internal employees which can be difficult to motivate to move into new roles or take on new responsibilities.

An outsourced approach to IT also has benefits in terms of risk sharing, by spreading requirements across a range of well-selected vendors, rather than relying too heavily on a single internal resource. By maintaining a panel of specialists, the bank has been able to allocate work to the firm most suited to the specific task.

As we all know, this is a period of intensive change and innovation. While large firms are setting up innovation hubs and ideas labs in order to ensure they are exploring all the opportunities afforded by these different waves of innovation, smaller banks rely on vendors to propose ideas on how best to adapt and deploy

new ideas and technologies, leading to collaborative partnerships on those projects and initiatives that can add value to clients. Clearly, this is a quicker and more cost-effective approach to keeping a smaller firm alert to every area of innovation. "A lot of banks are currently trying to tap into the fintech sector in order to keep abreast of new ideas, but found that partnering with a range of small and large technology vendors has been an effective way of achieving this same end," said the bank's head of IT.

Cost-effectiveness is not the main driver of the bank's decision to adopt an outsourcing approach to IT. However, the fact that its needs rise and fall over time means that the use of vendors has been a very cost-effective way of tapping resource as and when required. As a relatively small player, the bank's partnership with vendors also gives it an opportunity to offshore some IT needs at cost-effective locations, e.g. in Asia, which it would not otherwise have been able to access.

SUCCESS FACTORS

A number of factors in the bank's approach are responsible for the successful implementation of its outsourced IT strategy. In the first instance, it has been particularly important to have senior management buy-in. Because full outsourcing is such a very different approach to how banks have traditionally acquired and run their technology infrastructures, managers have had to understand the implications for how the bank is run and how new capabilities come on stream. Second, when implementing changes in approach, it is important to start small, then learn from mistakes and scale up. Regular, small releases put a lot of pressure on the business to conduct user acceptance testing, almost on a monthly basis. As a result, the bank decided to try to outsource 80% of user acceptance testing, but

started small with a three-man team in 2010 at one partner, which has since grown to 30.

Third, it was also important to select systems that were already mature, well-established and standardized. Especially if systems can be accessed on an ASP or 'software-as-a-service' basis, it is much easier to add specific needs to an existing system that already has the majority of these attributes. Further, the bank opted to buy best-of-breed solutions from a wide range of vendors rather than to put too many eggs in one basket, sourcing the majority of solutions from a single supplier. In the short term, this approach might be less cost-effective, but the alternative risked leaving the bank with sub-optimal solutions and a distinct lack of negotiating power with a lead supplier over the longer term. "Vendor relationship, as suggested earlier, has had to become a core skill in order to achieve this strategy. In practice, the bank found that this skill must be acquired and used across both the IT and business functions," noted the bank's head of IT.

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HEAD OF IT AT THE BANK

All organizations must select an IT strategy that fits their own specific purpose. Outsourcing may not suit everyone, but it is increasingly able to meet a variety of needs. As this SkySparc client has found, deep relationships with expert partners managed by in-house staff that understand business and client priorities can be a successful alternative to traditional IT strategies.

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