

BANK SYSTEMS & TECHNOLOGY

September 2010

A hand is shown from the wrist up, with the index finger pointing upwards and balancing a small, transparent globe. The globe shows the continents of North and South America. The background is a light blue gradient.

Mastering Outsourcing

Outsourcing is on the rise, but banks are demanding more value from their outsourcing providers than ever before. And they're getting what they want by restructuring contracts and enforcing stricter controls [p.7](#)

Table of Contents [p.2](#)

7

COVER STORY

Control Your Outsourcing Destiny

Banks are outsourcing more than ever. But these aren't yesterday's deals. Banks are demanding more from their outsourcing partners, and they're getting it by asserting stricter control on the process.

HOT MARKETS 11

Where to Go From Here?

While India and the Philippines remain popular destinations for IT and business process outsourcing, a number of up-and-coming regions are emerging as strong players in the financial services outsourcing market.

This is the fourth of five all-digital issues that Bank Systems & Technology will produce in 2010.



4 OUTSOURCING WATCH

Recent Deals First Savings Bank taps Wolters Kluwer for compliance, UBS and CSC sign IT services contract, and Biddeford Savings outsources payroll.

5 OUTSOURCING ECONOMICS

Location Is Everything An effective global sourcing strategy must weigh more than just labor arbitrage, says Rubin Worldwide founder Howard Rubin.

15 CASE STUDY

The Power of One Bellco Credit Union streamlines ATM fleet management and improves customer satisfaction by consolidating ATM services with Diebold.

16 INDUSTRY VOICE

The Million Dollar Question Deciding whether to do something in-house or outsource it depends on the individual bank. Let the CEO decide, says Art Gillis.

3 FROM THE EDITOR

17 EDITORIAL AND BUSINESS CONTACTS

www.banktech.com

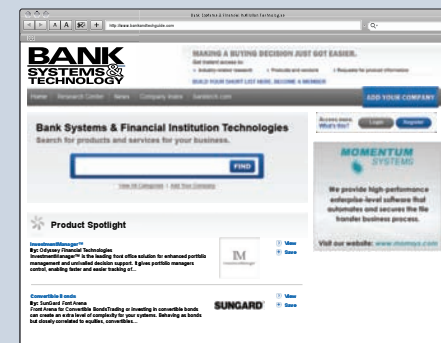
Next >>

EFFICIENT

Visit one website to find thousands of companies with the products and services you need to solve your banking and financial problems or opportunities.

EFFECTIVE

Download leading-edge product research and relevant business strategies, for free. Build a list of vendors, accessible online 24/7 and stay informed with the latest news releases and real-time Business Chatter from stellar companies serving the banking and financial industry.



Visit today at
www.BankAndTechGuide.com

- | | | |
|-----------------------------------|--|---------------------------------|
| ■ Back Office | ■ Customer Relationship Management (CRM) | ■ Payment/Processing Mechanisms |
| ■ Banking Applications | ■ Databases/Database Management | ■ Portfolio Analytics |
| ■ Compliance | ■ Document Management | ■ Risk Management |
| ■ Consulting/Services | ■ Integrated Banking Solutions | ■ Security |
| ■ Core Processing/Data Processing | | ■ Wealth Management |
| ■ Data Warehouse | | |

FROM THE EDITOR

Tough Decision

ALTHOUGH THE STIGMA LINGERS and companies don't talk about it much, more and more organizations throughout the United States, under pressure to cut costs, are turning to outsourcing. Large outsourcing deals were up 30 percent in the first half of this year, according to advisory firm TPI.

In an extreme example, Maywood, Calif., recently fired all of its municipal employees — police officers, City Hall workers, street maintenance workers — and outsourced their jobs. Although Maywood residents were afraid of the potential ill effects (a surge in crime, for example), "The apocalypse never arrived," the New York Times reported. "In fact, it seems this city was so bad at being a city that outsourcing — so far, at least — is being viewed as an act of municipal genius."

Maywood is saving money on salaries and insurance premiums. Police from a neighboring town and crossing guards from a private security company are maintaining order. But the New York Times article also points out that, "It is possible bad news is just slow in arriving."

What are the ethics of outsourcing? Does a company owe something to its loyal employees? While the U.S. unemployment rate remains so high, is it good for our country to send jobs overseas? Is it ever right to strip anyone of their livelihood in order to save the company money? As industry veteran Art Gillis points out ([page 15](#)), it takes a leader with the backbone of John Wayne and the virtue of Gregory Peck to make the right call.



Penny Crosman, Executive Editor pcrosman@techweb.com



**Our Subscribers Are Your Customers.
Reach Out To Them Today. Direct.**

Bank Systems & Technology Mailing List Direct Mail • Email • Telemarketing

Available Target Audience Categories Include:

Channels, Payments & Cards, Risk Management/Security, Core Systems, Regulation/Compliance, Customer Insight/Business Intelligence and Architecture/Infrastructure.

Reach Out With The Following Select Criteria:

- Job Function Including: *Corporate Management, Business Mgmt and IT Mgmt.*
- Product/Service Interests Including: *Data Mgmt, Risk Mgmt, Security, Compliance, Branch Automation and Wireless.*
- Assets • Business/industry • Employees In Organization
- Geography and much more.



For additional information, please contact Anthony Carraturo at 914.368.1083 or simply email acarraturo@meritdirect.com. For other UBM mailing lists please visit www.ubm.meritdirect.com.

• Technology • Engineering • Channel • Software Development • Business

333 Westchester Avenue • White Plains, NY 10604 • PH: 914.368.1000 FX: 914.368.1150 Branch locations: Atlanta • Chicago • Cleveland • Hilton Head • San Francisco • www.meritdirect.com



OUTSOURCING WATCH

CONTRACT CLOSE-UPS

Accelerating Compliance

First Savings Bank is hoping Wolters Kluwer can help the bank quickly comply with Reg E.

By Penny Crosman pcrosman@techweb.com

FIRST SAVINGS BANK OF CLARKSVILLE, Ind. (\$230 million in assets), has outsourced Regulation E compliance to software and services provider Wolters Kluwer. The Federal Reserve Board's changes to Regulation E — which took effect July 1 for new accounts and took effect Aug. 15 for existing accounts — require financial institutions to gain approval from consumers before charging overdraft fees on one-time debit card or ATM transactions.

First Savings Bank has outsourced the overdraft fee approval process to Wolters Kluwer Financial Services through the provider's Reg E Opt-in Manager solution. The system uses the bank's account-holder information to create cover letters, opt-in notices and confirmation of consent notifications. Messages are securely mailed to First Savings Bank's customers,

UBS and CSC Sign \$580 Million Global IT Services Contract

UBS, the Zurich-based bank with \$1.5 trillion in assets, signed a five-year master service agreement with Falls Church, Va.-based Computer Sciences Corp. for the provision of voice and data networking among the bank's offices in 50 countries. The total contract value is estimated to be as much as \$580 million, assuming provision of the full scope of services over the five-year term. ■

who can opt-in or opt-out.

Reg E Opt-in Manager also provides an audit trail of opt-ins and opt-outs that are captured via a bar-coding system, scanned, imaged and sent electronically to First Savings Bank to track compliance with Reg E. The bank receives regular reports of all opt-ins and -outs.

Sonny Brewster, VP and compliance officer for First Savings Bank, said that while compliance with Reg E is essential, his institution's time is limited due to a recent acquisition and a core processing system conversion. "By outsourcing the task of Reg E compliance to Wolters Kluwer Financial Services, I'm confident we're meeting all of the requirements more quickly and efficiently than we could on our own," Brewster said in a release. "And the regular reports we receive on opt-ins and -outs give me peace of mind that we're well on our way to meeting the upcoming compliance deadline." ■

Biddeford Savings Bank Outsources Payroll to CompuPay

Biddeford Savings Bank, a locally owned mutual savings bank in Biddeford, Maine, with \$312.4 million in assets, has chosen to outsource payroll activities to CompuPay.

"Outsourced payroll and related services are important for many small businesses," said Peter Sylvestre, SVP for Biddeford Savings Bank, in a release. "We are excited about the opportunity to offer our customers state-of-the-art payroll through our new relationship with CompuPay."

Kathey Palmer, SVP for business development at CompuPay, added, "Outsourced payroll will allow Biddeford Savings' commercial clients to not only streamline business processes and save money, but also focus their efforts on what is most important to them: growing their businesses." ■

In This Issue

[The Real Economics of Outsourcing p.5](#)

[The Evolution of Outsourcing p.7](#)

[Emerging Outsourcing Hot Spots p.11](#)

[An Outsourcing Success Story p.15](#)

[Art Gills Backs the CEO p.16](#)

[Table of Contents p.2](#)

SHARE



more...

OUTSOURCING ECONOMICS

Location, Location, Location

An effective global sourcing strategy requires far more than focusing on labor rates and labor arbitrage, according to **Howard Rubin**, founder of Rubin Worldwide.

“**L**OCATION STRATEGY” is the new catchphrase among financial services firms for the latest approach to the deployment of global resources for operations and technology functions. It is now a key element in the somewhat standard playbook of cost reduction/economic efficiency and in the overall context for labor arbitrage and labor “futures” — the quest for finding the next India (or Singapore or Shanghai) ahead of one’s competitors.

The resource geography of today’s global mega-banks shows a dispersion of resources that clearly reflects the impact of the migratory patterns toward low-wage areas of the past few years: 40 percent of technology personnel and 35 percent of operations personnel are located in the Asia-Pacific region, while 33 percent and 35 percent, respectively, are based in North America.

Perhaps we are now witnessing a phenomenon

that is driven by the principle that efficiency follows wages, and hence the continued movement toward low-wage geographies in Asia (and the not so visible build up in Latin America and the Caribbean). But, while it may be true that efficiency follows wages if one measures efficiency as cost per labor hour, if you shift the metric to throughput or output per labor hour or per unit of labor cost, the results may be quite different.



The Global Productivity Landscape

This begs the question, what does the global landscape look like in terms of productivity and quality as measured from an output perspective versus a labor (input) perspective? In addition, it is likely that technology — and technology economics — are key drivers of workforce performance. So a second question has to do with the interplay of global technology economics and global labor performance.

Little is known about such dynamics, and results vary depending on the chosen metrics. If you use annual gross domestic product (GDP\$) per worker as the measure of national productivity, the United States comes out at No. 1, at \$63,885, which is 14 percent above the second-highest nation. If you shift the measure to GDP per worker hour, however, the U.S. slips down because, in general, U.S. workers work more hours than workers in other countries.

Interestingly enough, if you narrow in on technology competitiveness, The Economist recently ranked the U.S. as No. 1 overall. On a scale that measures worker output in terms of hardware and software goods produced per worker annually, however, the U.S. (\$154,173) drops to seventh. (Taiwan assumes the top spot, at \$386,713.) But this still is four times higher than India (\$39,033). So is a worker in India earning one-third of a fully loaded U.S. wage really a good economic choice?

The Rubin Worldwide Research Database (www.rubinworldwide.com) shows that the spread in technology work hourly wages between devel-

In This Issue

[Recent Outsourcing Deals p.4](#)
[The Evolution of Outsourcing p.7](#)
[Emerging Outsourcing Hot Spots p.11](#)
[An Outsourcing Success Story p.15](#)
[Art Gillis Backs the CEO p.16](#)

[Table of Contents p.2](#)



OUTSOURCING ECONOMICS

“Nations around the world are making substantial investments in the technologies necessary to make their workforces competitive and differentiated.”

oped nations and low-wage nations is on the order of 4.1 to 1. But consider that there is also another set of forces at work: labor productivity and quality. Shifting to yet another metric reveals the impact of these additional forces.

This metric is a “cost of goods/cost of service” metric — what is the cost per

contact center contact or per payment processed? Intuitively, such measures seem to be a more effective way to assess true economic efficiency from an output view versus wage information, which is truly an input view.

Some sample data reveals that for a contact center, the cost per contact in Costa Rica is \$8.53 versus Manila at \$5.71, China at \$7.24 and Budapest at \$11.25. Of this set, hourly wage is lowest in China, yet unit cost per contact is far higher there than in Manila.

Cost per payment for an accounts payable function is equally revealing. Costa Rica is \$1.26, Brazil is \$2.86, Manila is \$2.14 and China is \$1.98. Again conventional wisdom would likely have placed the bet on China or Manila, not Costa Rica.

You Get What You Pay For?

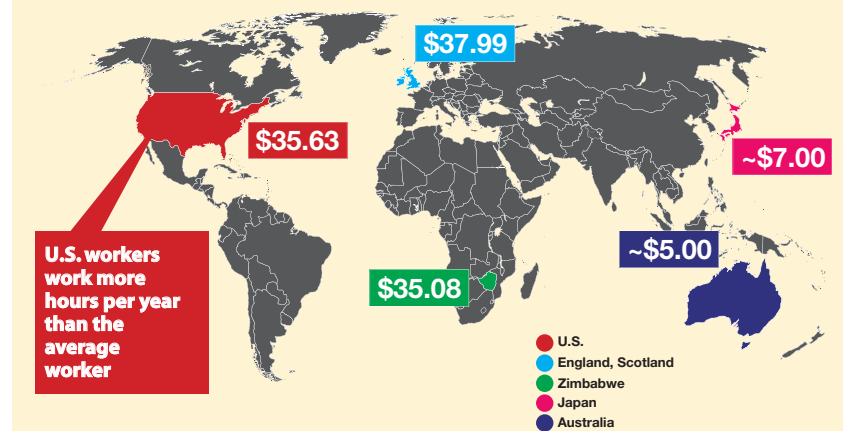
Clearly economic efficiency does not follow wages. Other drivers that must be given consideration include worker hours per year, worker productivity, quality and, of course, a whole set of policy and risk issues.

Yet this list of considerations, in itself, is incomplete and insufficient because even as it is being written, its underpinnings are changing rapidly. Global technology economic data shows that nations around the world are making substantial investments in the technologies necessary to make their workforces competitive and differentiated.

In This Issue

[Recent Outsourcing Deals p.4](#)
[The Evolution of Outsourcing p.7](#)
[Emerging Outsourcing Hot Spots p.11](#)
[An Outsourcing Success Story p.15](#)
[Art Gillis Backs the CEO p.16](#)
[Table of Contents p.2](#)

Hourly Economic Output per Worker



The global “steeplechase” shows nations such as the Ukraine increasing their investment per worker by as much as 77 percent over the next two years. As nations invest in their people to drive performance, wage levels will become even a poorer indicator of economic efficiency.

Furthermore, to fully compete on a global scale, nations are investing in their educational infrastructure to develop the critical talent that will be needed in the future. Again, technology and information access play a pivotal role.

Developing and executing an effective location strategy requires far more than focusing on labor rates and labor arbitrage. It requires mapping the new geography of our technology economy, and it requires new measures and transparency into workforce performance and outcomes. ■

Howard A. Rubin is the founder of Rubin Worldwide, a research and advisory firm focused on the economics of business technology. howardarubin@gmail.com

COVER STORY THE EVOLUTION OF OUTSOURCING

TAKING CONTROL OF OUTSOURCING

Banks are outsourcing more than ever, but they expect more than just low-cost labor. They're demanding — and getting — more value out of their outsourcing relationships by rethinking what's possible, restructuring deals and enforcing tighter controls.

By Penny Crosman pcrosman@techweb.com

OUTSOURCING, NEVER A POPULAR SUBJECT, has become nearly taboo as U.S. unemployment stalls near 10 percent. "No one is eager to demonstrate in this market that they're taking jobs out of America and putting them somewhere else," Peter Bendor-Samuel, founder and CEO of Everest Group, a Dallas-based outsourcing consulting firm, drily observes.

In fact, Arizona and the federal government have taken desperate (and controversial) measures to shift jobs from immigrants to U.S. citizens, including forcing companies to lay off all illegal immigrants. The topic has become so mainstream that NBC plans a fall sitcom called "Outsourced" about a call center manager who gets relocated from Kansas City, Mo., to Bangalore when his company's call center staff are all fired and replaced with lower-paid workers in India.

In This Issue

[Recent Outsourcing Deals p.4](#)

[The Real Economics of Outsourcing p.5](#)

[Emerging Outsourcing Hot Spots p.11](#)

[An Outsourcing Success Story p.15](#)

[Art Gillis Backs the CEO p.16](#)

[Table of Contents p.2](#)



Data show that U.S. banks' outsourcing activities are growing — both offshoring to lower-wage regions (such as India and the Philippines) via the multinational outsourcing firms (including Tata, Wipro, Infosys, HCL, IBM and Accenture) and through captive arrangements, as well as onshore engagements with U.S.-based service bureaus and outsourcing providers. In the first quarter of this year, financial services companies reported 40 outsourcing deals, versus 26 in the previous quarter. Notable deals in early 2010 include Deutsche Bank's \$114 million contract with GFT Technologies in which GFT will take responsibility for applications that handle payment transactions, online banking, credit card management and securities transactions; and the multiyear contract that U.S. Bank signed with TSYS for card processing services.

"In the banking industry, people are still looking to improve their efficiencies, reduce costs, and free up cost and capital," comments John Buscher, partner and managing director for outsourcing advisory firm TPI. "For political reasons, some offshore work is being kept quiet, but outsourcing is alive and well in the financial services industry."

But these aren't yesterday's outsourcing deals. For one thing, banks now

SHARE[more...](#)

COVER STORY THE EVOLUTION OF OUTSOURCING

expect more than just low-cost labor. And the size of deals, who's making them, the scope of the work and even the structure of the contracts themselves all are evolving to meet today's new business demands.

The New Outsourcing Deals

The typical bank could trim expenses by as much as 20 percent through outsourcing, estimates Terry Moore, Accenture's North American banking lead. But it's not as simple as finding a single partner. The age of the outsourcing megadeal is fading.

While American Express's \$4 billion, seven-year technology services deal with IBM was not unusual in 2002, "You will never find such a contract today," reports Prasanna Satpathy, SVP and head for financial services in the Americas at HCL Technology. "Contracts are for five or three years, and they're broken out — one provider will provide desktop services, another brokerage software, a third a business process."

TPI, which tracks outsourcing deals that are valued at more than \$25 million, says there were 109 such contracts across all industries in the first quarter of 2010, a 21 percent decline from last year. And restructuring accounted for 42 percent of the market, the highest ratio ever, the firm notes, proving that companies have the leverage to make more demands from providers and are consequently rewriting their outsourcing contracts.

The large money center banks, which have been outsourcing for more than 10 years, often through captives, are restructuring and fine-tuning their sourcing relationships. And while a few have sold their captives to Indian multinationals, most — including Bank of America, Credit Suisse, Goldman Sachs, HSBC, J.P. Morgan, Morgan Stanley,

Standard Chartered, Wells Fargo and UBS — still have offshore captives.

Meanwhile, community banks, which have long been comfortable with the outsourcing/service bureau model, seem to be doing a bit more of it as the economic climate continues to challenge them (*see related sidebar, page 9*).

Regional banks have traditionally been the outsourcing holdouts, reluctant to gut IT and operations and give those jobs to an outside

provider, especially in another country, according to Jame Cofran, SVP, global banking and financial markets, at CGI, an IT and business process outsourcing firm. "It's a much bigger deal to them because they're closely associated with their geography," he notes. "Some regionals have said, 'No way, no how are we going outside the boundaries of the U.S. It's not worth it, given the image we have here.'"

But many are weakening their resolve under economic pressure. "The money center banks have validated that you can and should do this," Everest Group's Bendor-Samuel says. "It does reduce costs, and you can get performance gains out of it."

The regional banks have to offshore to compete with their larger brethren, HCL's Satpathy argues. "J.P. Morgan has more than 10,000 [full-time equivalents] outsourced in low-cost geographies," he points out. A regional bank can't hope to compete when its IT costs are millions of dollars higher, he adds.

Reprocessing What's Possible

While the shape of outsourcing deals in financial services is changing, so is the scope of the work. Large banks still send application development and maintenance work offshore, and community banks continue to rely on local service bureaus for core processing. The newer trend is business process outsourcing, particularly mortgage and student loan processing, with paperwork performed offshore and the actual decision made stateside. "There's a movement in banks toward a sourced or managed cost per loan," explains Everest Group's Bendor-Samuel.

"There are a lot of manual processes and inefficiencies contained in the mortgage origination process," adds Accenture's Moore, who estimates that the average cost per loan is more than \$1,800 though, he asserts, it should be below \$1,000. "Particularly in a low-growth origination market, you have to look to a lower or variable cost structure," Moore says.

Processes including treasury management, wholesale lockbox, remote cap-



"In the past, banks put standards in their outsourcing contracts that had no teeth to them."

**—Craig Boivin,
Highland Banks**

In This Issue

[Recent Outsourcing Deals p.4](#)

[The Real Economics of Outsourcing p.5](#)

[Emerging Outsourcing Hot Spots p.11](#)

[An Outsourcing Success Story p.15](#)

[Art Gillis Backs the CEO p.16](#)

[Table of Contents p.2](#)

A Little Outside Help

Given their modest internal resources, community banks are no strangers to partnering with third-party providers. But there's been a small uptick in community banks' adoption of outsourcing recently as they've sought to save money during the downturn and to deal with the flood of new regulations.

In an example of the latter, John Buhrmaster, president of 1st National Bank of Scotia (\$321 million in assets), reports that the Scotia, N.Y.-based institution recently began outsourcing all application development in anticipation of the new finance reform bill.

For State Bank of Whittington (\$88 million in assets) — which, after handling IT in-house for 20 years, recently handed core processing over to outsourcing provider Computer Services — the main driver is “not-our-core-competency.” “The conversion will let us concentrate on banking and apply our resources to serving customers rather than operating the in-house system,” explains Steve Owens, the Whittington, Ill.-based bank's VP. Owens says he expects CSI to help the bank make product improvements and improve its technology.

Maple Grove, Minn.-based Highland Banks (\$560 million in assets) began outsourcing core operations to Fiserv in June 2008. According to CTO Craig Boivin, the reasons behind the move included the high capital costs of running an in-house data center and disaster recovery site, and the difficulty of finding people who could maintain a mainframe envi-

ronment. “That skill set is not super prevalent in the marketplace,” observes Boivin.

Consulting firm McGladrey helped the bank evaluate its basic options: keep core processing in-house, move to Fiserv's Des Moines service bureau, move to Fidelity Information Service's service bureau in Charlotte (where Ridgedale State Bank, which Highland was in the process of acquiring at the time, sent its processing), or switch platforms and use Jack Henry core banking software, Boivin relates.

“The additional risks associated with staying with an in-house processing environment outweighed the price,” says Molly Heruth, SVP and director of operations at Highland. Those risks include the risk of not staying on top of regulatory changes, the risk of technology becoming outdated and the risk of not being able to find the needed technical expertise.

Outsourcing, Boivin notes, has changed his CTO role. “I no longer have to worry about growing my staff to meet new requirements,” he explains. “I do have to worry about vendor management, and a lot of regulatory controls are being put around that. So I focus my time on managing the vendor relationship, making sure service standards we have are being met, and making sure the disaster recovery is there and working.”

About 12 jobs and a data center have been eliminated through the use of outsourcing, saving the bank \$500,000, Boivin reports. “The outsourcing business is so competitive, that in itself is driving down costs,” he says. —P.C.

ture disbursements and check processing also are being outsourced, according to experts.

Structured work lends itself well to low-cost labor markets such as India, says Thomas

Young, partner and managing director, infrastructure, at TPI. Unstructured work, such as unclearly defined application enhancements, he says, not so much. “Clients will say, ‘I'm not sure what I want, but if people could start working on it, that would be great,’” Young relates. “How do you structure that into a contract?”

In the current economic environment, banks also are finding unique outsourcing opportunities. One large bank reportedly convinced Cisco to

provide its Halo Telepresence system to the bank via an outsourcing arrangement. Rather than lay out the capital for Halo, which normally costs about \$1 million per conference room plus a monthly service fee, the bank pays a per-month utility bill. In a managed service arrangement — an offering structure that most observers now put in the outsourcing category — Cisco installs and maintains the equipment; when the bank decides it no longer wants it, Cisco will take it back.

Savvier Contracts, Stricter Control

As the outsourcing work itself evolves, banks are refining their outsourcing contracts and the way they manage them. “Without a great governance model, outsourcing doesn't work well, no matter where you put it,” points out CGI's Cofran.

Outsourcing agreements five years ago were measured in inputs, such as cost per full-time

In This Issue

[Recent Outsourcing Deals p.4](#)

[The Real Economics of Outsourcing p.5](#)

[Emerging Outsourcing Hot Spots p.11](#)

[An Outsourcing Success Story p.15](#)

[Art Gillis Backs the CEO p.16](#)

[Table of Contents p.2](#)

COVER STORY THE EVOLUTION OF OUTSOURCING

equivalent (FTE) or number of hours. Newer arrangements are based on output: speed and efficiency of loan processing, for example, or quality of application development.

Craig Boivin, CTO at Maple Grove, Minn.-based Highland Banks (\$560 million in assets), built performance standards and penalties for unmet goals into his contract with Fiserv. For instance, the vendor needs to provide 99 percent uptime over a three-month period. If its uptime is between 96 percent and 98 percent, the bank will pay 10 percent less in fees, Boivin explains. Another control built into the contract: If Fiserv wants to offshore certain tasks or move data, it must get Highland's approval.

"In the past, banks put standards in their outsourcing contracts that had no teeth to them," Boivin says. "Vendors tend to focus on customers that will have financial impact." He quickly adds that fortunately, so far, his bank hasn't had to enforce its penalties.

But the contract is not the whole story; the relationship still needs to be monitored and managed. "There's a much greater focus on governance than there's been at any time in the past 10 years," says TPI's Young. "The more custom and complex your agreement is, the more governance you need. Very few firms have it worked out properly. As a result, they're leaving a tremendous amount of value on the table."

Young estimates that if a \$100 million deal is managed poorly, the bank could lose 3 percent to 10 percent of the deal's value, whereas good governance (including checking invoices, which, by the way, also can be outsourced) costs 3 percent.

Bank of America and J.P. Morgan Chase are leaders in the area of contract negotiation and governance, according to Everest Group's Bendor-Samuel. "They're the most sophisticated in thinking through this," he says. "As they figure it out, everybody else watches them."

Meanwhile, the large banks also are trimming down the list of providers with which they work. TPI's Young relates a story of visiting the head of procurement recently at a large New York bank. The man, who oversees 60,000 vendor contracts, understandably was feeling overwhelmed, Young recalls. And new software and service purchase requests pour in all the time.

To streamline vendor management efforts,

Everest Group's Bendor-Samuel says, large banks are creating "hybrid" outsourcing relationships that encompass multiple tasks, rather than having each of many providers do one thing. He calls this "portfolio rationalization."

"It's not that I'm backing away from using third parties," Bendor-Samuel explains. "But I'm spending a lot of time keeping track of 100 of them. What if I could keep track of 20?" In the provider selection process, "The winners tend to be those that can do lots of things and are flexible to work with," he adds.

Warning: Outsourcing Is not for Everyone

Despite the growing possibilities, Highland Banks' Boivin offers a universal truth about outsourcing: It's not right for every bank. "If you're fairly generic in the services you're offering, outsourcing is the way to go," he says. "If you're a highly specialized bank requiring a lot of customization, outsourcing is probably not the best choice."

First Tennessee Bank (\$26 billion in assets) in Memphis recently brought IT back in-house from a core banking provider. CIO Bruce Livesay explains that his bank's holding company sold off a mortgage firm that represented half of its business, and the outsourcing arrangement did not scale down well, nor did it allow the bank to grow in other areas. Instead, the bank will hire 65 IT workers for a new, bank-run data center.

Making this switch will take 18 months and cost \$37 million, Livesay reveals. But he expects the investment will pay for itself in less than four years, through a combination of better use of virtualization, better resiliency, better use of storage and reduced service fees. He also says his bank is better positioned now to adapt to new rules.

Livesay adds that he's not opposed to outsourcing. "There are places to do it and places not to do it," he says. "There are certain things I wouldn't consider outsourcing [such as data management]. There are other things that I would say are less differentiating, such as internal HR systems." ■



"The more custom and complex your agreement is, the more governance you need."

—Thomas Young, TPI

In This Issue

[Recent Outsourcing Deals p.4](#)

[The Real Economics of Outsourcing p.5](#)

[Emerging Outsourcing Hot Spots p.11](#)

[An Outsourcing Success Story p.15](#)

[Art Gillis Backs the CEO p.16](#)

[Table of Contents p.2](#)

SHARE



more...

COVER STORY HOT OUTSOURCING MARKETS

WHERE IN THE WORLD?

While India remains a favorite destination for financial services IT and business process outsourcing, five up-and-coming global regions are competing for firms' business.

By Matt Gunn mgunn@techweb.com

A LONG WITH THE PROMISE of IT cost reductions and the potential for increased efficiency made possible through outsourcing also comes the need to understand risks such as geopolitical stability and scalability when sending critical operations overseas. Deciding where to outsource today is about more than just labor arbitrage.

While traditional players such as India and the Philippines remain strong destinations for IT and business process outsourcing (BPO), several other offshore regions are catching up as viable options for a number of business functions. Countries in Latin America, Asia, Europe and Africa continue to

develop their national capabilities as technology and business process outsourcing providers, while global vendors continue searching for opportunities to establish service centers worldwide.

In addition to traditional factors such as language, education and connectivity, there is more a financial institution should consider before outsourcing to a different country, according to Sriram Prakash, a senior manager with Deloitte U.K. "The three top criteria for selecting a location are cost,

availability of skills and scalability," asserts Prakash, who says India still has the advantage in terms of scalability. "This is in contrast to if you asked the same question five years ago," when much of the emphasis was still on language proficiency and education, as well as cost.

It also is important to consider political stability, adds David Rutchik, partner with Pace Harmon, a San Francisco- and Washington, D.C.-based outsourcing advisory firm. "Another [consideration] is basically respect for the rule of law," he notes.

"It sounds amorphous, but it's a big deal," Rutchik continues. "That's what's held back places like China where intellectual property is not as respected — privacy rules, enough transparency, ... personal customer information rules."

Another consideration might be time zones. While customer-facing operations such as call centers can be operated 24/7 and are not dependent on time of day, Rutchik explains, when it comes to things like application development, it can be beneficial to have a core team working roughly the same hours as offshore partners.

While a number of factors determine a good fit for financial institutions, ultimately decisions about where to locate outsourcing and BPO operations come down to results, says Sudipta Mitra, head of business process outsourcing for Wayne, Pa.-based technology and software provider SunGard. "That's primarily location independent," Mitra says. "A lot of financial services providers are getting to that stage where they are looking at outcomes rather than the whole process of outsourcing."

Depending on the desired outcome, though, various regions can offer unique opportunities for IT outsourcing and business process outsourcing operations, as we examine in the pages that follow. And selecting the right outsourcing destination can go a long way toward determining an engagement's success. >>

Basic Criteria for Selecting an Outsourcing Destination

1. Cost.
2. Availability of skills.
3. Scalability.
4. Political stability.
5. Respect for the rule of law.
6. Time zone.

In This Issue

- [Recent Outsourcing Deals p. 4](#)
- [The Real Economics of Outsourcing p. 5](#)
- [The Evolution of Outsourcing p. 7](#)
- [An Outsourcing Success Story p. 15](#)
- [Art Gillis Backs the CEO p. 16](#)
- [Table of Contents p. 2](#)

SHARE



more...

COVER STORY

HOT OUTSOURCING MARKETS

OUTSOURCING

Continental Asia

India remains a dominant player in IT outsourcing and BPO. It has the population, education, scalability and stability required by many companies' IT operations, Deloitte's Prakash says.

But, "Although India is hugely dominant still, for the first time there was a slight dip in growth and cost savings," Prakash notes. "That's attributed partly to attrition and other locations that are fighting for a bigger share." Since the 2008 Mumbai terrorist attacks, there also is a shift for financial services firms to locate more operations in tier two cities, such as Jaipur and Chennai, or in Kolkata, which is a tier one city that was slower to develop than Mumbai and Bangalore, Prakash adds.

Key players:

India, China

Advantages:

Established IT outsourcing operations, a high education level, scalability and English language proficiency help continental Asia remain a top destination for IT outsourcing.

Disadvantages: Increased costs, some geopolitical instability and, in the case of China, concerns regarding intellectual property theft.



Like India, China has a large workforce and offers the type of scalability that smaller countries simply can't equal. While China and Taiwan are known for manufacturing, they can be a source of IT outsourcing as well, according to SunGard's Mitra.

"Obviously the China market is a huge draw," Mitra says. "Market penetration should not be ignored either. Going to a separate market, sometimes it's easier done if a provider goes into that market [first]."

In This Issue

[Recent Outsourcing Deals p. 4](#)

[The Real Economics of Outsourcing p. 5](#)

[The Evolution of Outsourcing p. 7](#)

[An Outsourcing Success Story p. 15](#)

[Art Gillis Backs the CEO p. 16](#)

[Table of Contents p. 2](#)

BY REGION

With China, however, language challenges and intellectual property issues can stand in the way, Pace Harmon's Rutchik stresses. "We have done projects where some of the offshoring has been done out of places like Shanghai that are modernizing more quickly," he comments. But, "I don't know if it'll ever catch up to the country's manufacturing, partly because that's so far ahead."

Southeast Asia

Among the top benefits of doing business in Southeast Asia is the local population's general skill with the English language, says Kalpesh Master, SunGard managing partner, global delivery. "Philippines, for example, has been very successful for call center duties because of English-speaking capabilities," he says, comparing the country to India, which continues to grow more rapidly in areas that are technically sophisticated.

Pace Harmon's Rutchik agrees, pointing out that the Philippines and Malaysia are leading growth in the region. Because of the Philippines' past as a Spanish colony, he notes, a high number of employees have some skill with Spanish as well as English.

Meanwhile, Malaysia is expanding beyond mere call center work. "We are seeing places like Malaysia move out of the contact center space and start becoming a place with more technical capability," Rutchik adds.

Another reason for the region's success as an outsourcing provider is the general under-

Key players:

Philippines, Malaysia

Advantages:

General skill with the English language make this region popular for customer contact centers.

Disadvantages: The smaller geographic size of countries in this region makes it more difficult to scale operations as needed.



COVER STORY HOT OUTSOURCING MARKETS

standing of U.S. culture and the ability for some employees to mirror the accent, says Deloitte's Prakash, who predicts that Malaysia in particular could grow rapidly in the coming years. "Close to Malaysia, Singapore is fast becoming the hub for capital market space," he adds. "A lot of major capital markets firms have relocated their IT and BPO to Singapore."

Prakash cautions that a potential disadvantage for outsourcing in the Southeast Asian countries is their geographic size and the limited flexibility to scale operations as a result.

Latin America

Some opportunities for offshoring in the Western hemisphere exist in Central America and South America, in countries such as Costa Rica, Guatemala, Brazil, Argentina and Chile. Because the time zones are aligned with North America, doing business with South American countries means there is not a large shift in working hours for overseas operations, SunGard's Master observes.

"Looking at the trend in the South American market as well as the eastern European market, we are looking at those destinations from a delivery location perspective," he says.

"Time zones certainly can be relevant, but it really depends on what they're offshoring," adds Pace Harmon's Rutchik. "Things that are customer facing — that are 24/7, like a call center — time zones are not important because they are going to staff it appropriately. With things like application development, it's good to have a core team and offshoring partner working more or less the same hours. That's made places like Latin America and South America attractive. The other is language ability — especially to be able to speak Spanish."

Rutchik says general geopolitical stability in South America and Latin America is another advantage, with the exclusion of Mexico, which has had more security issues

Key players: Costa Rica, Guatemala, Brazil, Argentina

Advantages: Proximity, fewer time differences and a workforce that's generally proficient in English as well as Spanish.

Disadvantages: Strong currency and language barriers in Brazil; some geopolitical instability in Mexico.



than many countries in the region.

While Brazil doesn't have the technological prowess of a country such as India, SunGard's Mitra says, it is an option for manufacturing and product testing. "China and Brazil have very complementary skills in that sense," he says.

According to Pace Harmon's Rutchik, however, Brazil presents a challenge because of its strong currency and language barriers.

Eastern Europe

For European banks and financial institutions, as well as some North American-based companies, Eastern Europe presents an option for outsourcing that is advantageous in proximity, education and language proficiency. Additionally, favorable government policies make doing business in those countries somewhat easier, Deloitte's Prakash says.

Eastern European governments increasingly are promoting the region as an option for outsourcing to its neighboring countries to the west, Prakash notes. "They give tax breaks," he adds. "In a way, that's how the Indian IT industry flourished."

Adds Prakash, "It's the next best bet in terms of hot spots — for one, purely from a supply and demand equation; but it's also about which of the governments are most favorable [to outsourcing providers]."

For European businesses especially, language plays a part in choosing Eastern European outsourcing operations, Pace Harmon's Rutchik observes. "You can find enough French speakers in Eastern Europe where there's good arbitrage, plus it's

In This Issue

[Recent Outsourcing Deals p. 4](#)
[The Real Economics of Outsourcing p. 5](#)
[The Evolution of Outsourcing p. 7](#)
[An Outsourcing Success Story p. 15](#)
[Art Gillis Backs the CEO p. 16](#)
[Table of Contents p. 2](#)

Key players: Poland, Hungary, Czech Republic, Slovakia

Advantages: Favorable government policies, proximity, education and language proficiency.

Disadvantages: Fluctuating exchange rates and less-modern infrastructure than continental Asia.



COVER STORY

HOT OUTSOURCING MARKETS

closer to home," he explains.

Deloitte's Prakash cautions, however, that exchange rates can fluctuate within Eastern Europe, which can hurt the cost advantages of outsourcing to the region.

Africa

Another region that's grown recently as an IT outsourcing and BPO destination is Africa. South Africa, in particular, has been promoting itself more recently and gained attention from hosting the 2010 World Cup. "South Africa from a technical perspective is the furthest ahead, and there is more and more South African offshoring being done," Pace Harmon's Rutchik says.

Some countries in northern Africa are an option as well. "Northern Africa continues to play a big role," SunGard's Mitra says, pointing to Ghana, Kenya and Tunisia as up-and-coming outsourcing destinations.

Key players:

South Africa,
Tunisia, Ghana,
Kenya

Advantages:

Cost and language ability contribute to the region's attraction, as well as education levels in some countries.

Disadvantages: Some political instability and less connectivity and infrastructure slow Africa's growth as a major outsourcing destination.



In This Issue

[Recent Outsourcing Deals p. 4](#)

[The Real Economics of Outsourcing p. 5](#)

[The Evolution of Outsourcing p. 7](#)

[An Outsourcing Success Story p. 15](#)

[Art Gillis Backs the CEO p. 16](#)

[Table of Contents p. 2](#)

While cost can be favorable in Africa, there is less infrastructure and some additional political instability within its nations that are slowing growth of outsourcing capabilities, Deloitte's Prakash says. "Ghana is relatively stable and some U.S. companies have gone there," he adds.

But outsourcing to Africa is not occurring on the same scale, he contends. "Africa is potential, but it's not [there] in the near future."

Further, Prakash acknowledges, he is aware of some U.S. banks that have pulled out of South Africa because of security concerns. ■

www.banktech.com

Gain access to the **resources** and **intellectual capital** you need to help lead your organization into a new era of **growth**.



New Beginnings

October 3-6, 2010 | The Grand Del Mar, San Diego

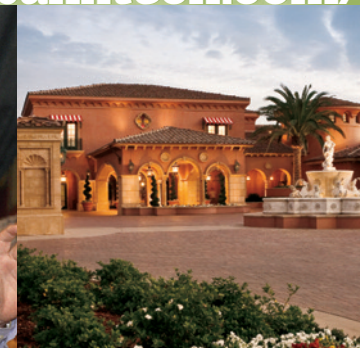
The *Bank Systems & Technology Executive Summit* is an exclusive, invitation-only networking event that will provide focused networking and educational opportunities to bank CIOs/CTOs/line-of-business heads and other senior-level IT decision makers, in an unmatched resort environment. The Executive Summit agenda combines conference/seminar presentations, face-to-face business meetings, scheduled recreation and social events.

Summit Highlights:

- ➔ Multi-Channel on Steroids: Reinventing Customer Experience
- ➔ Analytics for Growth – The Holy Grail
- ➔ Payments: The Innovation Crucible?
- ➔ Strategic Issues Workshops
- ➔ Bank Systems & Technology's 2010 Elite 8 Awards
- ➔ Opposites Attract? An Elite 8 and Technology Company Point/Counterpoint

Register Today!

➔ www.banktech.com/summit2010



Please note that attendance at this *Bank Systems & Technology* event is limited to executives from banks/financial institutions. Event producer reserves the right to qualify and deny any interested party.

CASE STUDY**ATM MANAGEMENT**

Single Source

Bellco Credit Union improves ATM fleet management and the customer experience by consolidating ATM services with Diebold.

By Anne Rawland Gabriel

DURING THE ADOPTION of a new ATM network provider in early 2008, Bellco Credit Union identified several significant fleet management inefficiencies. "At that time, our ATM services came from a mixture of sources — some were provided by our previous vendor, some outsourced to other vendors and some conducted by in-house staff," recalls Bellco's Doug Kearbey, director of administrative services for the suburban-Denver institution. With disparate providers came bottlenecks.

"One partner was responsible for front-line servicing," Kearbey explains. "For anything deeper, we'd call our second-line partner, Diebold (North Canton, Ohio)."

In addition to streamlining fleet management, Bellco (\$2 billion in total assets) wanted to replace envelope-based transactions with deposit automation technology. So the credit union approached Diebold and two other ATM providers in early 2009. "Two vendors essentially said, 'Sure, we can build what you need,'" recounts Kearbey. "But we

wanted a mature solution, and only Diebold had expertise with everything on our list."

With Diebold onboard in September 2009, a deployment team was formed — including representatives from Bellco, the credit union's recently selected ATM network provider and Diebold — and a five-phase implementation was hammered out. Phase 1 was a complete inventory of Bellco's 66 ATMs. "The inventory

turned out to be the most critical and beneficial aspect of the project," Kearbey recalls. "Having this foundation made the rest of the project quite smooth."

Several other factors also contributed to a smooth deployment. "First, we had already built-out our internal networking infrastructure prior to beginning this project," Kearbey says. "In addition, we temporarily installed an ATM terminal at our corporate location, which allowed us to use staff transactions for testing and troubleshooting. Finally, instead of just flipping a switch, we staged the actual rollout over a one-month period."

Indeed, as the March 2010 rollout proceeded, positive feedback rolled in. "Members loved the option to get a picture of their check deposit printed onto their receipts," reports Kearbey. "And their checks are processed one to two days faster than previously."

From an institutional perspective, benefits include elimination of envelope processing costs, fewer processing errors and increased ATM uptime — to higher than 98 percent, according to Kearbey. "Since Diebold now monitors our ATMs 24/7 they can troubleshoot and resolve many hiccups remotely," he asserts. "When an on-site technician is required,

the right resources can be sent immediately because the issue has already been diagnosed in advance."

Outsourcing is also providing strategic rewards. "Since we're no longer managing multiple ATM vendors, we're refocusing those resources onto more business-critical projects," says Kearbey. "Partnering with Diebold ... gives us the capability and flexibility to take advantage of new ATM technologies." ■



"They can troubleshoot and resolve many hiccups remotely."

**—Doug Kearbey,
Bellco Credit Union**

SNAPSHOT

Institution: Bellco Credit Union (Greenwood Village, Colo.).

Assets: \$2 billion.

Business Challenge: Streamline ATM fleet management.

Solution: Diebold's (North Canton, Ohio), Integrated Services Solution.

In This Issue

[The Real Economics of Outsourcing p.5](#)

[The Evolution of Outsourcing p.7](#)

[Emerging Outsourcing Hot Spots p.11](#)

[Art Gillis Backs the CEO p.16](#)

[Table of Contents p.2](#)

SHARE



more...

INDUSTRY VOICE

Don't Give Up On Smart CEOs



When it comes to in-house versus outsourcing, don't discount the decision-making powers of a smart CEO, recommends long-time industry consultant **Art Gillis**.

POLITICAL CORRECTNESS IS NEVER a good basis for a decision on in-house versus outsourcing. But presidential choice is. Bruce Livesay, CIO of First Tennessee Bank, spoke volumes when he recently said, "It's probably different for every bank in their situation."

It sure is different. In a vacuum, both methods are right. It's just that when you attach each method to a specific bank, it becomes the right one or the wrong one. That's why the CEO is the critical decision maker.

Here's a look at reality in the form of a story from a client experience. After a five-month project to select the right solution for a \$4-billion (now \$13 billion), 10-bank holding company, the company's CEO took me aside and said, "Your job isn't complete until you convince 10 independent-minded bank presidents that we're doing the right thing."

I said, "Don't worry, I can't stay for golf, and I'll be gone right after lunch."

"Take my advice," he responded. "Pack a bag

for three days."

You had to be there to appreciate what was happening. The holding company CEO was a former U.S. Navy submarine captain. Picture an equal-parts hybrid of John Wayne and Gregory Peck. He ruled with determination and strength, but he did it with integrity. He was also an anticipator. The 10 presidents were geared up for battle.



At the end of my rather conventional presentation, the 10 mavericks confronted the CEO and asked what he thought. "I accept the recommendation, and our IT department is behind it, so we're putting our label on it," he said, adding to me, "And to a man, we are committed to serve your needs."

I went home with four sets of fresh clothes because I always add a little buffer to what smart people tell me. I had packed for five days.

Don't give up on smart bank CEOs. They don't have to be computer programmers or loan officers to lead effectively. And consensus management doesn't mean deciding with the crowd, or taking a vote. It means influencing the crowd with correct decisions.

In this case, the CEO worked with the project team from beginning to end. He understood the recommendations, and he saw a nice fit for the whole organization. Each bank president saw only one-tenth of the situation based on his limited experience. Twelve years later, the recommendation is still right — thanks to presidential choice and a succession team that learned well from the now twice-retired boss. ■

Art Gillis has been telling it like it is in the bank industry for nearly 40 years and is a regular contributor to the Bank Systems & Technology blog. To read more of Gillis' unique observations, as well as opinions from BS&T's editors and industry insiders, visit banktech.com/blog.

In This Issue

[Recent Outsourcing Deals p.4](#)

[The Real Economics of Outsourcing p.5](#)

[The Evolution of Outsourcing p.7](#)

[Emerging Outsourcing Hot Spots p.11](#)

[An Outsourcing Success Story p.15](#)

[Table of Contents p.2](#)

SHARE



more...



VP/GROUP PUBLISHER

John Ecke
jecke@techweb.com 212-600-3097

EDITORIAL

Editorial Director **Katherine Burger**
kburger@techweb.com 212-600-3062

Executive Editor **Penny Crosman**
pcrosman@techweb.com 212-600-3320

Group Content Manager **Les Kovach**
lkovach@techweb.com 212-600-3024

Associate Editor **Matt Gunn**
mgunn@techweb.com 212-600-3140

Associate Managing Editor **Nathan Conz**
nconz@techweb.com 212-600-3105

ART

Igor Jovicic
Kristen Terrana
Tony Vecchione
BigYellowTaxi.com
212-375-9490



INFORMATIONWEEK FINANCIAL SERVICES

TechWeb CEO **Tony L. Uphoff**
tuphoff@techweb.com

VP/Group Publisher **John Ecke**
jecke@techweb.com

Editorial Director **Greg MacSweeney**
gmacsweeney@techweb.com

Group Content Manager **Les Kovach**
lkovach@techweb.com

VP, Group Sales **Martha Schwartz**
mschwartz@techweb.com

Webmaster **Vitali Zhulkovsky**
vzhulkovsky@techweb.com

Director of Sales **Felissa Kaplan**
fkaplan@techweb.com

Event Director **Jennifer Iannucci**
jiannucci@techweb.com

Event Manager **Mitzi Trafton**
mtrafton@techweb.com

Director of Marketing **Sherbrooke Balser**
sbalser@techweb.com

Director, Program Management,
Vertical Markets **Michelle Somers**
msomers@techweb.com

Associate Business Manager
Joe Donnelly
jdonnelly@techweb.com

READER SERVICES

Electronic Newsletters banktech.com/newsletter/subscribe

Digital Edition banktech.com/digital-edition

Issues Archive banktech.com/issues

Editorial Calendar banktech.com/editorial-calendar

Contact Us banktech.com/contact

Print Subscriptions banktechsubscriptions.com

Reprints

Wright's Reprints
Brian Kolb 1-877-625-5295
E-mail: UBMreprints@wrightsreprints.com
Web: wrightsreprints.com/reprints/?magid=2198

List Rental

MeritDirect
Anthony Carraturo 914-368-1083
E-mail: acarraturo@meritdirect.com

Back Issues

E-mail: help@customerservice.informationweek.com
Phone (U.S.): 888-664-3332
(Outside U.S.): 847-763-9588

In This Issue

[Recent Outsourcing Deals p. 4](#)
[The Real Economics of Outsourcing p. 5](#)
[The Evolution of Outsourcing p. 7](#)
[Emerging Outsourcing Hot Spots p. 11](#)
[An Outsourcing Success Story p. 15](#)
[Art Gillis Backs the CEO p. 16](#)
[Table Of Contents p. 2](#)

BUSINESS CONTACTS

VP/GROUP PUBLISHER

John Ecke

jecke@techweb.com 212-600-3097

Vice President, Group Sales

Martha Schwartz

mschwartz@techweb.com 212-600-3015

Director of Marketing **Sherbrooke Balser**

sbalser@techweb.com 949-223-3605

Director, Program Management,

Vertical Markets **Michelle Somers**

msomers@techweb.com 516-562-7928

SALES CONTACTS

Advertising Sales Office

240 W. 35th St.

New York, NY 10001

Director of Sales **Felissa Kaplan**

fkaplan@techweb.com 212-600-3171

Midwest/International **Brian Keenan**

bkeenan@techweb.com 516-562-5145

Northeast **Robyn Forma**

rforma@techweb.com 212-600-3118

West Coast **Leilani Provost**

lprovost@techweb.com 415-947-6146

EVENTS

Event Director **Jennifer Iannucci**

212-600-3104 jiannucci@techweb.com

Event Manager **Mitzi Trafton**

212-600-3137 mtrafton@techweb.com

AUDIENCE DEVELOPMENT

Assistant Manager **Adrienne Farquharson**

afarquha@techweb.com 516-562-5673

PRODUCTION

Advertising Coordinator **Amanda Waller**

awaller@ubm-us.com 516-562-5583

Production Manager **John Polihronakis**

jpolihronakis@ubm-us.com 516-562-5122

UBM TechWeb

CEO **Tony L. Uphoff**

Chief Content Officer and Editor-in-Chief,

TechWeb.com **David Berlind**

Chief Information Officer **David Michael**

Chief Financial Officer **John Dennehy**

SVP and Content Director **Bob Evans**

SVP, Light Reading Communications Group

Joseph Braue

SVP, People and Culture **Beth Rivera**

VP, Editorial Director, InformationWeek

Business Technology Network **Fritz Nelson**

VP, Marketing **Scott Vaughan**

VP, Audience Marketing **Dan Melore**

VP/Group Publisher,

Vertical Industries **John Ecke**

VP, Group Sales, InformationWeek

Business Technology Network

Martha Schwartz

VP, Performance Marketing and Analytics

Thomas Smith

VP, InformationWeek Analytics

Art Wittman

UNITED BUSINESS MEDIA LLC

SVP, Strategic Development and Business

Administration **Pat Nohilly**

SVP, Manufacturing **Marie Myers**