

Just the tonic

Although they are still recovering from the impact of COVID-19, banks know they must get to grips with costly, inefficient operations. Nick Smith of SmartStream asks if a new breed of high performance, outcome-focused managed services are just the tonic they need

2020 has been a year like no other. With the arrival of COVID-19, the financial industry found itself facing disruption that only months ago would have seemed like the stuff of science fiction. Six months on, financial institutions' gaze is fixed firmly on their operations, with banks looking to become more resilient against future 'black swan' events, but also seeking to boost competitiveness – and ultimately ensure survival – through improved operational performance and client service.

Yet even before the pandemic struck, banks were having to review the way they operated. Firms faced dwindling margins and were also under pressure to cut costs and improve service quality. Banks were feeling the heat from regulators, too. Financial institutions were on the hunt for ways of complying with new regulation accurately, and of demonstrating to authorities that they could control and manage risk effectively.





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In response to these demands, some financial institutions had already, pre-pandemic, set out on a journey towards transforming their technology and processes. The impact of COVID-19 has, however, acted as a powerful catalyst, propelling some organisations to look at ways of stepping up the pace of change.

One avenue financial institutions are exploring is that offered by managed services. Typically, firms considering the use of managed services are seeking to re-position back-office processes or IT support functions which offer no competitive advantage.

In my experience, some firms are going even further, choosing, for example, to outsource regulatory reporting to prove to authorities the integrity of their reporting processes. What is not on the table, however, is any type of client-facing activity.

The growing interest in managed services is reflected by the rising number of engagements entered into by financial institutions with SmartStream's specialist managed services utility. 2019 was a record year for the unit, having seen the volume of incoming new clients rise by 50 percent, while deals are projected to increase an additional 50 percent to 100 percent by the end of 2020, in comparison to 2019. The year to date has seen a 25 percent growth in revenue for the managed services unit, while 2019 witnessed an increase in revenue of 20 percent.

Delivering a high-quality service and improved outcomes

Outsourcing is, of course, nothing new. During the last 15 years or so, banks have regularly turned to business process outsourcing (BPO) to cut costs. What has changed, however, is that banks have come to realise that the traditional BPO model has its limitations and that they require a different approach – one which allows technological transformation, improves competitiveness and better protects them against future change.

The traditional model involves simply shifting processes to lower cost locations, with a BPO provider's workforce operating using a bank's own legacy technology. The approach employed by SmartStream's managed services unit is very different to this model. Its aim is not to simply replicate existing processes but to deliver an improved outcome and greater efficiency. Working to measurable, agreed levels, SmartStream's Centre of Excellence delivers the highest quality service, assisting its clients to modernise and continuously improve processing, increase productivity and accuracy, drive down costs, as well as reduce IT complexity and meet regulatory requirements. SmartStream's managed services utility is used by a number of well-known organisations – these include Deutsche Bank, to which the operation provides reconciliations on-boarding, production support and operational reconciliation services.

The focus on delivering consistent excellence has paid dividends: even through the most restrictive days of early lockdown, SmartStream's managed services utility experienced no deterioration in the quality of service it delivered to customers. Throughout the pandemic, the utility has been able to offer banks continuity and an uninterruptedly high standard of service – unlike a number of other providers, which have had to approach clients over potential inability to meet service level agreements.

Accessing the most up-to-date technology

Another important point of contrast with the traditional BPO model is that SmartStream's managed services operate using SmartStream's own technology, rather than a bank's systems. Critically, SmartStream is continually updating its technology, as well as making sure that clients are always using the latest version of its solutions.

Being able to rapidly access up-to-date technology is an ever more essential consideration for financial institutions. Banks are often still hampered by creaking legacy systems and, although plenty understand the need for digital transformation, actually achieving this goal is challenging. Investing in sophisticated technology is expensive, while implementing it can be time-consuming and often demands skilled resources.

Plugging into the latest technology via a managed service is, therefore, an attractive proposition: it allows banks to carry out a rapid upgrade and to tap into specialist technology, while also providing an opportunity to achieve efficiencies and cost-savings.

Managed services can provide financial institutions with access to a broad range of solutions, encompassing a number of back-office functions