

Darling, do you want to marry me?

Business process outsourcing, a  
shared future together.

A possible new business in  
Luxembourg?



# Business Process Outsourcing will prove compelling!

- Financial institutions in Luxembourg will have to consider business process outsourcing options in the next years
- The demand is increasing in Luxembourg while the supply side is lagging behind
- There is a clear market in Luxembourg
- There are important opportunities, but also challenges related to BPO



# Do you want to marry me?

Why financial institutions may consider business process outsourcing as an option?

When is it worthwhile for customers to outsource certain processes?

Based on experience, which processes qualify for outsourcing and which do not?



# Financial institutions in Luxembourg have to face substantial challenges independently of their business model



## Pressure on profitability

- Low level of ROE, especially for smaller institutions
- Increased CIR due to lower revenues and higher cost of compliance
- Decreasing pretax profit margins



## New markets and new client types

- From local to global - Growing importance of emerging countries, in particular Asia Pacific region
- New client typology – new clients from emerging countries and new connected generation in all regions (digital)
- Focus on the customer side – customer retention and acquisition



## Regulatory pressure acceleration

- Global and local regulations seeking:
  - Tax transparency
  - Customer protection
  - Prevention of financial crime
  - Market stability
  - Tax compliance and disclosure



## Outdated technology legacy and digitalisation

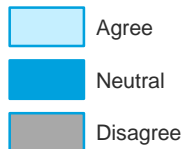
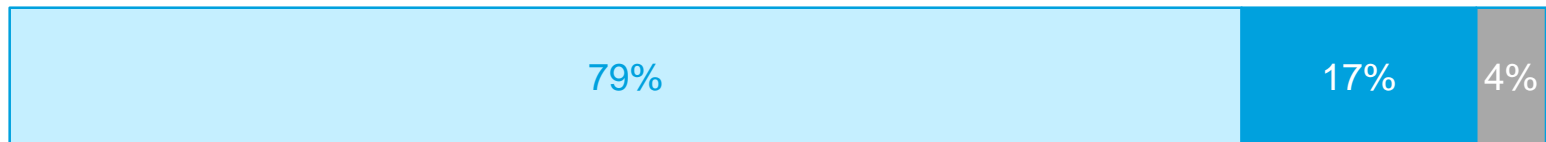
- High technological legacy costs
- High complexity
- Lack of flexibility
- No adapted to fit digital needs
- Technology as a “must” and “competitive advantage”
- Increasing importance of digitalisation

***Need to develop a sustainable operating model***



According to a recent Deloitte European survey, the focus of private banks is changing to a more and more customer oriented approach

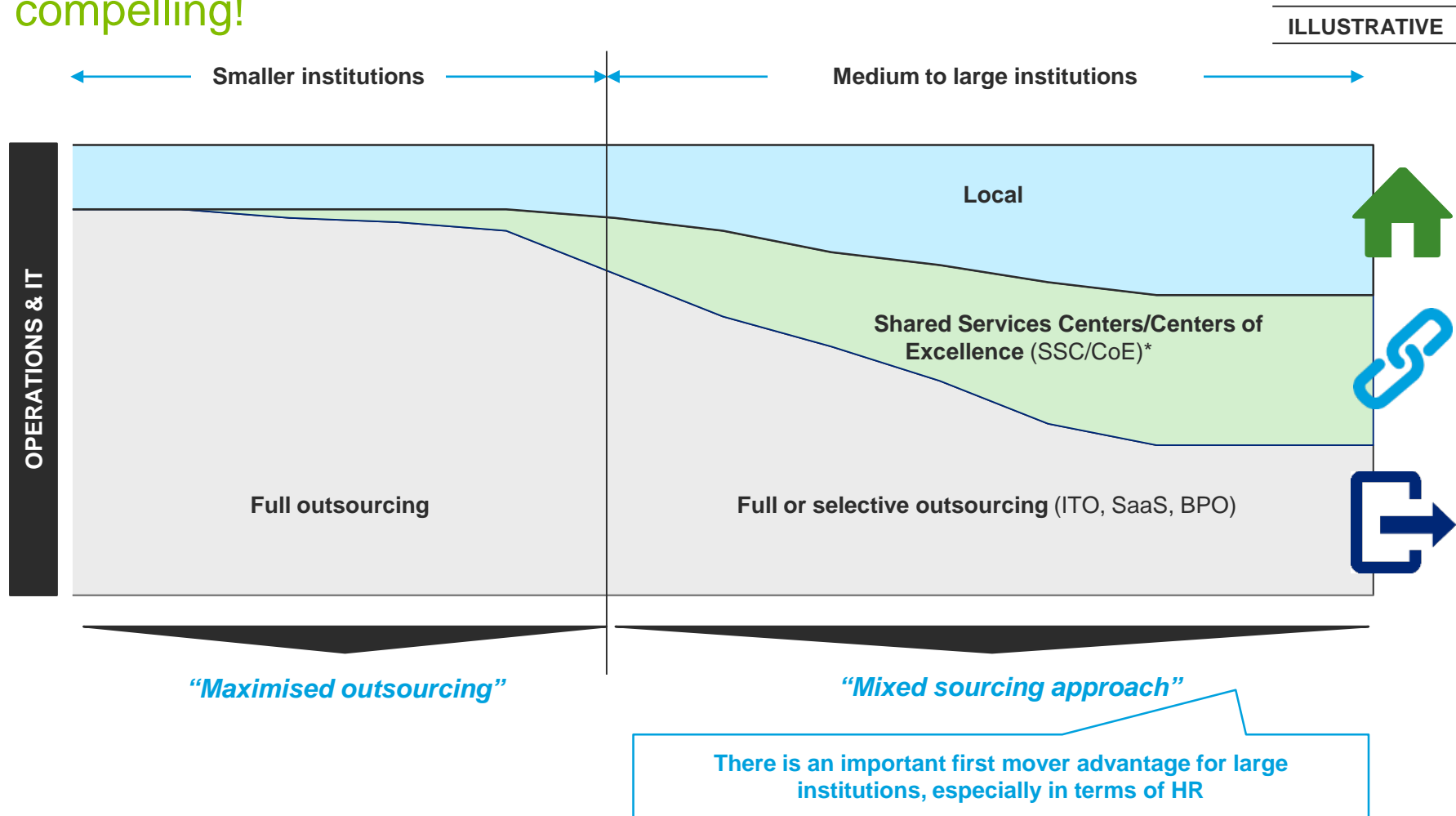
To focus on **client relationships** rather than executing my back-office processes and activities in-house



Today the question is not anymore how well you can run your back-office functions with internal resources.

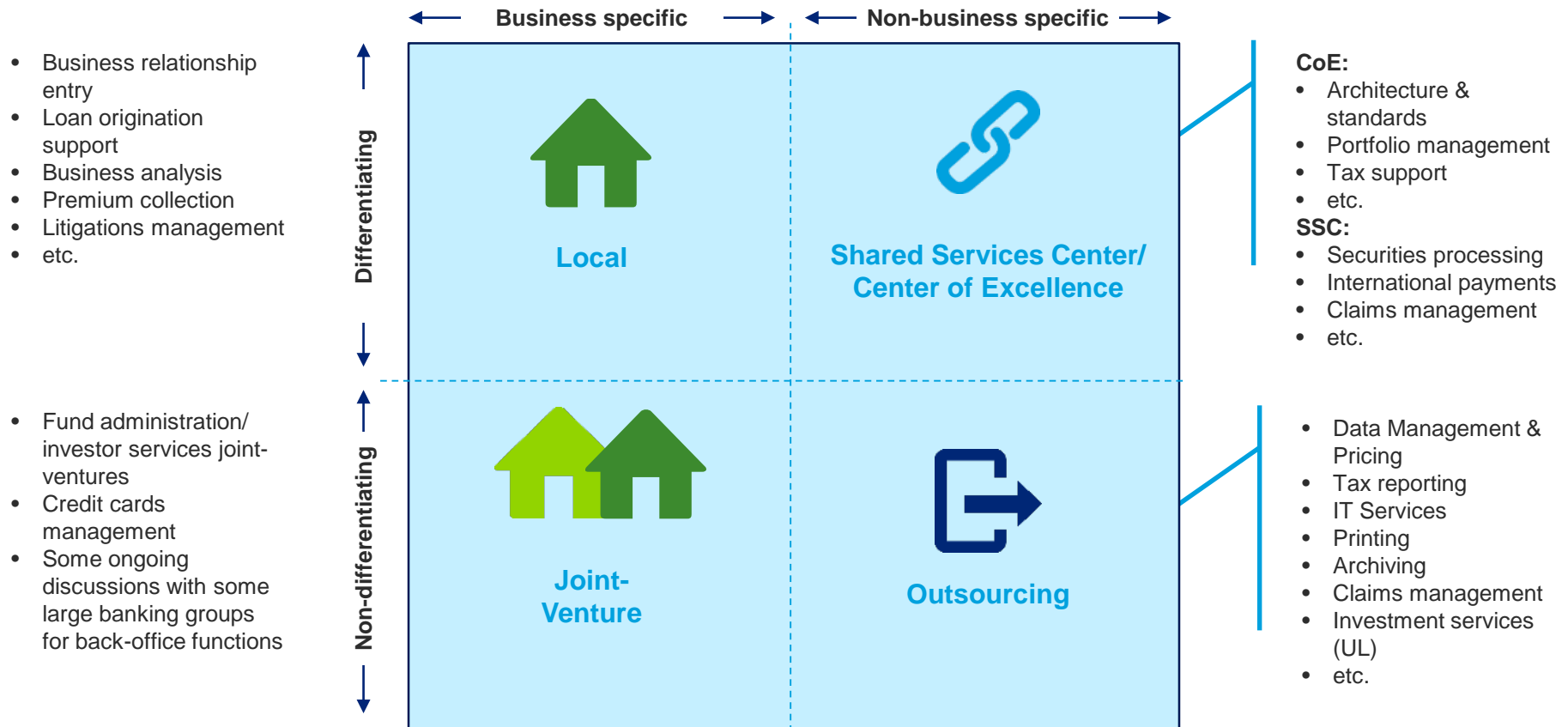
The question is to consider whether running those functions internally is actually part of the core strategy of your business

To adapt to their new challenges, financial services institutions will need to identify the right approach for the transformation of their operating model - External sourcing and especially BPO will prove compelling!

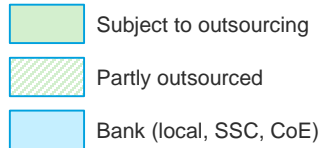


# What should be outsourced?

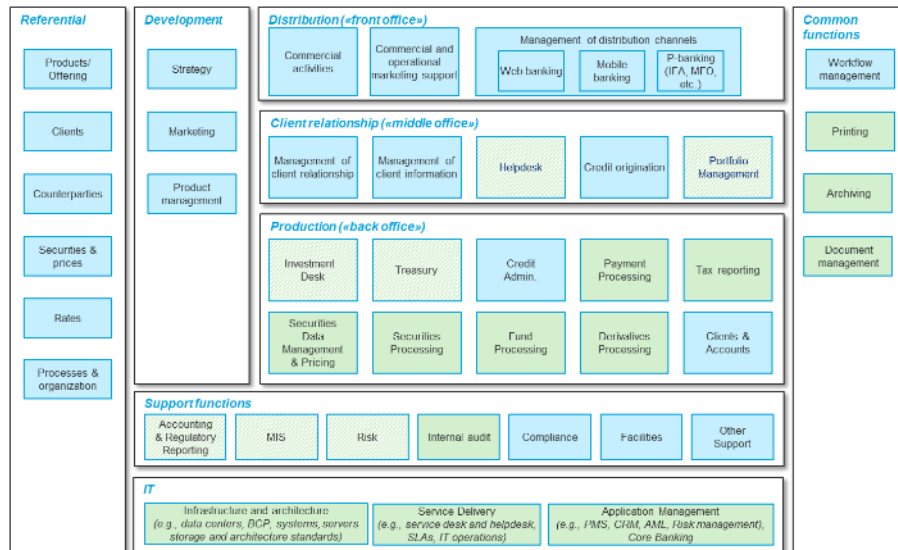
Strategic categorisation of functions is required to design the target operating model



# Some functions can be outsourced while other should be kept internally or shared within the group – a clear split between commodity and value added services/products is key

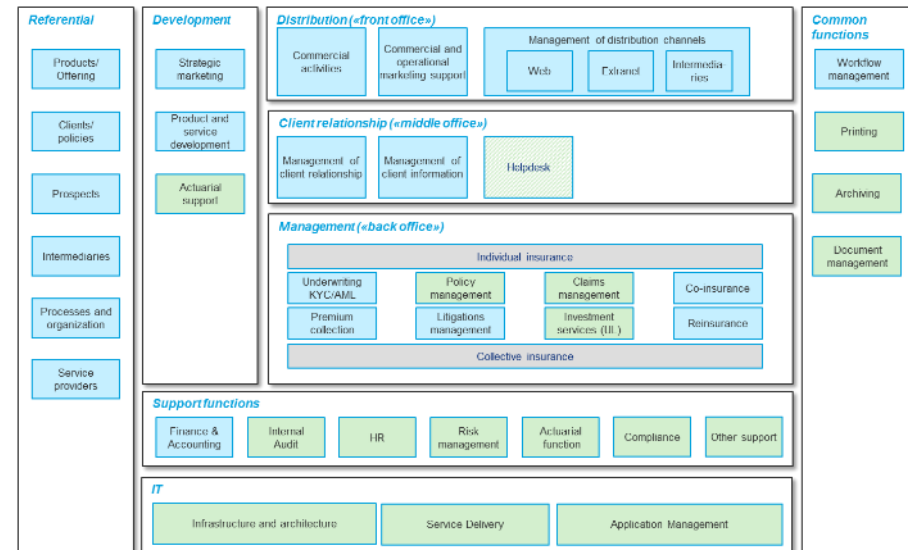


## Banking



Source: Deloitte analysis

## Life insurance

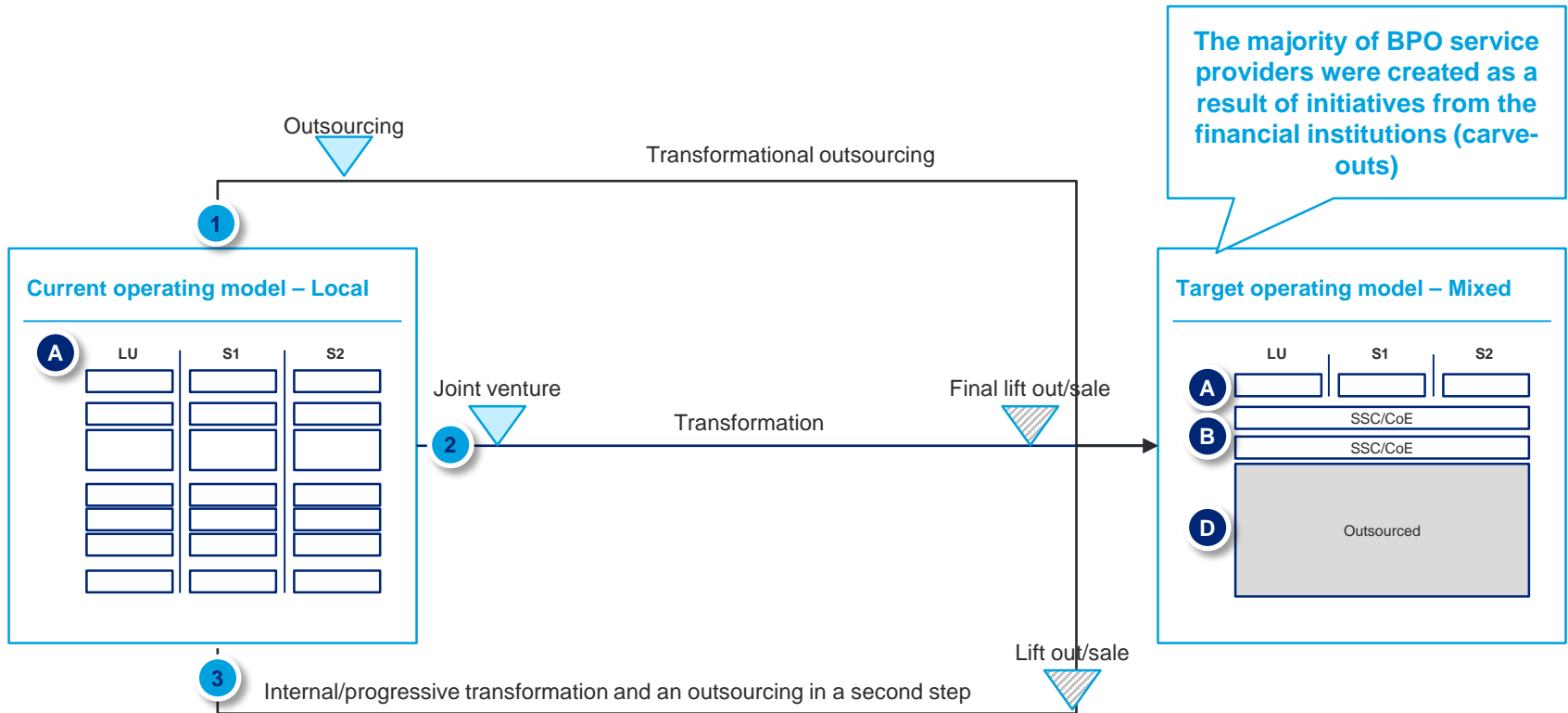


Source: Deloitte analysis



# There are three options for a financial institution to outsource its operations and IT

## CONCEPTUAL



- 1 Transformational outsourcing
- 2 Creation of a joint venture as first step towards outsourcing
- 3 Internal/progressive transformation and an outsourcing in a second step

# Are we meant to be together?

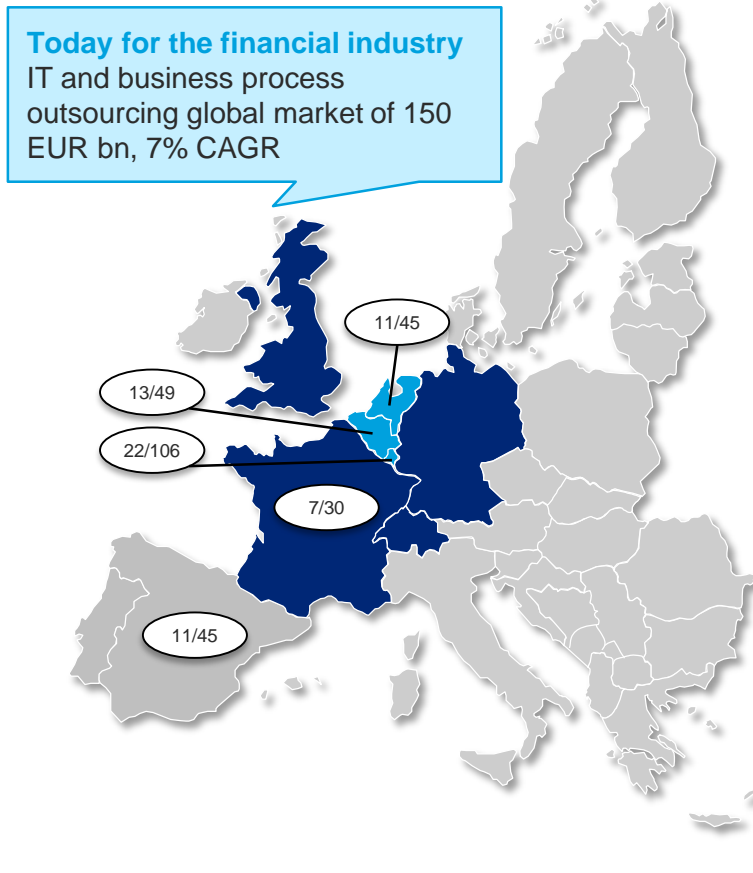
What is the current state of the demand side?

What is the current state of the provider side? And how does it look in terms of future developments?



# About 30% of financial institutions will consider outsourcing in BeNeLux in the next 5 years

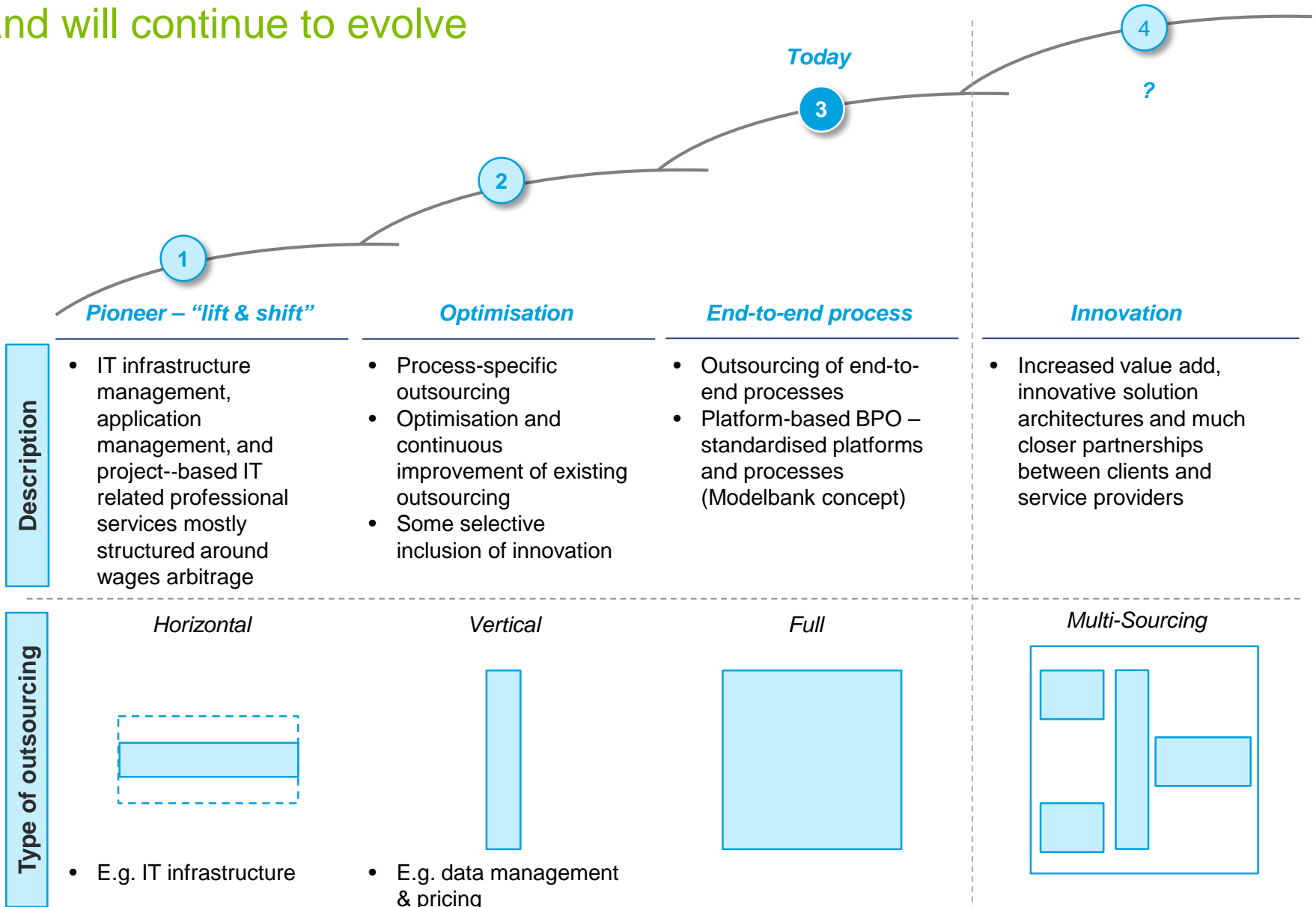
## Market potential of different geographies



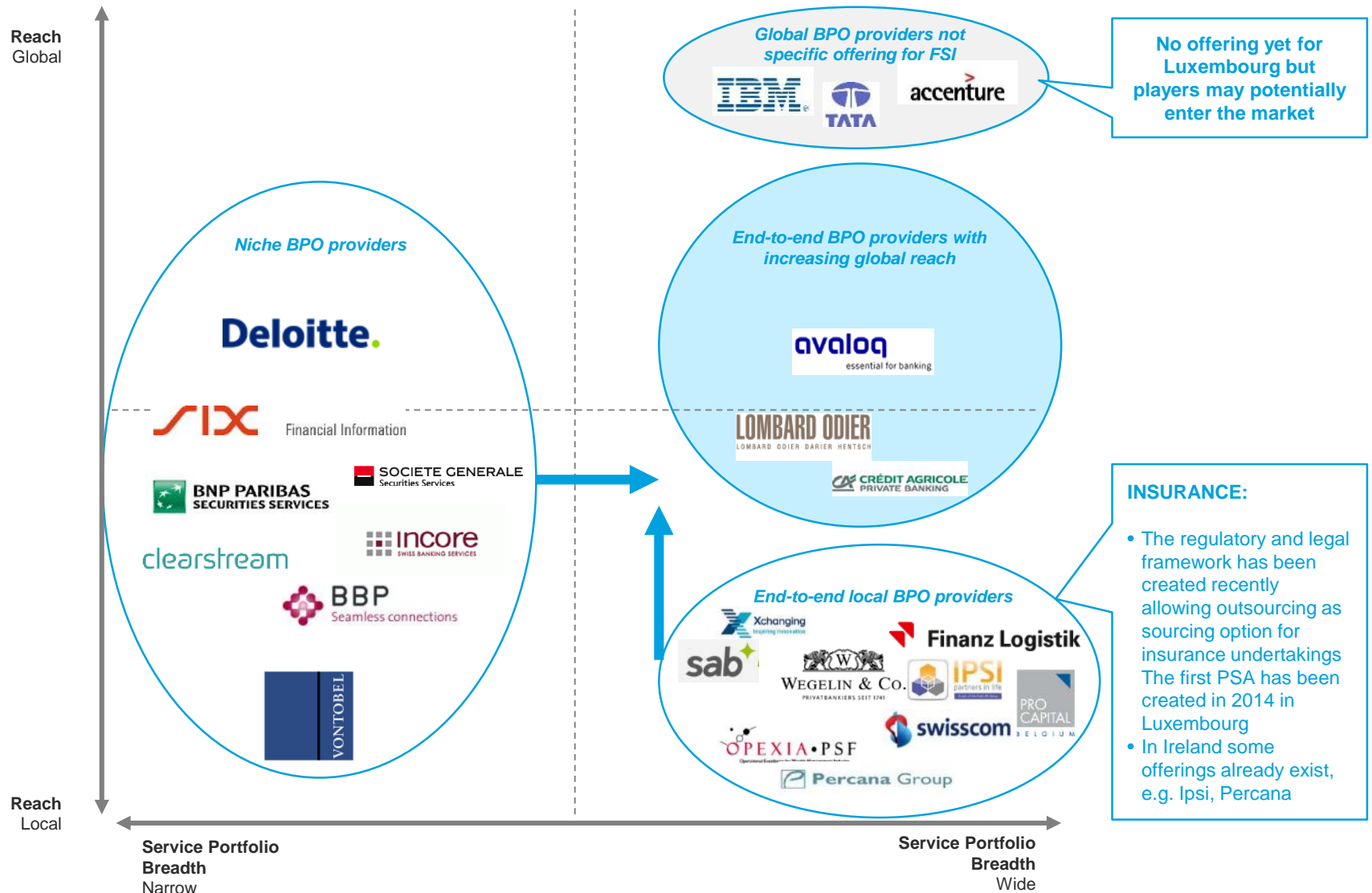
## Types of potential customers and their characteristics

- 1 Small to mid size private banks**
  - Need for specialization, skills, replacement of legacy platforms, cope with regulatory requirements & new functional needs (e.g. digital)
- 2 Small universal banks**
  - Need for an offering able to cope with breadth of their service, size and digital requirements
- 3 Wealth management companies**
  - Need for specialization, skills, replacement of legacy platforms, cope with regulatory requirements & new functional needs (e.g. digital)
- 4 New banks**
  - Time-to-market & variable costs
- 1 Insurance undertaking with run-off portfolios**
  - Need for basic service offering, flexibility, decreasing volumes, costs management, replacement legacy platforms
- 2 Insurance undertakings with new business**
  - Need for new platform, time-to-market

# Outsourcing for the financial industry has evolved during the last years and will continue to evolve



# The BPO market has developed further and is composed of different types of offerings but it is far from being a mature product in Luxembourg



# Do I really want to get engaged?

What are the advantages for financial institutions to outsource?

Can the customer save costs on the one side while the provider makes money on the other?



# The BPO provider must offer a better alternative to financial institutions in order to make it worthwhile!

## *The BPO provider must offer to its customers*

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- Economies of scale with the goal of cost reduction



- Transformation of fixed into variable costs



- A state of the art platform and the continuous maintenance of the platform in the future (digital)



- The opportunity to focus on the core business banking, time-to-market and customers



- The opportunity to build international activities

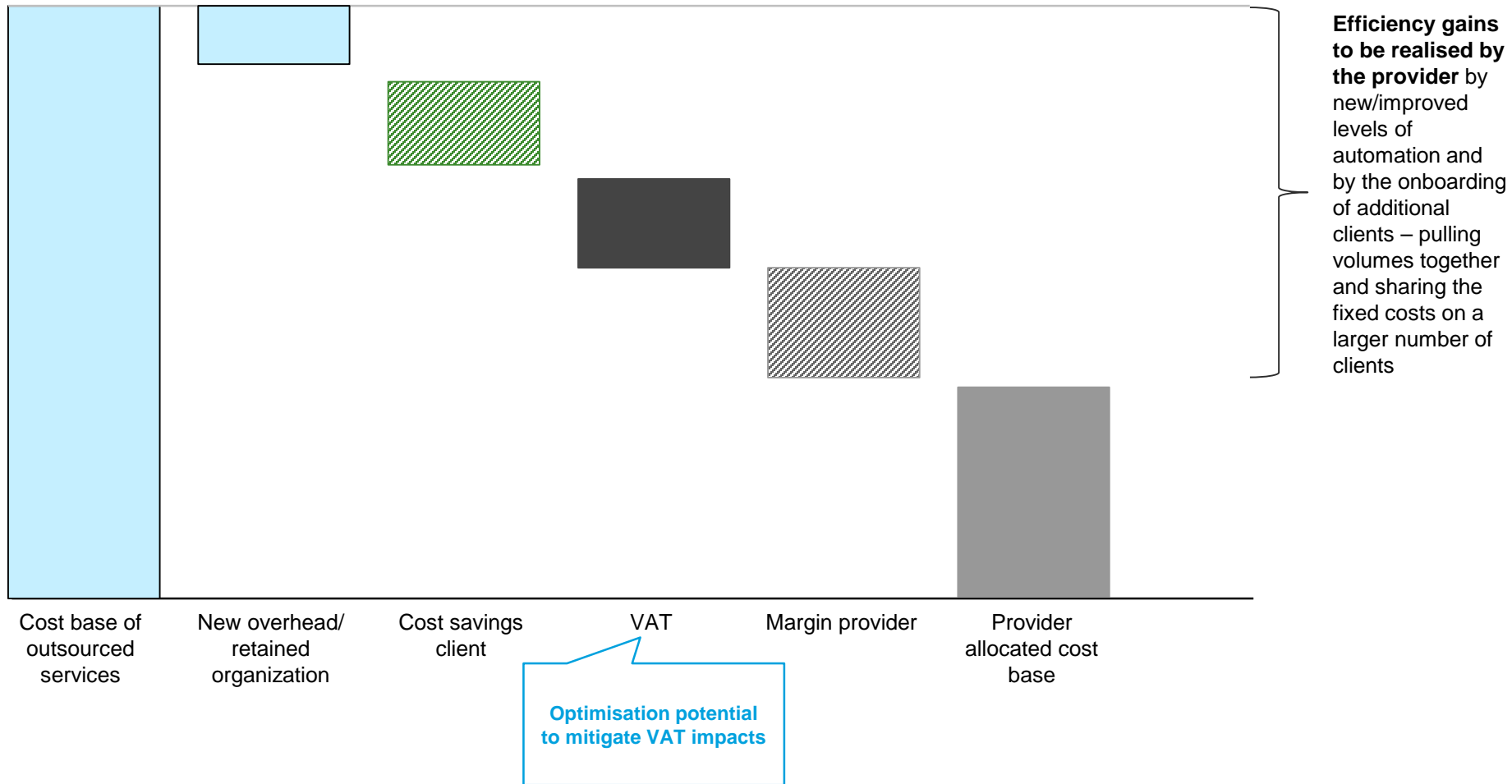


- Increased quality & control



- Standardised processes

# Depending on the starting position, it is challenging to create a cost advantage for the client and a margin for the provider





# What do we have to do to make it work?

What have been the experiences so far?

What are the difficulties for the outsourcing business model?



# BPO customers and service providers find themselves facing a major task (1/2)



**The detailed definition of the scope and business case are key in a BPO project**



**There will be important implications in terms of indirect and direct taxes**



**Carefully evaluate the implications for your employees and initiate a change management strategy early on in the process when considering BPO. This will avoid issues and ensure commitment from all employees**



**BPO can represent major risks both during the transition and in the long run for an organisation which will have to be managed properly**



**The parent company, government, regulatory authorities and trade unions will have to be involved**

# BPO customers and service providers find themselves facing a major task (2/2)



**Third parties will potentially be involved in the new relationship**



**An in-depth due diligence, structured contracting negotiations and execution are the baseline for a successful project**



**Collaborative governance is key for the success of the outsourcing**



**A strong transition & transformation partner will facilitate the project**

# Do we need a wedding planner?

How to organise once the decision to outsource has been made?



The use of an external partner will help you to ensure that you stay focused throughout the project on where you want to go while managing all the elements and stakeholders



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