

Managed Services by Consist: Trust in the Responsibility and Know-how of your IT Service Provider

Selective Outsourcing in the Financial Sector



By Ines von Jagemann

The basic picture is familiar enough: The entire financial market is in a serious international crisis, increasing both internal cost pressures and pressures to refinance. The negative market trends of the past few years have made matters even worse. Competitive pressure is increasing as a result of global markets, information and price transparency of standard products, and additional competition by non-banks. The markets are largely distributed, so there is a massive price drop. And due to information transparency, for example due to the Internet, customer expectations are also on the rise.

So the financial services world is undergoing significant structural change. When searching for a niche, one either needs high speed and dynamics when developing new business models, or strict specialization and thus a differentiation from the competition. Mergers and splits, acquisitions and sales help here, depending on the strategy selected. Increased requirements for personnel management are another important component of structural change. The increased significance of fast product innovation or product specialization requires a modified employee profile, with an even more profound technical expertise

and flexibility for assignments. From a management standpoint, increased availability and fluctuating capacity requirements must also be covered.

IT challenges in the strained financial sector

For our customers in the financial sector, Consist sees four primary challenges for IT:

The breaking up of traditional value creation chains: This includes the splitting of the classical value creation chain into the main segments of product development,

transaction processing, and marketing. From a content standpoint, this particularly entails a change from earlier product focus to customer focus. To be able to utilize existing knowledge about customers more effectively, data for CRM, but also risk management and controlling, must be collected, prepared, and evaluated using data warehouses. New systems are coming into the market, especially for CRM and multichannel management. Multichannel management means that customers are not only – unlike earlier – contacted through subsidiary offices, but also via other channels, such as the Internet, tele-

vision, or mailings. From a technological standpoint, these content requirements especially result in a conversion of legacy systems into new, more flexible structures with service orientation and Web integration.

Securing of ongoing operations: In the context of operations continuity – even when handling the special challenges of migration and integration projects due to mergers or acquisitions/sales – the main theme is still the reduction of operational costs. This refers both to system operations and maintenance of applications. The most important measures are optimization, automation, and standardization of environments, tools, and support processes.

Legal regulations and IT risk management: Our customers in the financial sector are required to follow a great number of legal requirements and conditions, such as MaK (minimum requirements for the credit business of credit institutions) or MaRisk (minimum requirements for risk management), as well as BASEL 2, international conditions and the requirements of BaFin. IT service continuity must also be ensured.

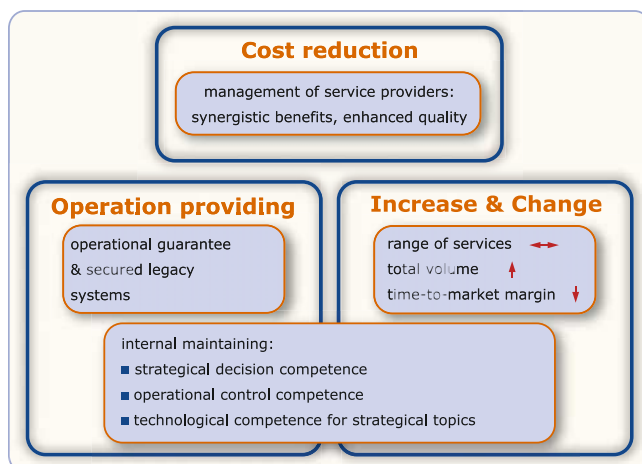
Suitable personnel / supplier management: In addition to classical IT and compliance topics, our customers in the financial sector are noticing the increasing importance of personnel and supplier management. The background is, first, the replacement of legacy sys-

tems with new, usually technologically more demanding structures, and thus the need for internal technological diversification. And second, IT managers at our customers face the challenge of supporting the conversion from developers to technically sophisticated process, product, or even outsourcing managers through the employment of highly skilled employees. In total resource management, it must be evaluated which topics should be strategically supported internally or externally.

Solution approach: Selective outsourcing

To meet the IT challenges of the financial sector efficiently, selective outsourcing can be used as a supporting measure for differently oriented motivation areas of customers.

- Securing ongoing operations, that is, the guarantee, operation, and backup of legacy systems.
- Growth and change to extend the company's own service portfolio, to increase total volume, or to shorten time to market for product or system rollouts.
- Cost reduction and/or quality increases in outsourced services, using optimized supplier management, that is, redistribution of topics.



graphics: Consist

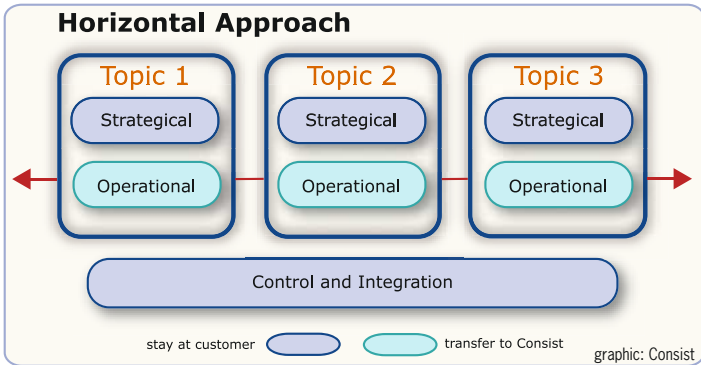
Reasons for selective outsourcing

In contrast to complete outsourcing, in which the customer hands off all responsibility for their IT services, in selective outsourcing the customer decides to outsource only individual, clearly delimited tasks or sub areas. There are two different approaches to the implementation of selective outsourcing.

For the horizontal approach, operational and clearly defined basic/daily activities are suitable, that is, the coordination of the topic and the responsibility for the standardization and optimization remain completely the domain of the customer. The horizontal approach has relatively few effects on internal processes or work procedures, with training/handoff being comparatively short and direct advantages for the outsourced areas of our customer being detectable in the short term.

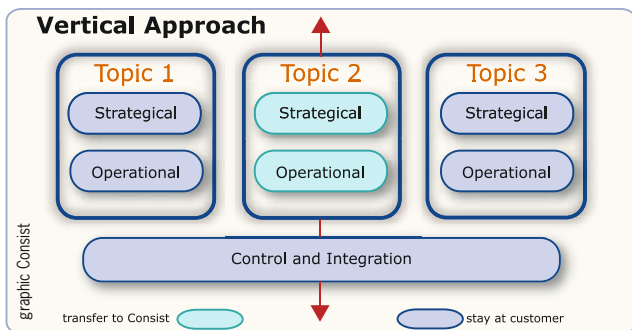
The vertical approach, on the other hand, is preferred by our customers for complete handoff of responsibility, with higher-level

CONNECT STRATEGY



Horizontal approach: outsourcing from daily business/basically activities

control and integration activities in the topics still being handled by the customer. As an IT service provider, Consist can handle not only operational business, but also the daily coordination and project management of the topic, as well as the responsibility for standardization and optimization. In the vertical implementation option, the effects on internal processes and training effort are comparatively high; in daily business for this sort of outsourced topic, however, there is less need for interaction. To obtain customer advantage, this approach accentuates a jointly derived and coherent overall concept.



Vertical approach: complete handoff of responsibility

Examples from Consist's practice

For illustration, some example customer situations from the financial sector are presented below:

Example 1: Ensuring ongoing operation / backup of legacy system

The assignment comprises the monitoring of Adabas/Natural-based host legacy applications, including job handling, DBA, and system operations. Due to the volume and different degrees of maturity of the different topics, the overall outsourcing plan was broken down into three progressive steps and successively handed over to Consist on a staggered schedule.

First, the core banking application (about 5,000 objects, of which 1,200 programs and about 1,100 JCL jobs) were handed over for external control, that is, maintenance and further development are

performed by Consist as needed, with parallel migration support. The second step included the outsourcing of database administration, job handling, and support of systems of the same technological type, that is, all SAG products on the host. The third step then saw the outsourcing

of administration of the financing application (about 10,000 objects, of which 2,500 programs and about 1,000 JCL jobs).

The handoff work for each phase took from 10 days to 90 person/days (PD) over a period of up to 2.5 months, since Consist had already worked with some areas on a project basis, however entirely unfamiliar with system operations. Ongoing administration effort for each topic comes to about 500 to 1000 PD/year including 24x7 on-call.

Of the motivational areas listed above, in this case securing of ongoing operations by ensuring monitoring of the legacy systems, as well as growth and change with focus by the customer's own employees on a custom SAP application were the essential reasons for the move.

As an additional advantage, the outsourcing of project delivery as a remote activity in the development topics permitted a cost reduction effect of up to 14%. In the operational topic, moreover, automation measures in the second year of production permitted costs to be reduced by 25%.

Example 2: Cost reduction and quality increase

The customer topic assigned to Consist in this case comprised system administration and work preparation for insurance applications (legacy systems on the host, but in this case based on Cobol

and DB/2). Due to the non-strategic technology, the customer had already handed this topic off on a project basis. The handover in this case lasted three months, with an effort of about 100 person/days, and by the third month the production load was handled by Consist – with the former service provider as fall-back.

The customer's motivation for selective outsourcing in this scenario was cost reduction and quality increase. Since the previous service provider had invoiced a fixed price based on the number of personnel assigned, the customer had no mechanism to review the necessity of the services provided.

The changed billing model from a fixed price to a transparent service outsourcing allowed Consist to achieve a cost reduction of 35% immediately after transfer. Furthermore, there is still additional savings potential of about 20% – 25% based on the automation and optimization measures already identified.

Contract concept for selective outsourcing with Consist

If a customer – as described in the examples above – has multiple topics to outsource to Consist, then the contractual structure of the selective outsourcing topics can be governed by an outsourcing framework agreement with individual service tracks for each topic, so that new topics can be contractually defined quickly.

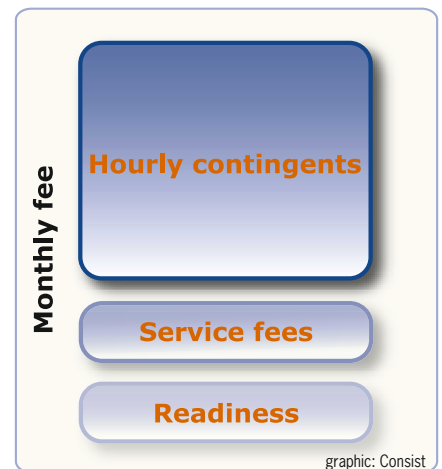
Regardless of whether the customer outsources one or more topics to Consist, the cost calculation for outsourcing topics consists of the hourly contingent required by the customer, a service fee to cover service levels and availabilities and any on-call time needed. In all, the result is a clearly defined annual budget that is billed by Consist in an agreed-upon monthly invoice. There is a regular monitoring of overshoot or undershoot of hours by Consist, with corresponding notification of the customer.

When outsourcing multiple topics to Consist, the customer can achieve synergistic effects, since the hourly rates for the individual service tracks are calculated taking the overall total of all service tracks into consideration. Moreover, if multiple topics are handled by the same organizational unit of one of our customers, then Consist can provide batch contingents for flexible handling of the hourly contingents, that is, we can permit movement and carry-over of hours between the customer's topics.

Summary

The example of the financial sector shows the range of challenges placed on IT that can be effectively handled using selective outsourcing. In addition to the example cases listed, a number of other experiences underscore the significance of outsourcing within the IT strategy.

Make use of our experience in numerous accompanied outsource-



Consist accounting model for selective outsourcing

ing processes – even in the strategy development phase.

Consist helps you choose, customize, and implement your various topics suitable for outsourcing.

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