

# OUTSOURCING IN REGULATED MARKETS

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**5** ESSENTIAL  
CONSIDERATIONS  
FOR YOUR FIRM



# THE SUBJECT OF OUTSOURCING HAS NEVER BEEN MORE TOPICAL...

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There has been much talk in the news recently of the demise of outsourcing.

The fall in some outsourcers' share prices and the spectacular collapse of the government's biggest contractor, Carillion, have generated much debate around the effectiveness of outsourcing in regulated markets.

**WHILST MUCH OF THE TALK  
RELATES TO PUBLIC SECTOR  
CONTRACTS, WHAT LESSONS  
CAN WE LEARN FROM RECENT  
DEVELOPMENTS?**

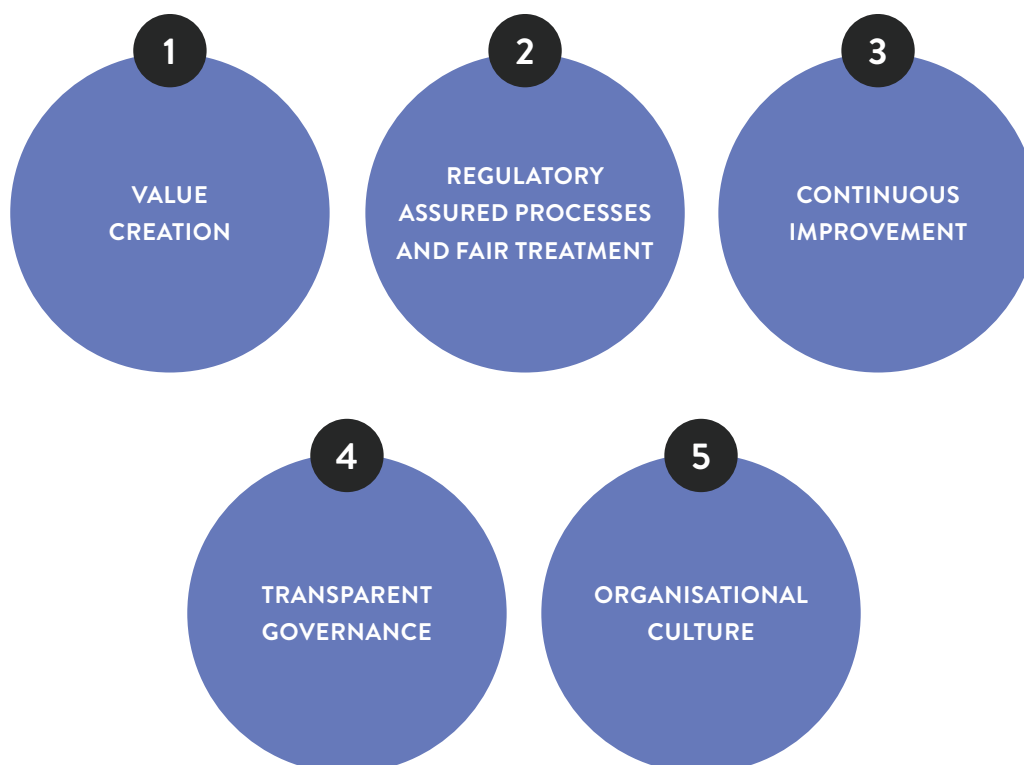
**WHAT ARE THE KEY  
CONSIDERATIONS FOR  
ORGANISATIONS LOOKING  
TO OUTSOURCE ACTIVITIES IN  
REGULATED MARKETS?**





HUNTWOOD RECOMMENDS THAT YOU  
**CONSIDER THE FOLLOWING  
FIVE ASPECTS:**

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1

## FOCUS ON 'VALUE CREATION' AND OUTCOMES

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### COST IS JUST A PART OF THE EQUATION

Cost efficiency is clearly a key driver for organisations across regulated markets, such as finance or insurance. Companies continually highlight that operational costs in complex and ever-changing markets are their key challenge; and an unrelenting one at that.

Organisations should think about value rather than cost alone. 'Value' is a much broader measure that includes:

- **QUALITY**
- **INNOVATION**
- **RELATIONSHIP MANAGEMENT**
- **STRATEGIC FLEXIBILITY**

It's therefore worth investing additional time during the initial stages of the outsourcing relationship to ensure alignment across these broader measures.

**THIS SHOULD ENSURE  
THAT VALUE IS ACHIEVED  
THROUGHOUT THE  
DURATION OF THE  
CONTRACT.**

**YOUR OUTSOURCER SHOULD  
BE ABLE TO HELP YOU  
WITH ARTICULATING THIS  
BROADER VALUE.**

2

## REGULATORY ASSURED PROCESSES AND FAIR TREATMENT

When choosing a supplier, ensure that they understand the complex regulatory market you are operating in. Organisations have responsibility to make sure their customers are treated fairly. For example, this is highlighted in the Financial Conduct Authority (FCA) principles (PRIN), and include both explicit and implicit guidance on the fair treatment of customers.

### PRINCIPLE 6 OF THE PRINCIPLE FOR BUSINESS STATES:



**A FIRM MUST PAY DUE REGARD TO THE INTERESTS OF ITS CUSTOMERS AND TREAT THEM FAIRLY...**



From a customer experience perspective, outsourcing should be viewed as a prime opportunity to improve the end-to-end customer experience. This can be achieved through effectively utilising technology, and by partnering with a specialist provider.

**ENSURE YOUR CHOSEN OUTSOURCER UNDERSTANDS THE IMPORTANCE OF EXISTING, COMPLEX REGULATIONS APPLICABLE TO YOUR COMPANY (E.G. INFORMATION SECURITY, DATA PRIVACY, ETC).**

**KEEP YOUR CUSTOMER IN MIND**





3

## CONFIDENCE IN DELIVERING YOUR NEEDS WITH CONTINUOUS IMPROVEMENT

A partnership of continuous improvement should be high on the agenda.

*As the saying goes:*

**“A BUSINESS THAT  
DOESN'T CHANGE IS  
A BUSINESS THAT'S  
GOING TO DIE.”**

A common complaint about service providers is that they are not reactive enough and lack innovation. So, as well as the day-to-day operations being taken care of, your company needs to see continuous improvements being made.

Key to fostering a successful continuous improvement culture is the ability to complement manual activity with Robotic Process Automation (RPA).

An internal drive to integrate RPA into an outsourcing partnership can yield multiple benefits for both business and customer.

It's worth investigating how much of the contract value is set aside for innovation or managing talent and performance? Do you think their teams are well-rounded to cover all of your organisation's future needs?

**GOOD DISCIPLINES OF  
CONTINUOUS IMPROVEMENT  
SHOULD BE AT A CORE OF  
SHARED OBJECTIVES.**

4

## TRANSPARENT GOVERNANCE

Ensuring appropriate ongoing governance is an organisation's responsibility, as companies cannot contract out their regulatory obligations, and should therefore take reasonable care to supervise the release of outsourced functions.

Before entering into an outsourcing arrangement, an organisation should analyse how the arrangement will fit with their own:

- Reporting structure
- Business strategy
- Overall risk profile
- Ability to meet their regulatory obligations

Service Level Agreements (SLA's) should have regard to:

- The identification of qualitative and quantitative performance targets to assess the adequacy of service provision
- The evaluation of performance through service delivery reports and periodic self-certification
- The independent review by internal or external auditors
- The remedial action and escalation processes for dealing with inadequate performance

Firms should also allocate responsibility for the day-to-day and strategic management of the service provider to a designated person.

This is crucially important in the context of the new Senior Managers & Certification Regime (SM&CR) - a key focus of the regulator, which aims to ensure that those in charge of UK organisations are accountable and regulated.

For example, if a firm breaches an FCA requirement, the senior manager responsible for that area could be held to account by the regulator if they did not take reasonable steps to prevent, or stop, the breach from occurring.

Other considerations should include the following:

- Do contractual agreements enable clear communication and the sharing of important information?
- What management information (MI) do you propose to receive from outsourced providers, and is it insightful and actionable?
- Will your monitoring activity give a clear view of customer outcomes?

**ALL OF THESE FACTORS AND MORE SHOULD BE CONSIDERED PRIOR TO OUTSOURCING.**

## 5

## ORGANISATIONAL CULTURE:

**“DO THEY REALLY WANT YOU TO SUCCEED?”**

The right fit, in terms of the company's culture, should be a critical element when choosing an outsourcer, as there is a clear link between poor culture and poor conduct.

Investigate whether your chosen service provider has the right 'tone from the top.'

Business processes and people all contribute to the overall culture of an organisation: they should 'live and breathe' the values.

**SETTING THE RIGHT CULTURE GOES A LONG WAY TO GUARANTEE A SUCCESSFUL LONG-TERM PARTNERSHIP ALIGNED WITH BUSINESS AND REGULATORY OUTCOMES.**

**DO YOU THINK THEY WILL BE EASY AND REASONABLE TO DO BUSINESS WITH, AS WELL AS GENERALLY COMPLYING WITH THE LETTER OF THE CONTRACT?**

**IT IS IMPERATIVE THAT OUTSOURCING IS VIEWED AS A PARTNERSHIP.**

**YOUR PROVIDER SHOULD UNDERSTAND AND EMBRACE YOUR COMPANY'S VISION AND VALUES.**



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## IN SUMMARY

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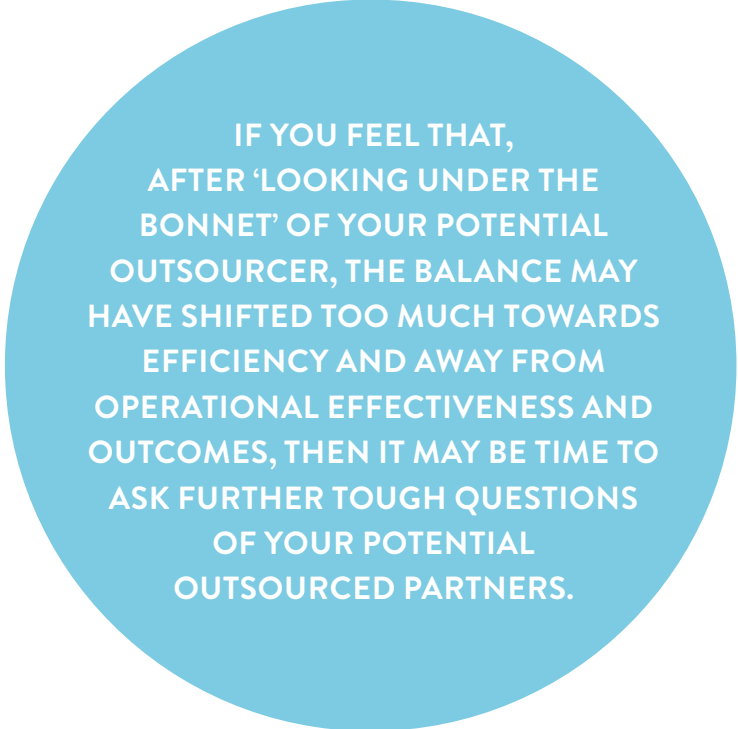
The theme of the five action points we've covered here are all consistent.

All involve a high level of collaboration between parties, continuous improvement, and of course - true to a regulator's ultimate goal - all are focused on delivering better customer outcomes.

It's imperative that firms of all sizes and positions with potential outsourced agreements stay focused on this collaborative approach. It's this which will ensure firms' responsibilities to customers are correctly apportioned and fulfilled - rather than passed around or dropped altogether.

Remember you can't ever outsource 'risk' itself - but a strong outsourcer can help you effectively manage and minimise risk.

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IF YOU FEEL THAT,  
AFTER 'LOOKING UNDER THE  
BONNET' OF YOUR POTENTIAL  
OUTSOURCER, THE BALANCE MAY  
HAVE SHIFTED TOO MUCH TOWARDS  
EFFICIENCY AND AWAY FROM  
OPERATIONAL EFFECTIVENESS AND  
OUTCOMES, THEN IT MAY BE TIME TO  
ASK FURTHER TOUGH QUESTIONS  
OF YOUR POTENTIAL  
OUTSOURCED PARTNERS.

## ABOUT HUNTSWOOD

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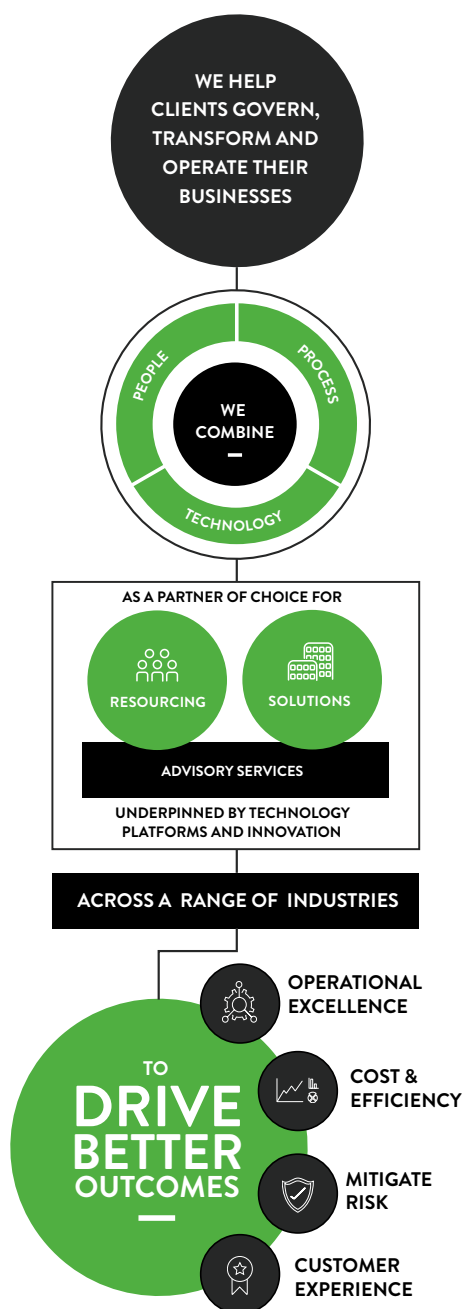
We help firms govern, transform and operate their businesses to drive better outcomes.

When our clients need support, it almost always involves customer considerations, it is often multi-channel and always requires an approach that is compliant with regulation.

In our engagement with clients we are, above all else, collaborative and always at the forefront in the development of innovative, tailored and transformative solutions. These typically combine people, processes and technology to drive better customer, commercial, and regulatory outcomes.

Our services include resourcing and outsourcing solutions, backed up by an expert advisory capability.

We have a solid reputation for being easy to work with, which has been earned through continuous improvement and consistency in exceeding our clients' expectations throughout all stages of delivery.





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