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Global business-driven HR Transformation

The journey continues in financial services

The global business environment is experiencing unprecedented change and there is arguably no other industry affected more than financial services. As a result, the financial services industry (FSI) and the human resources (HR) organizations that serve them will need to develop new capabilities if they want to remain relevant. As FSI organizations engage in HR transformation efforts, many are primarily focused on making existing HR services more efficient, effective, and compliant. However, the rules are changing. Basic HR capabilities such as efficient and effective service delivery, integrated HR systems, employee self-service, and timely access to relevant workforce data are as important as ever. But they're seen as foundational necessities — not strategic change.

Looking ahead, FSI HR executives should consider HR capabilities that do not just support an efficient and effective HR organization, but can allow for the development of a truly "business-driven" HR partnership that supports the organization strategy:

- A comprehensive talent strategy
- An HR organization designed to enable transformation and aligned with the business operating model
- Blended technology solutions that leverage emerging technologies
- Leveraged HR data through benchmarking and analytics that increase business results and the effectiveness of HR
- Enhanced HR service delivery capabilities with the right balance of insourcing and outsourcing
- Globally integrated processes and operations, especially supporting talent and workforce management

Financial service's business challenges

In developing HR capabilities that support an organization's business strategy, many leading FSI HR executives begin by understanding the critical drivers that are shaping the business. These are extraordinarily challenging times for FSI organizations to grow their businesses, with rising debt, high unemployment, a depressed housing market, a sputtering global economy, increasing regulation, and the potential for a double-dip recession. These macroeconomic factors will likely directly or indirectly influence a number of other challenges and opportunities facing financial services organizations, including:

- **Generating growth through mergers and acquisitions (M&A) and emerging market expansion.** Persistent macro-economic problems are making it hard for bankers and insurers to generate consistent organic growth. The industry should continue to look for strategic mergers and acquisitions and consider moving into emerging markets with faster-growing economies to generate growth.

- **Cost restructuring and operational excellence.** Challenges to top-line performance and macroeconomic conditions within the FSI might create an even more cost-conscious environment — one that leads bankers and insurers to move beyond re-engineering and headcount reductions and towards transformational cost restructuring programs.
- **Regulatory and legislative reform.** Changes in financial services regulations — including Dodd-Frank, the Volker rule, Basel III, Solvency II, International Financial Reporting Standards, and Insurance Core Principles — may likely give rise to new systemic risk procedures, restructuring of regulatory agencies, new regulators, new capital requirements, increased reporting, and more transparency and stewardship.
- **Winning the war on talent.** The Insurance industry in particular is faced with several talent management challenges. The three biggest obstacles to attracting new blood in the insurance industry include: a poor image as a career destination, the lack of a compelling recruitment message, and an aging workforce. Banks and insurers who can attract the most desirable campus recruits, draw top talent away from their competitors, and develop and retain valuable workers will likely be in a better position to excel in the long term.
- **Innovation.** Despite the macro economic challenges, insurers and bankers still have opportunities to innovate — by adding new products and reinventing existing ones, improving the customer experience, re-examining their management styles, and rethinking the ways in which they promote and defend their brands. FSI organizations are typically making great strides in leveraging their data — moving beyond underwriting, claims, stress tests, and capital management to address marketing and talent recruitment as well. New technologies are allowing the industry to do a lot more, while doing it faster and cheaper than ever before.

You're not the only one facing these challenges

With FSI organizations facing a strategic mandate on one hand and a collection of fast-moving trends on the other, it can be difficult to plot next moves. A key first step is to make data-driven decisions based on understanding your organization's strengths and opportunities, then compare and contrast with peers inside and outside the industry. Deloitte's 2011 FSI benchmarking report casts a spotlight on how financial services organizations are addressing their needs for innovation, operational excellence, and the value of effective benchmarking in order to bring the "business" to business-driven HR.

The Deloitte FSI HR benchmarking study[1] shows most banks and insurance companies are not even close to achieving HR operational excellence — and insurers are significantly behind the banks (Figure 1). **This lack of HR operational excellence costs the average company in the study between $10 million and $40 million per year** and significantly affects a company's ability to focus its time and effort on business-driven HR activities and strategies.

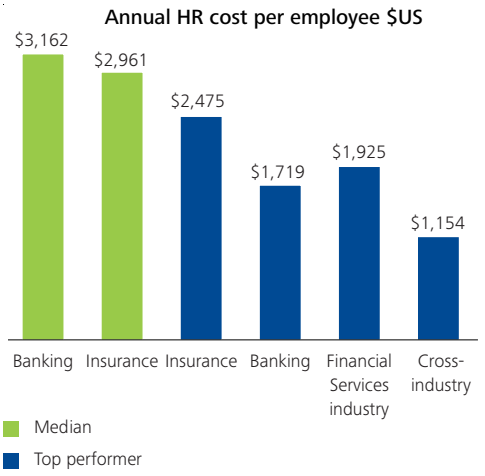


Figure 1

Source: Deloitte Global Benchmarking Center

1 Source: Deloitte Global Benchmarking Center

The study findings clearly imply that FSI HR organizations are falling short of the degree of operational excellence their management teams demand. However, the study also highlights that many top-performing banks and insurers have implemented strategies that support their ability to achieve operational results. This allows them to focus on aligning their HR programs with the overall business objectives. In support of business-driven HR, many banks and insurers are developing the following capabilities:

- A global talent strategy that is aligned with business growth objectives
- An HR organization that breaks out of traditional delivery paradigms
- HR service delivery that supports collaboration, innovation, and learning
- Developing organizational talent and supporting operations
- An HR transformation program that is business-driven, scalable, repeatable, and standardized
- Data and analytics capabilities that improve decision making

Specific findings and strategies for improvement

Our benchmark study identified that many FSI HR organizations' cost per employee is significantly out of line with the top-performing organizations in this industry [Figure 1] as well as in other industries. The results of this macro-level performance measure are attributable to several factors — most centered on staffing inefficiencies. While many organizations are focused on headcount and wage rates, underperforming organizations cannot attribute the difference to wage rates for the most part. Across the industry, wage rates accounted for less than 10 percent of the cost gap. Staffing inefficiencies actually account for almost 75 percent of the gap.

In analyzing the staffing efficiency and other primary drivers of the results, four key trends emerged across industry, service delivery model roles, and geographies. Organizations that recognize these trends can employ the strategies that some of the top-performing banks and insurers use to address these areas. The key trends from the study are:

- Develop a service delivery model strategy designed to deliver better staffing efficiency
- Increase the centralization of HR services
- Rethink outsourcing strategy
- Embrace technology and automation

Regional highlights:
Many top performers in Asia-Pacific (APAC) and Western Europe have similar HR process costs. The study also found that many top performers in North America spend 27 percent less than APAC and 21 percent less than Western Europe on process costs, which results in a savings of about $600 per employee. Wage rates for North America are about 8 percent lower than in APAC and Western Europe, but the key driver in cost differences is the number of HR staff. North America has 30 percent fewer HR staff than APAC and 27 percent fewer than Western Europe.

These differences can be partially explained by complexity. APAC and Western Europe are more complex regions because they include more countries of operation, and this does affect staffing decisions. We see this in APAC and Western Europe in that they have a higher allocation of labor costs to business partners than North America — eight and four times more, respectively. Finally, North America allocates more costs to outsourcing — 82 percent more than APAC and 310 percent more than Western Europe. Again, the complexity of multiple countries and a lack of regional vendor options typically drive a significant part of the outsourcing differences.

Develop a service delivery model strategy designed to deliver better staffing efficiency (Read more in HR Business Partners and Centers of Expertise, Talent)

The median performer in the FSI spends 79 percent more on HR per employee than the median performer in other industries. That same FSI median performer is also paying 66 percent more than the financial industry's own top-performing companies. This represents an average annual cost opportunity of $1,274 per employee, or a potential annual cost savings of $10 million to $40 million.

Breaking down the components of that cost difference shows that each HR process category bears some of the responsibility. But more than half of the difference comes from two categories — talent management and strategy and program design [Figure 2]. In the latter area, the median FSI organization spends 2.4 times what the top performer does — or $352 per employee per year.

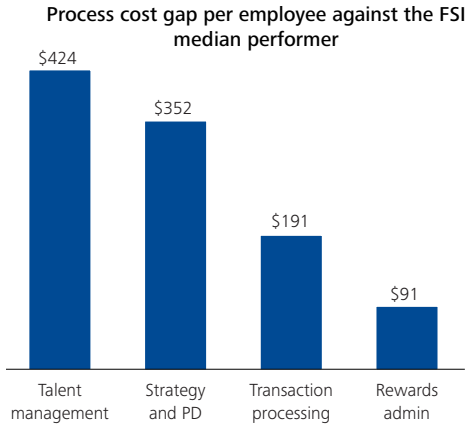


Figure 2

Source: Deloitte Global Benchmarking Center

Companies should not chalk-up these cost differences to different wage rates. The median company actually paid a lower wage rate than the top performer in most cases.

Rather, it is staffing efficiency that typically drives the cost differences. Despite similar labor rates, the median FSI organization uses 76 percent more staff to deliver the same HR services as the top performer [Figure 3]. If one considers the entire gap in cost-per-employee between the median and the top performer, staffing efficiency alone is the factor responsible for 68 percent of the difference.

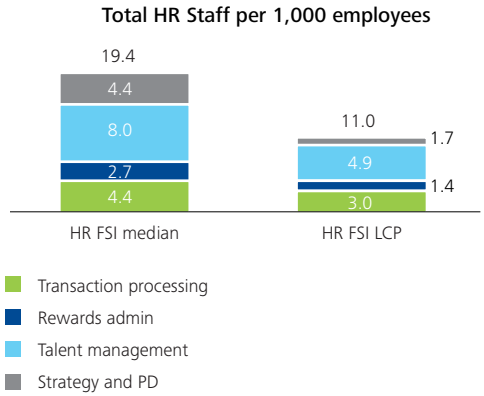
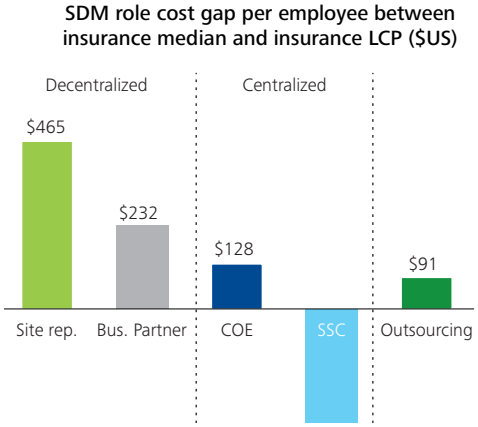


Figure 3

Source: Deloitte Global Benchmarking Center

Investigating the service delivery models roles more closely between banks and insurers; we find banks that close these cost gaps focus on their current use of centers of expertise, especially in talent management, strategy and program design, and transaction administration. In insurance, top performers address staffing inefficiency in the site representative and business partner roles, paying particular attention to transaction processing and rewards administration [Figure 4]. Compared to the top performer, the median insurance organization has 15 times the labor cost per employee focused on business partners. It also has 15 times the staff, which reinforces the notion that staffing strategy, not wage rates, is the problem. Faced with this cost disparity, finding ways to reallocate the responsibilities into other roles is a clear imperative.



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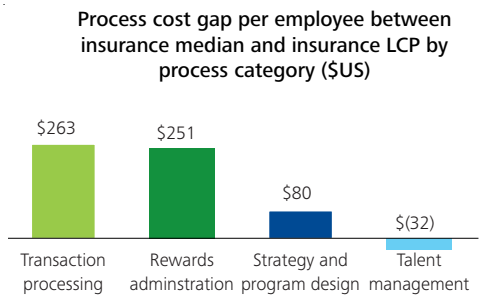


Figure 4

Source: Deloitte Global Benchmarking Center

Like many organizations, most banks and insurers continue to struggle with the components of their operating and service delivery models. How should they interact with each other to contribute the most value to the business? The top-performing FSI organizations start with a strategy to make the most of the organization's HR centers of expertise and business partners. Their purpose is to develop ways to deliver direct, quick-win benefits to the business and spend time on processes and activities that drive business performance. The success of these two components of the operating model comes from staffing the organization with a quality versus quantity mindset; defining a clear scope of services; and engaging line management. With the "business-driven" components of the operating and service delivery model defined, leaders can further refine the operating and service delivery strategy by isolating and moving the administrative and less business value processes and activities into the shared service center, outsourced vendor, or site HR representatives.

Increase the centralization of HR services

Should FSI organizations rely more on a centralized or decentralized service model (i.e., leverage more shared service centers and centers of expertise versus on-site capabilities)? The study shows two curves headed clearly in opposite directions.

- The more a financial services organization allocates its HR labor cost to centralized HR services (centers of expertise and shared service centers), the less it spends on HR cost per employee [Figure 5]. When labor costs allocated to the centralized HR service model rise from 20 percent to 60 percent, a company's HR cost per employee decreases 36 percent.

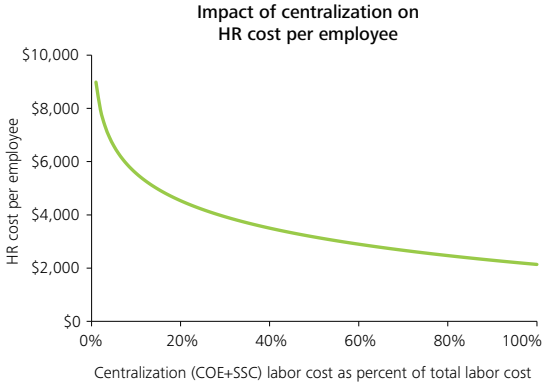


Figure 5

Source: Deloitte Global Benchmarking Center

- The more a financial services company allocates its HR labor cost to site representatives, the more it spends per employee [Figure 6]. When the labor cost committed to site representatives rises from 20 percent to 60 percent, HR cost per employee increases 26 percent.

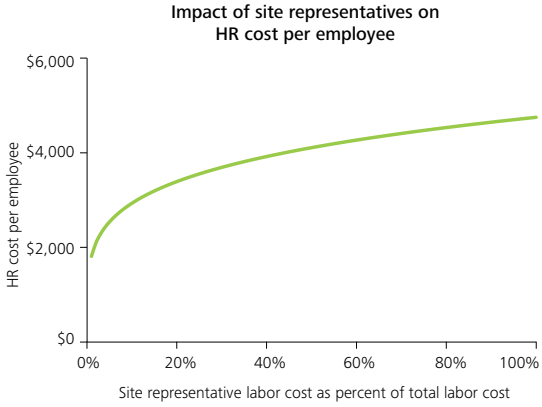


Figure 6

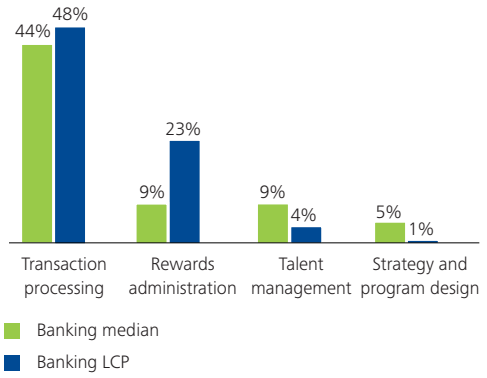
Source: Deloitte Global Benchmarking Center

As part of centralizing HR services, we also find that under-utilization of shared service centers is a key contributor to the underperformance of financial service companies in general, but especially in the insurance sector. The study also found that proper utilization of shared service centers delivers particular efficiency in transaction processing and rewards administration.

- For insurers, there is large room for improvement in this allocation. Compared to the top performer, the median insurance company allocated 94 percent less of its transaction processing cost to a shared center, and 93 percent less of its rewards administration cost.

- On the positive side, banks that used shared services centers for at least 30 percent of their payroll processing ended up spending 47 percent less on those costs [Figure 7].

Banking SSC labor cost as % process cost



Source: Deloitte Global Benchmarking Center

Banking payroll process cost per employee ($US)

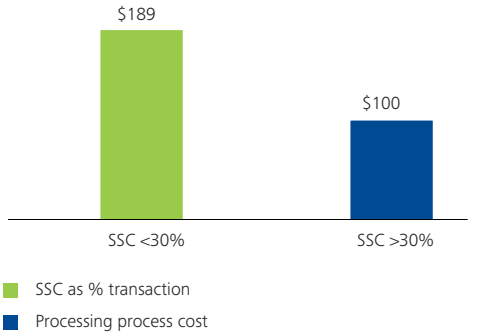


Figure 7

Source: Deloitte Global Benchmarking Center

Both of these examples point the way to greater use of shared service centers as a way to deliver higher quality HR services with less cost. The leading practices of the higher-performing banks and insurers include taking more accountability for managing broad/overall HR inquiry, transaction, and administrative services; driving the identification, attraction, development, and movement of talent across the enterprise; and delivering people-related services to support the rapid execution of corporate transactions around the globe.

These new accountabilities will add to, not replace, the offerings many HR shared services organizations provide today. Yet the delivery of these increased capabilities should occur within the same or improved total cost of ownership.

Whether or not an organization has implemented a shared services model, it may seem a steep challenge to expand the role of HR shared services beyond the current state. However, it remains a challenge for financial services organizations to pursue profitable growth in emerging markets, smoothly integrate acquisitions, efficiently manage a global workforce, and strive for operational excellence. Many high-performing financial services organizations have met this challenge by deploying new shared service approaches that move beyond operational efficiencies and expand their scope of services. They've implemented improved technology such as Web 2.0, social media and collaboration tools, and leveraged strategic or hybrid outsourcing strategies.

Rethink outsourcing strategy (Read more in Solution Integration, HR Business Partners and Centers of Expertise, HR Shared Services and Outsourcing)

One of the most intriguing findings of the study, and certainly the most counter-intuitive, is the more FSI organizations spend on outsourcing, the **higher their HR cost and HR staff per employee will be**. Consider the following highlights from the study:

- The top-performing FSI organizations spend 78 percent less on outsource services than the median organization.
- FSI organizations outsourcing 60 percent of their processes are spending 18 percent more in HR process cost per employee than organizations outsourcing 20 percent of their processes [Figure 8].
- Banks that outsource 20 percent or more of HR costs actually use more HR staff to deliver processes than those banks that outsource less.
- The one bright spot — outsourcing remains a cost-efficient way to deliver rewards administration.

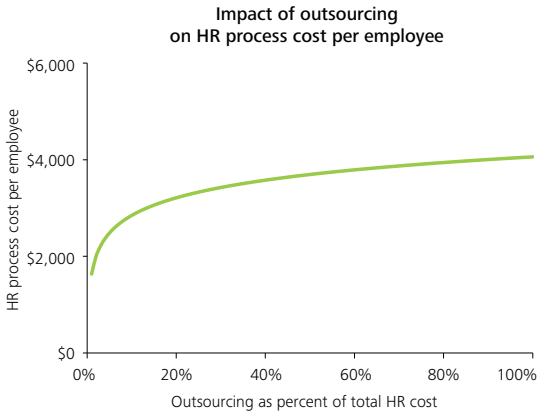


Figure 8

Source: Deloitte Global Benchmarking Center

An effective use of outsourcing can help financial services organizations drive operational excellence, support their M&A integration activities, and facilitate global and emerging market expansion. While outsourcing has an entry price, most companies turn to it for the express purpose of reducing net costs in the long run — and don't take into account the strategic importance of the outsourcing decision. High-performing FSI HR organizations recognize this and have effectively turned to a selective and strategic outsourcing strategy as part of an overall blended, scalable HR service delivery solution.

However, as the study results show, most FSI organizations seem to be challenged in their ability to effectively deploy their outsourcing strategy and deliver on the benefits realization associated with this strategy.

Embrace technology and automation (Read more in Solution Integration, Workforce Analytics, Cloud HR, Social Media)

The study found that FSI organizations can potentially reduce HR cost per employee by investing in technology and applications such as portal and collaboration tools, self-service for managers and employees, and enhanced reporting supporting data analytics. A blended technology solution that pairs the effective tools with the effective needs can ultimately support a more efficient service delivery model designed to promote operational excellence and innovation.

Each of the participating FSI organization's technology solutions are a different mix of elements such as HRMS, point solutions, portals, self-service, and other components. However, most organizations simply are not investing enough in any combination, don't have the right components, or have not properly integrated their suite of technology solutions. Many of the top-performing banks and insurers have figured this out and have achieved greater efficiencies through a blended use of technology in support of their HR service delivery model. An increase in technology spends from 10 percent to 20 percent as a percent of labor cost resulted in lower cost per employee by just under $1,000 [Figure 9].

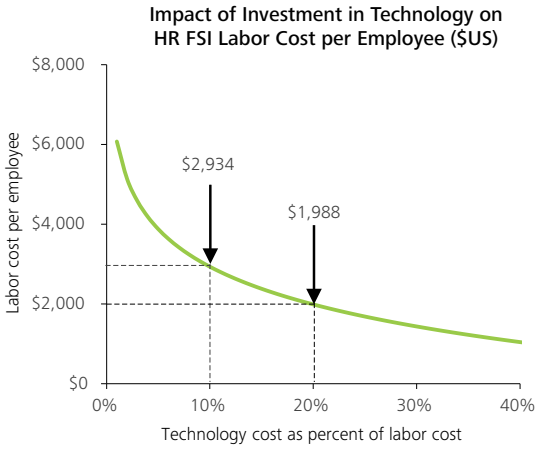
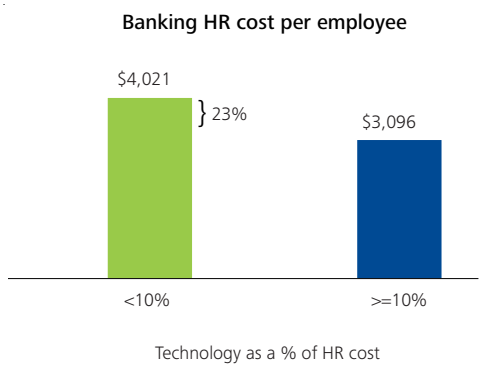


Figure 9

Source: Deloitte Global Benchmarking Center

The median insurance company spent $91 less per employee on technology than the top performer, but had 3.3 more HR staff per employee and spent $514 more per employee in transaction processing and rewards administration. Banks that spent less than 10 percent of HR cost on technology spent 23 percent more per employee than companies with a technology budget greater than 10 percent of overall HR costs [Figure 10].



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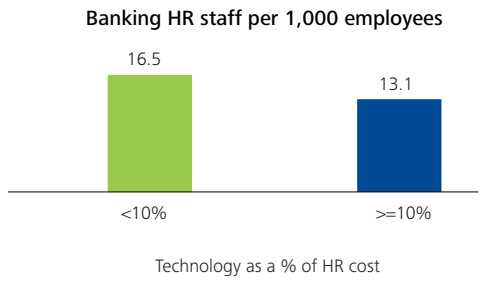

Figure 10

Source: Deloitte Global Benchmarking Center

In designing a business-driven HR transformation program, it's critical to consider making the solution *scalable* and *repeatable*. This requires considering an investment in technology and infrastructure (in addition to processes) that can adjust to a volatile business environment and any shifts in the enterprise business strategy. Many high-performing banks and insurers have integrated these two concepts into their HR transformation programs and are effectively delivering services in support of their growth strategies — which have mostly focused on M&A and expanding into emerging markets.

The financial services top performers have also managed the art of integrating technologies (HRMS, portal, self-service, point solutions, data analytics) into a blended service delivery model solution that efficiently delivers services while leveraging emerging technologies such as cloud technology. Cloud-based HR applications are designed to combine cost-efficiency and scalability with the demonstrated need to centralize and mobilize the delivery of HR services. In the cloud, organizations can deploy solutions without limits of size, geography, or scalability.

Conclusion

Many HR executives in FSI are focusing more and more on roles beyond traditional service delivery. HR organizations that deliver their full potential benefit to the companies they serve are typically the ones that can transform from deliverers of service to drivers of strategic business priorities.

There is a complex methodology to managing many aspects of HR transformation. It touches everything from talent to technology, from benefit design to globalization. But benchmarking one's own performance against industry leaders is a critical early step.

To operate at that level, HR organizations should have a firm performance foundation. Quality of service delivery is one key component. But quality without cost efficiency is an illusory benefit. By addressing the discrete and in some cases large cost opportunities that lie within their reach, HR executives in FSI can improve their operational and strategic prospects at the same time.

About the study

Deloitte's Global HR FSI Benchmark Study gathered information on a confidential basis from 35 participating companies across North America, Western Europe, and the Asia-Pacific regions. Twenty-one banks and 14 insurance companies took part by supplying data during winter/spring 2011. Participating organizations included those with low, middle, and high revenue levels. There was a similar variety in headcount.

The benchmark focused on global HR process costs within each company — including labor, outsourcing, technology, overhead, staffing levels, productivity, and cycle times. Questions mined information about process categories such as transaction processing, rewards administration, talent management administration, and strategy and program design. The study also examined different roles in FSI HR, including business partners, centers of specialization, shared service centers, site representatives, and third-party providers.

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