

# Sustainable model for the future

## Business Process Outsourcing

**Patrick Laurent**

Partner  
Advisory & Consulting  
Technology & Enterprise  
Applications  
Deloitte

**Pascal Martino**

Partner  
Advisory & Consulting  
Strategy, Regulatory  
& Corporate Finance  
Deloitte

**Lisa Sophie Kleiss**

Senior Consultant  
Advisory & Consulting  
Operations Excellence  
& Human Capital  
Deloitte



## To develop a sustainable model for the future, wealth management institutions have to rethink the way they operate – Business Process Outsourcing is one of the choices to make for a sustainable business.

The wealth management industry is currently facing a set of fundamental changes and challenges. Today, wealth management institutions across geographies have to cope with increasing tax transparency impacting the Return On Assets (ROA); the acceleration of regulatory pressure (FATCA, EMIR, MiFID II, etc.); new markets and client types requiring new competencies, services and channels; new technologies and legacy technologies (e.g. complex application landscapes and obsolete systems that will need to be replaced).

These developments are putting considerable pressure on wealth management institutions, and demand important strategic decisions. Existing players will have to accept these changes, adapt to them and develop a consistent approach for the future to create a sustainable model in order to remain competitive.

Several levers can be used by wealth management institutions to review and adapt their business and operating models, which are closely interlinked.

Business Process Outsourcing—outsourcing of operations and IT—is one of the key strategic levers many wealth management institutions are currently considering or have already used to fundamentally transform their operating models. Business Process Outsourcing (BPO) is about strategic impact not only cost reduction—it allows wealth management institutions to concentrate on their core business and to significantly increase efficiency by sharing operational and IT costs.

In this article we will look at the wealth management institutions in Luxembourg that should consider Business Process Outsourcing as a solution and discuss the various options they have, describe the current supply situation and sketch the market outlook. We will then suggest some principles for executives to consider when discussing Business Process Outsourcing.

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To develop a sustainable business and remain competitive, these institutions need to outsource the majority of their operations and IT to a business process outsourcing provider



## Wealth management institutions in Luxembourg are increasingly considering Business Process Outsourcing as a solution to transform their operating models—depending on their strategy and size, wealth management institutions should opt for a selective or full outsourcing approach.

Over the last years, most wealth management institutions in Luxembourg have been in ‘wait and watch’ mode as regards business process outsourcing. This time of ‘wait and watch’ is ending as institutions will soon have to act to adapt to changes and meet market challenges.

The awareness of wealth management institutions in terms of the opportunities Business Process Outsourcing began to grow about a year ago. Small as well as medium to large wealth management institutions are currently actively discussing their potential business process outsourcing options.

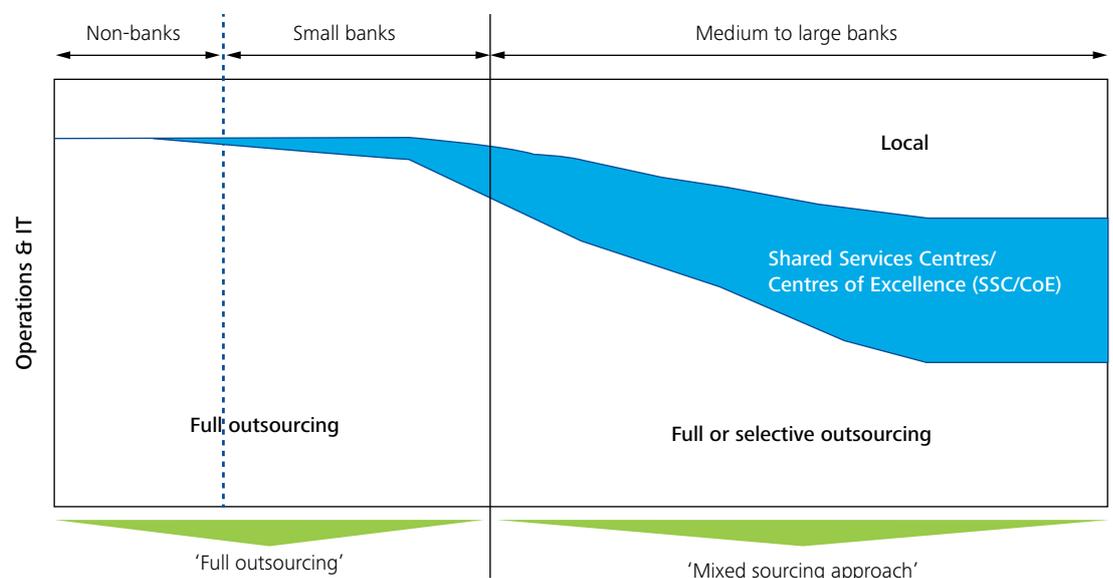
Depending on their strategic objectives and size, wealth management institutions may consider either a full

outsourcing solution or a mixed sourcing approach.

Wealth management institutions that can be classified as ‘small banks’ do not have the critical size to run operations and IT efficiently in-house and often operate on obsolete and expensive platforms requiring upgrade or replacement.

To develop a sustainable business and remain competitive, these institutions need to outsource the majority of their operations and IT to a business process outsourcing provider. This will allow them to concentrate on their core activities, i.e. client fronting, financial management, etc. and to manage costs efficiently.

Figure 1: Sourcing approach based on the size of the wealth management institution



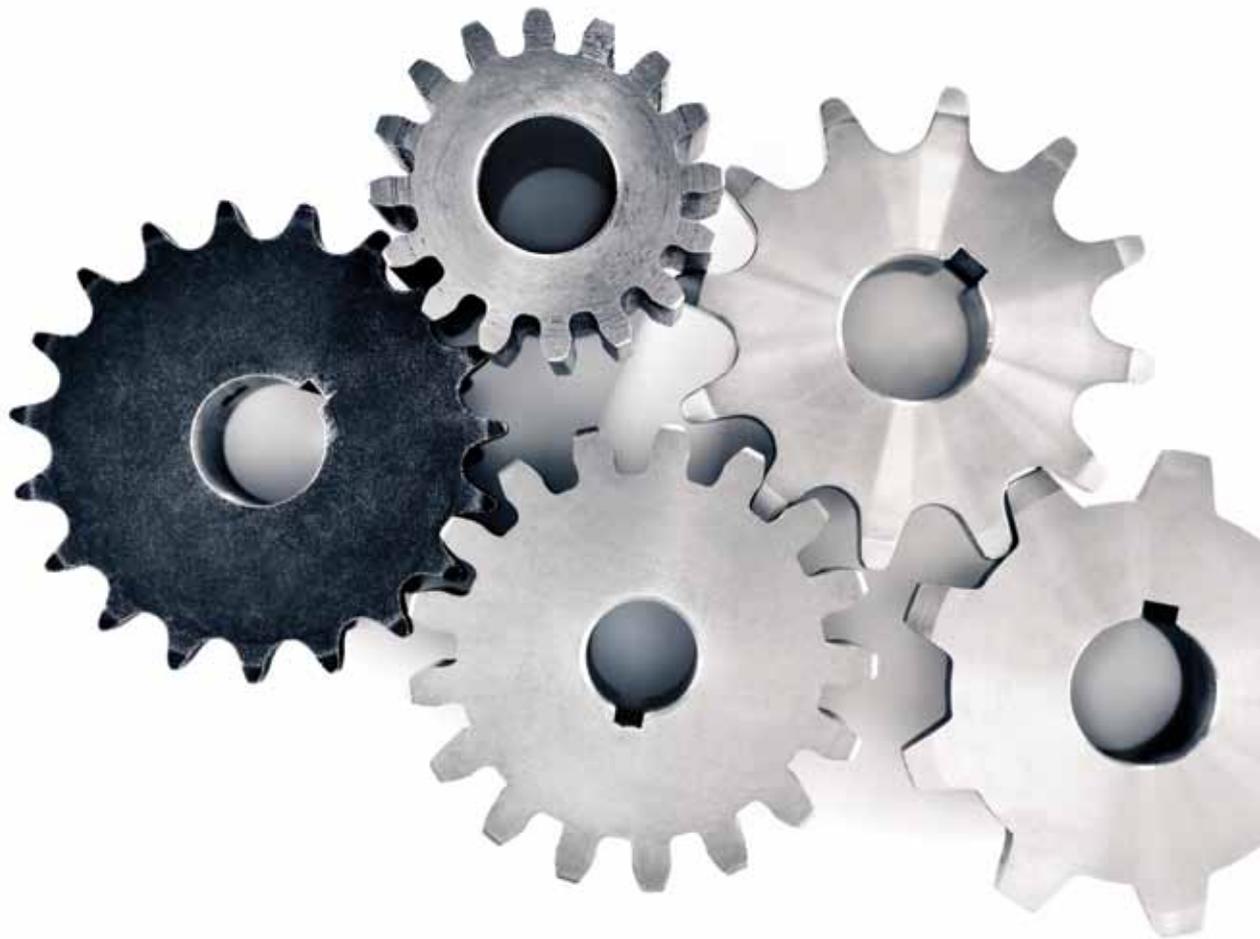
Medium and large wealth management institutions should ideally select a mixed sourcing approach to transform their operating models, i.e. a combination of:

- Selective outsourcing for commoditised functions
- The creation of SSCs/CoEs<sup>1</sup> for the whole group, either centralised in one location or distributed across borders
- Keeping business-specific and differentiating services in-house

To select the right sourcing approach, executives will have to identify and assess their capabilities to transform

internally versus a business process outsourcing option taking into account market changes, such as new regulatory requirements and internal challenges, such as legacy technologies and group capabilities.

According to a Deloitte market review, about 30% of the wealth management institutions in Luxembourg, irrespective of size, will need to outsource some or the majority of their operations and IT to a BPO service provider over the next years.



<sup>1</sup> Centre of Excellence (CoE): entity providing leadership, best practices, research, support and knowledge, e.g. architecture, business intelligence  
Shared Service Centre (SSC): entity responsible for the execution and handling of specific operational tasks, e.g. a development centre

## Business Process Outsourcing offerings for wealth management in Luxembourg are somewhat limited at present, but the market is on the move

On the supply side, the business process outsourcing solutions currently offered in Luxembourg remain very limited, with only a few players providing BPO services for wealth management institutions. In this respect, Luxembourg is lagging behind other countries, such as Switzerland in terms of the maturity of offerings for the wealth management industry.

However, the market is on the move. International players have recognised the increasing need for wealth management BPO solutions in Luxembourg. Some service providers are actively working on concrete plans to replicate their service model—already proven in countries such as Switzerland and Belgium—on the Luxembourg market.

We expect two main types of players to enter the market in the short term:

1. BPO providers with a service offering in another geography will probably establish operations in Luxembourg through a joint venture with local wealth management institutions
2. Wealth management institutions already serving members of the group and/or third parties in other geographies are likely to extend their service offering to Luxembourg by leveraging existing capabilities abroad and by using the capabilities of the local subsidiary/branch

In the first case there is a clear first-mover advantage for wealth management institutions. Within the joint venture, the wealth management institution can influence the set-up of the service offering and limit the social impact as in general the entire staff will be taken over.

In the future, there will be a heterogeneous service provider market in Luxembourg. We have analysed the potential service providers and their offerings and noticed important differences. The main differences arise in the following areas:

- Depth and maturity of the service offering
- Experience and scale of the provider
- Transition and transformation approach for client on-boarding
- Pricing model—full variable pricing models based on different criteria versus mixed pricing models
- IT systems and infrastructure—in-house versus package solutions
- HR takeover—portion of the staff taken over by the service provider

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## Food for thought—there is no ‘one size fits all’ approach

There is no ‘one size fits all’ approach to Business Process Outsourcing in wealth management. For wealth management executives who are considering BPO for their transformation towards a sustainable model, it is essential to:

- Choose the right operating model by analysing the right areas and asking the right questions
- Identify the right BPO service provider and assess the feasibility of the project

**Choose the right operating model by analysing the right areas and asking the right questions**—five areas should be analysed at executive level requiring a constant arbitrage between impact and control

- 1. Strategic impact**—identification of strategic objectives, key drivers and the scope of the outsourcing  
*Some key questions:* What are the primary strategic objectives and key drivers for considering BPO? Which functions are really business specific? Which capabilities should be considered as differentiating? Which capabilities should be streamlined? For which functions should control be kept in-house?
- 2. Business impact**—analysis of the impacts of BPO on the business model  
*Some key questions:* Will the outsourcing better support our business? Will we gain flexibility?

**3. Financial impact**—outsourcing is not only cost reduction—assessment of expected revenues and costs linked to BPO

*Some key questions:* What are the expected IT and labour cost reductions? Is the outsourcing allowing us to increase revenues, e.g. by increasing reactivity for the implementation of new products? Is there a business case?

**4. Feasibility**—analysis of the service provider market, Human Resources, regulatory and legal constraints, etc.  
*Some key questions:* Which vendors should be considered? Do their service offerings have the required maturity? What is their approach to taking over HR?

**5. Business and operational risks**—identification and evaluation of risks attached to BPO  
*Some key questions:* What are the transitional, operational and financial risks? Is there a reputational risk? What is the risk of losing control?

**Identify the right BPO service provider and assess the feasibility of the project**—Based on the definition of the operating model, the right service provider has to be identified through a detailed RFP process to ensure that the selected service provider meets the requirements and to ensure the success of the business process outsourcing project.

