



# Outsourcing in Banking: *latest fashion or real need?*



Alfredo Gysi



# The Outsourcing Industry

# « On everyone's lips »

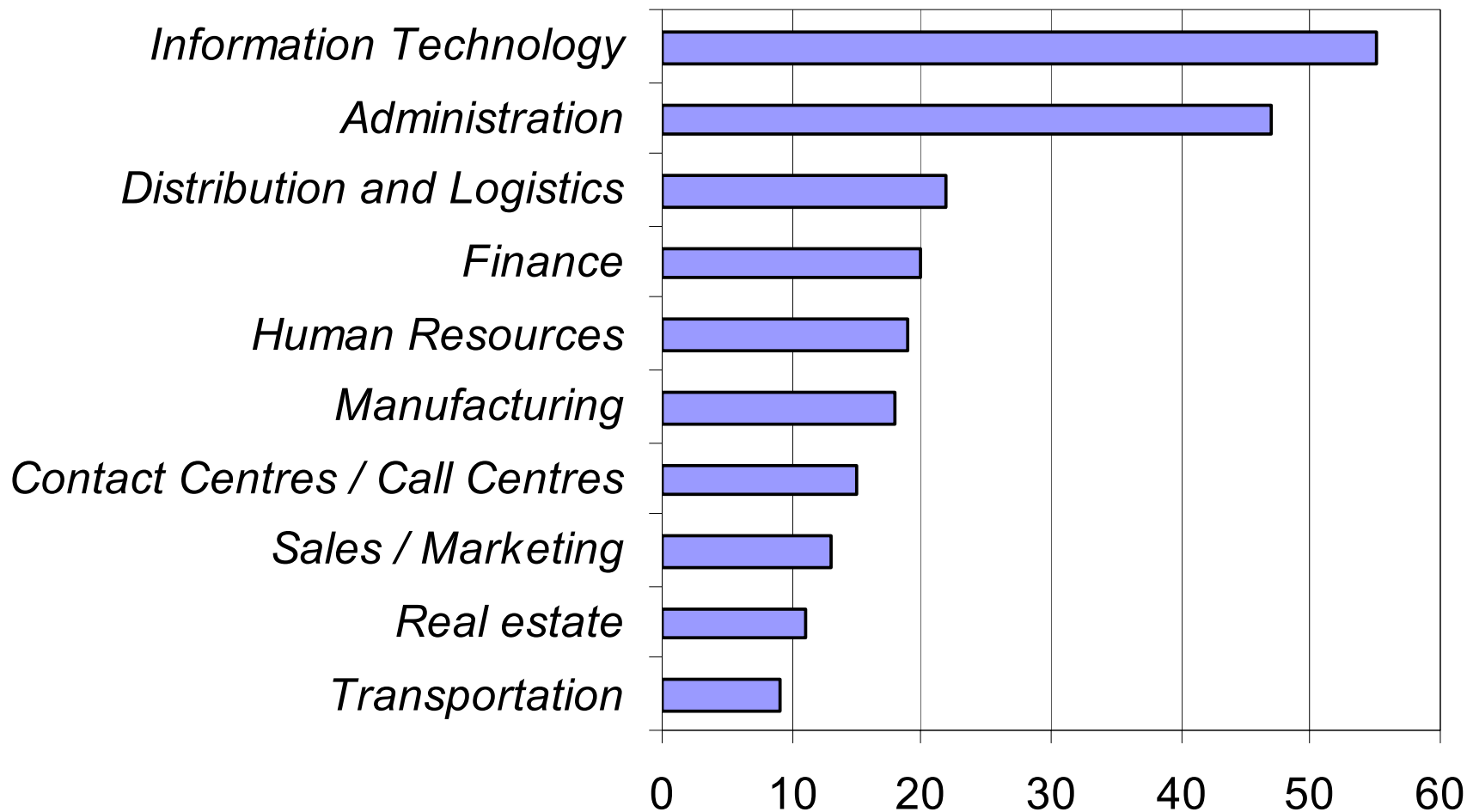
The screenshot shows a Google search interface. The search bar contains the text "outsourcing +banking". Below the search bar, there are radio buttons for "Das Web" (selected), "Seiten auf Deutsch", and "Seiten aus der Schweiz". The search results section shows "Ergebnisse 1 - 10 von ungefähr 1790'000 für outsourcing +banking. (0.20 Sekunden)". The first search result is titled "Outsourcing - Banking on Indian Outsourcing" and includes a snippet: "... Banking on Indian Outsourcing Why are outsourcing buyers turning to Indian companies as their suppliers? Ravi Ravisankar, chief ...". The second result is titled "Can Indian banks re-invent themselves by outsourcing?" and includes a snippet: "... easy in this sector. Shipra Arora finds out what the ground realities are ... outsourcing in the banking sector is headed. ...". A red oval highlights the search result count. A black box highlights a snippet from "LETEMPS" which reads: "Les services de sous-traitance entre banques sont en pleine expansion en Suisse".

## The Swiss Banking Industry in the Year 2010

« Banks will further reduce their production depth by **outsourcing** parts of their value chain. »  
(Accenture, 2004)



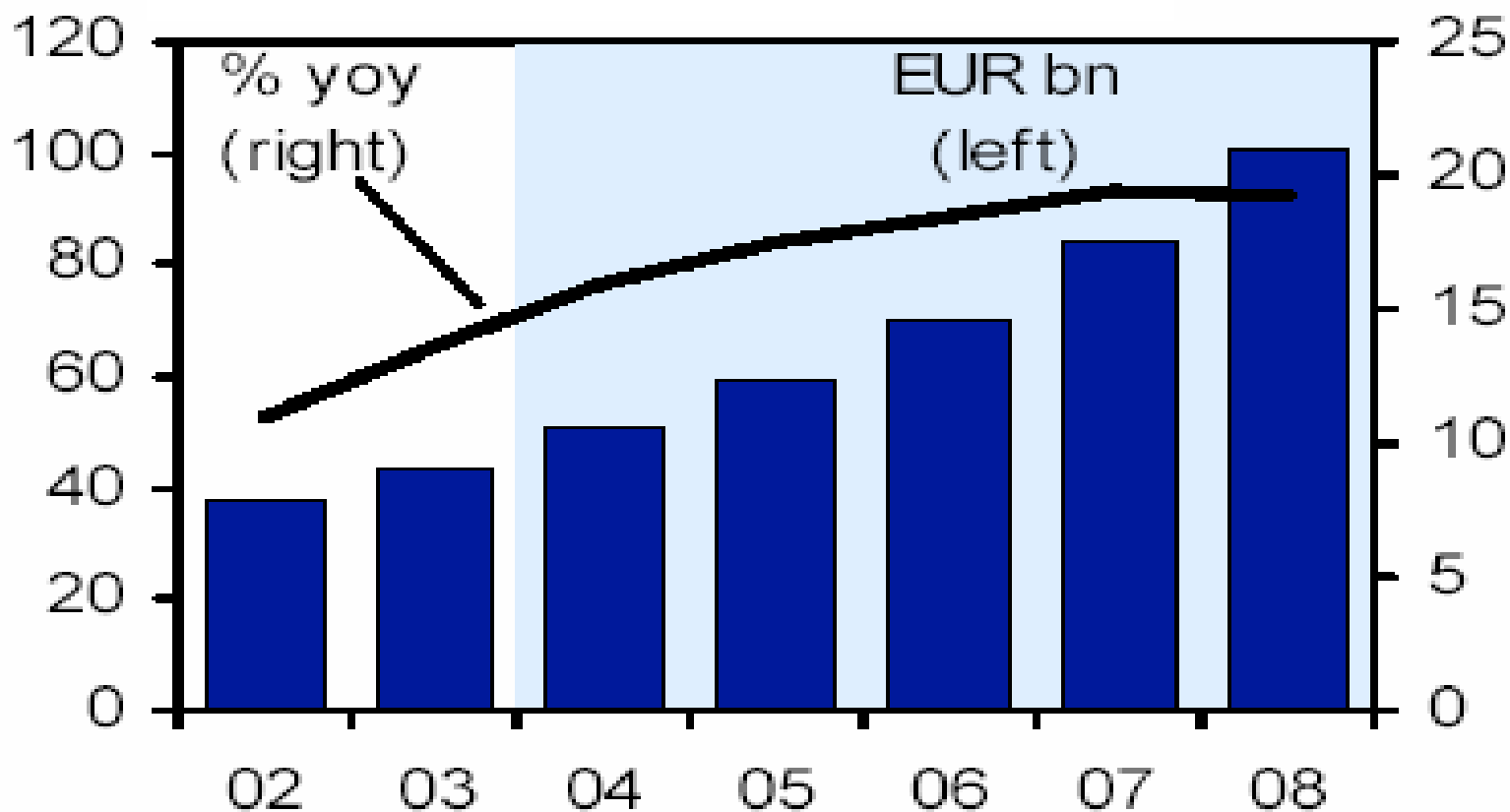
# The outsourced activities (USA)



Source: Outsourcing Institute, 5th Annual Outsourcing Index



# IT Outsourcing Market, Europe

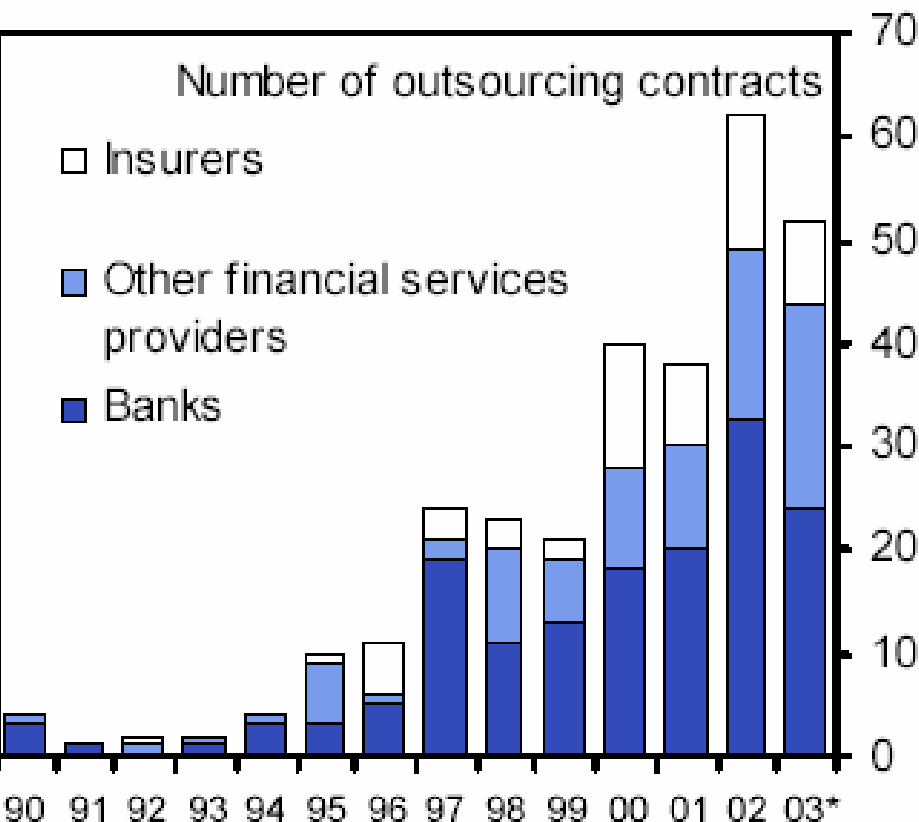


Source: DB Research, 2004



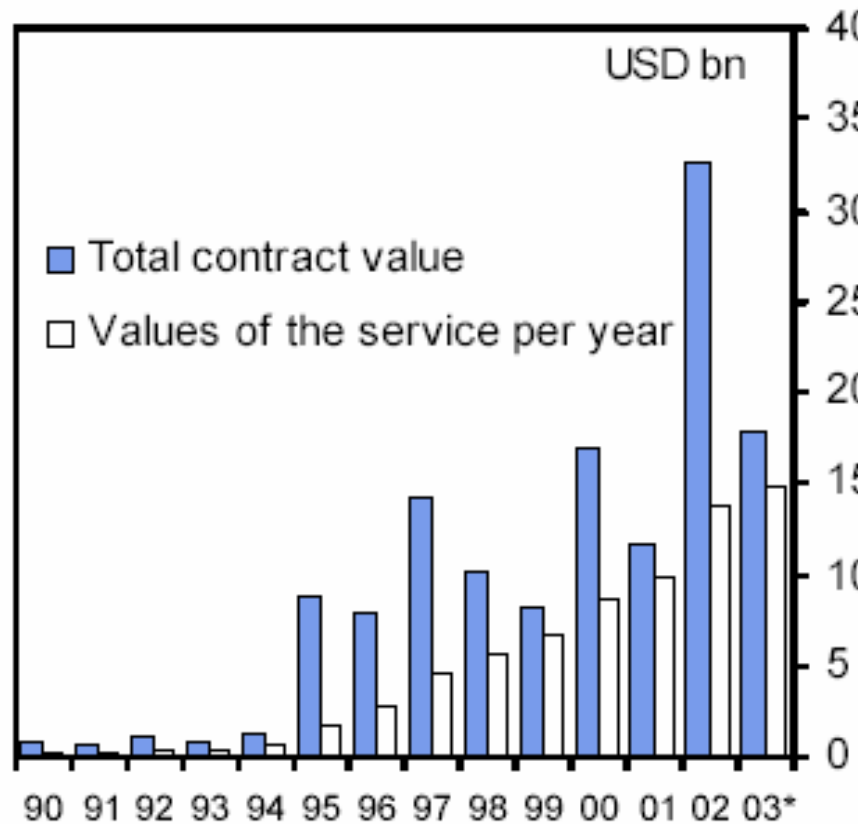
# Outsourcing in financial industry

## Outsourcing contracts in different branches



\*) estimate

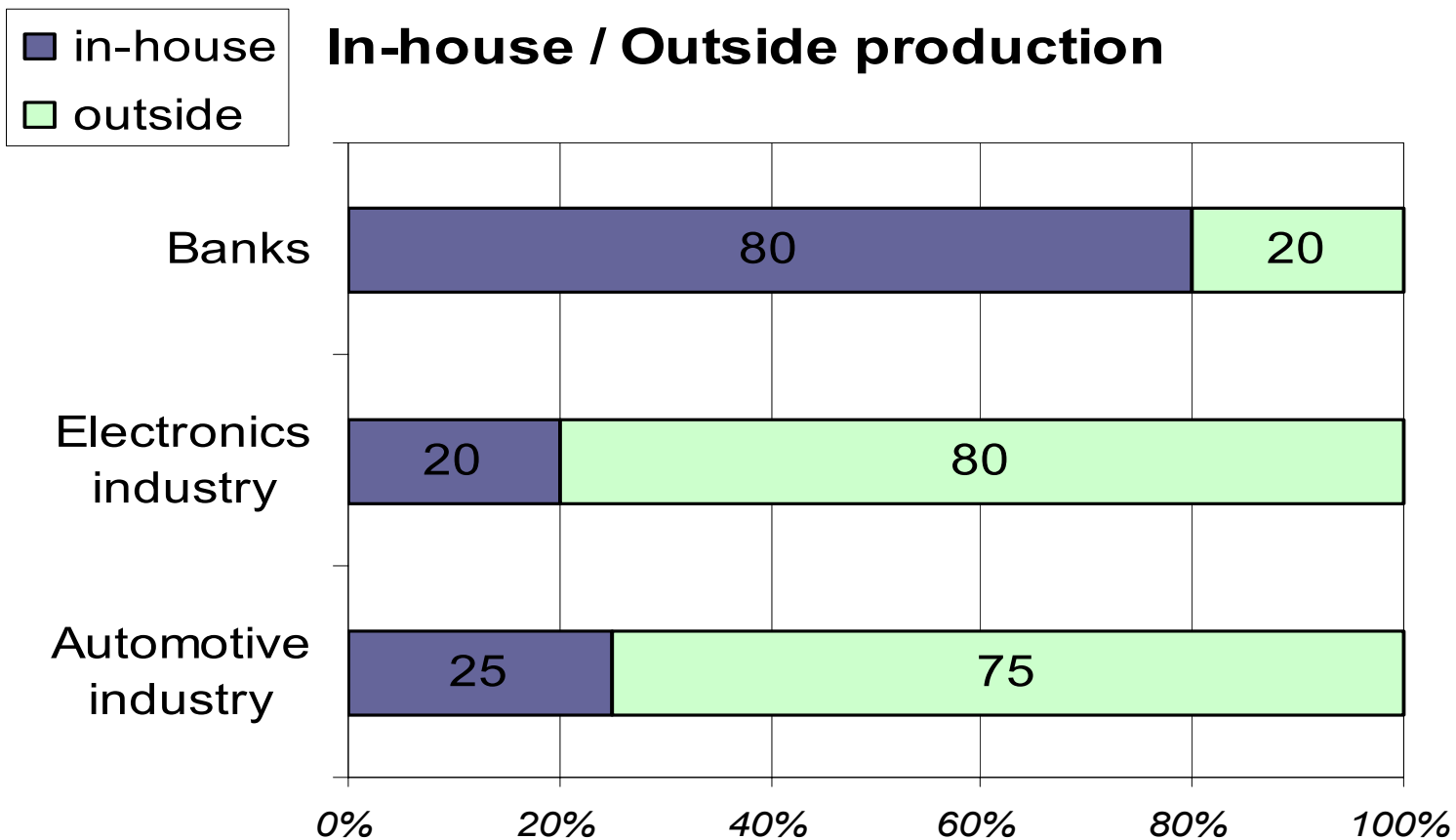
## Value of outsourcing contracts in the financial services sector



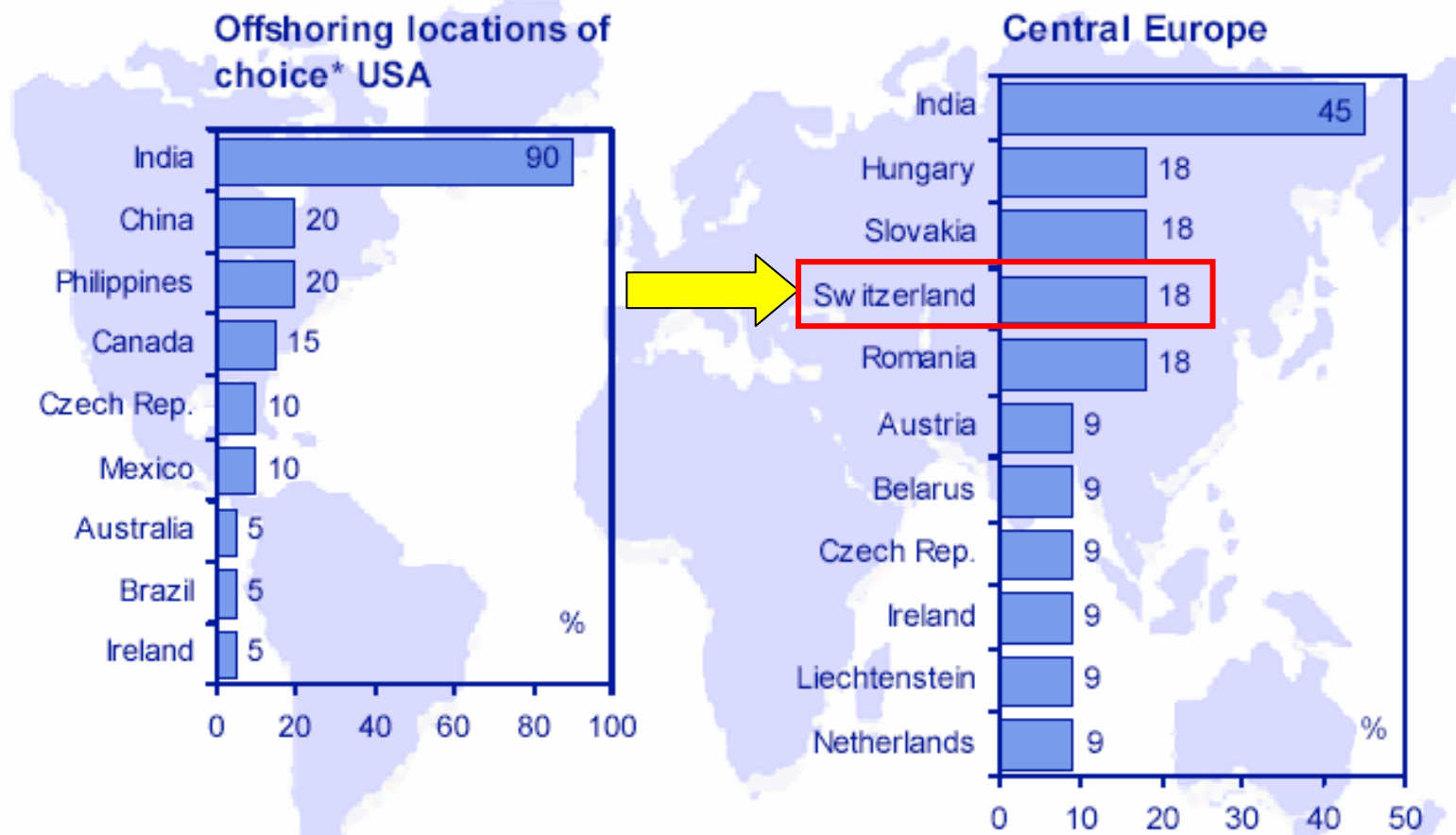
\*) estimate



# The potential in the financial sector



# Different preferences for offshore regions in different countries







# Private Banking



# Trends in Private Banking

## *Demand*

Structural effects,  
shift in product demand,  
client behaviour and  
pressure on margins.

## *Markets*

Transparency, efficiency and  
disintermediation.

## *Regulation*

Growing importance and  
growing costs.

## *Competition*

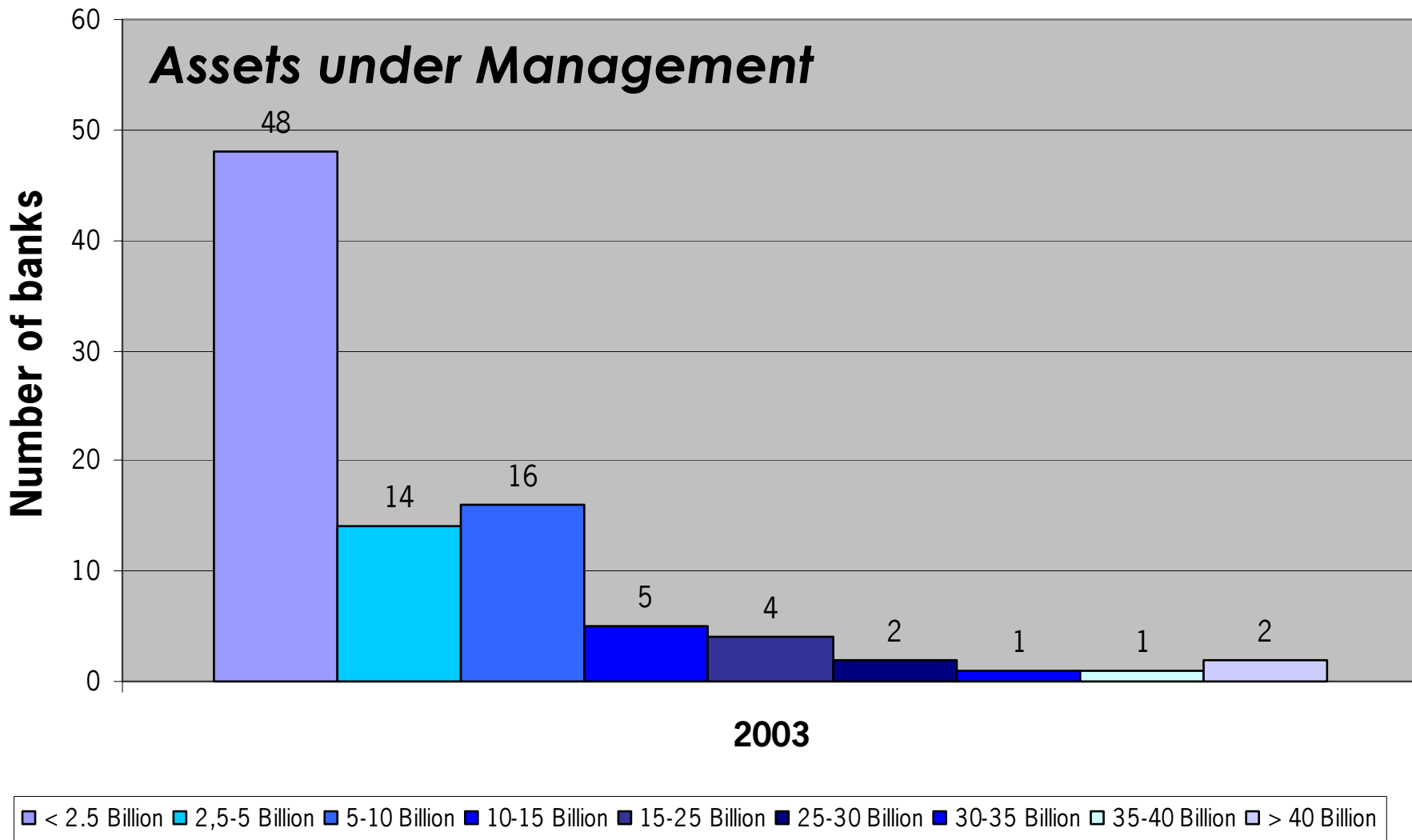
Oligopolistic tendencies.

## *Technology*

From *process* to *system* transformation.



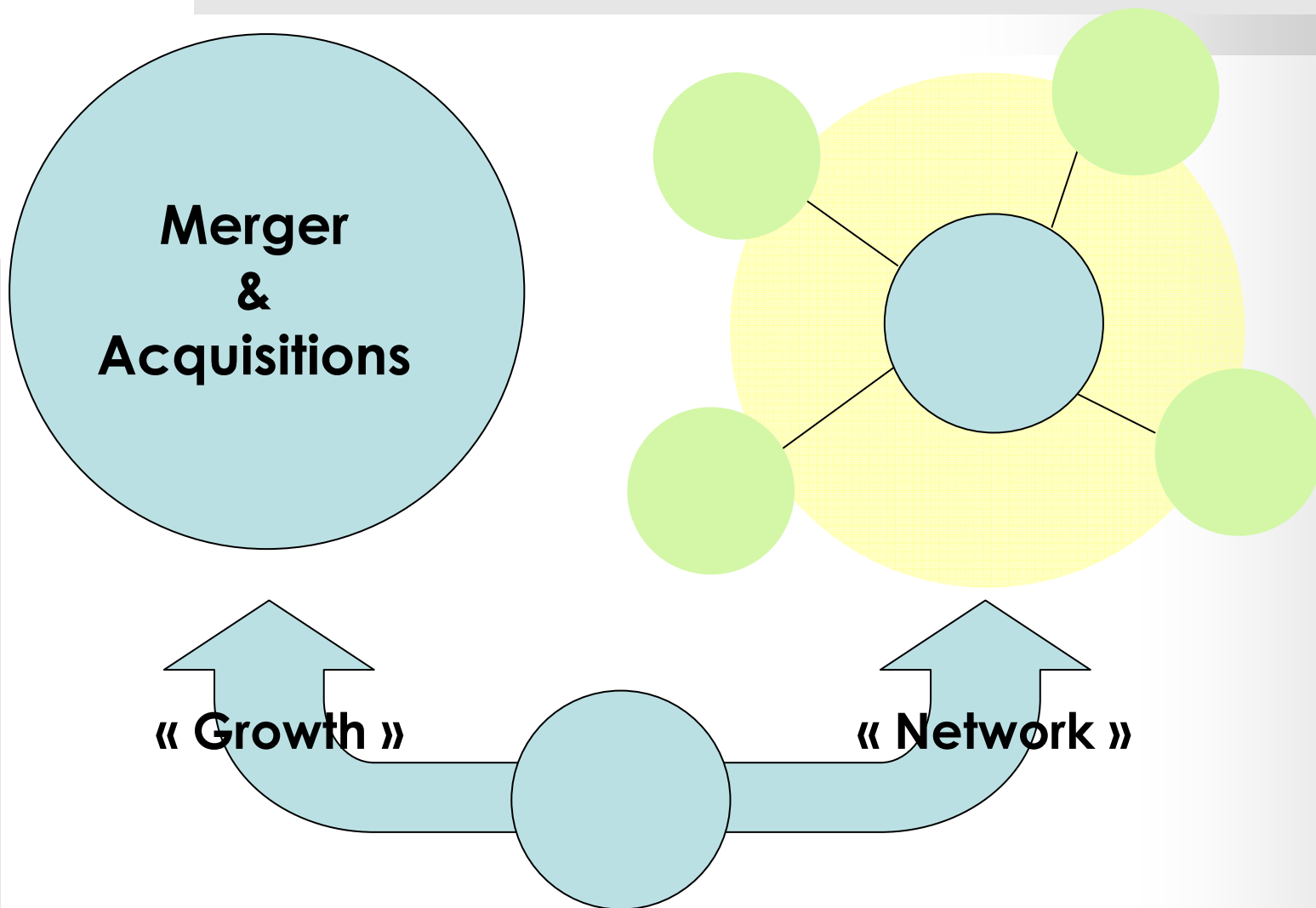
# Foreign Banks in CH by AuM



Source: Association of Foreign Banks in Switzerland, 2004



# Two alternative *Business Models*



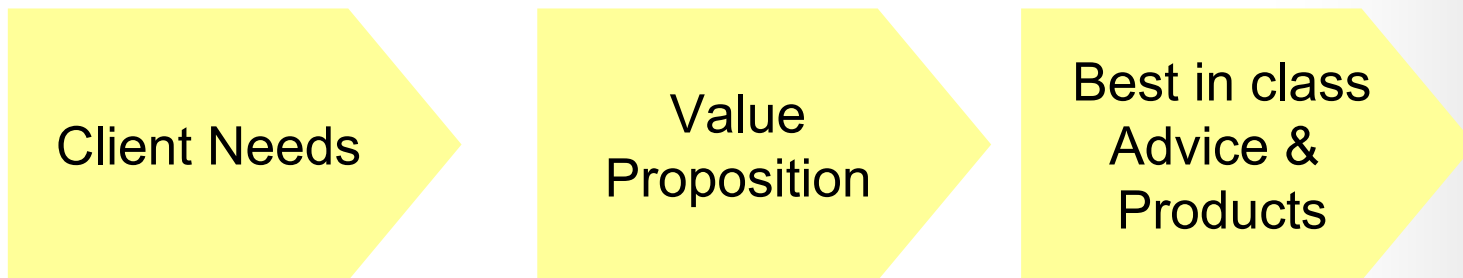


# Change of Paradigm

## From Private *Banking*



## To *Private* Banking

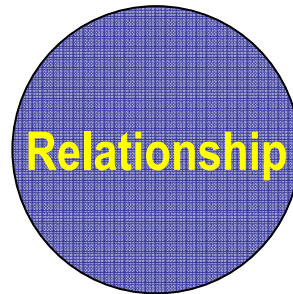
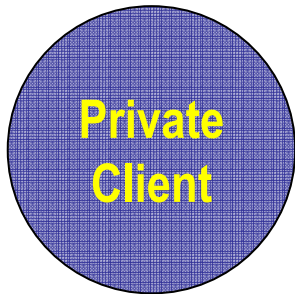




# New Paradigm

## Core Competence

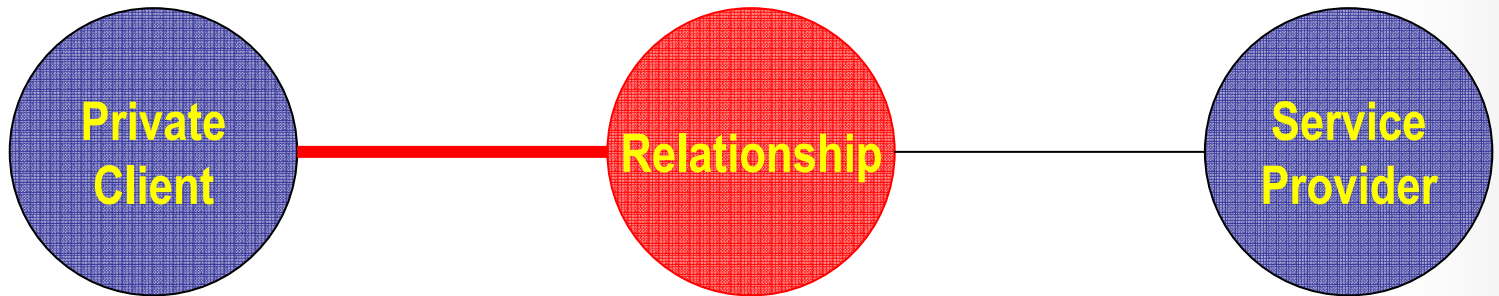
**Relationship** or **Service provider**





# New Paradigm

## Core Competence Relationship or Service provider?

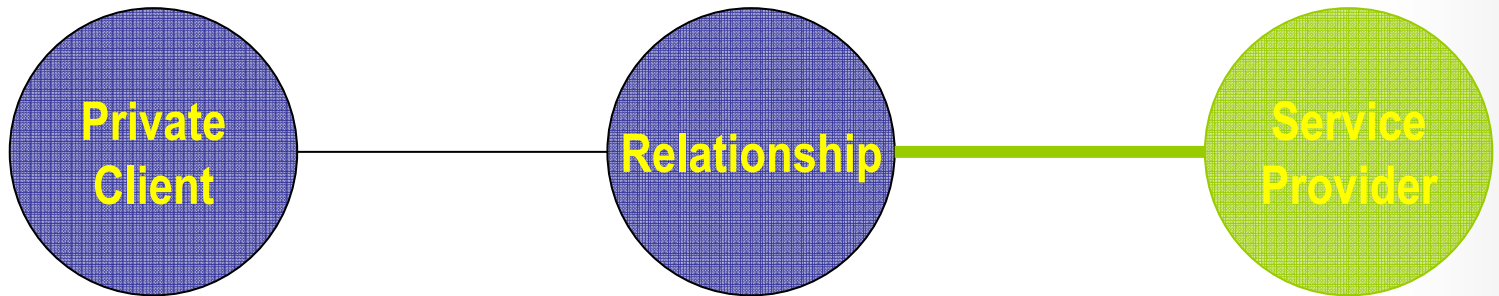




# New Paradigm

## Core Competence

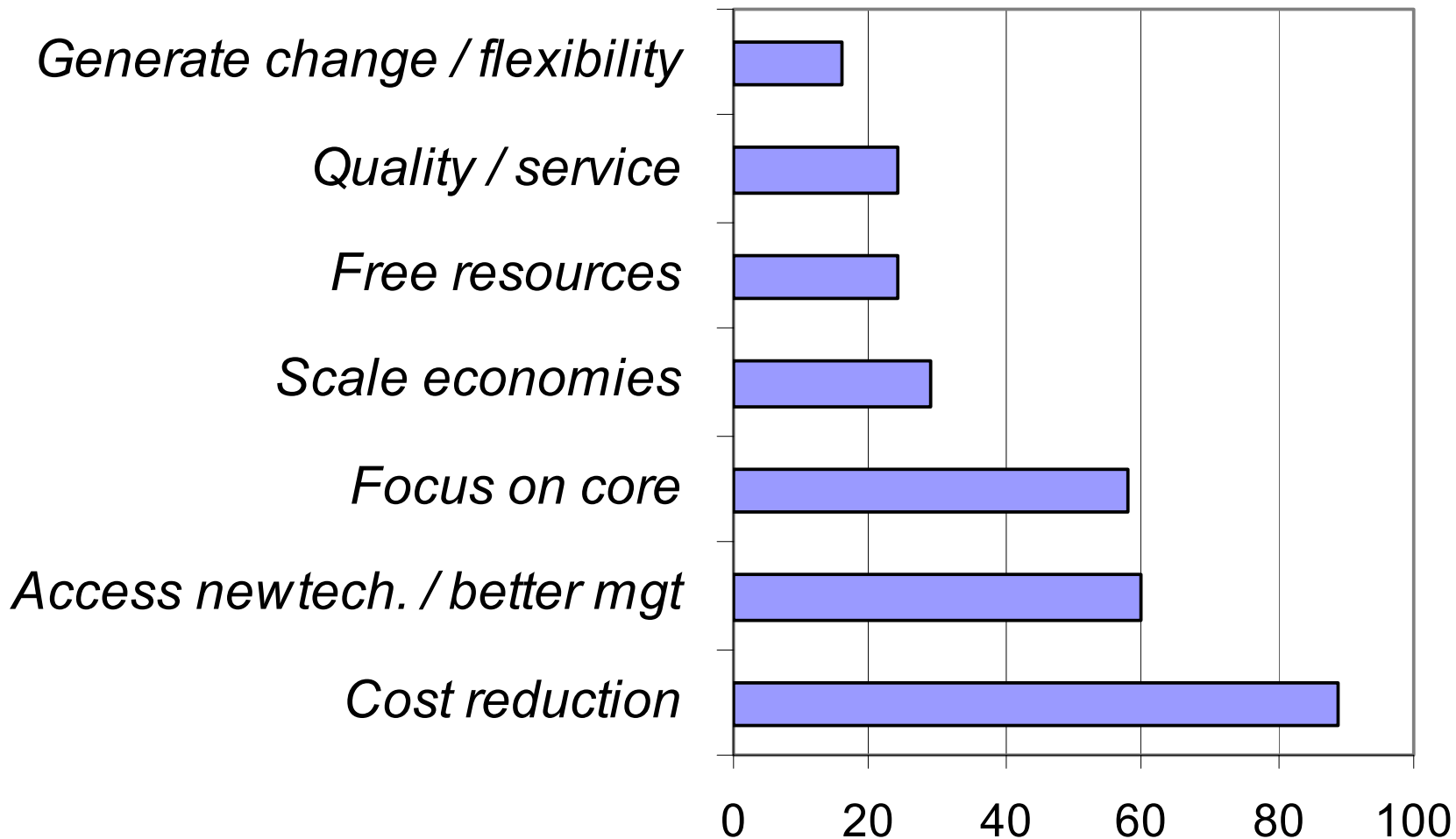
**Relationship** or **Service provider**







# Reasons for outsourcing



« The banks will focus more on their **core activities**. »

« The banks will **outsource** supporting functions (transaction processing and IT). »

« The banks will further **reduce their production depth** by outsourcing parts of their value chain. »

« The banks will become **increasingly specialised**. »

« The banking world will be divided primarily into: **distribution banks, transaction processors, portfolio and asset managers and product developers**. »



# Regulation

<b>Australia</b>	<b><i>Outsourcing Standard and Guidance Note</i></b>	<b>2002</b>
<b>Germany</b>	<b><i>Guidelines for outsourcing for credit institutions and financial services institutions (BaFin, Rundschreiben 11/2001)</i></b>	<b>2001</b>
<b>Japan</b>	<b><i>Sound practice paper for financial institutions setting (risk management in outsourcing)</i></b>	<b>2001</b>
<b>UK</b>	<b><i>FSA Handbook of rules and guidance, Interim Prudential Sourcebook for Banks</i></b>	<b>2001</b>
<b>US</b>	<b><i>Different regulatory guidance on outsourcing</i></b>	<b>2000</b>
<b>Switzerland</b>	<b><i>Outsourcing, Circ.-CFB 99/2</i></b>	<b>1999</b>



# Business Model « BSI »

Founded in Lugano in **1873**

Member of the *Assicurazioni Generali Group*

Specialised in *Wealth Management*

AuM: **CHF 44.4 billions**

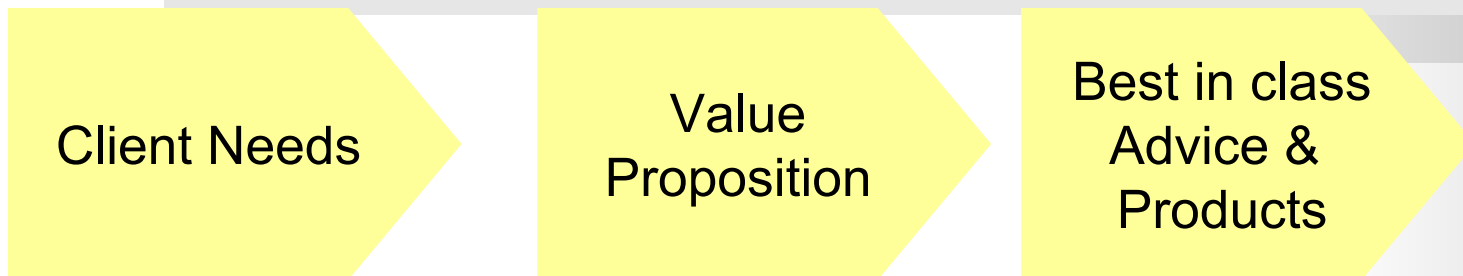
Switzerland: **Lugano, Bellinzona, Chiasso, Locarno,  
Geneva, Lausanne, Zürich, St. Moritz**

Worldwide: **Milan, Turin, Rome, Bologna, Monaco,  
London, Guernsey, Nassau**





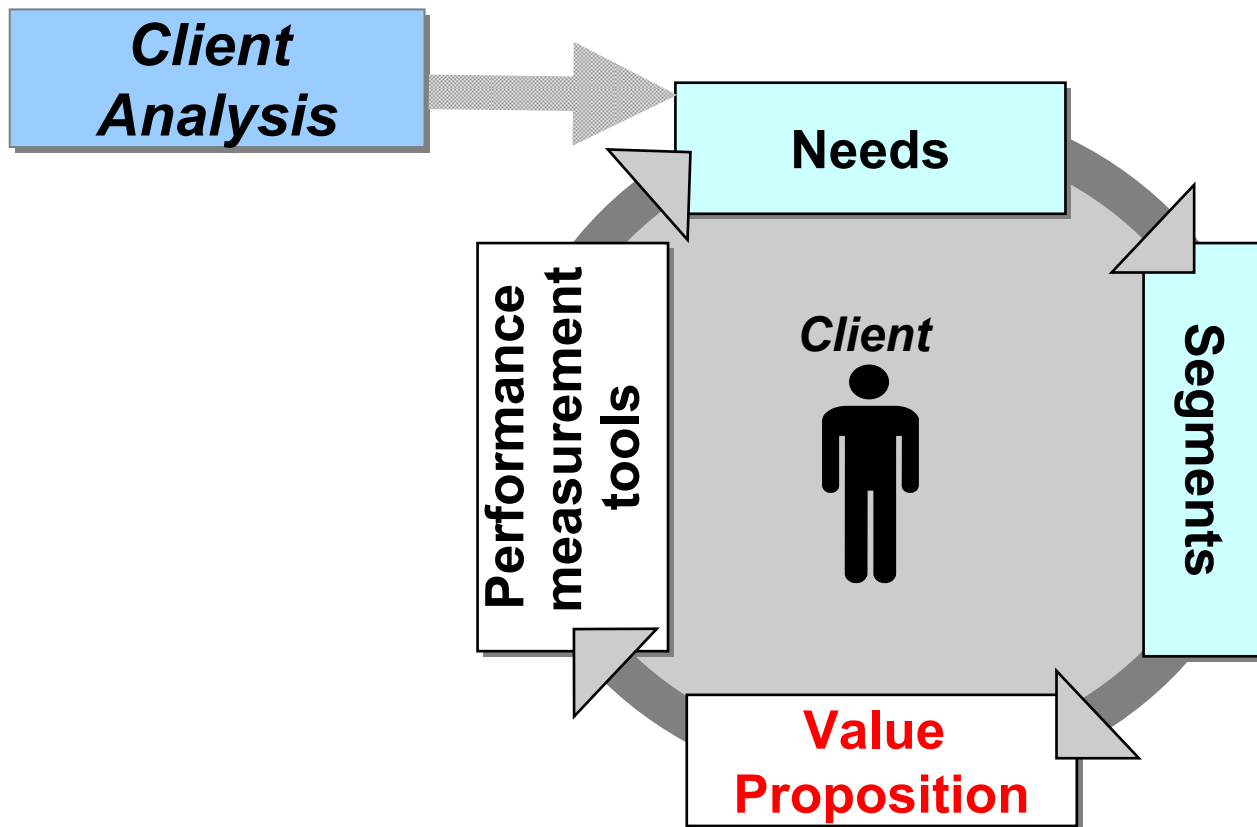
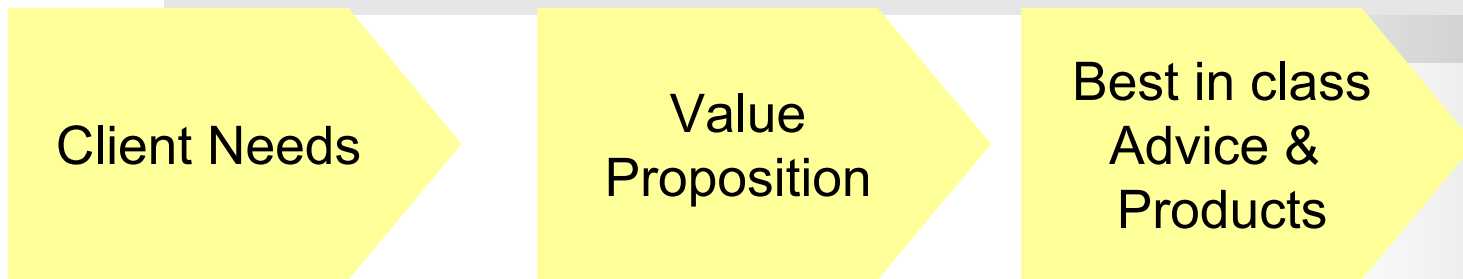
# BSI's Mission



- **Foster the relationship with our clients** based on reputation and mutual understanding.
- **Analyse the client's needs** and select the best solutions available on the market.
- **Develop the employee's intellectual resources** based on ethics and professional values granting personal satisfaction and sharing of objectives.
- **Improve the value of the Bank** with a constant process of innovation, development and growth.



# BSI: The Model





# BSI: In-House vs. Third Party

## Branding

Competence

Profitability

Time to Market

Variable vs Fixed Costs

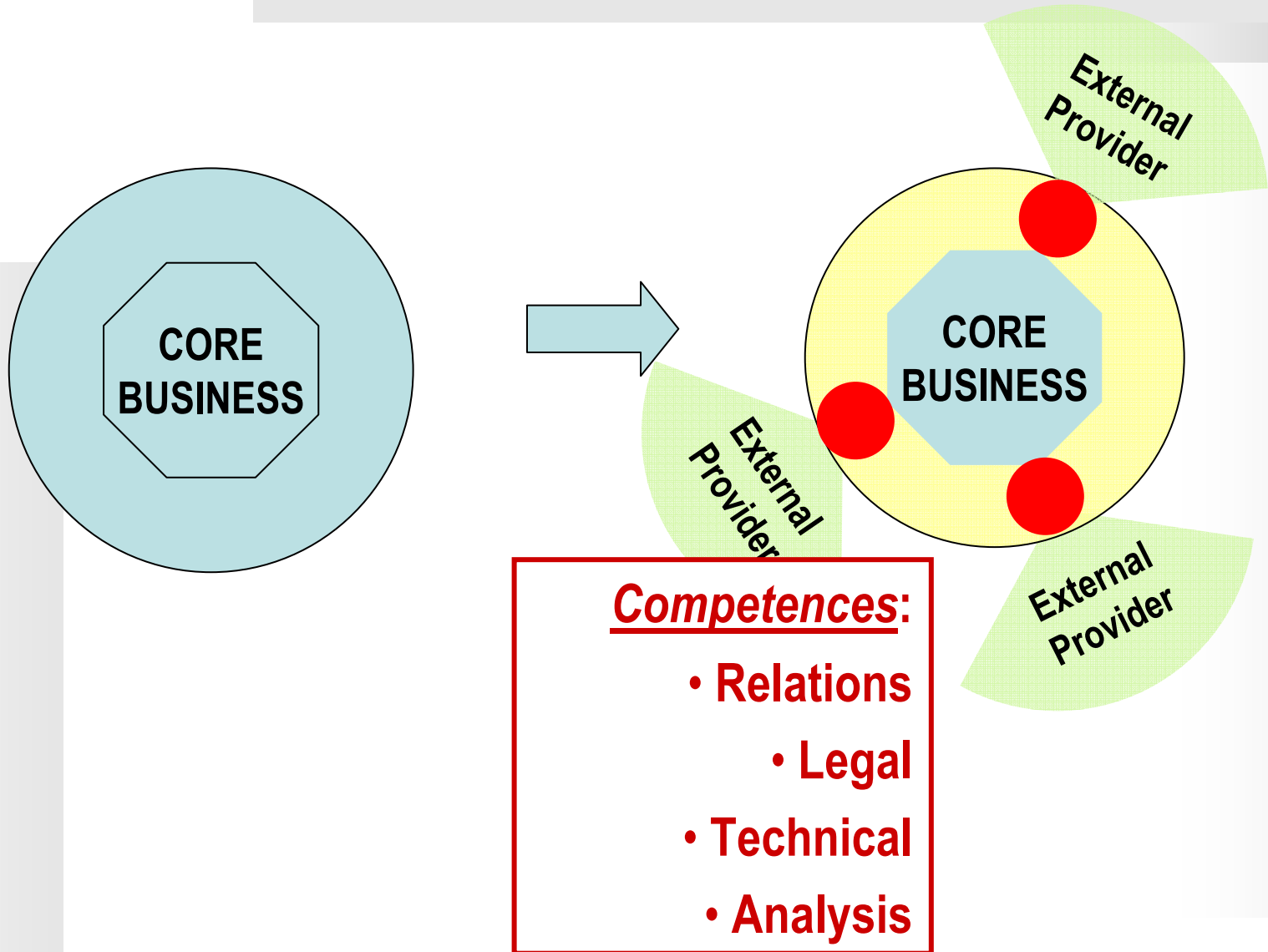
Track Record

Critical Mass



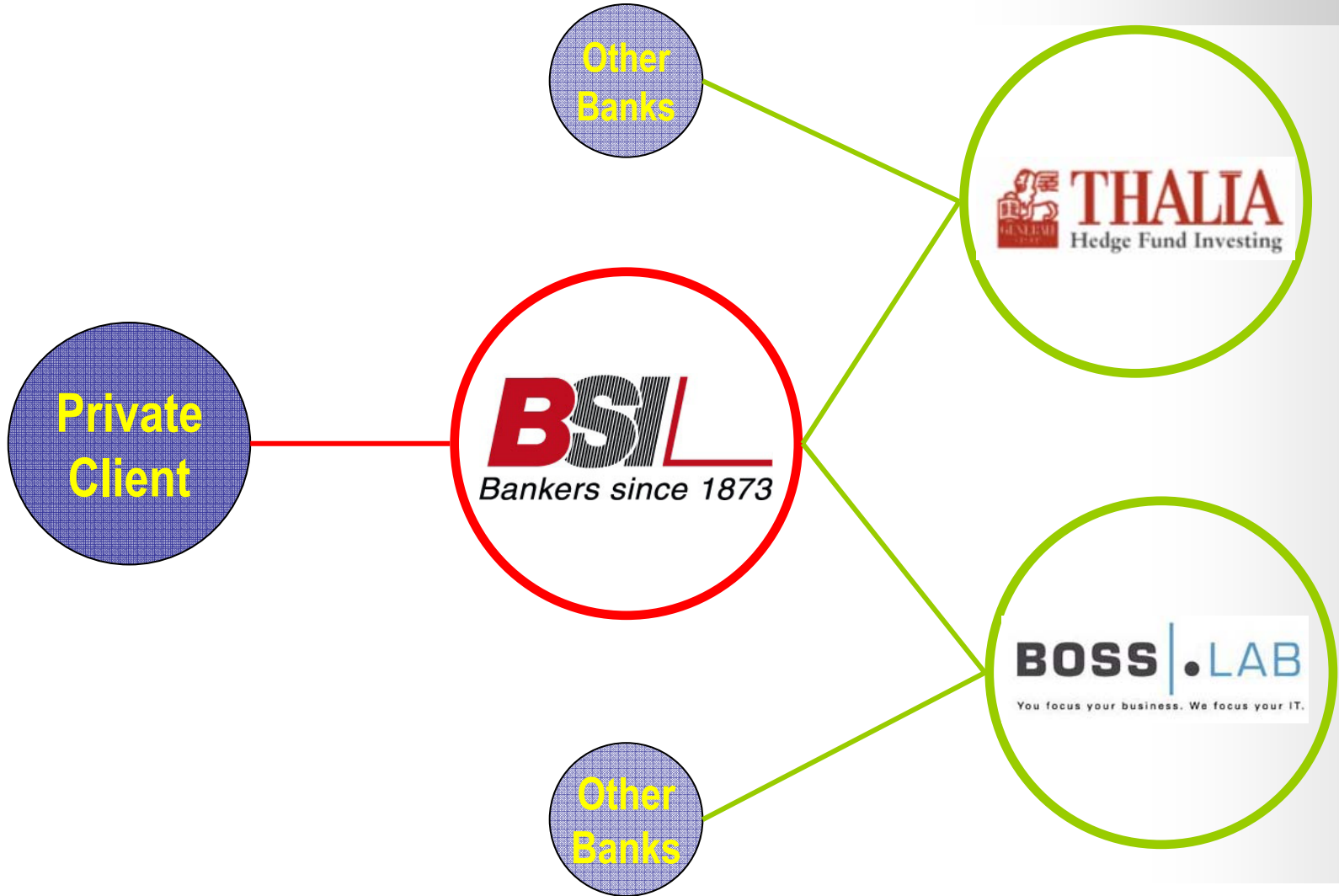


# BSI: Sourcing Management





# BSI Group: core competencies





Company Profile

**BOSS** | .LAB



## Boss Lab in a nutshell

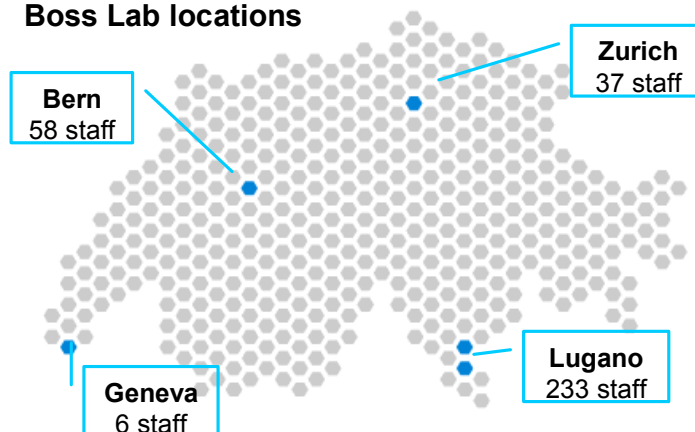
### Services and target markets:

- Bank back office services and IT to banks in Switzerland and their international affiliates.
- IT Operation services to financial institutions
- Target markets:
  - Banks in private banking and asset management
  - Other banks
  - Insurance companies

### Certifications and credentials:

- Swiss Federal Banking Commission compliant
- Two datacenters with mutual disaster backup
- ISO 9001 for entire company
- Gartner premium benchmarked
- Partner of the University of St. Gallen

### Boss Lab locations



### Facts & Figures:

- Member of BSI/Generali Group
- Staff: 334
- Financials 2004:

- Revenues:	102.4 Mio. CHF
- EBITDA:	15.9 Mio. CHF
- EBIT:	7.2 Mio. CHF
- Operating ROS:	15.6 %
- ROI:	20.6 %



## | | | Business model

IMPLEMENTATION &  
MIGRATION



## Client base and services provided

- Privatbank Von Graffenried AG Switzerland
  - Privatbankiers Reichmuth & Co. Switzerland
  - NZB Neue Zürcher Bank Switzerland
  - Dominick Company AG Switzerland
  - Bank für Tirol und Vorarlberg AG Switzerland
  - Dryden Bank SA Switzerland
- + 300 Financial Advisors abroad



- BSI SA Switzerland, UK, Bahamas
- BSI (Channel Islands) Ltd Channel Islands
- BSI SAM International Private Banking Monaco
- BSI Overseas (Bahamas) Ltd Bahamas
- BSI Investment Advisors LLC USA
- Coutts Bank von Ernst Ltd Switzerland, Hong Kong, Singapore, Cayman Islands, Jersey, Isle of Man
- Bank von Ernst (Liechtenstein) AG Liechtenstein
- Baloise Bank SoBa Switzerland



- Generali (Schweiz) Holding Switzerland
- Von Graffenried AG Holding Switzerland
- Banca BSI Italia Spa Italy
- Thalia SA Switzerland





**USP**

**Focus on client**

**Cost Flexibility**

**Range of Services**



**Cost Reduction**

**Service's Quality**

**Time to Market**

|||

you focus your business

we focus | your IT

**BOSS | .LAB**

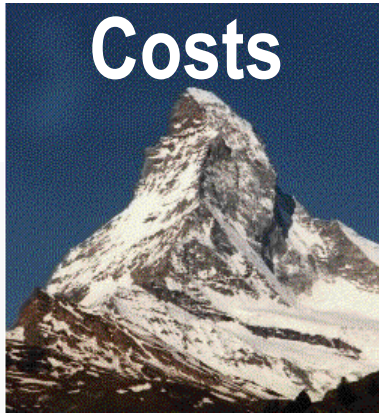
You focus your business. We focus your IT.





# Pricing Model

## Fix Costs



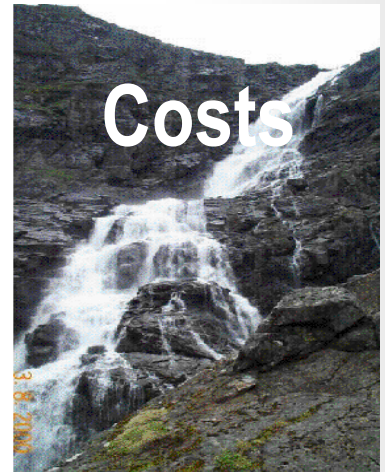
**Case A:**  
**Private Banking**  
**< 25 Front Employees**  
Complete BSP solution:  
CHF 700'000 - 1 Mio.

**Case B:**  
**Private Banking**  
**25-70 Front Employees**  
Complete BSP solution:  
CHF 1 Mio - 2 Mio.

**Based on Volumes**

## Variable

## Costs



# Outsourcing in Private Banking

... a *latest fashion*...



... for many a *real need* ...

... an *opportunity* for most.





# Principal sources

Basel Committee on Banking Supervision (February 2005):  
**Outsourcing in Financial Services**  
*available on website <http://www.bis.org>*

Prof. B. Bernet (2003):  
**Remodelling the Value Chain in Private Banking**  
*available on website <http://www.foreignbanks.ch>*

Dr. J. Schaaf (2004):  
**IT outsourcing: between starvation diet and nouvelle cuisine**  
*available on website <http://www.foreignbanks.ch>*

Accenture (2004):  
**The Swiss Banking industry in the Year 2010**

Outsourcing Institute,  
**5th Annual Outsourcing Index**  
*available on website <http://www.outsourcing.com>*

