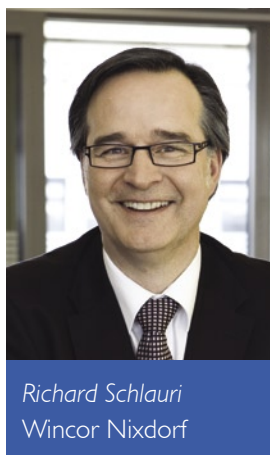


WINCOR NIXDORF PERSPECTIVE

Outsourcing more prevalent as banks focus on core business

By Richard Schlauri, Vice President of Global Outsourcing & Managed Services, Wincor Nixdorf



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For anyone familiar with the banking industry, it should come as no surprise that banks are relying more heavily on vendors and other third-party service providers than ever before. Under increased pressure to lower costs and improve their competitiveness, banks are putting an ever-greater focus on their core financial operations and are allowing vendors to perform a wider range of non-core functions.

Demand for managed services and outsourcing among banks is particularly strong in developed markets such as western Europe and North America and is rapidly growing in the emerging economies in Asia-Pacific, eastern Europe, the Middle East, Africa and Latin America. In Germany alone, the market for outsourcing services to banks is estimated at €3 billion and growing. According to Pierre Audoin Consultants (PAC), global expenditure for IT outsourcing topped €46 billion in 2012.

The financial services industry, one of the pioneers in IT outsourcing, has been handing over parts of its operations to third parties for decades. Numerous banks in developed markets have been taking advantage of the many benefits that outsourcing provides. Not only are they cutting costs, they're also profiting from the latest hardware and software. Equally important, they are benefiting from access to IT and branch experts with a wealth of knowledge on the latest compliance rules and regulations, as well as security measures and solutions to curb fraud and avoid risk. Banks, it is fair to say, are outright paranoid about compliance and security and want outsourcers to help them.

Outsourcing demands differ from country to country

As powerful as the argument for outsourcing is in the financial sector, no two banks are the same

– and for that matter no two banking markets. This means that demand varies widely. While some banks in some markets cannot outsource enough, others still prefer to keep certain operations in-house. In Europe, for example, banks in Scandinavia, the Netherlands, the United Kingdom and increasingly Italy are big users of outsourcing services. They are convinced of the advantages of letting service providers specialised in areas such as self-service technology take responsibility – and deliver results. And these advantages include not just a lower cost structure but, equally important, the opportunity to relieve staff of non-core tasks to refocus on revenue-generating activities. Banks in France, by comparison, still view their ATM assets as a means to differentiate themselves in the fiercely competitive retail banking market.

Areas commonly outsourced to third parties include ATMs and self-service terminal networks as well as full IT infrastructure, ranging from PCs and servers to storage devices and data networks – the so-called 'iron' components. Cost reductions can be achieved by consolidating volumes and improving business processes. Increasingly, banks are also turning to service providers for hosted Web services in areas such as online banking and mobile banking. And while some cling to mission-critical financial applications, others see far greater benefit in having these managed by professionals focused on top performance.

Outsourcing has evolved to meet varying requirements

Like nearly everything in the world of technology, the outsourcing market is not immune to change. First-generation outsourcing deals generally saw banks awarding contracts to a single provider. Today, financial institutions tend to split their outsourcing projects, often giving the 'iron' part to one provider and bank-specific applications to another. Essentially they are multi-sourcing to tap different pools of expertise and satisfy

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different elements of their IT needs and banking processes. That's the case with larger banks in particular. Many smaller ones, by comparison, opt for a single-source solution. Overall, most banks still prefer to keep specific core tasks in-house, including 'image-enhancing' applications to maintain a competitive edge.

Standardised modules for individual solutions

With its extensive Managed Services and Outsourcing portfolio, Wincor Nixdorf is strategically positioned to meet the outsourcing needs of all retail banks, whether big or small, in Europe and beyond. We can manage a bank's entire IT environment, including third-party devices and software applications. We offer long-term arrangements aimed at creating trust and ensuring stability. That is essential in this business. In addition, Wincor Nixdorf provides flexible modules that can be assembled like Lego blocks with a high level of standardisation to drive down costs. At the same time, we ensure enough flexibility so that solutions can be individually tailored to meet individual needs – fully aware that a one-size-fits-all model does not work in the retail banking market. Wincor Nixdorf's solutions are roughly 80% standardised and 20% customised. Various service models are available, enabling either a gradual or complete transfer of responsibilities.

Cash process automation and new billing models

One of our key strengths as a supplier of retail IT systems is cash process automation, and that expertise is reflected in the scope of our Managed Services and Outsourcing offerings. For banks that want to establish an off-premise self-service site, for instance, we can help select the location, install the ATM or cash recycler, integrate the system into the bank's network, manage the cash supply, including monitoring and logistics to avoid non-working capital, and even operate the entire

terminal on a transaction-based fee. This example of providing an 'ATM as a service' turns fixed costs into variable costs. Fully automated branches and pay-per-transaction models are particularly attractive to cost-conscious banks averse to investments in fixed assets.

Self-service systems serve as a critical interface to customers. On average, 85% of a bank's customers already use its ATMs, which drives customer loyalty. High technical availability – in the 99% range in developed markets – is thus essential. We ensure such availability to our customers – day in, day out.

Seamless integration in multi-channel outsourcing projects

Wincor Nixdorf understands not only cash processes but also multichannels. We know what is needed for systems to reconcile and communicate across multiple channels, such as self-service, online and mobile. We have a unique selling proposition when it comes to multichannel outsourcing – seamless integration across teller systems, self-service terminals and online banking. No less important in an environment in which banks increasingly split their outsourcing business among two or more suppliers, Wincor Nixdorf has the know-how to integrate multivendor technology and manage it across sectors. Our vertical integration allows us to operate seamlessly between the banking and retail trade sectors.

Today, it is difficult to find a major bank or even a mid-range bank that does not do some fairly extensive outsourcing of IT functions and cash management processes. The next wave of outsourcing will likely involve some services being available in the Cloud, and topics such as selective outsourcing and scalability of projects will become more important. In addition to a continued industrialisation of IT services, some retail banks will pursue a holistic approach to outsourcing with the aim of a complete branch transformation. ■

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Holistic outsourcing approaches put the complete branch transformation in focus

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