Today's Discussion Topics

- Introduction and Background

- Outsourcing / Offshoring Trends

- Risk Intelligent Outsourcing

- Difference between IT Outsourcing and Cloud Computing

- Questions

INTRODUCTION AND BACKGROUND

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Outsourcing and Off-shoring: key definitions

Outsourcing

Contracting with an external service provider to perform a specific function or process, including:

- Information technology outsourcing (ITO) – application development, maintenance, and production support etc…
- Business process outsourcing (BPO) – call centers, HR, accounting, etc.

Offshoring

Relocating one or more processes/functions to a different geographical location including:

- **In country:** service provided in the same, or similar country where labor rates are generally consistent (e.g., US-US, UK-UK, or UK-Ireland)

- **Near-shore:** service provided in a geographically close country where labor rates are generally reduced (e.g., US-Mexico, UK-Eastern Europe)

- **Off-shore:** service provided in a country in which labor rates are significantly lower (e.g., US-India / Philippines)

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OUTSOURCING / OFFSHORING TRENDS

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Outsourcing drivers are here to stay

Figure 1. Is outsourcing a standard operating practice at your company?

19%

21%

60%

- Yes
- No
- No, but considering it
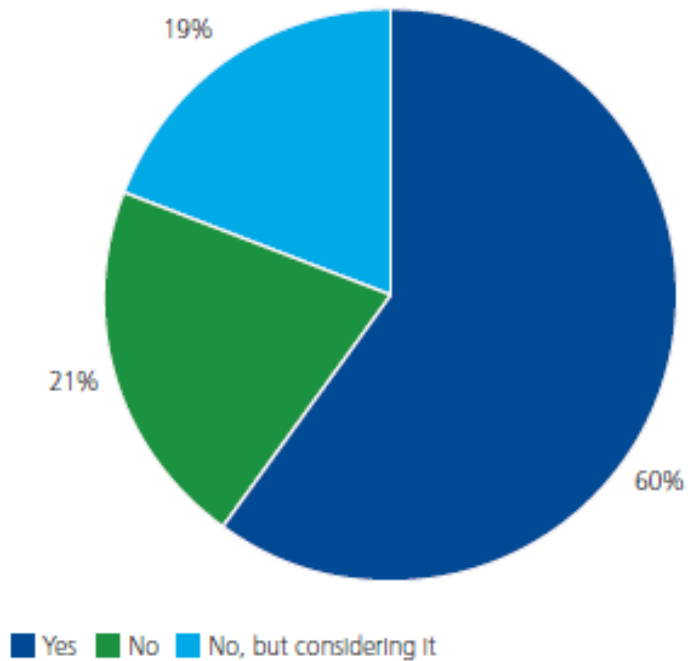
Percentages represent the percentage of respondents.

Figure 8. How important were each of these objectives in your most recent outsourcing effort?

Objective	Very important	Important
Reduce operating costs	62%	25%
Improve customer service	42%	31%
Gain competitive advantage	20%	29%
Gain tax advantages	20%	23%
Leverage new technologies	17%	25%
Desire to consolidate	17%	25%
Access more flexible HR models	11%	42%
Improve controls	4%	10%

- Very important
- Important
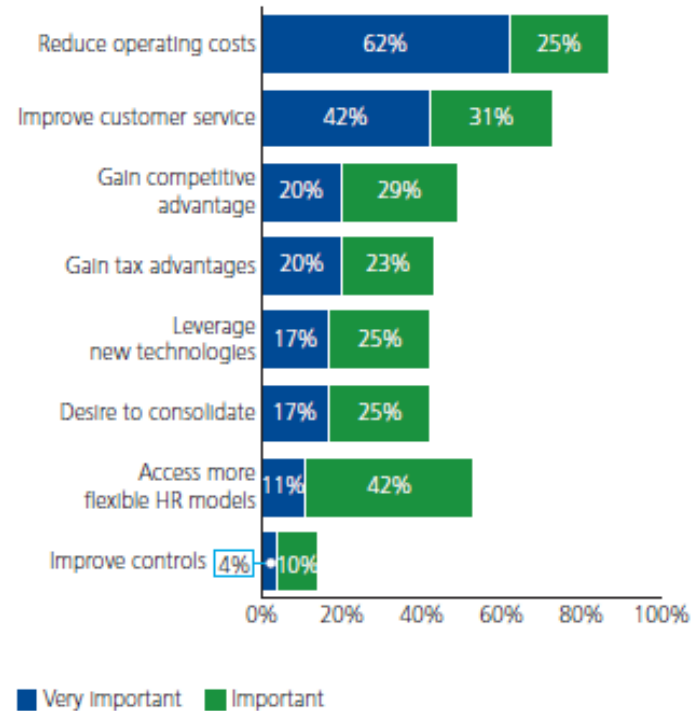
- Organizations around the world will outsource $480bn worth of business and IT services in 2012

- It is still a driver obtaining cost effective services

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Satisfaction levels are high

Figure 9. Outsourcing satisfaction and reasons for dissatisfaction

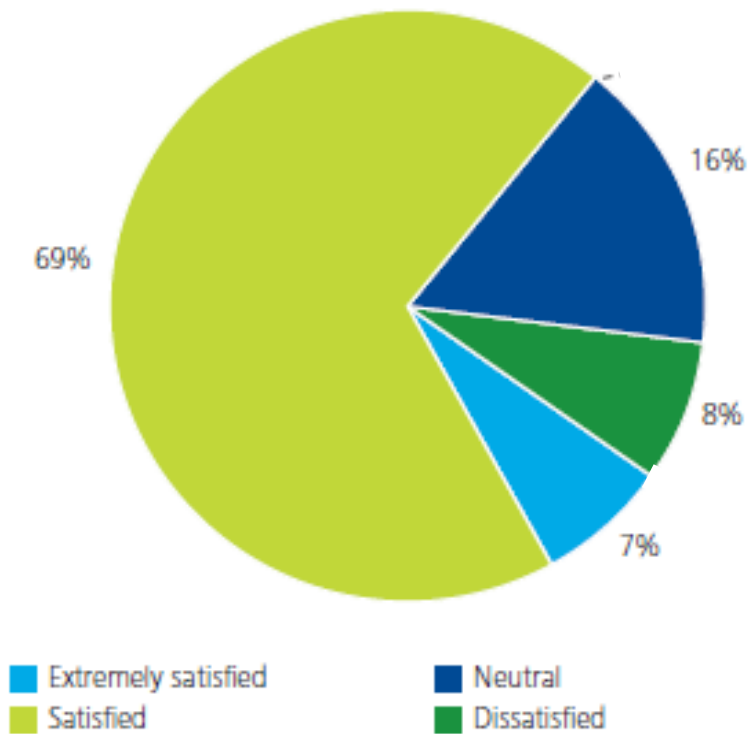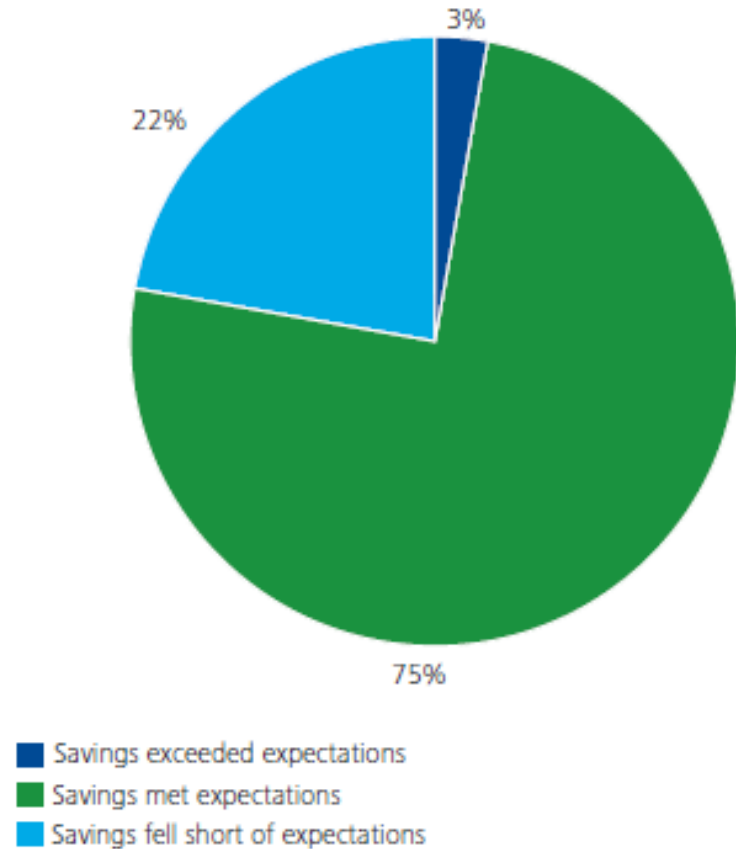How satisfied are you with the outcome of your most recent outsourcing initiative?

69%
16%
8%
7%

■ Extremely satisfied   ■ Neutral
■ Satisfied   ■ Dissatisfied

Figure 10. Actual versus anticipated cost savings of most recent outsourcing effort

3%
22%
75%

■ Savings exceeded expectations
■ Savings met expectations
■ Savings fell short of expectations

Companies are facing serious challenges

"30% of the respondents reported that they had **terminated at least one outsourcing contract** and transferred it to a different vendor... of those who reported that they were "Dissatisfied", 50% have brought functions back in house."

'Why Settle For Less,' Deloitte Consulting Outsourcing Report

"More than half of all financial institutions surveyed are now saving more than 40% for each process off-shored. However, **the range of savings is polarizing**, and is now between 20% and 70% per process … This divide also suggests the gap between quality of management and operational practice is widening."

Deloitte Consulting Global Financial Services off-shoring Report

"A key issue to ensuring future success of off-shoring will be **governance issues**… executives have growing concerns around disaster recovery, customer privacy, vendor accountability and fraud detection for the industry as a whole."

*Deloitte Consulting Global Financial Services off-shoring Report*

"35% of the executives surveyed wished their companies had **spent more time on vendor evaluation and selection**… 49% said they would define service levels that aligned better with their companies' business goals."

'Why Settle For Less,' Deloitte Consulting Outsourcing Report

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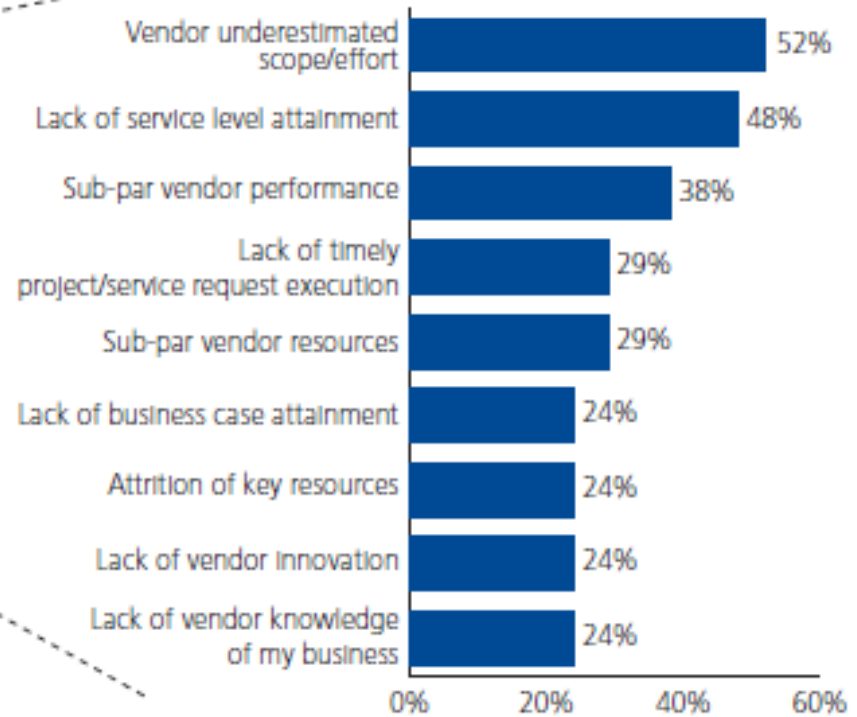San Francisco Chapter

Relationships fail due to a few key areas

Figure 9. Outsourcing satisfaction and reasons for dissatisfaction

How satisfied are you with the outcome of your most recent outsourcing initiative?
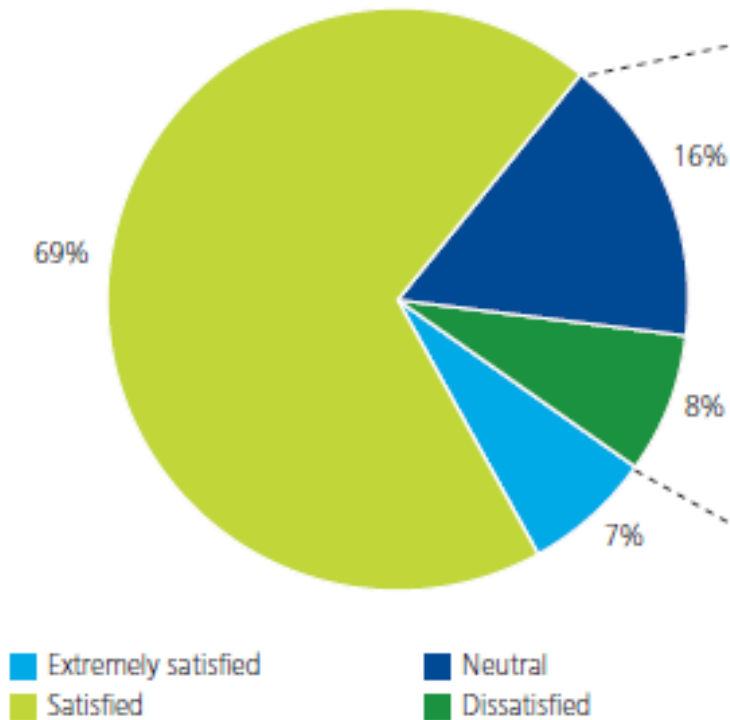
What factors led you to be less than satisfied with your most recent outsourcing initiative?

Pie chart values: 69%, 16%, 8%, 7%

Legend:
- Extremely satisfied
- Satisfied
- Neutral
- Dissatisfied

Bar chart:
- Vendor underestimated scope/effort — 52%
- Lack of service level attainment — 48%
- Sub-par vendor performance — 38%
- Lack of timely project/service request execution — 29%
- Sub-par vendor resources — 29%
- Lack of business case attainment — 24%
- Attrition of key resources — 24%
- Lack of vendor innovation — 24%
- Lack of vendor knowledge of my business — 24%

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Relationships fail due to a few key areas

Figure 11. Frequency and drivers of early contract termination

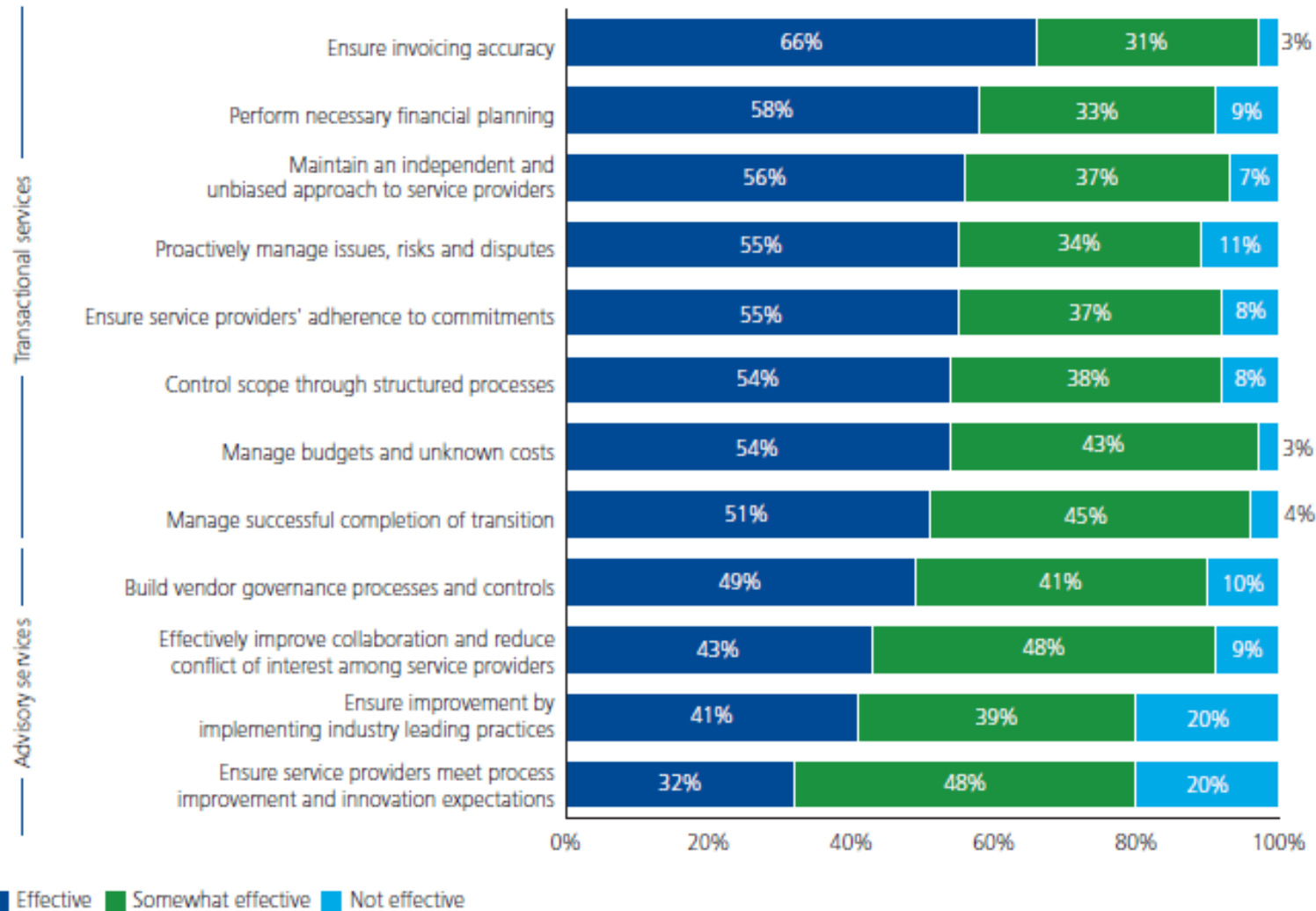Have you ever terminated an outsourcing contract for cause or convenience?
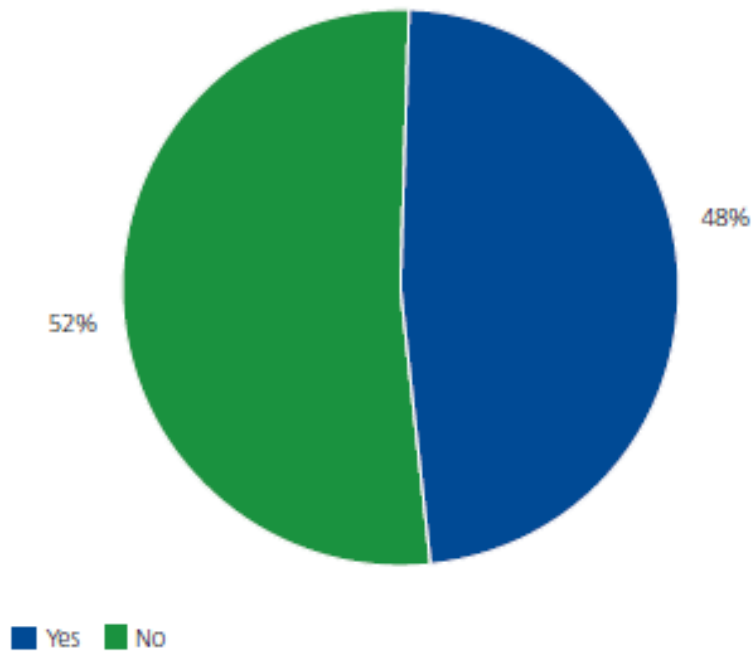
Which factors were most important in your decision to terminate the contract(s) early?

Yes 48%
No 52%

Factor	Percentage
Overall quality of service	71%
Subject matter expertise	33%
Pricing	33%
Unsuccessful transition	29%
Communication	28%
Account management	20%
Cultural fit	13%

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Vendor management processes could be improved

Figure 14. How effective is your vendor management organization/function in meeting the following objectives?
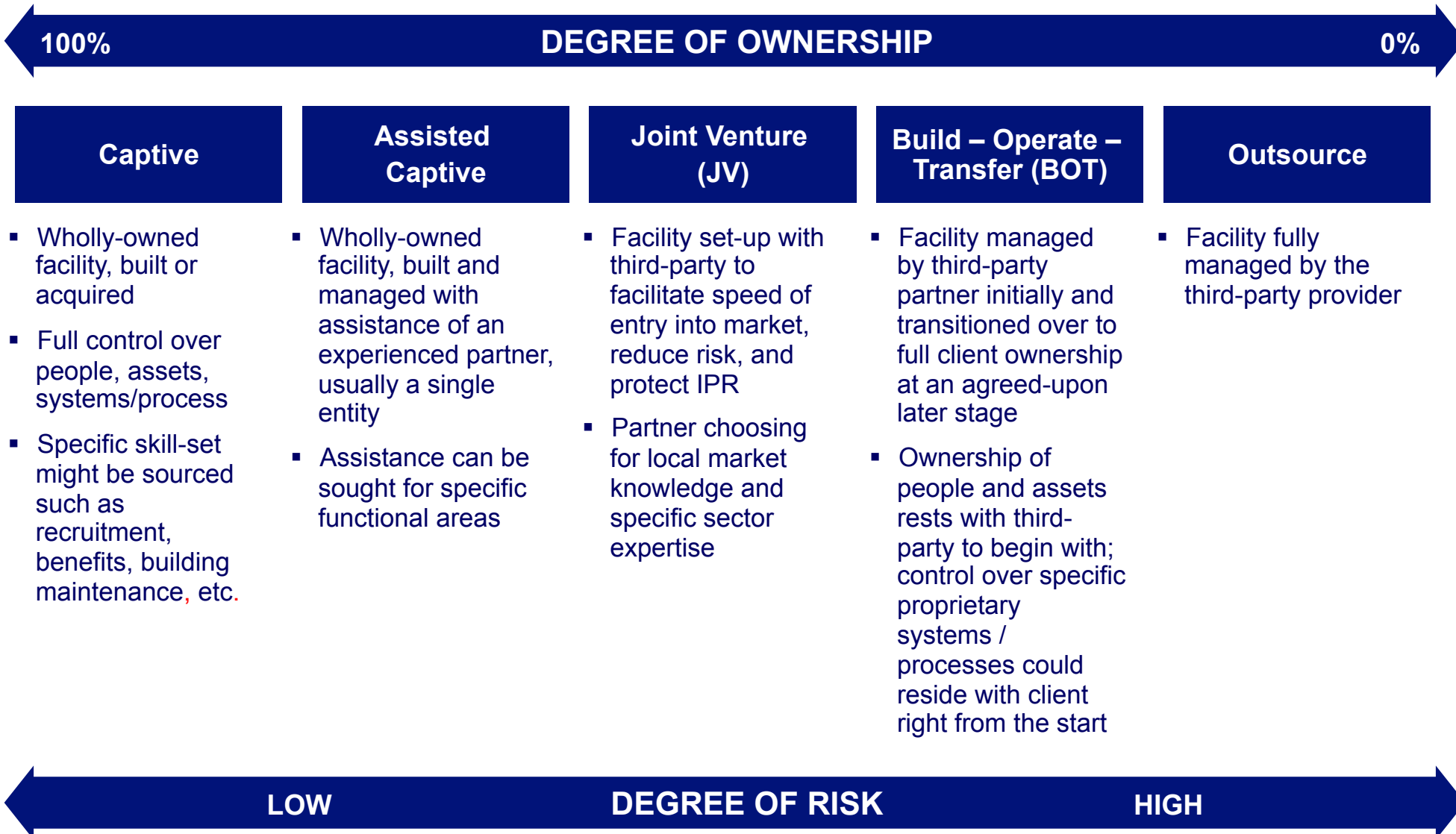

Objective	Effective	Somewhat effective	Not effective
Transactional services			
Ensure invoicing accuracy	66%	31%	3%
Perform necessary financial planning	58%	33%	9%
Maintain an independent and unbiased approach to service providers	56%	37%	7%
Proactively manage issues, risks and disputes	55%	34%	11%
Ensure service providers' adherence to commitments	55%	37%	8%
Control scope through structured processes	54%	38%	8%
Manage budgets and unknown costs	54%	43%	3%
Manage successful completion of transition	51%	45%	4%
Advisory services			
Build vendor governance processes and controls	49%	41%	10%
Effectively improve collaboration and reduce conflict of interest among service providers	43%	48%	9%
Ensure improvement by implementing industry leading practices	41%	39%	20%
Ensure service providers meet process improvement and innovation expectations	32%	48%	20%

Legend: ■ Effective ■ Somewhat effective ■ Not effective

Different outsourcing models and potential risk

| 100% | DEGREE OF OWNERSHIP | 0% |

Captive	Assisted Captive	Joint Venture (JV)	Build – Operate – Transfer (BOT)	Outsource
• Wholly-owned facility, built or acquired • Full control over people, assets, systems/process • Specific skill-set might be sourced such as recruitment, benefits, building maintenance, etc.	• Wholly-owned facility, built and managed with assistance of an experienced partner, usually a single entity • Assistance can be sought for specific functional areas	• Facility set-up with third-party to facilitate speed of entry into market, reduce risk, and protect IPR • Partner choosing for local market knowledge and specific sector expertise	• Facility managed by third-party partner initially and transitioned over to full client ownership at an agreed-upon later stage • Ownership of people and assets rests with third-party to begin with; control over specific proprietary systems / processes could reside with client right from the start	• Facility fully managed by the third-party provider

| LOW | DEGREE OF RISK | HIGH |

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Risks are inherent to all outsourcing relationships

These relationships can potentially create great value, but can also result in:

- Failure to meet business objectives
- Loss of confidential data
- Financial risk from fraudulent transactions
- Privacy risk to personal identifiable information
- Brand and reputation risk
- Regulatory risk
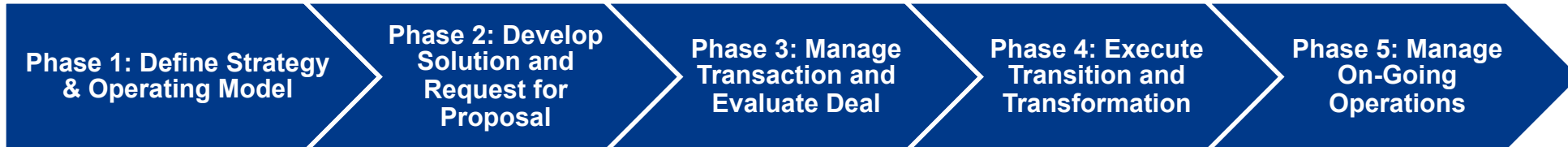- Competitive risk from lost intellectual property

Vendor selection risk	Strategic risk	Regulatory compliance risk	Operational risk	Financial risk
Security risk	Legal risk	Country risk	Business continuity risk	Exit risk

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What is risk intelligent outsourcing?

It's not just about vendor management, rather a standard outsourcing process that prescribe "leading practices" at each stage of the outsourcing lifecycle:

- Project management capabilities for shepherding local teams through the outsourcing process

- Capabilities for identifying end-user business requirements at an appropriate level of detail

- Familiarity with the vendor marketplace in the service(s) being outsourced, including knowledge of prevailing norms around service levels and pricing

- Standardized high-level performance metrics

- Vendor management capabilities

- Mechanisms for internal (user) and external (vendor) governance

- Tools and templates to help enable the above

The outsourcing lifecycle

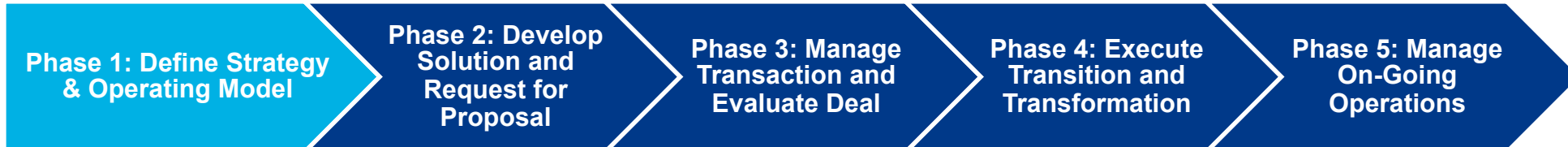| Phase 1: Define Strategy & Operating Model	Phase 2: Develop Solution and Request for Proposal	Phase 3: Manage Transaction and Evaluate Deal	Phase 4: Execute Transition and Transformation	Phase 5: Manage On-Going Operations

Phase 1: Analyzing what, why and how

Phase 2: Defining scope, requirements and constraints

Phase 3: Managing selection and contracting
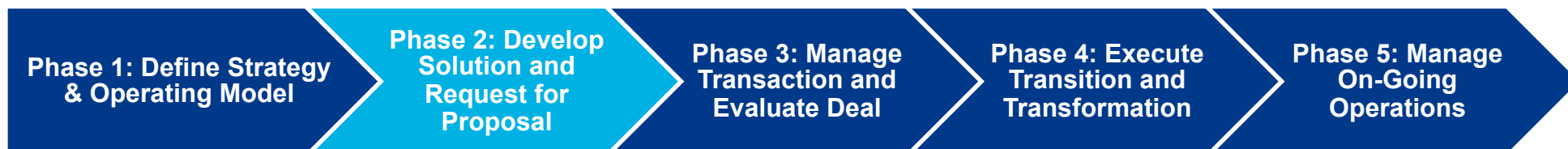
Phase 4: Getting ready for transition

Phase 5: Continuously monitor and improve operational performance and relationship health

Outsourcing lifecycle – Risks to Consider

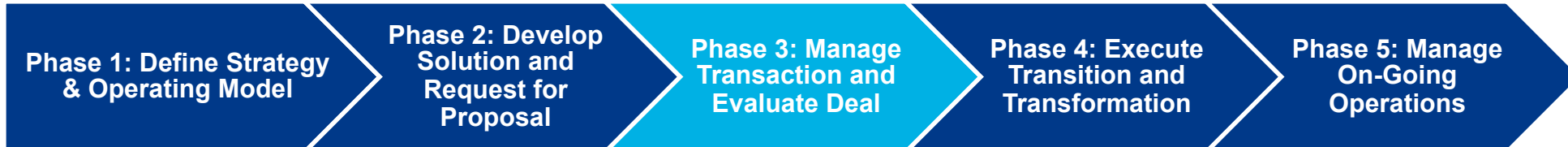| Phase 1: Define Strategy & Operating Model	Phase 2: Develop Solution and Request for Proposal	Phase 3: Manage Transaction and Evaluate Deal	Phase 4: Execute Transition and Transformation	Phase 5: Manage On-Going Operations

- What are the Outsourcing objectives and their relative priority?

- How does Outsourcing support the overall business strategy and shape the target operating model?

- What is the appropriate assessment scope? What are the business requirements and constraints?

- What are the expected Outsourcing impact, benefits, and risks?

- What is the adequacy of the organization's internal processes, resources, and capabilities to successfully execute the Outsourcing strategy?

- What are the process and/or technology optimization opportunities?

Outsourcing lifecycle – Risks to Consider

Phase 1: Define Strategy & Operating Model	Phase 2: Develop Solution and Request for Proposal	Phase 3: Manage Transaction and Evaluate Deal	Phase 4: Execute Transition and Transformation	Phase 5: Manage On-Going Operations

- How to structure the RFP to clearly communicate the scope and requirements of the desired Outsourcing solution as well as the RFP process?

- Who should be involved in the RFP development and review process?

- How to build a comprehensive performance management framework as part of the solution to effectively measure and govern vendor relationships?

- What are the desired vendor capabilities, location, footprint, and cultural fit?

- What are the vendor evaluation criteria?

Outsourcing lifecycle – Risks to Consider

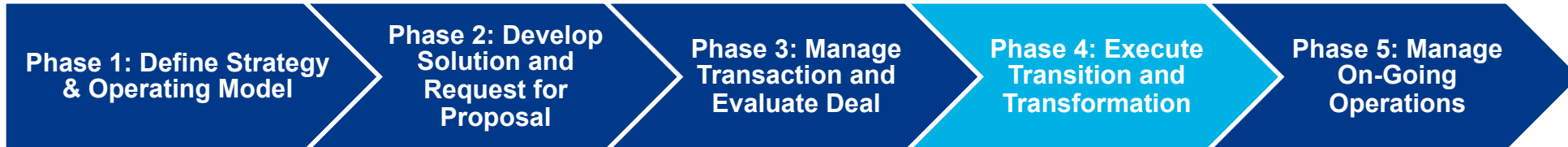| Phase 1: Define Strategy & Operating Model	Phase 2: Develop Solution and Request for Proposal	Phase 3: Manage Transaction and Evaluate Deal	Phase 4: Execute Transition and Transformation	Phase 5: Manage On-Going Operations

- How to ensure the RFP evaluation process is comprehensive and have the appropriate stakeholder involvement?

- What is the preferred negotiation strategy and approach?

- What is the transition readiness of both parties in terms of people, process, capital, and technology?

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Outsourcing lifecycle – Risks to Consider
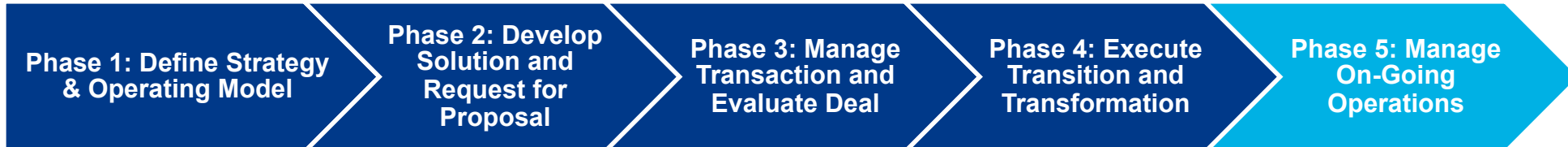
Key Provision	Global Delivery Risk Considerations
Roles, Responsibilities, Obligations	Who performs what specifics function when and with what frequency
Property Rights	IP defined, ownership established and IP rights enforcement in key countries
Security, Confidentiality, Privacy	Data security and audit requirements for logical and physical access controls, as well as network security, security monitoring, intrusion detection and incident notification
Disaster and Business Recovery	Plans based on Business Impact Analysis, testing requirements, and associated infrastructure for battery and diesel power as well as alternative network routing
Audit Rights	Type and frequency of audits, as well as any prerequisites or limitations
Legal and Regulatory Compliance	Choice of law and dispute resolution, as well as regulatory and industry standards (i.e., GLBA, FFIEC, HIPAA, etc.)
Fees and Payment Terms	Currency used for payments, applicable exchange rates and taxes, invoicing procedure and supporting documentation
Documentation	Document retention schedule, including electronic log-files and other files associated with provided services
Personnel	Critical personnel at key locations, minimum acceptable level of skill/proficiency, background checks, drug testing, and right to remove an employee from the delivery team
Use of Sub Contractors	Status of subcontractors and approval requirements
Service Definition and Transition	Contract time zone, holiday schedule for global service delivery, etc.
Service Level Agreements	SLAs, metrics, reporting requirements, and penalties for non-performance
Assets Ownership	Assets available to the outsourcer, who owns specific assets, deliverables and associated by-products

Outsourcing lifecycle – Risks to Consider

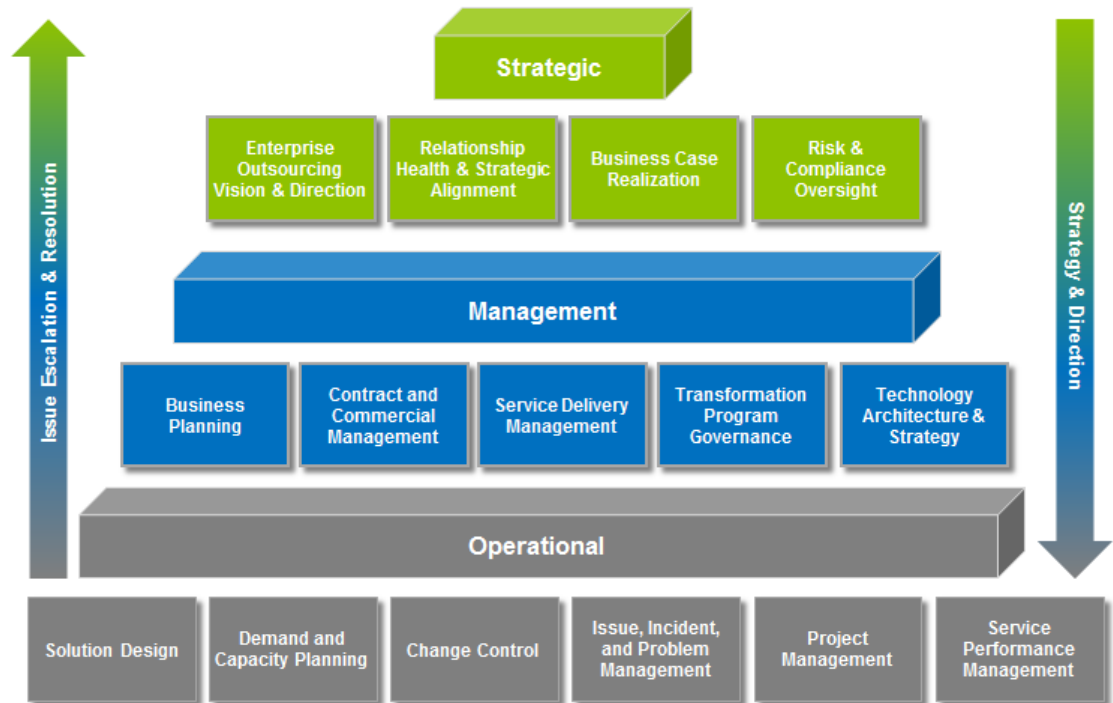| Phase 1: Define Strategy & Operating Model	Phase 2: Develop Solution and Request for Proposal	Phase 3: Manage Transaction and Evaluate Deal	Phase 4: Execute Transition and Transformation	Phase 5: Manage On-Going Operations

- How to design a transition plan that clearly defines and integrates the work streams, activities, resource requirements, timing, milestones, risks, and interdependencies?

- What are the core responsibilities and structure of the transition management team?

- What is process to conduct post contract due diligence and refresh solution and/or business case based on findings?

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Outsourcing lifecycle – Risks to Consider

Phase 1: Define Strategy & Operating Model	Phase 2: Develop Solution and Request for Proposal	Phase 3: Manage Transaction and Evaluate Deal	Phase 4: Execute Transition and Transformation	Phase 5: Manage On-Going Operations

- What are the roles, accountabilities, and decision authorities of the various governance organizations? Who are the participants? What are the meeting agenda and cadence?

- What is the plan to manage the service integration between multiple vendors?

Issue Escalation & Resolution

Strategy & Direction

Strategic

Enterprise Outsourcing Vision & Direction	Relationship Health & Strategic Alignment	Business Case Realization	Risk & Compliance Oversight

Management

Business Planning	Contract and Commercial Management	Service Delivery Management	Transformation Program Governance	Technology Architecture & Strategy

Operational

Solution Design	Demand and Capacity Planning	Change Control	Issue, Incident, and Problem Management	Project Management	Service Performance Management

Managing outsourcing / offshoring risk

There are a number of key steps that companies can consider implementing to manage risk:

| Understand the population | Establish consistent policies | Increase the number of touch points | Enable ongoing monitoring |

Understand the population
- The types of arrangements that exist, and how terms and conditions are structured
- The objectives of each agreement and how they can be tracked

Establish consistent policies
- Develop policies to enable consistent evaluation and management of arrangements throughout their lifecycle
- Regional or geographic intricacies cannot be ignored, but there should be a globally consistent standard

Increase the number of touch points
- Selection: due diligence to assess processes and ability to be compliant / meet objectives
- On boarding: training focused on business ethics, terms and conditions, and reporting requirements
- Feedback: communicating performance and providing customized training related to any identified issues
- Compliance: increasing frequency of contact with non-compliant outsourcers

Enable ongoing monitoring and take mitigating actions
- Understanding the risk profile
- Monitoring through self-assessments, remote assessments, onsite assessments / walkthroughs
- M... ...commendations to the business

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QUESTIONS

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APPENDICES

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Supplier Management is Comprised of 10 Elements

Contract management	Financial & commercial management	Issue & dispute management	Supplier performance management	Governance
▪ Provide contract interpretation/ advice ▪ Manage & track obligations ▪ Manage contract compliance and contract life-cycle ▪ Manage deliverable acceptance ▪ Draft contract guides and formal correspondence ▪ Provide contract training ▪ Negotiate/renegotiate contracts ▪ Provide contract amendments	▪ Verify rate and volume/ invoice charges/recommend payment ▪ Provide budgeting and forecasting assistance ▪ Track business case & service credits and ▪ Perform allocation/chargeback ▪ Undertake cost saving initiatives ▪ Manage foreign exchange and COLA calculations and assist with benchmarking process ▪ Monitor and report capacity optimization	▪ Track resolution of Issues/ report on issues/ archive issues ▪ Create and manage Issue/ escalation management process ▪ Perform dispute management ▪ Provide guidance on interdependency with Governance mechanisms and forums	▪ Provide dashboard reporting ▪ Perform SLA monitoring & trending ▪ Undertake SLA change management ▪ Perform SLA escalation in cases of persistent breach ▪ Facilitate service provider customer satisfaction surveys ▪ Monitor and report on continuous improvement initiatives ▪ Act as point of escalation	▪ Establish and manage governance forums ▪ Prepare agendas, track issues and actions, develop materials and follow up post forums ▪ Undertake assessment against outsource objectives ▪ Create and manage signing authority framework documents ▪ Manage demand /capacity approval process and provide input on strategy generation

Supplier Management Program

Multiple supplier integration	Transition & transformation oversight	Document management	Service request management	Third Party Risk Management
▪ Develop and maintain cross-service provider standards and procedures ▪ Track and report end to end SLA's ▪ Define joint performance metrics ▪ Improve service mix between multiple service providers ▪ Develop, negotiate, draft and execute OLAs ▪ Consolidate end to end service provider SLA and OLA reporting	▪ Provide transition and transformation planning ▪ Provide transition and transformation monitoring & reporting ▪ Provide transition and transformation change management ▪ Provide transition and transformation governance	▪ Develop process documents ▪ Set up and manage e-room ▪ Maintain repository of contractual artifacts ▪ Perform auditing/updating/ archiving of agreements	▪ Review new service requests ▪ Manage end to end process for new service requests ▪ Analyze new services against the contract and provide negotiating levers ▪ Integrate approved service requests into all supplier management processes, tools, service levels, and reporting ▪ Provide input on business requirements that will influence the customer's new offerings or changes	▪ Evaluate current service provider Risk Management Frameworks and provide analysis on service provider segmentation strategies ▪ Design and recommend appropriate SRM Frameworks, including target blueprint and implementation roadmap ▪ Determine Risk Analysis approach, tools, and methodology ▪ Recommend Key Risk Indicators to manage, track and report ▪ Manage risk associated with service providers

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Third Party Risk Management Program Components

A comprehensive Third Party Management Program contains, at a minimum, the following components:

Third Party Management	
Formalized third-party oversight program	• Three lines of defense • Senior management oversight (alignment with business strategy) • Policies and operating procedures • Oversight of outsourced services • Broader definition of third party (beyond traditional Suppliers/ Vendors)
Risk & Regulatory mapping to the third party landscape	• Identification and mapping of all laws/ regulations to the Third Parties in scope of the Program • Identification of risks inherent to Third Party Relationships based on how they will be utilized
Risk-based classification and oversight	• Third-party inventory • Risk criteria (e.g., sharing PII data, financial stability, single source provider) • Identification of core third parties (e.g., supporting critical processes) • Levels of oversight based on risk classification (depth and frequency)
Management reporting	• Periodic third-party performance and risk management reports • Outsourcing-related dashboards/escalation matrix
Tailored third-party risk management practices	• Scale of third-party landscape • Materiality of third-party risk • Ability to manage risk exposure • On-site/ off-site assessments based on the type and extent of risk presented by the relationship
Ongoing performance management	• SLA requirements in contracts • Ongoing monitoring • Resolution and points of escalation
Managing customer expectations	• Customer complaints monitoring, reporting, and escalation • SLA requirements based on customer satisfaction • Meeting CFPB expectations

Deloitte TPM Framework Domains

A comprehensive TPM Framework encompasses seven domains / core building blocks that can help mitigate Third Party risks across the four phases of the Third Party lifecycle. We shall discuss details of the Governance, Risk Management and Tools & Technology domains of the framework.

Domain	Description
Strategy	Enterprise strategy that defines the VRM function role and program objectives, and establishes a strategic roadmap
Governance	VRM oversight structure with well defined roles and responsibilities to manage risks pertinent to the Third Party lifecycle
Policies, Standards and Procedures	Policies, standards and procedures defining risk management methodology and activities, risk tolerance levels and integration points between risk management functions to ensure consistency and quality across all program activities
Risk Management *	Due diligence and ongoing oversight that an organization must exercise throughout the Third Party lifecycle
Tools and Technology	Tools and technology that drive commonalities in risk management process, and support data accuracy, availability and timeliness.
Metrics and Reporting	Metrics and reports that provide a comprehensive view of enterprise Third Party risk to the relevant stakeholders across the enterprise.
Communication, Training and Awareness	Coordinated communication channels and programs to educate stakeholders of responsibilities at all stages of the Third Party lifecycle.