

THE DEBATE OVER whether or not to outsource has tended to focus on functions such as claims and underwriting. Now, however, the question of outsourcing other activities — for example, HR and payroll — is coming to the fore. Opinions are divided about the pros and cons of this but many believe it is a trend likely to grow in the current economic environment.

In a recent case, Zurich Financial Services Group entered into a 'master service agreement' with Swiss Post. This sees the insurer outsourcing document management processes, such as post, filing, indexing, scanning and archiving, to Swiss Post and its local subsidiaries. Claudia Dill, chief operating officer for Europe General Insurance, has described the move as part of the "operational transformation efforts to make Zurich an even leaner organisation".

The search to become more efficient is a commonly cited reason for outsourcing such functions. Andrew Lloyd, director of strategic solutions in the financial services division at Logica, points in particular to potential duplication of effort and resources among merged or acquired organisations. "You may have two payrolls or there may be too many parties involved," he explains. Outsourcing may well present a more efficient solution.

Another often quoted benefit is cost-cutting — so is this particularly pertinent given the current economic climate? Stewart McCulloch, head of the UK sector and UK insurance at Xchanging, comments: "In an economic downturn, the trend is for companies to outsource. Organisations will restructure and cut costs first and then, when under pressure to make further cuts, will talk to an outsourcing specialist."

David Vine, managing director of employee expense management provider Global Expense, adds: "Many insurers and brokers are making cutbacks as a result of the recession and the employee expenses budget is one of the first items for the chop." He asserts that outsourcing expense claims can both increase efficiency and cut costs. "In many insurance companies and broking firms, at least one employee in the payroll or finance function is tied up all month processing expense claims, chasing receipts and dealing with irate enquiries from employees who haven't yet been reimbursed or can't work the system," he says, adding

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that using an external provider to manage this process delivers cost savings by freeing-up employees from mundane and frustrating tasks, and improves efficiency because they can concentrate on other, value-added tasks instead.

Seasoned outsourcers, however, downplay the significance of the economic environment. Bill Taylor, COO of sales and service at RSA asserts: "We continually look for offshore opportunities to re-engineer our business processes both in the core and non-core space, independent of market economics."

Furthermore, industry experts are cautious about viewing cost-cutting as the sole reason

A people business

Outsourcing functions such as claims and underwriting has been the main focus of debate for insurers. However, Jane Bernstein reports on a growing trend for non-core functions to be handled by external companies.



to outsource. Garfield Smith, partner with law firm Pinsent Masons, explains: "In good times, it's rare to hear suppliers talking about outsourcing to reduce cost. The usual sales mantra is strategic advantage, a focus on core business and improved services. Indeed, boards of large insurers will justify an outsourcing on the strategic benefits to the organisation. In a downturn, the cost-saving benefits become prominent and boards will justify it on the basis of bottom line impact." He also warns that financial savings — when the cost of transitioning to an outsourcing provider is considered — are often less than expected.

Narrowing the options

Charles Parrington-Tyler is services director at Mail Source UK, a wholly owned subsidiary of Swiss Post. He agrees it can be dangerous to make cost-cutting the sole reason for choosing the outsourcing route. "Everyone understands you have to make a cost model work but if you only look at it from a cost reduction point of view, it does rather narrow the options available." Instead he encourages those looking to outsource to be open to change and allow the supplier to transform a particular service. Businesses also need to accept a degree of standardisation: "If the client believes, for example, that their expenses process needs to be unique to them, it makes it quite hard to outsource."

This desire to have unique processes is viewed by many as one of the main barriers to outsourcing non-insurance specific functions. Insurers and brokers need to question whether their HR or administrative systems give them a competitive advantage or unique selling point. If the answer is yes, it is unlikely they will outsource them in their entirety.

Cooper Gay has recently announced an

outsourcing contract with Xchanging, in which the broker hands over specific back-office functions within the accounting and settlement, claims and technical processing areas of the UK business. Asked whether it would outsource significant parts of its HR function, James Summers, CEO of Cooper Gay UK, asserts: "We are a people business and, if we were to outsource HR, it would fly in the face of this strategy. HR has a massively integral role in helping us run our business." However, as Geoff Kinsella, executive director, explains, the mechanical processes like payroll and expenses are viewed as acceptable areas to outsource.

The message is while the broker sees clear benefits in outsourcing non-critical, process-driven functions, it will retain control of key customer-facing functions, as well as important personnel issues.

Mr Kinsella reiterates that where it is a question of dealing with people in terms of appraisals, balanced score cards and ensuring employees are happy with remuneration and career development, Cooper Gay would very much deal with this in-house.

While this is a widely held view, there is increasing evidence that insurers and brokers are letting go of functions that have previously been considered the sole domain of the in-house HR department. Mr Smith observes: "HR is a good example of an area that has become very popular to outsource. Five years ago, most organisations may have considered outsourcing payroll or, perhaps, recruitment. In the current economic climate, many insurers and brokers are considering outsourcing every business process in the employment life cycle — hiring and firing and everything in between."

Andy Watts, director of the insurer division at SSP, believes the nervousness commonly felt



by insurers and brokers around outsourcing certain functions will dissipate over time. He says anxiety can be allayed through tools, such as service level agreements and the gathering of customer or personnel feedback on the quality of the process. "The knowledgeable buyer (of outsource services) will spend a lot of time defining what their expectations are and making sure the supplier is then encouraged to meet those."

Understanding skill sets

Services are available, however, that can help increase efficiency in more people-orientated functions. In particular, HR consultancies can assist with the assessment of potential candidates for job applications. International HR consultancy Cubiks works with companies on this, as well as developing individuals once they have joined an organisation. It also assists in understanding skill sets during a restructure, for example. But why would insurers or brokers approach an outside provider for these services, rather than relying on their own HR personnel?

Cubiks consultant Nick Parfitt says the primary benefits lie in access to expertise and relevant assessment tools, which often require costly licenses. He adds that, particularly in the current economic environment, firms do not necessarily need a large team of full-time recruiters. "If you're not recruiting as much now, it may be better to be able to call on these services as and when you need them."

Ian Davidson, sales director at Trace Payroll Services, adds that more firms are now looking at outsourcing payroll. "People are waking up to the realisation that this is actually an overhead — it doesn't deliver into the bottom line and there are an awful lot of costs and risks involved in running payroll in-house."

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Meanwhile, however, there are still some barriers to increased outsourcing of non-insurance specific functions. Ravi Pandey, UK head of NIIT Technologies observes: "Traditionally all these functions have been managed in-house. The apprehension and mind-set of moving these functions out of sight is one of the biggest road blocks and, in these times, every decision is under scrutiny — especially for first time outsourcers."

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While outsourcing is rarely identified as a risk management tool, many providers are keen to emphasise this is a major part of the process. Mr Davidson points in particular to the disaster recovery issues associated with payroll. "Payroll is such an emotive topic. It has a huge impact on staff morale and there can be significant problems if people aren't paid on time and accurately. But companies often don't realise they have inadequate DR plans in place for that. It could be that the payroll person is not available, because many of them don't have back-up." He adds: "Many organisations would undoubtedly find they are vulnerable if they carried out a risk assessment."

Others argue that using expert external agencies can also help avoid costly human error. Mr Vine says that across the whole UK economy roughly £2bn is paid out each year for wrongly approved employee expense claims. He cites the example of one broker from a national company who claimed £23 for a meal while away from the office on business. "He made the claim using a paper form and the decimal point wasn't clear. He

only realised there was a problem when he was reimbursed to the tune of £2300."

Another key benefit to look for in an outsourcing arrangement is the ability to take advantage of the latest technology and systems. Following its outsourcing agreement with Swiss Post, Zurich highlighted the benefits of access to "innovative, state-of-the-art document management services tailored to the specific needs of a modern insurer operating across borders".

There is a view that the advantages to be secured from outsourcing depend on the size of the business and Mr Summers suggests mid-sized brokers would be most likely to benefit. However, Mr Parrington-Tyler claims that the relevance of outsourcing has much more to do with an organisation's culture. "Outsourcing is most likely to go smoothly if it results from internal strategic vision," he observes, adding: "It's about how a company accounts for these things. Where you have a non-core service, quite often you are starting at a level in the organisation that is not the CEO so it can be difficult to get the issue pushed up the agenda."

Problem definition

Potential complications and challenges in outsourcing non-core business processes must also not be underestimated. Mr Lloyd emphasises that choosing a provider is not something to be taken lightly. "You have to make sure you approach the appropriate outsource providers. You also need to go through the evaluation process, which takes quite a lot of time, as well as detailed investigative analysis and evaluation. All of those things have to be taken into account."

Mr Watts adds: "One of the mistakes often made with outsourcing is to simply move a problem 'out'. You need to define the problem before it is moved and know how well it is or is not performing at that point in time. Typically, you would then have targets for improvement that can be measured. That won't happen overnight, as the new provider will need some time to transform the operation."

Once a contract is signed, good communications must be maintained with the outsource provider and Mr Lloyd says focus on these relationships has improved over the past decade. "There is a realisation now that the only way to work is as part of the team."

Mr Parrington-Tyler also notes a more joined-up approach to outsourcing has developed on the part of the insurance industry. "Historically, it was done on a piecemeal basis. Increasingly, clients are seeing that if they join services up, there might be a bigger benefit." He adds, however, that more services invariably means more stakeholders, meaning it can be increasingly difficult getting a deal signed off at board level.

The insurance industry has embraced outsourcing in general for some time, and many believe it is also blazing a trail in the non-core non-insurance field. Mr Smith concludes: "Our experience is the insurance industry has been more open to outsourcing non-core functions than other sectors of the financial services industry." But it is vital these decisions are made for the right reasons. Despite the current economic challenges, it would still be foolish to outsource purely to cut costs. **POST**