



Transforming Managed Services in Banking

EY

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1. Background

EY has been providing services to banks since the 1990s when it began delivering managed services for tax compliance. Its managed services offerings grew over time to include accounting and reporting, global tax transparency, forensic managed services, and global mobility. During the global financial crisis (GFC), the growth of managed services accelerated. Over time the managed services offerings have developed from service delivery based offerings to output based offerings.

The offering set grew to include tax and finance operations, regulatory reporting, 3rd party risk management, and legal managed services after the GFC. Today the offering set is growing to platform-based offerings, including financial crime, cybersecurity, and customer tax operations/reporting.

2. Revenue Summary

NelsonHall estimates that EY's last twelve months revenue from managed services for banking were:

- IT services: 50%
- Application services: 50%.

Total revenues: \$1,600m.



3. Key Offerings

EY’s managed services are focused on business process and infrastructure management services. Exhibit 1 lists EY’s managed services.

Exhibit 1: EY Managed Services

Offering	Description
	<ul style="list-style-type: none"> • Corporate tax compliance • Accounting, compliance, and reporting • Global customer tax transparency • Forensic managed services • Global mobility • Integrated regulatory and financial reporting • 3rd party risk management • Financial crime • Legal managed services • Tax and finance operations • Cybersecurity services • Wealth client services • Quantitative modeling as-a-service • Business passport: supports consumer data portability across business units and locations • Banking Nexus: a cloud-based platform for software development

Client buying patterns vary by business challenge:

- Build-Operate-Transfer (BOT): Clients with legacy platforms that have been in use for decades and want to modernize the process platform and move it to the cloud typically prefer to have a vendor with cloud migration experience and the willingness to commit investment funds upfront into a modernization effort. These clients often buy a BOT engagement with ongoing managed services support. Also, clients are frequently buying analytics modernization engagements in a BOT model
- Large banks: initially buy individual managed services, such as financial crimes detection processing, in a remote delivery or platform-as-a-service model. (see Delivery section for a list of EY's proprietary platform offerings). In some cases, EY has worked with a client or acquired the managed service platform from a client to modernize the platform and then deliver it as a multi-tenant offering to mid-tier institutions
- Mid-tier, small, and startup banks: clients buy individual services, not a managed services portfolio. Clients typically buy productized offerings, such as cybersecurity, in a multi-tenant environment.

EY starts many managed services engagements with a consulting project to improve process efficiency and target business outcomes.

4. Delivery Capabilities

Organization Capabilities

EY has 100.0k staff in all its managed services business and at any one time, NelsonHall estimates that EY has 30.0k FTEs working for the FS industry on managed services engagements. Staff delivers services including:

- Countries supported: 124
- Language capabilities: 30.

Employees deliver service primarily from EY's global network of delivery centers. EY uses a global hub-and-spoke model for its delivery centers. EY has four key regional centers delivering managed services to the banking industry, including:

- Jacksonville, FL
- Newcastle, UK
- Warsaw, Poland
- Bangalore, India
- Buenos Aires, Argentina
- Manila, Philippines.

Over the next twelve months, EY intends to enhance its operations by:

- Expanding its portfolio of reusable microservices. This will allow EY to build a larger portfolio of configurable platform offerings
- Enhances its trusted data fabric offering. EY has hired data engineers to scale its trusted data fabric to meet anticipated demand from banks who want to securely confederate customer data across their silos.

Technology Capability

EY invests ~\$1 Bn per year across all EY technology areas to maintain and build its technology capabilities. EY offers multi-tenant, as-a-service offerings based on its proprietary platforms, including:

- Third-Party Risk as a Service (TPRaaS): third party risk management platform and services providing:
 - Inherent risk profiling: assessment intake process
 - Assessment execution: coordination, execution, and calculation across five-plus risk areas. Key areas include information security, privacy, business continuity, and regulatory compliance
 - Findings management: risks and findings monitoring. Key areas include registration to closure and status reporting
 - Monitoring: a reassessment of inherent risk profile and ongoing monitoring of third-party control assessments
- Financial Crime Managed Services: financial crime managed platform and services providing:
 - KYC
 - AML monitoring and investigations
 - List screening
 - KYC utility: risk depiction via advanced technologies
- Legal managed services: legal managed platform and services providing:
 - Entity compliance and governance
 - Research and regulatory mapping
 - Managed review and functional analysis
 - Contract lifecycle management

- Cyber as-a-service:
 - Threat detection and response
 - Digital identity
 - Threat exposure management
 - Data protection as-a-service
 - Third-party risk assessment
- Tax Finance and Operate:
 - VAT
 - Corporate income tax
 - STAT
 - Global customer tax transparency (CRS, FATCA, and MDR)
 - Tax reporting

Partnerships

EY's strategic product partnerships include:

- Microsoft Azure
- SAP as-a-service
- Adobe as-a-service
- Symantec as-a-service
- 0365 as-a-service
- SendGrid as-a-service.

5. Target Markets

EY's primary targets for managed services are:

- Tier one banks across all markets
- Regional and local retail banks across all markets for shared services and platform-based offerings
- Startup banks and specialty financial institutions in mature markets for productized offerings.

EY has 1.3k managed services clients in the banking and capital markets industry. Most revenues are generated from large firms. The largest number of managed services clients are capital markets firms, including hedge funds, wealth managers, and asset managers.

Over the next twelve months, EY intends to partner with some very large clients with proprietary platforms that can be commercialized as multi-tenant, as-a-service offerings. Initially, EY intends to partner with a custodian to deliver a tax reporting and compliance service in an as-a-service model. This will expand EY's client targeting, via the indirect channel, to mid-tier and small institutions.

Below is an example of EY's managed services engagements and the benefits achieved for clients:

Multinational Investment Bank

- Challenge: deliver global tax transparency for compliance consistent with 2016 regulation to implement the Common Reporting Standard (CRS)
 - The client requested the vendor to deliver technical regulatory advice, change management, technology build, and reporting across 51 countries
 - The vendor was expected to turn the platform into a shared services environment because the services are not perceived as differentiating
- Scope of services:
 - 5-year contract to deliver CRS and FATCA services to the client
 - Implemented CRS across 51 countries
 - The process was fully automated using technology to eliminate manual processing
 - Delivered from a Microsoft cloud environment using centralized data
- Benefits:
 - Provides FATCA and CRS compliance services across 51 countries from a single platform
 - The compliance platform was initially co-developed with the client to deliver the desired functionality
 - Single source provider of all compliance processing activities
 - The platform now delivers service to and shares overhead with 300 global financial services institutions. Also, there have been solution license sales to many financial institutions where clients want to use the EY assets in their own IT environment.

6. Strategy

EY is targeting banks and capital markets firms across the world, including:

- Tier one banks for large scale managed services in high profile areas of financial crime, tax, supplier management, legal managed service, and BOT platform-based services
- Regional, local banks, and smaller capital markets firms for multi-tenant, platform-based services
- Asset management and custodian banks to partner to deliver services to their customers.

EY has been working with tier one banks the longest and mid to lower-tier institutions recently. The largest engagements and majority of its business are with tier one clients. Business processes (e.g., wealth management) and infrastructure management (e.g., cybersecurity or mobility management) are the primary services sold to clients.

Over the next year, EY will be focusing increased attention and resources on:

- Building a managed data services offering which will use a data fabric architecture to allow banks to securely confederate and manage customer data across silos
- Partner with some large clients who have proprietary platforms that can be commercialized as multi-tenant, as-a-service offerings
- Expanding its presence with mid-tier and startup banks looking to buy platform-based, multi-tenant managed services for non-differentiating processes such as compliance services
- Enable a larger portfolio of configurable platform offerings by expanding its portfolio of reusable microservices.

7. Strengths & Challenges

Strengths

- Strong consulting capability across technology and business standpoints that is applied using EY's industry-specific consultants
- Research capability and commitments to digital transformation, including \$1bn annually in funding across its technology-based services, including managed services
- Cross-pollination of use cases across industries and clients reduces costs, accelerates time to deployment
- Evolved library of infrastructure and use case assets accelerate solution development
- Proprietary platforms for multiple managed services

Challenges

- High cost for less complex managed services relative to the market
- Needs to expand clients for existing managed services platforms to achieve scale presence and expand the number of platforms to expand offerings

8. Outlook

EY should have a strong year in 2020 as it upsells services to existing platform-based managed services. Also, clients looking to migrate to cloud environments and manage more processes remotely in the COVID environment will find their offerings of great interest. EY has a large and mature managed services business, with a broad range of services focused on consulting and ITS. It has established third-party product partnerships to modernize application landscapes.

NelsonHall estimates that EY's 2020 managed services revenues in banking will increase in the low-double digits. EY can grow its managed services business in the 20% to 22% range over the next three years, based on its existing client base and its offerings in packaged managed services.

About The Author



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