



VERTICAL FEATURE

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Renaissance Capital: A Global Transformational Journey with HCL AXON

Founded in 1995, Renaissance Capital is a leading investment bank focused on Russia, the Commonwealth of Independent States, Central and Eastern Europe, Africa, and other high-opportunity emerging markets.

Renaissance Capital partners with clients to meet their strategic objectives and evolving needs, with expertise in metals and mining, oil and gas, agriculture, financial services, telecoms, media and technology. Other key sectors include retail, consumer, real estate, industrials, utilities and infrastructure. The bank continues to build and develop knowledge of the markets, keeping clients one step ahead, with the right information and support to meet their objectives.

The bank has served corporations, governments, and investors in more than 60 countries and offers its clients access to markets through the financial centres of London and New York. The bank's investment banking arm provides expert advice, innovation and execution to clients across mergers and acquisitions, equity and debt, capital markets, and structured derivatives.

David Sharratt, Global Chief Operating Officer for Strategy and Transformation, Renaissance Capital, is at the heart of the bank's transformational partnership with HCL AXON. The Outsourcing Yearbook caught up with him for an exclusive insight into the collaboration along with his views on the finance industry and its relationship with outsourcing.

An Evolving Industry

If investment banks were a manufacturing type of industry, they would have all gone bust a long time ago because the inefficiencies in the processing of the system are huge, but they are consistently offset by the margins that have always been attributed to the trading activities.

As the industry starts to move to a central counterparty clearing type arrangement with more exchange trade activities, margins continue to decline and therefore the costs associated with the backend to support that obviously have to go down in line with an organisation's trading activity.

David elaborates: "It's a combination of regulatory activities which is changing the way that investment banks actually trade and the cost associated with the margin compression is a result of that, plus development in the industry means that you've got to get more efficient. I mean if you take a look, as one example, at the electronic trading businesses, we're now measuring our trade execution latency in sub-microseconds. That means purely exploiting the differential between high frequency type trading activities and you have to be very cost effective in a high frequency trading environment. You are literally trading points of a pip and for that to be sustainable, you've got to have a highly efficient back office.

"Ultimately the industry will continue to look at shrinking its cost base in the back relative to the shrinking margins at the front and as well the diminishing flow that we're seeing as part of the market shift – the only realistic way you can do that is by homogenising your processes in your back office and looking to get as much of that process that's currently sitting onshore, offshore."

Transformation through Procurement

In 2010 Renaissance Capital made the decision to start a global transformational journey as part of its plans to improve its return on equity by transforming its front-to-back office processes and systems.

The bank's tender outlined that they were looking for a true partner and one who could act as an advisor to integrate and streamline the majority of back office systems including processing, accounting and settlements.

David Sharratt, Global Chief Operating Officer for Strategy and Transformation, Renaissance Capital, comments: "I think in 20 years in this industry it's the first time I'd ever come across an institution like our's changing front, middle, back, the whole thing in one process and one of the biggest constituents of that was the back office."

Renaissance Capital took seven competitive bids from the market but ultimately agreed that HCL AXON had the expertise and knowhow as well as previous experience in an advisory capacity to lead the transformation. The 2011 Forrester Research report 'The Forrester Wave™: SAP Services Providers', cited HCL AXON as a leader, ranking five out of five for overall client satisfaction. According to Forrester, "HCL has long had a focus on operational and low-cost services in the SAP space."

Cost was just one of the factors in the whole engagement however it was not the most important one. The ability to get the project over the line through the journey of delivery was critical along with a supplier that could be trusted as an advisor

throughout the process. Renaissance Capital recognised that HCL AXON did not stick to the "rigid confines of the traditional vendor/supplier stereotype" and demonstrated a commitment to working collaboratively in key areas.

Once the supplier was decided, Jamey Whitnall, Head of Banking and Financial Services at HCL AXON recommended SAP's bank analyser product which fitted in naturally with the bank's streamlining of systems and processes.

As an SAP partner for over 18 years, HCL AXON had an unrivalled partnership with the market leader along with extensive product knowledge and deep industry experience. David realised that although vendors could put the time and effort into understanding their business, ultimately they are not investment bankers so their products and product knowledge is obviously not as specific as those with in-depth industry know-how. Looking at the overall package regarding the ability to deliver the product expertise and the knowledge in the product that Renaissance Capital had actually chosen – the bank analyser for the sub-ledger– HCL AXON and SAP ultimately ticked more boxes than the competitors.

David elaborates: "It's not just implementing a system, it's actually implementing a business workflow. I think that was one of the things that became perfectly clear as we went through the whole exercise of engaging with a variety of vendors and service providers. There are a number of people out there that understand outsourcing, a number of people who understand systems, people that can give you consultancy advice around business process or engineering and a number of people that can give you advice about your business – very few can do all the above."

David recalled how Renaissance Capital was impressed with HCL AXON's advisory capacity around the specific products they had along with the technical knowhow. "For me it's all about the three Ds; it's the design, the development, and the delivery and you ultimately need somebody who can fulfil on each of those elements."

The procurement process lasted two years and David came into it a year into the process once it had gone through several bids. David states: "The procurement process is ultimately down to the ability to deliver a product that you need at the right price but also to provide the advice, because I think one of the things that you find with a lot of procurement companies is it's very easy to sell you boxes and cloud computing solutions which are all very nice in theory, but wholly inappropriate for your business."

David concludes: "The prospect of HCL AXON having us as a client was a good entry point into the Russian market for them. This also made them extremely price competitive and that was another good factor when it came down to our overall implementation.

"The other thing as well is with the business side and the economics, when you start looking at specific outsourcing, they were able to speak that language as well, especially through their shared service centre type arrangement. Again, there are people that can implement and people that can implement, advise and then do your outsourcing – having a partner that you can trust and who can also offer product expertise with the ability to back up the delivery is extremely important."

Initial Engagements

Perhaps the most difficult aspect of creating a collaborative approach comes with the negotiation process through the initial meetings. The implications of how negotiation is conducted can be far-reaching, and will set the tone for the future relationship. Most exchanges, if not managed effectively, will revert to traditional 'arm-wrestling'.

Dos and don'ts

- Do identify potential partners for collaboration based on shared goals
- Do build a dialogue around common objectives and outcomes
- Don't let negotiations deteriorate into 'arm-wrestling' or 'poker-playing'
- Do establish what knowledge can be shared and how
- Do set up a joint value-creation process to encourage new ideas
- Don't hang on to value-creation ideas if they are not delivering
- Do define what value means for those involved

David said: "I think the experience of 20 years has taught me that far too many people go into initial engagements with consultants on the basis of here's my problem; it's now your problem, make it happen and you know what? It never works like that especially with negotiation. If you go into design and ask them to put together a particular product and you give very vague instructions – the probability is that it is not going to be developed as you envisaged. I think the advice should be very clear; understand what your problem is and ensure that you're putting the right skillset to fix that problem with all the available information."

Back to Basics – Cultural Integration and Skills

Accessing a vast pool of technical skills is one of the main attractions of working with outsourced project teams. However, when it comes to managing teams originating from a different culture, a host of challenges become apparent and effective communication is often one of the key issues.

Cultural integration is not simply due to language, but less obviously, misinterpretation of instructions or general misunderstandings can be more deeply rooted and influenced heavily by different cultural perspectives. Successful communication across cultures is therefore, not about taking 3000 hours to perfect your language skills.

David comments: "Regarding cultural integration, at its most basic, the question I asked my finance guys at Deutsche was – Are the qualifications we require different in Manila to London? No, obviously they are not. So therefore the people have the same skills. Where it always fails is where staff in the source centres don't necessarily give the appropriate level of detailed workflow and processes to the offshore location, and then the second issue is when you give processes that require thought or interpretation to a centre where either they're not empowered to have that thought or interpretation.

"I would anticipate various suppliers, including HCL, to begin offering specific offshoring in five years' time including qualified accountants sitting at the end of the phone providing

P&L information, for example to Deutsche, JP, etc. in offshore call centres."

The retail sector has found that many consumers prefer support which is not based in an offshore support centre. However David believes that from an investment banking perspective, people have moved beyond preferential accents as they work with a majority of international organisations anyway. What is perhaps emphasised more in banking is the importance of the right skillset. Ensuring that staff at the end of the phone have got the appropriate level of qualification and qualified individuals are equipped to make decisions, but just happen to sit in a low cost location.

Communication and Collaboration

Regarding the HCL AXON partnership, Renaissance Capital managed the initial collaboration between HCL and SAP to provide quality assurance and safeguarding services. The set up was standard, with a governance sponsorship board, effectively an executive committee, meeting monthly. The whole principal behind that was that they are in place to make decisions – not to go through the detail.

Weekly steer and general steer officers held the product knowledge along with a combination of internal and external resources. Beneath that level, various sub-work streams were developed who operate clear daily and weekly meetings between the various subject matter experts.

All of that fed into a very, very strong programme management office which coordinated everything. David elaborates: "As I mentioned earlier, we were actually running front, middle, back, settlement and accounting change all at the same time. It was absolutely critical for us that every work stream front to back, was coming in under me at the time and we had transparency and visibility about who was making changes, where, when and how those would implicate the other work streams."



Transparency and Problem Solving

Transparency in large projects is absolutely vital to avoid misunderstandings and make affirmative decisions. Renaissance Capital ensures that at every weekly chief officer subject matter meeting, or similar, there is a very clear agenda including: what was outstanding, when it was due, what the action points are, any issues that need resolution along with recommendations for the issues and then the board can make a decision immediately as to how to progress.

David comments: "As part of the governance framework there's a very clear standard way of reporting, however from a purely business perspective, all I want to know is where the problems are, what are the options, what's the recommendation and how much it is going to cost. I think that's one of the things

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that we drilled into people very quickly, it worked everywhere except accounting, because accounting is not particularly good at making decisions.

"What we also drilled into our guys is when you come and you bring your problems, don't just bring your problem and expect the guy that's the chief finance officer and the chief officer to make your problem disappear. What is required are the recommendations. What are the three alternatives that you can come up with and what's your executive recommendation about which one we should take? I believe if you haven't thought through the options to the problem, you don't actually understand the problem. That is a discipline that we instill fairly quickly in all of our outsourcing teams."

The Importance of Trust

There is no such thing as an instant relationship: trust is earned and relationships built through performance, day by day. An outsourcing relationship which is built on trust offers an important competitive advantage over those that do not. This involves open and collaborative communications, resolving conflicts constructively, and seeing the arrangement as a co-dependent long-term investment designed to benefit both parties.

David concludes: "Trust in a partnership is absolutely critical. It really is because if I don't have someone that I personally trust who actually delivers for me, then there's always the nagging doubt in your head that do these people actually know what they're talking about."

Provisions for Exit

Just as in other aspects of relationship management the exit phase needs to be carefully planned from the beginning of the relationship and its execution managed, usually by the Relationship Managers. Significant intellectual property rights will often be involved as well as those investments that have been made and used by the partners such as skills, materials and infrastructure.

David said: "Exit is one of the things Renaissance Capital monitors on a continual basis and I think if you look at the way we've pulled together the structure of our contracts, they do follow an annual review process. I can't go into the commercials of our contracts, but I think if you ignore annual break clauses, again all the buzz words that I hate, but look at the specific SLAs around what response times are, uptime, downtime etc. its all about the specifics. For example, a contract that we drew up recently regarding the hosting of a specific sub-ledger was something like 99.9percent uptime which for a trading system – that's actually pretty exceptional.

"It's ultimately the metrics around how you actually keep your system alive, the processes, the inputs and the outputs. If there is a problem which has not been reconciled, you need to know what the escalation process is. Manage your exceptional circumstances well and be very clear and concise – that's how you start looking at exit as well."

Know Your Customer: Financial Forecast

In general, the next five years are absolutely definitive for the investment banking industry as they are going to have to turn what's a hugely inefficient model into an efficient one. David believes the vast majority of change is going to come from the ability to buy services and JP Morgan, Barclays, Deutsche, Morgan Stanley etc. will all have to go through exactly the same Know Your Customer (KYC) process.

David elaborates: "That process has been duplicated 20 times across the industry. The natural progression is for the regulator to sign off on a service provider that will provide KYC information to a bank as a service. My product control function, my finance function, my back office is probably the largest cost base outside of technology that I have in an investment bank. So if I had the ability, particularly as we go to central counterparty clearing and exchange trading, all I need from a finance perspective is a CFO sitting in each region receiving data from a source service provider, that's going to save me a huge amount of cost.

"No-one has made that leap of faith yet in the industry but there will be a huge shift in the business dynamic especially in the way the offshoring processes work. Deutsche Knowledge Services based out of Manila are a great example at what can actually be achieved if you get the right processes and the right people. Realistically there is no competitive advantage from having an in-house product control function over and above the value that comes from the CFO."

In November 2012, Onexim Group, a privately-held investment company with a diverse portfolio of investments in Russia, announced it would acquire 100percent of Renaissance Capital. The transaction is pending consents and approvals.