

Co-Sourcing: A Brief Overview

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1. The Trend of Outsourcing

Outsourcing has long been predominant in pensions administration with the number of medium and large schemes being administered internally on a continuing decline.

The trend for outsourcing is not unique to administration. For many companies, any internal function considered non-core to the principal business was outsourced. In the case of pensions, internal administration required long-term investment in people and technology that most businesses weren't willing, or able to provide.

Couple that with outsourced providers that have a commercial incentive to continuously improve, and drive efficiency, and you can see why many in-house teams start to lag behind best practice without the sustained investment. As administration technology has advanced, it has made outsourcing cheaper and enabled more integrated solutions, which make third party administration an even more attractive prospect than the cost, risks, and headaches of operating an internal team.

However, a number of our recent clients have considered, and in some cases opted for, a co-sourced arrangement. This is interesting as it is an uncommon approach and one that could potentially change the way that schemes are administered.

2. How does it work?

The technology is available to facilitate co-sourcing in a variety of ways, and makes it a much easier logistical task than ever before. It can come in a variety of shapes and sizes, some examples being:

Example 1

The Sponsor wants to retain a specific function internally for legacy reasons, e.g. accounting, payroll or a DB section.

Example 2

A Company with a paternalistic culture wants a closer relationship with its active employees, so decides to administer active members only in-house.

Example 3

Specific complexities in a certain section of the membership require closer scrutiny, management and control by an in-house team.

'Example 1 is a relatively tried and tested approach, but the other examples are more uncommon and only now becoming genuinely viable through easier and more efficient use, and sharing, of technology.

At its most basic, co-sourcing allows the sharing of service delivery between an outsourced provider and internal resource. The exact split of the services is where there is such enormous scope for variety, and it

really is a case of each company and trustee choosing what works best for them; be it for reasons of cost, culture or philosophy, or to manage risks and complexity.

3. Why Co-source

There are a number of reasons that could drive a decision to co-source, some of which have already been mentioned. The technology to allow co-sourcing is now more efficient and advanced than before, and makes it easier to facilitate such an arrangement.

The in-house team can easily access the live database of a TPA system, through a web browser. It no longer requires installation of any software within the company I.T. infrastructure, which can avoid the security and risk issues that often arise where technology is involved. Of course, you still need to be satisfied that the administrator is holding data securely.

The easier implementation of technology, and increased levels of automation have also helped to reduce cost. In a co-sourced arrangement where the internal team is handling complexity, which often adds to outsourced cost, this can be a cost-efficient way of managing administration.

The increased automation and use of technology is only one way in which the delivery models of third party administrators have changed. There is also a prevalence of offshoring and call centres, particularly at the larger end of the market, which some companies may be uncomfortable with, or may not be acceptable culturally. For example, paternalistic cultures might want their members to deal with an individual administrator throughout the process, someone that picks up the phone each time they call.

There are administrators that offer that service, but these are often not on a scale able to manage the largest of schemes.

Similarly, some companies might have a service aspiration that has proven unachievable in an outsourced environment. They might want quicker turnaround, or more direct interaction with the member, or may just want to have tighter control on cases presenting the greatest risk. This is particularly likely to be the case for active members that still have a relationship with the company. An excellent administration service, from an accessible internal employee, may be part of the overall employment package.

Over the page, we have identified, what we believe to be, some of the key advantages and disadvantages of a co-sourced arrangement.

However, it remains to be seen in what ways co-sourced relationships prove most successful. As ever, the governance of a co-sourced relationship is crucial to its success. But that was always the case for outsourced administration anyway!

