Background

CASME RoundTable meetings on managing procurement challenges and risk in the financial services sector were held in London, Melbourne, Singapore and New Jersey during a period from May to June 2018. The following main topics were discussed:

- Procurement in the financial services sector
- Financial technology (FinTech)
- Risk management and data security
- Category-specific considerations
- Future trends.

This Digest provides the key points, good practices and insight into future trends identified by CASME members around the world. Full notes from each meeting are available on the subscriber-only Resource Centre.

Procurement in the Financial Services Sector

- Financial services institutions are typically more conservative in their operations than companies operating in other sectors, and apply a higher level of risk management, with stakeholders who are highly involved, more demanding and challenge Procurement’s role.
- Financial regulations determine and restrict the ways in which procurement is conducted, and the processes are often more complex due to additional activities that are required to ensure compliance.
- Procurement's objectives are to protect the company's reputation and brand, while providing value to the business by delivering cost savings, sustainable supply and innovation.
- Challenges, which are often more significant than cost savings, include the slow speed to market, the detrimental amount of trust placed with existing suppliers, the growing need for innovation, and overcoming the traditional perception that managing risk and compliance slows down the procurement process.
- Preferred supplier lists (PSLs) are being used in some companies, which makes it possible for Procurement to effectively approve, monitor and manage the supply base.
- Procurement must develop self-service solutions for stakeholders and implement systems for low-value and routine transactions.
- Addressing issues such as General Data Protection Regulation (GDPR), sustainability and other compliance legislation makes it easier for Procurement to demonstrate value.
- Procurement professionals require appropriate skills and experience to be effective, including commercial acumen, category knowledge, emotional intelligence, flexibility and influencing skills.

Financial Technology (FinTech)

- Rapidly changing technology is impacting all areas of business, and to address this, the IT teams in some financial services organisations are considering the cross-functional value of innovative technological solutions.
- Despite the risks associated with using new FinTech options, the applications may be regarded as differentiators in a competitive market.
- The use of cloud services by financial services companies is currently limited. The main concerns are regulatory compliance, the security of customer data, the usage of data by the cloud providers, and the retrieval of data at the end of the contract period.
- There is increasing usage of ‘incubator’ schemes for small suppliers who are developing innovative software with limited resources. These suppliers are being engaged and funded by the financial services client companies for future product development and business growth.
- Clearly stipulated terms and conditions (T&Cs) must be used to prevent any subsequent disputes regarding ownership of intellectual property (IP) when crowdsourcing is used to obtain innovation; for example, requesting creative designs for marketing campaigns, for which the creator of the selected design is given a financial reward.
- Technology will make it possible to increase the amount of outsourcing of tactical and operational procurement processes. This may impact the structure of Procurement by enabling the internal teams to focus on strategic activities.
Risk Management and Data Security

- The challenges of managing data security risks include the introduction of new technology, insufficient protection by the suppliers of the client company's data, and a lack of available cybersecurity expertise.
- Supplier due diligence processes may take three to six months to complete, and Procurement needs to take this into consideration during the process schedule for contracting.
- To prevent data security risk, the same risk assessments, auditing and due diligence processes that are conducted before contracting a supplier should be repeated periodically during the contract term.
- Risk management practices being applied include:
  - Categorising the various types of risk into tiers, and applying a hierarchy of responsibility for the management of each level of risk
  - Conducting risk assessments during the supplier qualification and due diligence processes. Information regarding supplier risk may be obtained from sources such as Evalueserve, Hellios, Hiperos 3PM (now Coupa), IHS Markit KY3P, Raptor, Sedex and TruSight
  - Requiring business unit managers to understand and accept responsibility for any potential supplier risks that are identified, as well as obtain the approval of senior management
  - Allocating the management of risk to dedicated teams or individuals within the business
  - Using tools to store the results of supplier risk assessments, and delivering the information to the relevant individuals within the business.
- The risk management processes, and contract requirements, should also be extended to any subcontractors that may be used by the supplier to deliver the service.

Category-Specific Considerations

- In the financial services sector, Procurement prioritises risk management, regulatory compliance and data security within all categories, although, achieving cost savings and delivering value are also important objectives.
- Professional services is a major category in terms of spend:
  - The large global consultancies, Deloitte, EY, KPMG and Pricewaterhouse Coopers (PwC), known as the 'Big Four' are favoured by stakeholders due to their established relationships. Procurement is attempting to introduce alternative options to reduce reliance and avoid complacency
  - Reciprocal business can cause anti-competitive risks, and equitable procedures are necessary to protect the company's reputation
  - A centralised request for proposal (RFP) process can avoid duplication of the engagement of professional services within the same country or region. Knowledge transfer methods should be explicitly stated in the contract.

Future Trends

- Category management is becoming more strategic and aligned to the stakeholders’ business objectives.
- Adoption of artificial intelligence (AI) and machine learning (ML) for data mining, and the commercial use of the insights obtained from the data will increase; although usage will be limited until expertise in the use AI and ML tools has been developed.
- Supplier contracts will place greater emphasis on the collection and use of data.
- Traditional procurement processes are being changed to self-service sourcing through online e-Commerce portals, resulting in a possible reduction in Procurement's headcount.

Resource Centre Links

The following are links to the full meeting notes for each region:

Asia, Singapore
Australasia, Melbourne
Europe, London
North America, New Jersey
Further Information

Global Digests provide valuable category and strategic insights to CASME members, as part of a much wider subscription service that is delivered to hundreds of corporate indirect procurement teams worldwide.

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Important

These notes are a summary of the facilitated discussions held between the delegates various meetings. We recommend that any references, particularly to legislation, or recommendations contained in these notes are cross-checked by the reader in order to verify their accuracy prior to being acted upon. Any third party organisations named in this document are not recommendations but are examples of companies mentioned during the meetings that might be considered when tendering for appropriate goods or services. These are not intended to form an exhaustive list and it is likely that other organisations not listed may also provide similar goods or services.

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