

Competitive Advantage by Outsourcing in the Custody Sector

Union Bank of California - 13 July 2004

Union Bank of California administers \$160 billion in assets on behalf of its clients, over ten percent currently held cross-border. Five years ago, they outsourced tax reclamation processing to New York based Globe Tax Services, Inc. (GTS). Since contracting with GTS, Union Bank has been rated the top custodian in the world for tax reclamation in each of the last three annual Global Investor magazine Custody Surveys.

Tax reclaims are a unique aspect of the cross-border services global custodians must be able to provide, regardless of where clients may reside. The bank made the decision to select Globe Tax Services to provide these services for three primary reasons.

First, we wanted to be sure our clients continued to receive best in class tax reclaim service as part of our overall product mix. By selecting GTS, Union Bank now receives tax support from a firm that specializes in the area of back-office processing. As a business enterprise, the organization devotes all of its investments and resources exclusively to delivering timely and accurate tax reclamation services to its clients.

Second, we saw this as an opportunity to manage risk and liability for the bank. By outsourcing these services, we have created a highly automated straight-through-processing solution - from one that was previously more labor intensive. We now consolidate all necessary information for our client's tax reclaim settlements in the regularly scheduled files we send to GTS. After receiving files from us, our outsourcing provider performs all the required tasks for filing with, and securing payments directly from, local tax authorities where our clients are active. GTS provides all necessary follow-up and sends the reclaim proceeds directly to us for credit to clients' accounts. A key factor in managing the risks inherent in the entire tax reclamation process is the detailed reporting provided to us. These reports furnish us with the tools necessary to effectively manage and monitor our clients' entitlements, as well as to measure GTS's ongoing performance against our service expectations.

Third, by outsourcing we were able to convert certain fixed costs to variable costs. As client activities and investment strategies vary over time, the total number of tax-related events can also vary. Our outsourcing provider works on contingency and their costs are related only to the transaction volumes they process on our behalf, and not to the fixed expenses related to the in-house infrastructure we previously supported. GTS has been successful in leveraging the volume of work they process against these fixed expenses. Ultimately, both the bank and our underlying clients benefit from their ability to spread these costs across their entire processing base. Additionally, GTS does not charge for services until they successfully make a recovery for our clients. This fee structure sent us a clear message that they were confident in their abilities to execute and deliver these services.

In our rigorous initial due diligence process, we identified three key factors an organization should consider in selecting a third-party provider. One - choose your provider carefully. It is essential to identify an organization that can bring value right from the start, providing the immediate benefit of well tested, client friendly solutions. Two - maintain a balanced view of technology. One basic tenet of outsourcing is that one provider is able to leverage specialized technology and large processing volumes successfully - to the point where unit transaction costs are lower than individual organizations can achieve internally. However, since technology platforms vary across the financial services industry, you can, and should, expect your outsourcing provider to employ the lowest common denominator for all required data exchanges. Three - preserve a strict focus on the quality of final client service delivery. The firm you select as an outsourcing provider will have a direct impact on your industry image and reputation. If you encounter any problems it is better to be able to pick up the phone and confidently know your provider is working with you for the long-term. Finally, choosing your outsourcing provider is just the beginning. Regardless of the criteria you use to select a provider, an ongoing process for monitoring the features and delivery of expected services must be established. We regularly review GTS for the quality and competitiveness of their services and will continue to do so - to be sure they offer the competitive services our clients demand and expect.

The three primary goals we established in making our final decision to outsource our tax reclaim services have been fully realized. We continue to provide the professional quality of overall service clients have come to expect from Union Bank. We effectively manage the potential risks underlying the tax reclaim process while we maintain quality services for our clients. Finally, we have gained the cost efficiencies we anticipated from selecting and partnering with an organization committed to specialized back-office processing.

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