The Bancolombia Group

Introduction

Bancolombia is the largest bank in Colombia and one of the larger banks in Central America. The bank has grown through a series of acquisitions over the last decade. A result of the acquisitions has been a growing and diverse set of outsourcing relationships. Recognizing the problems of having too many outsource providers and contracts, the bank decided to actively consolidate and redesign the outsourcing process. A central outsourcing strategy management group was created. A corporate wide outsourcing methodology was established and has been successfully implemented across most of the banking operations. The result has been a consistent method for implementing, operating, and evaluating outsourcing relationships that is directly aligned with the methods for managing and evaluating business processes. Using the balanced scorecard technique, all outsourcing and business processes are measured and evaluated consistently across all banking operations. This also allows the bank to implement a common outsourcing methodology at new business acquisitions.

In the following sections we provide an overview of the Bancolombia Group, background for their outsourcing strategy, and a description of the outsourcing methodology.

Company Overview

With over 130 years of experience, Bancolombia Group is the largest bank in Colombia, offering a wide range of banking products and services to a diverse group of more than 6.9 million individual and corporate customers. Bancolombia delivers its products and services via its regional network of Colombia´s largest non-government owned banking network, El Salvador's leading financial corporation (Banagricola), off-shore banking subsidiaries in Panama, Cayman and Puerto Rico, as well as an agency in Miami. Together, Bancolombia and its subsidiaries provide stock brokerage, investment banking, leasing, consumer finance, trust service, asset management, pension fund administration, and insurance.

Bancolombia is a NYSE listed company since 1995, and its shares are listed under the symbol "CIB". See table 1 for additional key figures.

Bancolombia has a network of 900 Branches, 2669 ATM, 540 non-banking correspondents, 484 mobile points of attention and 154 kiosks.

The Bancolombia Group is going through a transformation process with the aim of making its financial services more easily available to its customers. Transformation will be achieved through a modern and competitive technology platform that will be able to compete in the global market.

Table 1 – Key Figures

Profitability: net interest margin 6.32%, return on average shareholders' equity 20.10%.

Efficiency: operating expenses to net operating income 53.92%,

Capital adequacy: shareholder´s equity to total assets 10.98%, technical capital to risk weighted assets 13.80%.

Key Financial Highlights: net income per share 0.85, net income per share COP 407.70. Share price $42.93, common Price $20,400.

Number of employees: 19,813.

- 3,567 personnel (outsourcing) working in-house, 2,211 people (outsourcing) working externally
- 2,022 people (outsourcing) working externally, dedicated part time

Overview of Outsourcing Strategy

After the merger of three of the largest banking institutions in Colombia that created the Bancolombia Group in 2008 (Conavi, Corfinsura and Bancolombia), we conducted an outsourcing transformation, consolidated three decentralized models into one, shifted contextual work to strategic outsourcing partners, and reduced the number of outsourcing relations from 500 to 170. The outsourcing transformation addressed problems such as: an increase in the number of suppliers, significant operations risk without a mitigation plan, and issues in the relationship management within the supply chain management. With assistance from consulting firm Accenture, Bancolombia established an enterprise-level sourcing governance, a framework to follow and control portfolio services, rates and comparable metrics for creating a consolidated view of all outsourcing relationships across both strategic and operational levels using balanced scorecards. The new outsourcing model is focused on efficiency, client satisfaction and time to market.

We needed to synchronize the new outsourcing model to the current business process management and make gradual improvements. Today, the outsourcing strategy model coexists with the business process management. Each process provides information to the other. For example, for every single business process, the organization has a method of quality warranty, a manager, a set of metrics and a staff facilitator. The process engineering and the quality department are responsible for all process definitions. If the processes are outsourced, the administrator (leader of the outsourcing process) has a consistent and well defined process to manage, an advisory group that helps in specific topics (risk, human resources, security, continuity), a negotiation staff that help in managing contracts, and an overall corporate methodology as a guide. This way, the corporate board has the same level of oversight for both internal and outsourced business processes, because the same methods and measurements are used for all processes. Every outsourcing relationship, regardless of the size, type or nature, has

the same balanced scorecard to monitor the performance. Results are aligned with the corporate balanced scorecard.

The outsourcing strategy model covers the entire business of Bancolombia Group. We currently have outsourcing service coverage of 22% of the company's processes and a further 26% of processes are susceptible to be outsourced. At the present time, the new outsourcing service team provides specialized services in support of technology, back office process, and physical infrastructure resources. For years, we only thought of outsourcing basic services like logistical support, transportation, monitoring, and development of applications. In just a short time, the supply and the needs of our business have moved on so that alliances with specialized suppliers are helping Bancolombia to formulate outsourcing shared success.

Table 2 – Top outsourced services

PERIOD	TOP 5 OUTSOURCED SERVICES
1990-1995	Food Services & Preventative Maintenance, Call Center, Security Services, Document Transportation, General Storage
1995-2000	Hardware and Software Maintenance, Telecommunication Services, E-Commerce Hosting, Data Center Services, Check Services (verification, guarantee, conversion, recovery)
2000-2005	Security Monitoring, Software Development, Basic Contact Center Services, Telemarketing, Document Image Processing
2005-2010	Facilities Management for Real Estate, Contact Center & Cards BPO, Software Factory, Non-Banking Correspondent Audit, Print Management

Bancolombia Group has 85 relationship managers and over 100 outsourcing service providers with both national and international operations. We have established categories of services for each of the four affinity groups namely:

1. Technological type which are framed technology development services, maintenance, security and IT infrastructure.
2. Operative-Tactical type where we group services, channels, products and customers.
3. General Services type where we consolidate support services to the infrastructure, maintenance, security, logistics and services for employees.
4. Strategic type where we leverage the group's development and transformation processes. There, we have the contact center telephone sales, channel strategy, the Internet and mobile banking.

We have a mix between 60% of local suppliers and 40% of international suppliers. So far, we only have one experience using an offshore outsourcing model that includes IT service development and software testing in India.

The outsourcing strategy is closely connected with the corporate strategy so that the model is sustainable and evolves with corporate changes. Beginning in 2008, Bancolombia implemented a shared service center with five subsidiaries (Factoring Bancolombia, Leasing Bancolombia, Valores Bancolombia, Banca de Inversión Bancolombia y Fiduciaria Bancolombia). The outsourcing strategy has been applied consistently across all subsidiaries. This suggests that the outsourcing model will remain as the corporate model changes and as Bancolombia Group continues to grow through acquisitions.

Outsourcing Strategy Department

The outsourcing strategy department was created in 2004 with advice from consultancy Accenture and with the goal of internal improvement of managing the supply relationships in the Bancolombia Group.

Seven years ago, one of the merging firms (Conavi) was analyzing its "Business Strategy" and found that over 50% of their spending was typically in outsourcing services. This finding invited us to examine the outsourcing as a basis to become more aware and capable. As an outcome of this exercise, the group obtained a detailed analysis of the situation, a tool and key issues to define a formal Outsourcing department.

After the merger, the project became appropriated and made the method applicable in the corporate structure of business management. The first actions were aimed at stabilizing the operational outsourcing. After that we worked to provide added value to the management process and monitoring the outsourcing relationships.

At the moment, the product of this evolution is that we are carrying out strategic studies that reflect the obvious opportunities to have Bancolombia apply outsourcing process from now on, using guidelines to support its growth, internationalization, risk mitigation management and service.

The outsourcing strategy department is in the same group as the Business Continuity Officer, the Operational Risk Department and Quality Department. This group has a cross corporate responsibility and transversal methodology aligned with the strategic orientation. The outsourcing strategy department has achieved high visibility because in most of cases, we facilitate legal requirements and respond to Colombian regulator. We have the responsibility of preparing the organization for the future, doing much research and trying to innovate processes all the time.

Outsourcing Model

The outsourcing model has the following basic functions:

1. Develop a corporate strategy to demonstrate how outsourcing generates value
2. Consider all outsourcing initiatives that are prioritized by the corporate strategy and present results of outsourcing feasibility
3. Define corporate policies and guidelines for use and maintenance of outsourcing as an effective management tool

4. Design corporate governance model for outsourcing
5. Report outsourcing corporate information, indicators, volumes, costs, risks, managers, outsourced processes and functions
6. Backing up the model of outsourced relationships and scenarios to facilitate decision making
7. Act as an internal consultant on issues of process improvement and efficiency plans via outsourcing

The outsourcing model is described in the following table. The following seven steps are executed for each new business area or business acquisition within the Bancolombia Group of companies.

1. Field-work	The first step in executing the outsourcing strategy model is the fieldwork where every area that uses external providers is added to a list in order to understand its management processes.
2. Inventory of outsourcing relationships	The team creates an inventory of outsourcing relationships after determining which of the external sourcing relationships from the previous list requires study and which does not.
3. Describe each relationship	The team identifies the scope and the typology of the outsourcing relationship, the administrators, the operational risks, the service level agreement (SLA), the operational level agreements (OLA) for constructing the curriculum vitae of the outsourcing service.
4. Management education	The team shares the outsourcing model with every member of the bank's relation management team. The team uses a hybrid program, which consists of a virtual education course and on-demand and on-site advisory.
5. Develop balanced scorecard	When the administration team is "ready to go", it builds the balanced scorecard for each relationship with the focus on measuring the strategic and tactical performance of the outsourcing relationship. The scorecard includes SLA and OLA and focuses on quality, opportunity and service.
6. Implement balanced scorecard	Once developed and approved, the balanced scorecard passes to the transition process and is evaluated in order to start the negotiation process.
7. Publish results	After the scorecard is accepted, the administration team publishes the scorecard in a web-based (Share Point) portal.