

Rethinking Outsourcing:

The Value of Tech-Enabled, Strategic Growth Partnerships

The importance of recordkeeping in the retirement plan value chain is under the microscope. While the role of the retirement plan as a low-cost, customer acquisition vehicle for investment or insurance product distribution is undisputed, the ability to deliver a cost-effective, competitive solution has become a challenge—especially when retirement plans are not a core business.

In this insights piece, we explore the pressures and opportunities facing institutional retirement plan providers. We also consider how strategic, institutional partnerships have evolved to deliver the operational efficiencies and optimal customer experiences that can make it worth staying in the retirement plan business.

Shifting dynamics

The retirement industry is at an important inflection point. Today, retirement plan providers face growing pressures to meet the increasing demands of ever-changing regulatory, fiduciary, and data security requirements; rapidly advancing digital technologies; and rising customer expectations for personalized, integrated experiences.

In addition, consolidation and fee compression are straining profitability and making competitive differentiation difficult to find—and harder to fund. This challenge may be even greater for banks, insurers, and other financial institutions that want to leverage their retirement plan business to promote brand awareness and deepen client relationships, but whose core business commands a greater share of their resources and budget.

Together, these and other headwinds are prompting institutional retirement plan providers to consider if and how best to modernize their back-end operations and front-end experiences. In fact, more than half (53%) of financial services firms and insurers in a recent survey said they must better leverage new technology if they are to compete effectively in the changing market.¹

#1

Strategy on the list for CEOs to achieve strategic growth objectives over the next three years is building strategic alliances with third parties.²

71%

CEOs view partnerships as an important means to continue the pace of their digital transformation—a 20% increase in 2022 alone.²

61%

Financial services and insurance companies are shifting away from traditional, vertically integrated business models in response to new digital technologies, new competition, and new customer expectations.³

1 NTT DATA, *Digital to the Core: Transforming Financial Services and Insurance in the New World of Digital Business Platforms and Ecosystems, 2022*.
<https://us.nttdata.com/en/engage/Transforming-Financial-Services-and-Insurance>

2 Source: KPMG 2022 CEO Outlook.
<https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/10/ceo-outlook-report.pdf>

3 Source: NTT DATA, 2022.
<https://us.nttdata.com/en/engage/Transforming-Financial-Services-and-Insurance>

The retirement plan market is still a GROWTH market

Despite the pressures, the retirement plan market still offers plan providers significant opportunities. Efficiently maintaining a plan offering keeps providers engaged with employers and individual investors in the workplace and offers a lower-cost conduit for delivering more profitable services and solutions. Banks, insurers, and other financial institutions can further revitalize the retirement plan revenue stream—and may be able to drive additional incremental revenue—through strategic distribution and sales enablement partnerships that expand their market opportunity without overburdening their technology and service model.

Whether the focus is efficiency, experience evolution, and/or growth, such partnerships can provide a competitive advantage and deliver best-in-class retirement plan administration services. The following illustrates how technology-enabled, strategic growth partnerships can help solve for myriad plan challenges.

Industry challenges and partnership opportunities



Regulatory/compliance requirements are mounting in complexity



Improve and facilitate governance with ERISA expertise and tech-enabled business oversight

Lagging technology and “clip-on” solutions are not a sustainable model

Improve operations and reduce reputational risk without owning the industry-specific, leading-edge technologies

Quantity and quality of talent needed is escalating

Reduce operational labor expenses and training costs for nonrevenue-producing functions by leveraging outside expertise

Client expectations for personalized and integrated experiences are growing

Deepen and monetize client relationships with access to solutions and holistic services

Cost and complexity are creating market barriers for new opportunities

Leverage efficiencies and scale of a dedicated retirement technology and service provider coupled with an independent distribution network

Outsourcing redefined

Outsourcing isn't a new concept, but the term has evolved as firms look to bend their economic curve intelligently. Across the C-suite, leaders spanning operations, technology, and distribution are realizing they must find new means of redeploying finite resources to focus where it matters most for their brand and value proposition.

The winners in this group recognize that "outsourcing" no longer means a potentially diminished experience solely in the name of cost-cutting. They are accelerating the imperative shift toward flexible, partnership-based models—especially in today's "do more with less" business environment. By being open to the possibilities enabled by technology, service, and distribution partnerships, they can scale growth and cost-share while also delivering more streamlined and personalized experiences that serve and protect the brand.

Forward-thinking financial institutions are extracting more from their retirement plan value chain by leveraging tech-enabled, strategic growth partnerships for optimized efficiency and quality in complex and critical functions such as:



Management

Compliance and regulatory filings



Safety

Cybersecurity and fraud prevention



Verification

Customer due diligence and digital engagement



Detail Analysis

Data governance and advanced analytics

Optionality is key to success

To fully leverage the business advantages of tech-enabled, strategic growth partnerships, there isn't a one-size-fits-all solution. Retirement plan providers exploring change will want to take the time to consult and invest in identifying the right strategy, delivery model, and solutions to meet specific organizational structure and technology, brand, and business needs. A flexible approach to partnership can make the decision easier.

Focus on where the value is

- 1. Full partnership.** Outsourced partners may be entrusted with recordkeeping, product development, digital experience, service and operations, and distribution. Brand experience optionality would also be a consideration. Institutions looking to quickly scale and enter new retirement plan markets may find this model highly effective.
- 2. Selective partnership.** Selective partnership takes opportunistic advantage of the benefits of outsourcing. Retirement plan providers can delegate critical processes or capabilities that would be better delivered by an outside expert and retain varying degrees of control over the customer experience.
- 3. Divestiture.** Divestiture enables financial institutions to unlock liquidity and refocus on core competencies by exiting the retirement plan functions that are not core to their value propositions or economics. The crucial question to consider is whether the benefits of divestiture exceed the value that could be created through a tech-enabled, strategic growth partnership.

Ascensus is the independent partner of choice

Leading financial institutions rely on Ascensus to improve efficiencies, deliver value, expand distribution, and improve outcomes. Agile, "always-on" technology innovation, deep retirement plan administration expertise, and flexible service models enable partners to focus on their highest value drivers and realize strategic revenue with speed and an uncompromising commitment to quality.

For more information on institutional outsourcing opportunities with Ascensus, please visit www.ascensus.com/who-we-serve/institutional-partners/ or email ted.samsel@ascensus.com.

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