Outsourcing and trends in banking

[Finance](), [Banks]()

The Banking Industry has been undergoing major changes, reflecting a number of underlying developments. Advancement in communication and information technology has facilitated growth in internet banking, ATM Network, Electronic transfer of funds and quick dissemination of information. Structural reforms in the banking sector have improved the health of the banking sector. In the banking industry Information Technology (IT) is omnipresent. From acquiring a customer, servicing the customer’s needs, building the customer relationship to managing employees, processes and partners, every action in the bank’s value chain relies on technology to ensure efficacy and efficiency. The bank creates a unique value proposition, either based on lowest cost or by delivering a unique innovative service. Technology can enable banks to cut costs in their value chain, either by improving the efficiency of existing processes Banks are now diversifying and providing innovative and customized value added services to customers. They have started paying more attention to expand their activities from just lending and borrowing to other areas like insurance, mutual funds, merchant banking, leasing, retail banking, micro credit etc. In the present scenario of banking industry, competition among the banks is very severe. The banks have been trying to find new avenues not only to retain the present customer strength but also attracting new customers by offering hassle-free services. In this days of cut throat competition it is very important Banks point of view to retain their customer base and increase new ones. This can be achieved only through efficient ways functioning. Since 1990s Banks have started to subcontract part of their work to a third party this is called as Outsourcing and the ability of businesses to outsource work to a outside suppliers i. e. outside the country is termed as off Shoring. Banks have progressed well in the areas of technology up-gradation in operations, extending the business hours, introduction of new products and services like “ Any Where Banking”, “ Any Time Money”, “ Electronic Fund Transfer”, “ Electronic Clearing”, “ Tele-Banking”, etc.. These new tools enabled them to improve the quality of service and introduce Value Added Products. Banking sector in particular is one of the largest users of IT and IT enabled services.

Outsourcing:

In order to stay in the competition banking industry are opting for outsourcing. There has been a change in the functioning of Banks recently. Growing competition has forced Bank to focus on core activities and outsource some of their activities in the highly competitive world.

The outsourcing services include maintaining of hardware and software, hosting, managing data centres, software application support, disaster management and management of ATM networks across the country. Decision to outsource arises from the fact that many Banks does not have human and personnel resources at their disposal.

Outsourcing helps in attaining strategic objectives by reducing cost and increasing the efficiency through the unburdening of the non-core service activities. In effect, the outsourcing of banking activities is accelerating at a rapid pace. In order to have a competitive edge, banks have started outsourcing huge volumes of their non-core services. A recent study by Deloitte revealed that about $356 bn worth of US financial services will be outsourced to offshore locations in the coming years.(Appendix 1)

Benefits offered by outsourcing to the Banking industry:

Cost savings – Overall low cost of the service to the business. It involves cost re-structuring. Reducing the scope, re-pricing and defining quality levels.

Focus on Core Business – Valuable Resources are focused on developing the core business. IT services are often outsourced by organizations to support specialized IT services.

Cost restructuring – Outsourcing offers move from fixed cost to variable cost. Thus making variable cost more predictable.

Improve quality – High quality can be achieved through by entering into service level agreement with a supplier.

Knowledge – Outsourcing enables access to wider experience and knowledge and intellectual property.

Contract – In outsourcing two parties enter into contractual agreement making it legally binding services failing to comply to a legally binding contract with financial penalties and legal redress. This may not be the case with internal services.

Operational expertise – Access to operational expertise which may not developed in house.

Multiple Talents – It allows access to multiple talent available especially in science and engineering.

Capacity management– In outsourcing risk in providing the excess capacity is borne by supplier.

Tax Benefit – Countries offer tax incentives to move manufacturing operations to counter high corporate taxes within another country.

Scalability – Usually outsourcing company is prepared to manage temporary or permanent increase or decrease in production.

Creating leisure time – Outsourcing can be used as to increase leisure time to optimise work leisure balance.

Current Trends:

Outsourcing is growing in areas like customer care, financial services, manufacturing, IT, ITES.

To reduce risk and control quality large MNC are investing in captive BPO units in supplier countries in multiple locations.

Outsourcing is becoming more sophisticated. Benchmarking to world-class standards, business excellence, speed to market, improvement in quality this are the things consumers are looking for. To ensure the long-term success CEOs are getting involved in strategic off shoring decision. On suppliers part they have understood that they must compete globally and outsourcing will play a more transformational and strategic role for their client.

Emerging lower-cost outsourcing destinations are increasing global competition and pressure on margins.

10 to 15% of IT industries jobs will be moved overseas 10 years down the line inviting more political debate.

For the past two decades, China and India are impacting the global economy and leading the outsourcing revolution and the same will be continued.

Off Shoring:

Off Shoring usually describes the relocation by a company a part of their business unit to another country. Off Shoring often takes place across national boundaries ie Developed country and developing Nations.

The idea of Off Shoring came up in view of reaping the benefit of comparative advantage. Countries like China and India have emerged popular destinations for Off Shoring. Because they have the people who have got skills to do work cheaply comparing to develop nations. The idea is to trade freely and produce quality goods cheaply.

Advantages of Off Shoring:

Lower cost for the business Off Shoring to countries like India and China.

Improved quality of work and service from excellent and talented workforce from China and India.

Off Shoring helps in saving valuable time and money which could have been spend on interviewing candidates, recruitment and training to the client top management. These things are taken care by Offshorer.

Offshorer always have team for deployment which assembles faster team and projects much faster than possible.

With the help of Off Shoring MNC organisation tend to make huge profit by cutting cost up to 60%. This profit amount can be utilised in investing new R & D.

Off Shoring enables better services to customer without off shoring which would not have been possible.

High quality and cheap services and products to customer.

Studies have shown that Gross Domestic Product have gone up in both developed and developing nations.

Conclusion

This report tries to cover, most of the important aspect of outsourcing and off shoring in context of the Banking industry, report talks about the current trend in the Banking industry and analysis the positive impact of outsourcing on the Banking Industry. Further it provides recommendation to the Banking industry in context of outsourcing.

Recommendation:

The following are few recommendations to CEO in context to outsourcing off shore.

1. There is potential increase risk in when the third party is off shore vendor. Our recommendation is that when Banks and financial institution that outsources date to domestic vendor should be aware that have in turn subcontracted to overseas vendor or domestic third party vendor. Company should have standardised procedure that should include:

To identify and review contracts between financial institution and data service providers.

To determine whether subsequent outsourcing has indeed taken place as per the terms of the contract.

To determine whether financial institution is aware that subsequent outsourcing and its location.

And finally bank should notify within 30 days entering into an agreement stating existing relationship with vendor to the Bank Service Company Act.