Global Outsourcing: Financial Services Industry Options

As outsourcing in the financial services industry increases, it's more important than ever to understand the different types of services available, and how regional considerations affect outsourcing decisions.

Outsourcing in the financial services industry is on the rise. Outsourcing business drivers have emerged that go beyond the financial impact of shared systems and their resulting economies of scale. These include speed-to-market and leveraging scarce or expensive IT resources. These factors are leading financial services providers (FSPs) to use external service providers (ESPs) that enable them to keep their focus on core competencies and separate strategic processes from commoditized, tactical efforts.

In this Financial Services Spotlight, we look at the outsourcing issue from two angles:

- We review the different types of outsourcing that are available to the financial services industry, and their viability and outlook.

- We provide perspective into some regional considerations for outsourcing.

It's crucial when dealing with prospective ESPs to make sure that you and the ESP are speaking the same language. The terms outsourcers use are often at variance with the way FSPs use those same terms. "FAQ: Outsourcing Alternatives — Distinctions and Forecast" (QA-16-4270) by Kimberly Harris, Mary Knox and Don Free looks at the primary forms of outsourcing and the terminology used to describe them. It also looks at the future viability of these service types.

Traditionally, business models and ideas have been derived from within the financial services industry, but FSPs should be looking to nontraditional sources to unearth new competitive strategies. In "It's the Idea that Counts, Not Its Source" (TU-15-6693), Richard DeLotto considers how FSPs might glean some lessons on information use from other industries, such as the direct marketing business. In "Outsourcing Competitive Intelligence Functions" (SPA-15-9434), DeLotto looks at which competitive intelligence (CI) functions are most suited to outsourcing and explains why some are more amenable to outsourcing than others.

Enterprises often overlook architectural considerations when weighing their outsourcing options. Mary Knox's "How Outsourcing Affects Enterprise Architecture" (TG-16-7074) describes some crucial factors to keep in mind when considering how outsourcing might affect your enterprise's IT architecture down the road. When selecting an outsourcer, you must look beyond immediate considerations to identify the possible future value of affected processes in terms of other dependent applications. Otherwise, you face the threat of unexpected future costs and operational risk.

To help you understand just how fast outsourcing is growing, in "Finance Sector Seeks IT Outsourcing to Meet Business Goals" (ITSV-WW-DP-0315), Susan Cournoyer notes that not only will the number of

FSPs using most forms of outsourcing increase by 50 percent by 2003, data center and storage outsourcing will nearly double between 2002 and 2003.

Understanding regional outsourcing issues is also important. We've included three pieces in this Spotlight that directly address regional concerns:

- "Latin American Banks Keep the Value In-House" (COM-16-4992). by Maria-Louisa Kun, outlines how large Latin America-based banks have traditionally relied on in-house sourcing for most core processes and may thereby be missing some opportunities to leverage ESP expertise.

- "Financial Services Sourcing in Western Europe" (ITSV-WW-DP-0317), by Peter Redshaw and Robert Brown, points to cross-border transactions as a motivating force for outsourcing in that region. Financial services outsourcing will likely grow as the need to cut costs in response to difficult economic conditions and decreasing margins continue. Convergence between banking and insurance will also accelerate this growth. However, there will be wide variation in the demand by country and by outsourcing type.

- "Asia/Pacific Trade Finance Outsourcing Challenges" (COM-16-5169), by Lane Leskela, reviews FSP outsourcing opportunities for the Asia/Pacific region, with a focus on how outsourcing might affect trade financing in the future. Larger Asian banks have been reluctant to outsource trade finance functions because they perceive that their own in-house trade finance and cash management capabilities support a growing commercial client base. This perception has limited the appeal of many trade finance outsourcing options in the region. Midmarket regional banks have been finding the service cost reductions resulting from third-party trade finance outsourcing compelling.

Gartner has these recommendations for FSPs reviewing outsourcing as an alternative to in-house processing:

- Consider outsourcing options when making decisions about purchasing information technology, even if the purchasing decision initially focuses on ramping up a business process or a hardware, software or networking purchase.

- Recognize that competitors in financial services are rapidly increasing their use of outsourcing, but that the scope and focus of outsourcing by your enterprise should reflect its business and IT strategy.

- Revisit the view that outsourcing is purely a cost-cutting measure. This can box in your strategy and cause you to miss potential revenue growth opportunities.

- ESPs need to create regional business models that stress the regional differences in demand and requirements.

- Financial institutions will favor ESPs that have integration experience for internal and external applications.

Features

"FAQ: Outsourcing Alternatives — Distinctions and Forecast" (QA-16-4270). Understand the services different outsourcers offer and select the one best suited to your needs. **By Kimberly Harris, Mary Knox and Don Free**

"It's the Idea That Counts, Not Its Source" (TU-15-6693). Financial services providers can "borrow" good ideas from other industries. **By Richard DeLotto**

"Outsourcing Competitive Intelligence Functions" (SPA-15-9434). Not all CI functions are amenable to outsourcing. **By Richard DeLotto**

"How Outsourcing Affects Enterprise Architecture" (TG-16-7074). Consider the possible long-term effects outsourcing may have. **By Mary Knox**

"Finance Sector Seeks IT Outsourcing to Meet Business Goals" (ITSV-WW-DP-0315). Outsourcing has competitive and strategic implications. **By Susan Cournoyer**

"Latin American Banks Keep the Value In-House" (COM-16-4992). Large Latin America-based banks may be missing out on effective strategic sourcing. **By Maria-Louisa Kun**

"Financial Services Sourcing in Western Europe" (ITSV-WW-DP-0317). Social, cultural, political and economic factors play a role in the viability of different sourcing options in Western Europe. **By Peter Redshaw and Robert Brown**

"Asia/Pacific Trade Finance Outsourcing Challenges" (COM-16-5169). Midmarket FSPs will likely lead the Asia/Pacific market for third-party providers. **By Lane Leskela**