Chapter VII:

CONCLUSION AND SUGGESTION

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Chapter VII: CONCLUSION AND SUGGESTION

The analysis of outsourcing in the Banking sector leads to several essential conclusions. First of all, outsourcing is primarily understood as the reallocation of activities from banking companies to their low-cost service providers. What is more, despite the negative image of outsourcing the reallocation of business tasks has become a most viable, if not necessary, option for banks to increase their operational efficiency. Costs can be decreased substantially through locating non-core business processes with specialized third-party suppliers in low-wage countries. Additional advantages of outsourcing include the access to a vast pool of well-trained employees, an improved strategic focus, and the opportunity to benefit from third-party suppliers’ economies of scale.

Furthermore, outsourcing does not only enhance the efficiency of operations through capitalizing on wage differentials, but it also implies significant costs and several operational, reputational, and legal risks. Banks must be particularly prudent not to lose control of certain business tasks and suffer from their third-party service providers’ non-compliance with company standards. A growing number of regulations and guidelines are put in place to mitigate the risks associated with outsourcing.
For the purpose of outsourcing the need has been identified to carefully scrutinize the processes of banks’, and other financial services providers’ value chain. Managers must ask themselves how to respond to the financial sector’s present challenges. Especially large firms will find a solution in identifying those activities that represent core competences on which a competitive advantage can be based. Once those core competences are found, the financial firms’ organizational layout needs to be redesigned accordingly.

As for the activities outsourcing does not seem to be limited to back-office functions anymore. Whole business processes or departments are getting relocated whilst the only unsurpassable cap to outsourcing proves to be face-to-face customer contact. In the future, even knowledge intensive processes are likely to be provided by suppliers in emerging or developing countries. In general, it can be found that financial firms are increasingly moving up the value-chain in their outsourcing activities.

In sum, this research provides an overview of the status quo of outsourcing in the Banking sector of developing countries. A wide spectrum of topics is covered on the basis of academic literature, data collected from banks, and reports by large Banking companies. Nevertheless, limitations to the results of the work can be identified. First, Results for specific Banks or country affected by outsourcing could thus be presented only. Second, while relatively straight-forward in nature and more or less self-explanatory, the theoretical concepts that are used to explain outsourcing proved hard to integrate in the internal logic of the work. In addition, outsourcing affects a wide area of academic literature, ranging from business organization, human resource issues, management control systems, to socio-cultural considerations. Therefore, the
focus on transaction cost economics and the principal-agency framework might seem too limited to cope with the breadth of the topic. Third, the study is based on descriptive method and work mainly draws on literature dating back to 2004 and 2011.

As shown from these studies, IT cost optimisation is actually leading to a new service delivery paradigm, allowing banks to provide innovation and value from flexible and modular service. Technology spending appears to be related to creating innovation through value and bringing benefits in cost and efficiency. Banks are focusing on outsourcing for cost optimisation to create governance for cost, control, risk and value, allowing the possibilities to be innovative. Governance of quality and service levels is vital to achieve cost reductions and ensure the longevity of the outsourcing alliances. This current outsourcing trend has been stimulated by cost, but also by risk as it allows hedging against technology obsolescence, access to ‘best-of-breed’ technology, freedom from specific IT operational responsibility and rapid IT deployment time-frames. This in turn reduces TCO and provides banks an option to convert from a fixed cost model for IT spending to a variable cost model. The bank only pays for the extent of usage, enabling the bank to focus on its core activity of relationship banking without the continued capital expenditure and maintenance cost required. Drivers for why this outsourcing trend is taking off may also be attributed to the service delivery models of the technology vendors, with examples being EDS and IBM. EDS’ Service Excellence Dashboard and IBM’s service virtualisation capability (from IBM Research) both provide integrated mechanisms for banks to see both technology and
business process bottlenecks on a usage basis by business activity. This is possible for both the tier one banks and the larger outsourcing providers.

Outsourcing promises tremendous benefits to Asia’s banks and financial services providers, but the following should be borne in mind:

- An early-stage evaluation of the proposed outsourcing from a legal and regulatory perspective is highly advisable, both to check the intended scope of the arrangements and to factor in timing requirements for any approvals, consultations or notifications;
- The contracting structure needs to be carefully evaluated to accommodate legal, regulatory, tax and accounting requirements;

KEY FINDINGS OF THE RESEARCH WORK;

OUTSOURCING Benefits: 57% percent of the Bankers cited lower costs as the primary benefit of outsourcing. Focusing on main/core business, improved efficiency and transfer of technology risk were other three leading factors for outsourcing, according to the respondents.

Selection Criteria: 72% Bankers feel comfortable with the service providers who have the required domain and technological expertise and experience in the financial sector. Integrity ranks next for 64% of bankers in view of the security and confidentiality issues related to data of the banks. Long-term commitment towards industry, Experience of vendors, Technological expertise and Infrastructure are the other important factors for selecting a vendor, according to the respondents.
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**Quality Certification:** Among the Financial Service Provider, 50% were preferred quality certified. Popular certifications included SIX SIGMA, COPC and SCI, CMM. Only 18% of the Financial Service Provider had no quality certifications as important requirement to select service providers.

**Service provider selection**

Management should identify functions to be outsourced along with necessary controls and solicit responses from prospective Vendor via an RFP process. Proposals submitted by service providers should be evaluated in the light of the organisation’s needs, and any differences in the service provider proposals as compared to the solicitation should be analysed carefully. Selection of affiliated parties as service providers should be done at arm’s length in accordance with this guideline.

**Future Plans;**

Business Growth Vision

a) To move up the value chain in their respective financial service provider and expand product range to higher value added services to customers.

b) To offer customized solutions for different industry verticals.

c) Focus on providing end-to-end customer lifecycle solutions (Across Target, Acquire Service, Retain, and Grow).

d) Strengthen the Service quality offering through a combination of internal competency development.
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Strategy

Most Banks had a documented strategy for outsourcing/offshoring and the decision to move operations outsource was mostly ratified or taken by the Board in response to a formal proposal. A number of Banks had a clear idea on a finite size limit, in relation to their overall activity, on outsource operations. Where a third party supplier is used, most Banks adopted a flexible model for the arrangements using the build-operate-transfer (BOT) approach. This gives Banks access to third party expertise at the outset and, once they have attained confidence and experience, they then convert these operations into captives. This is a faster way to get into the market and some Banks noted that this was also a less risky way to get started. Some of the larger operations in India, which have been using third parties for a couple of years, are now at the stage where they are considering switching to captives.

While cost advantages were the initial impetus for outsourcing, many Banks now note that they will continue outsourcing, almost regardless of the economic environment, due to other benefits. Banks stated that as most of the staff of service vendor was graduates the quality of work is extremely high. In addition, increased flexibility was seen as a benefit. Flexibility of operation is achieved through operating services around the clock. This is partly due to time difference (GMT +5.5) and the use of night/shift-work to meet the needs for call centre activity is acceptable. The time difference works particularly well for back office functions.

A variety of processes are outsource, including call centre (e.g. personal banking telephony, inbound and outbound collections, non-FSA regulated sales) and back office processes (e.g. servicing of accounts, claims first response and verification,
insurance renewals). All groups start with simpler processes but, as they gain confidence, they expand the range of activities undertaken offshore. Many have been so happy with the quality of service that they are starting to bring over end-to-end processes and/or outsource more complex processes, e.g. financial research and underwriting.

Similarly, while in the early days much time is spent convincing business to consider moving part of their operations, now many Banks have reported to interested in outsourcing. As a result, it required some conscious decision to cap the amount of work that can be outsourced. This was primarily due to business continuity requirements and the capacity of the service provider to handle more business. It should be noted that to date most service providers have contractual agreement of operations with Banks, so that critical functions can be repatriated if needed.

**Due diligence**

In negotiating / renewing an Outsourcing arrangement, due diligence should be performed to assess the capability of the technology service provider to comply with obligations in the outsourcing agreement. Due diligence should involve an evaluation of all information about the service provider including qualitative, quantitative, financial, operational and reputational factors, as follows:

- Past experience and competence to implement and support proposed activities over the contractual period.
- Financial soundness and ability to service commitments even under adverse conditions
• Business reputation and culture, compliance, complaints and outstanding or potential litigations
• Security and internal control, audit coverage reporting and monitoring environment, business continuity management.
• External factors like political, economic, social and legal environment of jurisdiction in which the service provider operates and other events that may impact service performance.
• Business continuity arrangements in case of technology outsourcing.
• Due diligence for sub-service providers.
• Risk management, framework, alignment to applicable international standards on quality / security / environment, etc., may be considered
• Secure infrastructure facilities
• Employee training, knowledge transfer
• Reliance on and ability to deal with sub-contractors Extent of due diligence reviews may vary based on risk inherent in the outsourcing arrangements. Due diligence undertaken during the selection process should be documented and re-performed periodically as part of the monitoring and control processes of outsourcing.

The due diligence required to that of a major initiative, includes the consideration of country-specific risks and those related to providing and managing operations from a long distance.

**Contract/service level agreements**

All Banks with outsource operations have contracts and have established service level agreements (SLAs), relevant to the nature and scale of operations. All have formal
governance structures and escalation processes in place so performance, future workloads and new initiatives can be discussed. There is usually a person on the ground that ensures that the processes are meeting the required operational performance levels and that they comply with policies and regulatory requirements. Resource levels are planned in advance. As with any outsourcing arrangement or the relocation of a process, Banks have learnt that they need to make allowance for stabilising the process and training to monitor the setting performance targets.

Targets are monitored in much the same way as they are in the organisation. As well as direct measures (e.g. call waiting time and duration, number of claims processed, critical time deadlines met, etc.), this includes quality checks and customer satisfaction surveys. Most Banks noted that performance to date either meets that achieved in or exceeds it.

**Change management:**

**Transition and migration**

As should happen with any new process and new functions are migrated using formal project management techniques. Staffs that assist with one migration/transition are often moved onto the next ones, as otherwise it was found that new areas had difficulty in implementing new processes. Once a process has been migrated, it is usually subject to a period of parallel running (the length of time depends on the complexity of the process). Initially, the level of oversight by and assistance from the Banker locations is quite significant but this diminishes once the service vendors’ staff gains experience. Nonetheless, even once the process is mature a predetermined level of performance monitoring by the location continues.
Quality and continuous improvement

Most of the service provider choose to use in India are ISO9001 (quality standard) and CMM (Capability Maturity Model standard) Level 5 certified. Some service vendors are focused on quality management and use Six Sigma to institute projects for change and continuous improvement. Some firms with captive operations are also adopting these techniques and hiring staff with the necessary qualifications. These teams re-engineer processes to make them more efficient and effective. Process improvement is a cyclical model.

Most of the Banks using the Indian service provider have a formal change process which requires the authorise changes. This is particularly important if the same process is still undertaken in the country, especially when this is a deliberate policy to enable cross-country business continuity planning. Nonetheless, some things can be improved locally without affecting operations.

Recruitment & Training

Most service vendor’s recruit specialised persons, some require no business experience while others require experience in addition to degrees. Recruitment is done via consultants, directly advertisements or through a referral process from existing staff. All staff undergoes induction training to give them an understanding of the company, its culture and policies. Where the service vendor uses a third party supplier, this will typically cover an understanding of both the supplier and the client Bank. Specialist language training is typically required for call centre work but not for back office functions; some firms use external specialists but supplement them with their own training.
Relationship management and oversight

Banks require regulated service vendors to be responsible for effectively managing the risks of outsourcing arrangements and this requires effective oversight. Most Banks developed a governing body that is charged with the oversight of the outsourcing operations and also the strategic decisions involved with deciding which processes should be migrated. It typically consists of the Heads of the Operational areas involved and key advisers, e.g. Risk, Compliance, IT and HR.

In most cases where a third party was used, there was an Outsourcing Manager who had oversight of and specific day-to-day liaison with the operation. Some Banks have a few expatriate managers employed for Service levels and performance are monitored as they are for the same operations undertaken elsewhere in the group. A number of Banks have also implemented their risk assessment practices (e.g. Control Self Assessment). Depending on the group structure, the group, region or Internal Audit functions are responsible for assessing the risk of the migrations and operations and incorporating them in their audit plans, accordingly.

Exit strategies

Some Banks had multiple strands to their exit strategy depending on whether the requirement to exit was due to the operation or Vendor failing and therefore another option offshore needing to be pursued. Exit requirements (e.g. transition support and penalties) are generally built into the contracts with service providers. The speed with which processes can be transferred to another service vendor or repatriated back will depend on the type of process and amount of work outsource.
**Country specific risks**

*Staff Attrition:* In India, attrition could be regarded as a symptom of concentration risk as more firms move into the same locations offering job opportunities. However it is mainly symptomatic of the relatively young age of the people working in the business process outsourcing (BPO) and Information Technology (IT) sectors. All companies consider attrition a risk and its impact are continuously assessed. On the whole, attrition was stated to be either the same or better than the experience. It is generally higher in the third party suppliers; however, this again depends on the arrangement established. Management and knowledge-based jobs have so far not experienced any significant attrition. Non-voice processes (e.g. back office and administration tasks) generally have lower attrition than voice; rates are typically 10% and 30% respectively. There is no shortage of suitably qualified candidates and, indeed, the reason for choosing a specific location includes the proximity of good universities. To deal with attrition and the consequent need to constantly hire new recruits, companies ensure that they have well-documented processes and standard, repeatable training modules. As they grow to a reasonable size, firms are able to cross-train existing staff and back-fill vacancies.

Some firms are entering ‘no poaching’ agreements with each other. NASSCOM (India’s trade body active in the software and the BPO arena) is also developing a database of workers who have served their notice period (one month) and that have been granted a ‘leaving certificate’ from their previous employer. Service Vendor are abiding by a NASSCOM-promoted Code of Conduct/Ethics whereby they will not employ people who do not serve their full notice period or are persistently ‘job-
hopping’. The database will be made accessible to companies so they can make such checks.

**Tax and legal**

Reserve Bank of India’s regulation and legislation has to be taken into account and most Banks use local external experts to keep them advised. Once they have gained a critical mass, some Banks find it beneficial to hire the expertise in-house. Some of the specific considerations below-

*Software Technology Parks of India (STPI)*

All IT and BPO work that is for export comes under the STPI, which is effectively the IT industry regulator. The STPI Scheme was intended to encourage this industry and so, as well as favourable tax concessions, STPI also set up TV radars on buildings for satellite links for the service provider. The industry has now matured to the point where a lot of the companies operating in Bangalore have more advanced technologies than this; however other cities might still benefit.

**Security**

We observed a high level of security in operations and some Banks stated that security is far more controlled. For service vendors, controls over people, processes and access swipes are client-specific; for Banks it is line with their own policies. Some have used their own or external security experts and internal auditors to define and review arrangements. Banks have implemented systems to monitor phone conversations, protect data and monitor staff. There is no evidence to suggest consumer data is at greater risk in service providers’ hand.
Concentration risk

Banks do consider country risks (e.g. political, legislative, security, cultural, etc.) when deciding which country to move to. Most did assess – and some continue to assess – the suitability of other countries. It was noted that India has several advantages as a leading outsourcing destination:

- Low cost – although staff costs are raising, service provider commented that this has been compensated by decreases elsewhere (e.g. telecommunications);
- established destination for outsourcing;
- Large pool of English-speaking graduates;
- Low-cost data transmission capabilities;
- Indian vendors are expanding organically and inorganically to establish a multi-location presence in India, to reduce risk of their business; and
- Indian government backing and encouragement, e.g. to improve the technical infrastructure and education systems to meet the demand.

No Choice …… but to outsource:

As the Banking industry moves beyond ‘whether to outsource’ to ‘how and what to outsource’, the various stakeholders are actively pursuing what is required of them.

While this is just indicating that the banks more than ever consider outsourcing to be a strategic move, and are open to restructuring and realigning their businesses and processes. Banker confidence about outsourcing has increased and they also understand that they are equally responsible when it comes to maximizing the benefits from the outsourcing engagements. What they expect from vendors is a complete
solution, and ownership with regards to all outsourced tasks and processes. They are increasingly looking to expand their relationships with vendors in a way that impacts not just their bottom line, but also their top line.

**Meeting demands**

The banker readiness to hand over the entire processes means that vendors offers must include not just cost reductions, but also process improvements, reductions in turnaround time, improvement in quality through training, automation and help the client improve performance. The examples stated above indicate that vendors are looking at actively meeting these demands. As part of efforts to increase the suit of offerings, expand their presence and enable services across verticals and horizontals, vendors are increasingly looking at partnerships and acquisitions and are extremely bullish. The stated examples clearly reflect the vendor approach as they try to meet banker demands of end-to-end solutions, single vendor engagements and effective risk management.

The impact on mid to small size segment within the vendor community is slightly different. The domain expertise that they can offer is extremely valuable and large vendors are open to partnerships with them. They have the option of retaining their presence, or opt for merger with the larger vendor. Domain expertise has achieved great significance in the last few years and buyers are demanding that vendors meet this requirement, since this has a direct impact on the quality of the outcome. The change in vendor approach to cater to all buyer requirements is evident as they move
to new geographies, add services, look at new verticals and enhance offerings with inclusion of technology.

**Outsourcing aggressively**

With Governments also pooling in to offer incentives to vendors, the sector is set for a rapid rise. With most of the banker demands being met, outsourcing will be just another tool to improve profitability. The lean structure is in, and outsourcing and technology are playing a major role. The future will definitely be about one stop shops, global delivery and end-to-end solutions. While these may be termed as buzz words by skeptics, they also indicate the route that the industry will take. Bank can expect more competition, and larger deals will be back – deals that cut across geographies, verticals, and services. While survival for the smaller players will be tough, there will no dearth of opportunities for vendors, big and small, who can meet buyer demands.

**KEY RECOMMENDATIONS / SUGGESTIONS:**

1. The Board and senior management are might be responsible for outsourced operations and for managing risks inherent in such outsourcing relationships. Whereas an institution may delegate its permitted day-to-day operational duties to a service provider, responsibilities for effective due diligence, oversight and management of outsourcing and accountability for all outsourcing decisions continue to rest with the Banks’ Board and senior management. Board and senior management have the responsibility to institute an effective governance mechanism and risk management process for all outsourced operations.
2. Banks need to assess the degree of ‘materiality’ inherent in the outsourced functions. Whether an outsourcing arrangement is ‘material’ to the business context or not is a qualitative judgment and may be determined on the basis of criticality of service, process, or technology to the overall business objectives. Outsourcing of nonfinancial processes, such as technology operations, is ‘material’ and if disrupted has the potential to significantly impact business operations, reputation and stability of the bank. Where a Bank relies on third party employees to perform key banking functions such as applications processing, etc., on a continuous basis, such outsourcing may also be construed as ‘material’, whether or not the personnel are located within the premises of the Bank.

3. Risk evaluation be performed prior to entering into an outsourcing agreement and reviewed periodically in the light of known and expected changes, as part of the strategic planning or review processes. Banks try to evaluate vendor managed processes or specific vendor relationships as they relate to information systems and technology. All outsourced information systems and operations may be subject to risk management and security and privacy policies that meet the Bank’s own standards.

4. When considering negotiating / renewing an Outsourcing arrangement, due diligence may be performed to assess the capability of the technology service provider to comply with obligations in the outsourcing agreement. Due diligence should involve an evaluation of all information about the service provider including qualitative, quantitative, financial, operational and reputational factors. Where possible the Bank may obtain independent reviews and market feedback to supplement internal findings.
5. Banks must be required to report to the regulator, where the scale and nature of functions outsourced are significant, or extensive data sharing is involved across geographic locations as part of technology/process outsourcing.

6. In the event of multiple service provider relationships where two or more service providers collaborate to deliver an end to end solution for the financial institution, a bank, however, remains responsible for understanding and monitoring the control environment of all service providers that have access to the Bank's systems, records or resources. Banks so ensure that the contract brings out the nature of the legal relationship between the parties (agent, principal or otherwise), and addresses risks and mitigation strategies identified at the risk evaluation and due diligence stages. Contracts should clearly define the roles and responsibilities of the parties to the contract and include suitable indemnification clauses. Any ‘limitation of liability’ consideration incorporated by the service provider should be assessed in consultation with the legal department.

7. Banks try to establish a structure for management and control of outsourcing, based on the nature, scope, complexity and inherent risk of the outsourced activity.

8. Management might include SLAs in the outsourcing contracts to agree and establish accountability for performance expectations. SLAs must clearly formalize the performance criteria to measure the quality and quantity of service levels. For outsourced technology operations, specific metrics may be defined around the service availability, business continuity and transaction security, in order to measure services rendered by the external vendor organization.
9. Banks may evaluate the adequacy of the internal controls environment offered by the service provider. Due consideration may be given to implementation by the service provider of various aspects like information security policies and employee awareness of the same, logical access controls, physical and environmental security and controls, controls for handling data, etc.

10. Outsourcing should not impede or interfere with the ability of the bank or the regulator in performing its supervisory functions and objectives. As a practice, institutions should conduct pre- and post- outsourcing implementation reviews. An institution may also review its outsourcing arrangements periodically to ensure that its outsourcing risk management policies and procedures, and the RBI Guidelines, are effectively complied with. An institution should, at least on an annual basis, review the financial and operational condition of the service provider to assess its ability to continue to meet outsourcing obligations.

11. Banks may also periodically commission independent audit and expert assessments on the security and control environment of the service provider. Such assessments and reports on the service provider may be performed and prepared by the institution’s internal or external auditors, or by agents appointed by the institution.

12. Banks try to ensure that their business continuity preparedness is not compromised on account of outsourcing. Banks are expected to adopt sound business continuity management practices as issued by RBI and seek proactive assurance that the outsourced service provider maintains readiness and preparedness for business continuity on an ongoing basis.
13. A bank needs to take effective steps to ensure that risks with respect to confidentiality and security of data are adequately mitigated.

14. Banks, while framing the viable contingency plan, need to consider the availability of alternative service providers or the possibility of bringing the outsourced activity back-in-house in an emergency (for example, where number of vendors for a particular service is extremely limited) and the costs, time and resources that would be involved and take suitable action, if warranted.

15. In the event of outsourcing of technology operations, the banks might subject the same to enhanced and rigorous change management and monitoring controls since ultimate responsibility and accountability rests with the bank. It may be desirable that banks control the management of user ids created for use of external vendor personnel. As a contingency measure, banks may also endeavour to develop, over a period of time, reasonable level of skills/knowledge in various technology related areas like system administration, database administration, network architecture and administration, etc., to effectively engage with the vendors or to take over these functions in the event of any contingency.

16. The engagement of service providers across multiple geographies exposes the organisation to country risk – economic, social and political reasons in the country that may adversely affect the Banks business and operations. Banks so, proactively evaluate such risk as part of the due diligence process and develop appropriate mitigating controls and as required, an effective exit strategy.

17. Emerging technologies such as data centre hosting, applications as a service and cloud computing have given rise to unique legal jurisdictions for data and cross border
regulations. Banks try to clarify the jurisdiction for their data and applicable regulations at the outset of an outsourcing arrangement. This information should be reviewed periodically and in case of significant changes performed by the service provider.

18. The Reserve Bank of India’s guidelines are generally applicable to outsourcing within a group conglomerate, including parent or Head Office, branch or a group company, whether located within or outside India. The requirements may be addressed as part of group wide risk assessment and management procedures.

19. Banks try to ensure that quality and availability of banking services to customers are not adversely affected due to the outsourcing arrangements entered into by the Bank. Banks need to institute a robust grievance redressal mechanism, which should not be compromised in any way due to outsourcing.

Outsourcing will continue to grow and will continue to broaden in scope from a relatively straightforward tool focused on efficiency-driven cost reduction/profitable organisation to become an increasingly strategic tool focused on achieving change. The future is about choices. Success will largely be driven by the ability to make those choices and to build an effective outsourcing portfolio. Business Process outsourcing will continue to grow. Grid computing and industry-utility shared services will become increasingly practicable; customers will increasingly buy on a ‘pay as you use’ basis and outsourcing providers will increasingly accept volume risk. Relationships between outsourcers and their clients will become closer. Arm’s length supplier–customer relationships characterised by an over-arching focus on tight SLA-
based contracts will still have their place – but these will focus on conventional, efficiency based outsourcing arrangements. Outsourcing is now firmly on the boardroom agenda. The Focus is now on what and how.

Conclusion

The Indian Banking Industry is witnessing significant double digit growth. The sector is also slowly emerging into a market that is becoming increasingly regulated in keeping with global trends and practices. Some of the early growth areas within the banking sector; like internet banking, wealth management, investment banking and retail banking both in private and public sector bank are showing potential to become significant businesses in the coming years. With India witnessing an increased demand from raw and finished goods in addition to its own rapidly growing consumption levels, significant investments are pouring into the manufacturing, infrastructure and services sectors, leading to high growth in corporate banking. With this high growth activity leading to increased competition in the banking sector, technology has emerged as the key differentiator in the marketplace. The purpose of this research survey and research report has been to ascertain if Banks in India have the right foundations in place to outsource financial services. Through the course of our survey and subsequent analysis we have arrived at the conclusion that Indian banks have worked on 'hygiene' factors such as having the right set of transactional applications, infrastructure, broad governance and architecture in place. It is in the areas of managing data quality and data volumes, analytical applications, Service vendor’s management. In future, we foresee that, in addition to the regular organic growth
plans, it is inorganic growth activity that would lead to banks wanting to spread their geographic reach globally. Herein well architected technology solutions would become extremely crucial to ensure ease of integration and to manage scalability, which is possible with proper support from outsourcing service vendor. Our overall conclusion is that outsourcing can contribute a material risk to the Banking Institutions objectives of:

- Market confidence;
- Reduction of financial crime; and
- Consumer protection.

The main risk identified is the complexity of achieving suitable management oversight and control from a distance. However, appropriate governance frameworks, risk management systems and controls can identify and mitigate operational risks from outsourcing. Our review shows that the cross-section of Banks we covered is aware of these and their own Bank-specific risks and are taking appropriate actions. Currently, all have formal oversight structures and it is important that, even as this mode of operation becomes more common, the risks remain under such processes. Not least since the impact of outsourcing greater volumes and more complex functions will affect the Bank’s risk profile, particularly in relation to its operational risks. However, it should be noted that the Banks in this exercise were, by definition, major groups and so we would expect them to have appropriate risk management control frameworks in place and good support from RBI. We provide more detailed analysis within the body of this report but two main observations about outsourcing in India relate to attrition and business continuity planning.
Staff Attrition:

The industry (financial service provider) in India is experiencing a high level of staff attrition, largely because it is quite a young industry. The level of attrition depends on the method of entry chosen (captive or third party supplier), the processes outsourced (call centre or back office) and the length of time that the operation has been in India. While attrition is a risk it was stated in all cases that this risk is being monitored and that there are strategies in place to combat it. These include programmes to motivate staff to stay within a company and industry-wide initiatives pioneered by an Indian trade body, the National Association of Software and Service Companies (NASSCOM). We were concerned that high attrition could adversely impact service provision and specialized service provide by service provider, but found that firms had factored it into their recruitment and training capabilities.

Business Continuity Planning (BCP)

Banks should ensure that their business continuity preparedness is not adversely compromised on account of outsourcing. Banks are expected to adopt sound business continuity management practices as issued readiness and preparedness for business continuity on an ongoing basis. Banks, while framing the viable contingency plan, need to consider the availability of alternative service providers or the possibility of bringing the outsourced activity back-in house in an emergency (for example, where number of vendors for a particular service is extremely limited) and the costs, time and resources that would be involved and take suitable preparatory action by RBI and seek proactive assurance that the outsourced service provider maintains.
There are still tremendous gains to be made from outsourcing and some very powerful drivers continue to push Banking organisations to intensify their use of outsourcing to generate both profitability and organisational control. However, the process takes real commitment and skill to achieve the target savings that organisations are looking for. This is an area where strategic planning really does pay dividends. Any move to outsource a major function requires considerable work and planning, together with the appropriate consultancy support. Key decisions include:

- The control and responsibility of delivery to service-level agreements.
- The shape and location of the outsource contract.
- The relationship between what is being outsourced and the rest of the client’s business.
- The flow of data.

Outsourcing is a challenging project and requires top-rate project management and planning skills to generate the full range of expected benefits.