

PUBLICATION: Better Bank Systems

DATE: October 3, 2012

## Better Bank Systems

The Community for News and Analysis about Banks' Core Systems

**Robert McGarvey**

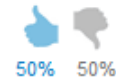
### Here Come the Foreign Outsourcers



**Robert McGarvey**, Technology Journalist, 10/3/2012

[Bio](#) [Email This](#) [Print](#) [Comment](#)

[Login](#)



50% 50%

The experts see the next wave coming in banking: offshore outsourcing.

"Big banks are looking for more efficiency while also gaining more functionality. That may trigger the next big wave of offshore outsourcing,"

said Don Morrison, senior vice president of banking and capital markets at [Mphasis](#), a BPO firm with offices around the world.

Want more, but also want to pay less? Outsourcing -- especially with lower-cost labor markets (read: India) -- just may be the only way to get those otherwise incompatible goals.

Added Morrison: "Outsourcing will become much more important in banking again as rates inch up again. In days of aggressive interest rates, a bank has to monitor its cost side."

And those days, suggested Morrison, are coming.

Offshore outsourcing is not new to banks. It hit a high speed in the run-up to Y2K -- the largely exaggerated worries about the impacts of a changeover into a new century. It sent myriad projects to offshore outsourcing firms, primarily in India, which had huge availabilities of engineers willing to work for dimes on the dollar.

Since then the velocity of offshoring has slowed, said sources, but now experts say the conditions may be ripe for a renewal of interest in outsourcing to low-cost foreign locales as banks wrestle with increased pressures to maximize efficiencies and reduce waste.

The quickest cure for that just may be offshoring -- savings in the 30 percent to 50 percent range are routinely tossed around by proponents of sending work to India in particular. Those savings may be inflated -- more sober analysis usually factors in increased costs of supervising outsourced work -- but, finesse the math as you will, "doing the work in India is going to be cheaper," said Alberto Corvo, managing principal for financial services at [eClerx](#), an Indian outsourcing company.

He noted that another advantage of outsourcing to a large provider is that "what are perceived as fixed costs domestically can become variable," meaning that staffing can -- fairly easily -- be expanded or contracted by an outsourcing partner as work volumes fluctuate.

These staffing shifts can pay off for an institution that is working to meet stronger capital ratios that may be demanded by regulators, added Corvo and he said he anticipated heightened pressures to meet ratios to fuel yet more offshoring.

Corvo elaborated that as far as US banking regulators go, they mainly put one -- large -- proviso on any offshoring deal. "In the US, the regulator expects the bank to retain complete control of the work."

"A bank can outsource but it cannot outsource responsibility," added Corvo, who indicated that "different banks interpret this differently."

This may give US banks a competitive advantage against European banks, which often work under tighter restrictions regulating where data can travel, and who can look at it. American banks don't face those limitations though, of course, it remains paramount for the institution to safeguard the privacy of data regardless of where it travels.

### **End of innocence**

Another 2012 reality, per Morrison: Banks are much more sophisticated about the whole offshoring process. The era of naivete is over: "The days of lifting and shifting a process offshore are over. Now you have to identify the process, change the process, automate the process, then move it."

That said, Corvo believes that banks now will at least consider offshoring just about anything: "There are no more sacred cows," he said. While banks at one point were comfortable offshoring only some IT functions and backoffice transaction processing, now they are looking at offshoring more delicate tasks.

Banks, at one stage, would not even discuss offshoring customer-facing functions, but that is no longer so, said Corvo by way of offering an example. "Now we are doing work that involves substantial end customer contact."

Morrison agreed that FIs seem increasingly open to outsourcing functions where they see significant cost savings in doing so.

Bottomline, said Corvo: "If you are comfortable sending a function to an outsourcer in Jersey City, why not consider sending it to Mumbai?" And, he added, right now it seems the Mumbai option is winning sharply increased acceptance. "When a bank wants to stay competitive, it has to cut costs and that probably means more offshoring."