# The move towards outsourcing and offshoring – the challenges and opportunities

Increasing governance issues, compliance requirements, remote working and new technologies have forced organizations to reconsider their operating model, technology stacks and customer journey. Varun Bhatia weighs the benefits and disadvantages of a workforce beyond borders.

Financial institutions (FI) are not new to outsourcing and offshoring various functions. While they have delivered cost advantages, a large percentage of FIs aren't getting the most out of their offshoring programs. To add to the complexity, the pandemic has reshaped the world and FIs are under more pressure than ever before.

FinTech firms and neo banks have spung up to meet rising customer demand and capture whitespaces. This has pushed traditional FIs to close the gaps in the digitization of processes and improve both employee and customer experiences. The rising demand for seamless processes, quick and secure transactions, data security, fraud detection and financial reporting is challenging the status quo. This is especially true for time-consuming manual processes, administrative tasks and other traditional operations which have been done the same way for several decades, pre and post offshoring.

**Thinking digitally**

It is evident FIs no longer have the option of debating leveraging cutting-edge technologies like artificial intelligence (AI), big data, Cloud platforms and automation. The harsh reality is that most FIs have not been able to realize the full potential of these technologies. They have tried to maintain operations in-house, or tried using what would typically be termed as "band-aid" solutions across a series of vertically integrated silos, with extensive task duplication and bureaucracy running across their businesses and markets. The question remains: what about the FIs that are too small or do not have the resources to adopt these disruptive technologies?

Cost reduction used to be the primary reason for offshoring. Traditionally, only transactional functions like customer service, IT, sales, accounting, payroll or back-office processes were considered "in-scope". Today, FIs are generating additional value by leveraging outsourcing and offshoring services for complex and critical functions. These include:

— Compliance

— Cyber security

— Data engineering

— Advanced analytics

— AML transaction monitoring

— Regulatory filings

— Customer due diligence

3 Evolving infrastructure capabilities

The role of third-party vendors and offshore setups is no longer limited to transactional activities–they are now leading digital initiatives and re-engineering operations by leveraging technology-first solutions that reduce risk and improve tangible outcomes.

## The need to act with urgency

Digital business models have been growing across FIs with banks creating better apps, streamlining customer journeys and revamping their middle and back-office processes. However, they are struggling with the pace of change and adoption. FIs are stuck with old IT, data and operations mindsets which often obstruct meaningful transformative change. For this reason, working with an outsourcing or offshoring provider has the potential to change the game for FIs as they bring in technological and operational muscle, and access to a large talent pool.

Moreover, the scope of outsourcing and offshoring has evolved from labor to value arbitrage, which has become a core competence for outsourcing service providers. They can help in reimagining the customer journey across front, middle and back-office operations to optimize onshore and offshore resources, bring in proprietary tools and build better technology stacks.

## Outsourcing at the heart of digital transformation

Reimagining operating models is no longer limited to tactical value-adds and minor process level innovation. The market for business process outsourcing (BPO) or shared services (captive) continues to grow rapidly, largely driven by the addition of new complex services.

Risks such as operating costs, limited talent, cultural barriers, operational risks, vendor mismanagement and data breaches require appropriate security measures to be put in place. This is usually achieved through compliance with local financial service (FS) policies and regulations by the Central Bank of the UAE (CBUAE) and Ministry of Finance (MoF).

To allow them to anticipate future trends and develop cutting edge technology to help their clients, FIs need to reflect upon a few questions:

- What is our tech architecture?
- What is our vendor or partnership strategy?
- Do we have capable delivery resources?
- Is the vendor's vision aligned with ours across structure, governance and the hiring approach?
- Will the service provider go above and beyond the typical scope of work to drive meaningful cross-enterprise impact?
- How will FIs measure the performance of the service provider based on joint priorities?

Large banks have already set up their own captive shared services and are open to using outsourcing service providers more than ever. However, when it boils down to the complexity of execution, selecting the right approach, toolset, delivery model and people to implement end-to-end services become essential in maximizing cost efficiency and process excellence. Leading service providers are focused on establishing remediation plans, working closely with industry experts, using agile operating models and building deep domain expertise. It is imperative FIs carefully identify and establish strategic partnerships to unlock lasting business outcomes, enabling them to fully rely on and leverage the benefits of outsourced or managed services.

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