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Research

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What Banks Can Do When Politics Derails Offshoring

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Reaction to a U.K. bank's possible plans to move IT jobs offshore frames a dilemma all banks face when economics, politics and logistics collide. Bank CIOs must know how to cope with external interference.

NEWS ANALYSIS

Event

On 2 October 2008, the British news media reported that a U.K. bank in the process of being acquired by another financial institution is planning to outsource 2,000 U.K.-based IT jobs to India. In September 2008, union representatives for the acquiring bank's workers demanded that it halt all offshoring plans in return for the government's support for the takeover.

Analysis

Speculation about a bank's possible offshoring of IT jobs highlights the question of how bank CIOs should resolve the conflicting economic, political and logistical pressures to:

- Cut costs by offshoring IT work to cheaper locations
- Resist job cuts and relocations
- Achieve the integration, synergies and consolidation needed after a merger

Having bailed out many financial institutions, governments around the world face pressure to increase protectionism and state intervention in bank operations. More industry regulation is likely, and inhibitors to offshoring are possible.

Gartner believes that protectionism won't save jobs in the long term, because inefficient banks will be driven out of business by more efficient ones. However, politics is more often about short-term tactics than long-term strategy, and political interference will likely delay or derail many banks' offshore IT programs. That reality requires bank CIOs to find other ways to achieve cost efficiency.

Most bank CIOs' options are further restricted by the assumption that cost improvements are needed quickly (within 90 days), layoffs may not be politically viable (depending on location) and capital for IT investments (such as infrastructure upgrades) is lacking in the short term. Squeezing the most flexibility from IT contracts is key. To that end, bank CIOs must have plans to manage potential curbs on their use of offshoring.

Additional research contribution and review: Vittorio D'Orazio

RECOMMENDATIONS

Bank CIOs:

- Revisit contracts, terms and conditions, and service-level agreements with your IT vendors to exploit maximum flexibility.
- If you're conducting less business due to the current financial crisis, ensure that the smaller volume of transactions being processed is reflected in variable pricing from your outsourcers and vendors.
- If you're in the midst of a merger, consolidate (to cut redundancy) and scale up (for greater volume) your outsourced processes.
- If you're a post-merger bank, create an outsourcing strategy that includes scenarios for dealing with layoffs.

- Reallocate your offshore resources from declining lines of business (such as loan origination) to expanding ones (such as loan delinquency).
- Re-examine funding and pricing agreements to trim fixed costs and the front-loading of new capital expenditure.
- If offshoring is no longer an option, assess alternative onshore and nearshore locations for cost savings.
- Identify where shared services can be expanded to cover more parts of the bank.
- Identify middle- or back-office jobs that can be outsourced and then offset by new jobs in expanding onsite areas such as compliance.
- Seek tax rebates, new planning flexibility and other forms of government assistance.

RECOMMENDED READING

- "Cost Cutting for IT in 2008 Must Deal With a Potential Economic Downturn at Banks and Investment Services Firms" — Bargain aggressively with IT providers and seek out emerging vendors. **By Peter Redshaw**
- "Employee Activism Heats Up as Irish IT Workers Threaten Strike" — European companies that fail to grasp the impact of outsourcing on IT employment will be ripe for employee activism and community backlash. **By Diane Morello**

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