# SHOULD BANKS TRANSFORM INTO TECHNOLOGY COMPANIES?

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A recent report reveals that banks are increasingly insourcing their technology requirements[1]. Some banks are virtually transforming from 'banking' into 'technology' companies by insourcing their entire technology workforce. Others are partnering with reputed systems integrators to transform their technology platforms[2].

The multi-million dollar question is, which business case makes the most sense for banks: insource talent and build platforms in-house to become a technology company, or simply outsource technology expertise?

Today, more than being a business enabler, technology has proven itself to be a key competitive differentiator driving business growth across industries. This trend holds true for the financial services industry as witnessed in the commoditization of core services and rise of FinTech. But, with new technologies emerging at an unprecedented pace, it is difficult for large incumbent banks to reimagine legacy systems and technologies for scale and flexibility.

Having built reputations of dependability and security among their customers, incumbent banks need to take the right approach to leverage the wealth of data, information and functionality within their organizations.

## Concerns about Technology Insourcing

Insourcing, or using internal resources to achieve technology-driven transformation, has certain benefits. It gives banks better control of their differentiators and, thus, the competitive edge. It also helps them retain talent, stay flexible and sustain a customer-first approach.

But building and maintaining large internal technology teams is no walk in the park. To do this successfully, banks need to:

- Expand their captive footprints – when they need to be lean and nimble
- Provide competitive compensation structures that match packages paid by top technology firms – in an industry where payouts are usually determined by company performance
- Create a culture that encourages experimentation and out-of-the-box thinking – when such traits would clash with the innate character of the banking business, which is rooted in caution and security

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## Insourcing Challenges for Banks

As banks turn their focus from millennials to Gen Z, they will face intense pressure to up the game and stay relevant amid a mushrooming FinTech ecosystem that promises agile and highly responsive banking services. For incumbent banks, reaching this level of agility through insourcing means creating environments for innovation by ensuring robust research and development (R&D) pipelines, developing a fail-fast approach, and adopting new technology at a brisk pace. This mean banks will need to provision a flexible workforce, which, in effect, is antithetical to the case for insourcing. It can also lead to operational and logistical difficulties in addition to challenges like:

- **Re-inventing the wheel** – Banks are not typically known for their investments in technological research and adoption. These capabilities are better suited to other industries or digital-native banks that are unburdened by legacy overheads, leaner, and able to experiment with innovative approaches. By eschewing readily-available expertise from infotech partners for speed and scale, insourcing forces banks to rely on organic adoption of technology, which can take much longer to implement.
- **Long turnaround cycles** – Insourcing promotes a slower rate of change and longer turnaround cycles, particularly when it comes to technology-led transformation. Due to the cautious nature of banks, the prevailing tech culture of 'fail fast, fail early' will be difficult to establish and may limit the effectiveness of technology teams.
- **Higher talent churn** – Building competent technology teams means balancing creativity, risk, patience, and change. As in-house talent grows in skill and proficiency, banks must be careful that they do not lose talent to competitors[3]. A LinkedIn study shows that the infotech industry has the highest attrition, with churn among embedded software engineers as high as 21.7%[4].

## Disruption is rarely internal: A case for outsourcing

Outsourcing technology adoption and development will give banks an edge through buy versus build models that reduce the risk of change for commoditized functions while ensuring investments are future-proof. Systems integrators with proven experience in banking will grow in relevance to fulfil these requirements for banks. Marrying technology expertise with functional knowledge, they ensure that the final solution meets changing customer expectations and business goals.

> Outsourcing enables banks to draw lessons from constant testing and experimentation

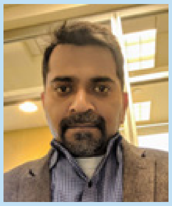
Another major benefit of the outsourcing strategy is that it enables banks to draw lessons from constant testing and experimentation, by leveraging international consortiums. It allows like-minded banks to adopt a utility approach to unlocking value hidden within historic data sets and market knowledge at a much lower operational cost. The American Bankers Association has set up the Operational Risk Data Sharing Consortium for regional banks to benchmark losses and improve the operational risk management framework[5].

Technology practitioners are always eager for new challenges and new knowledge. Greater exposure to new technologies is critical to their aspirations. IT firms provide a great platform for them to move, work and learn across projects, accounts and industries, and solve new problems every day. But comprehensive training, enablement, redundancy, and abundant talent are needed to promote growth opportunities and retention at the individual level. Dedicating sizeable budgets for talent retention can be a continuous struggle for banks, and the approach lends itself to risks that can be best mitigated by outsourcing.

> Banks must identify their core business differentiators and insource only the most critical solutions

However, keeping business-critical technology functions in-house is an approach followed by all industries, not just financial services. To future-proof themselves, banks must identify their core business differentiators and insource only the most critical solutions to operationalize their differentiators and augment value

## About the Author

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