ROBERT WALTERS

Outsourcing vs. Offshoring Target Operating Models and the Impacts on the workforce within UK Financial Services

The outsourcing vs. Offshoring conversation has been ongoing within UK Financial Services for years, with particular focus on cost saving vs. maintaining the integrity and quality of delivery across multiple teams. Within Financial Services, there are two departments who are under the “cost saving spotlight” more than most, Operations & Technology, here we take a brief look at the impacts of each approach on both the talent pool and wider organisational impact.

Outsourcing:

Definition: Outsourcing involves contracting out specific functions or projects to external providers. These providers can be located within the same country or region.

Benefits:

- Cost Advantages: Outsourcing allows financial institutions in the UK to leverage external expertise while minimizing operational costs. By delegating tasks such as IT support, customer service, human resources, and accounting, businesses can focus on their core competencies.
- Fast Access to Specialized Skills: the Third Party “Outsourcer”, will often be providing similar services to a range of their clients allowing for a relatively fast transition with low initial training costs.
- Scalability: Outsourcing is highly scalable, making it ideal for short-term projects or fluctuating workloads.
- Lower Initial Investment: Utilizing existing infrastructure reduces the initial investment required.

Risks:

- Loss of control: Outsourcing effectively relinquishes control over the quality of delivery almost entirely to a third party.
- System Transfers laborious: in many cases it takes more than a year to make sure the remaining inhouse systems and the systems of the third party are properly integrated.
- Impact on teams: Often Operational teams will be transferred to the Custodian taking on the Outsourcing work on a short-term basis, with no certainty about their long term when either staying put or moving to the Custodian.

Offshoring:

Definition: Offshoring involves moving business operations to another country, typically one with lower labour costs or specific expertise.

Benefits:

- Cost Savings: In the UK Financial Services Market, offshoring provides significant cost savings due to lower labour costs in specific regions. For instance, offshoring back-office functions or software development to countries like India or the Philippines can yield substantial financial benefits.
- Access to Skilled Resources: Companies can tap into skilled talent pools available in offshore locations, however if they “go first” into a new region they will be at risk of losing their skilled offshore workforce.
- Greater Control: In direct comparison to the Outsourcing Model, this strategy allows employers to have more direct “face time” with the Offshore teams, allowing them to guarantee standards are kept high, both internally and when considering the impact on their client base’s experience.
- Impact on the current workforce: This model allows for at least some of the high-performing senior team to hold onto their previous roles, usually manager/ SME level and above and simply manage their new teams remotely, rather than in person.

Risk:

- Cost: Higher upfront spend, as more initial investment is required both for immediate hiring, and then to train up the Offshore team to an acceptable standard.
- Impact on the current workforce: In comparison to Outsourcing, Offshoring allows for a more staggered redundancy structure. However, many individuals may resent having to train their own “offshore replacements”. As recruitment agents, this is one of the most common complaints that we hear.
- Timeline: Very rarely do any projects run on time, but within Financial Services, it is often the development of Offshore teams that takes the longest, particularly in high competition level Offshore “hubs”.

Summary:

The need for great cost control is impacting more and more categories within Financial Services. A few years ago, it was mainly the Investment Banks, but in 2024 everyone from an Investment Bank to a Custodian, Fund Administrator or an Asset Manager are running some form of Global Operating Model.

From a hiring perspective, Agency Recruitment is seeing far higher volumes of senior roles onshore now than we have in a long time, as more roles perceived as “junior” are pushed offshore, providing opportunity for the international community at a time when the UK Government has increased it’s vias length from 2 years to 3. This has itself resulted in many firms (who may not have recognised this talent pool previously) seeing the opportunity to bring high skilled individuals onshore for their mid-level hiring at a cost effective level.

It is no longer solely the role of the Business Manager, COO, CTO or Chief of Staff to decide on where efficiencies can be achieved, but Management at all levels within Operations & Technology in particular must be more and more aware of the opportunities and challenges that face their teams.