



Offshoring does not explain job cuts at European banks

August 2008



European banks widely apply IT outsourcing and offshoring. Modern financial services rely heavily on IT-intensive and IT-enabled processes but IT services are typically not the core competency of a bank. Little wonder that close to 90% of European banks source ICT functions from external suppliers (outsourcing); more than 22% buy from a foreign supplier (offshoring) and 11% of banks procure from a foreign affiliate (captive offshoring). [chart 1](#)

Financial services account for more than 40% of Indian IT and BPO exports. India is still the dominant offshore destination thanks to its large pool of affordable, educated and English-speaking workers. Financial services providers have emerged as the main customer. This includes typical IT offshoring, such as software development, but also IT-enabled processes (BPO), such as call centres and accounting. [chart 2](#)

Offshoring remains *en vogue*. In a global survey of 50 retail banks, nearly half of all respondents plan to offshore some IT functions during the next 5 years – compared to 38% today. Back office and other routine support functions are also increasingly considered to be ready for offshoring. [chart 3](#)

One-third of IT and support staff works offshore. Banks using offshoring at present employ between 32% (IT operations) and 38% (support functions) of staff offshore. Looking forward, this share is planned to rise to 40-44%. This is evidence of the banks' satisfaction and growing reliance on offshore vendors. [chart 4](#)

Since 2001, European bank employment has dropped by more than 125,000. On average, bank employment dropped by around 4% between 2001 and 2006. However, the losses are distributed quite unevenly: British and German banks lost strongly, whereas banks in Estonia and Latvia but also in Ireland and Spain added many new employees. The subprime crisis that unfolded in the US last summer will take its toll, too. The market turmoil has put more than 100,000 jobs at risk – but so far primarily in the US. [chart 5](#)

Offshoring does not explain job cuts. Across Europe, there is no correlation between the share of banks that have offshored IT functions and the changes in bank employment between 2002 and 2006. Other factors – such as the reduction in bank branches in Germany or the catching-up in financial development in some eastern European countries – apparently dominate the relation. [chart 6](#)

Most job cuts result from internal restructuring. Less than 10% of all publicly announced job cuts at European banks since 2002 are due to offshoring. Internal restructuring accounts for the lion's share. However, could offshoring be a solution to the present cost pressures? [chart 7](#)

Cost savings – but beware of the “J-curve”. Most banks that use offshoring say they save costs compared to onshore production. Between 10-20% is a typical benchmark. However, these savings only materialise over time. In the first year, more than 30% of banks report an increase in costs. This share melts down to 2% after 5 years, suggesting that offshoring is not a short-term fix to alleviate cost pressures but rather a strategic decision. [chart 8](#)

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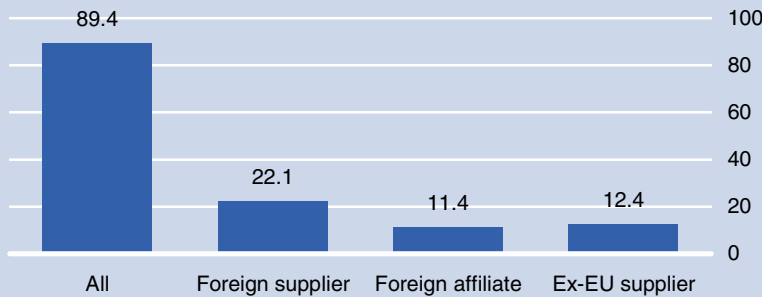
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Outsourcing and offshoring is popular among European banks

% of financial services firms in the EU-27 that receive ICT functions from external suppliers, 2007



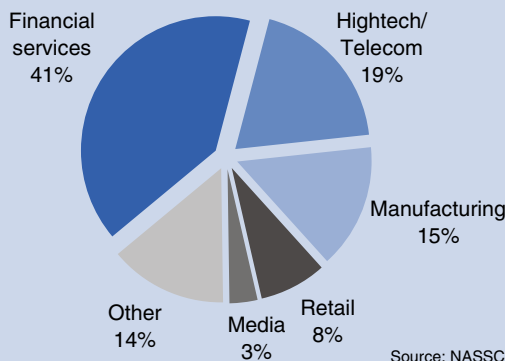
Figures may overlap. Basis: Large enterprises. Source: Eurostat, 2008

1

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Financial sector is the key customer

Indian IT and BPO exports, %



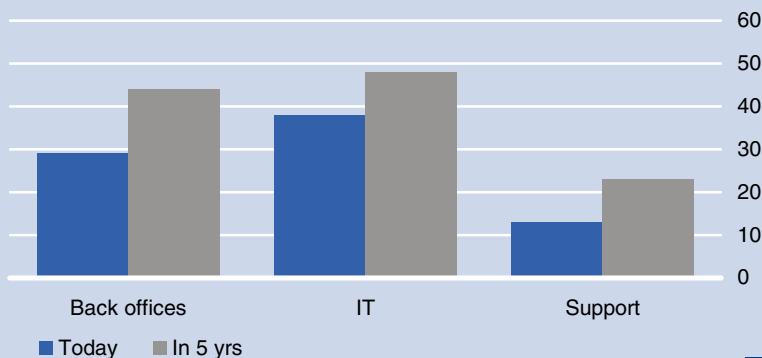
Source: NASSCOM, 2008

2

Financial services account for more than 40% of Indian IT and BPO exports. India is still the dominant offshore destination thanks to its large pool of affordable, educated and English-speaking workers. Financial services providers have emerged as the main customer. This includes typical IT offshoring, such as software development, but also IT-enabled processes (BPO), such as call centres and accounting. [back to front page](#)

More banks want to use offshoring

% of global banks which use/plan to use offshoring, 2007



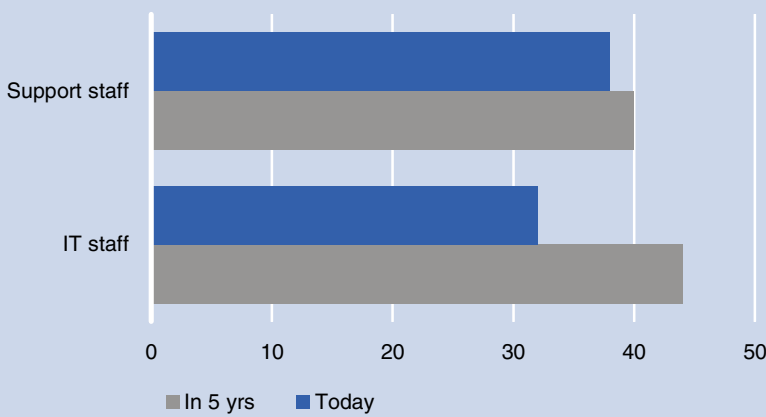
N=50. Source: Capgemini, 2007

3

Offshoring remains *en vogue*. In a global survey of 50 retail banks, nearly half of all respondents plan to offshore some IT functions during the next 5 years – compared to 38% today. Back office and other routine support functions are also increasingly considered to be ready for offshoring. [back to front page](#)

One-third of IT and support staff works offshore

Average proportion of IT and support staff offshored in %, 2007



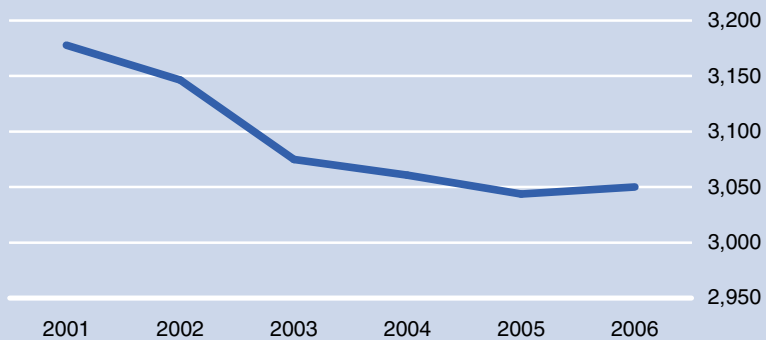
Basis: Banks with offshore operations- Source: Capgemini, 2007

4

One-third of IT and support staff works offshore. Banks using offshoring at present employ between 32% (IT operations) and 38% (support functions) of staff offshore. Looking forward, this share is planned to rise to 40-44%. This is evidence of the banks' satisfaction and growing reliance on offshore vendors. [back to front page](#)

125,000 fewer bankers

Number of employees in EU-25, '000



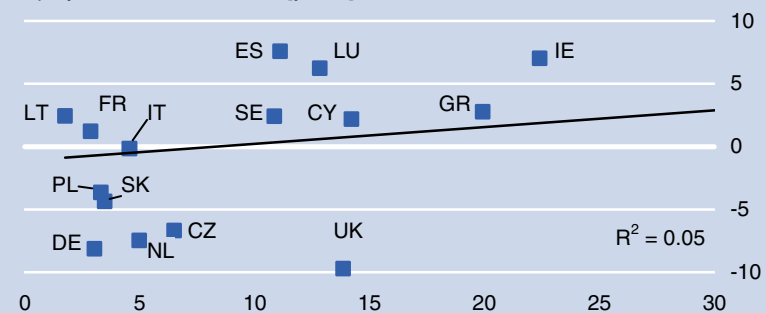
Source: ECB, 2007

5

Since 2001, European bank employment has dropped by more than 125,000. On average, bank employment dropped by around 4% between 2001 and 2006. However, the losses are distributed quite unevenly: British and German banks lost strongly, whereas banks in Estonia and Latvia but also in Ireland and Spain added many new employees. The subprime crisis that unfolded in the US last summer will take its toll, too. The market turmoil has put more than 100,000 jobs at risk – but so far, primarily in the US. [back to front page](#)

Offshoring fails to explain job cuts

% of banks that use IT offshoring (ex-EU) [x-axis] vs change in bank employment 2002-2006 in % [y-axis]



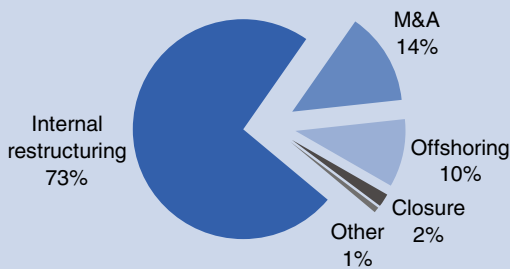
Sources: DB Research, ECB, Eurostat, 2008

6

Offshoring does not explain job cuts. Across Europe, there is no correlation between the share of banks that have offshored IT functions and the changes in bank employment between 2002 and 2006. Other factors – such as the reduction in bank branches in Germany or the catching-up in financial development in some eastern European countries – apparently dominate the relation. [back to front page](#)

Offshoring accounts for 10% of job cuts

Jobs lost due to offshoring, % of total jobs lost due to restructuring since 2002 in Europe

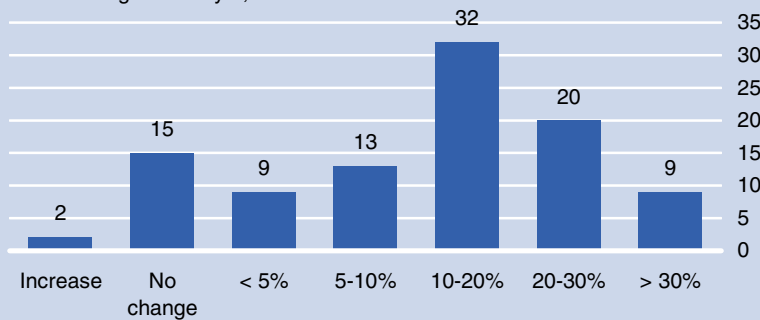


Publicly announced restructuring. Source: EMCC, 2008 **7**

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Most banks achieve 10-20% cost savings - but beware of the "J-curve"

Costs savings after 5 yrs, %



Source: PwC, 2007 **8**

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