

News Release

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OFFSHORING SET TO DOUBLE IN THE FINANCIAL SERVICES SECTOR BY 2008

The scale of offshoring in the financial services sector is set to virtually double by 2008, according to PricewaterhouseCoopers latest survey entitled Offshoring in the financial services industry: Risks and rewards, launched today. A quarter of participants currently offshore between 10% and 20% of their headcount, however, in 3 years' time, almost half of respondents expect this to be the case. Financial services firms which offshore jobs solely as a cost saving strategy, or do not approach projects with caution will fail to reap the full benefits such as greater operational efficiency and increased shareholder value.

Cost saving was the main reason for offshoring for 79% of the 156 executives surveyed. Indeed in the longer term 74% of financial services firms saved costs by offshoring activities. However the benefits were less immediate in the first year of the project; nearly a third of survey participants actually experienced no change in costs in the first year after offshoring functions and 15% of respondents reported no change in cost base even after five years of offshoring. Other benefits of offshoring identified by those surveyed were strategic flexibility and improved quality of service.

The survey found that nearly half of financial services firms currently offshore transaction-based IT activities and only 12% of companies surveyed do not offshore any activities at all. By 2008, however, a further third of respondents plan to offshore HR activities such as payroll and a further 25% expect to offshore customer contact activities such as scripted sales calls. It is not just transactional activities which will be sourced offshore in the future. Knowledge-based activities such as financial research and modelling will be offshored by 2008 predicts 22% of the organisations surveyed.

Jeremy Scott, Chairman of PricewaterhouseCoopers Global Financial Services Leadership Team, commented:

“Financial services executives who are looking to reap the most rewards need to view offshoring as a long-term process to improve performance in the organisation as opposed to a cost cutting mechanism. Some companies fall victim to initial over-enthusiasm but successful firms will be realistic when drawing up savings targets. They should plan ahead exhaustively when considering offshoring as there can be hidden risks for the unwary, not least to a company's reputation if there are any offshore security breaches”.

The survey also showed that only half of the 156 executives surveyed were satisfied with the overall impact of offshoring activities. The top three risks highlighted were finding and attracting people of the right quality to work in offshore centres, deteriorating quality of service and cultural differences between home and host markets. Other concerns were rising wages caused by the demand for educated staff and rising turnover in the most popular offshore destinations. According to a recent report² the turnover of staff in main centres in India can be between 40 and 60%. Training and career development opportunities were cited by four out of five of executives as the most effective way to retain offshore employees. These staffing pressures will only intensify as the trend to offshore gains ground.

Luc Discry, partner, PricewaterhouseCoopers concluded:

“Regulators are watching to ensure that standards of compliance and governance are maintained, particularly as offshoring shifts into areas which are more critical to business continuity and where concerns over client confidentiality and data protection prevail. Institutions need to stay close to the regulators whilst developing transparent processes and visible risk management procedures”.

Whilst offshoring presents risks to banks, insurance companies and asset managers, by moving jobs abroad companies can reduce costs on a long term basis and become more profitable, efficient and focused. Ultimately shareholders may receive a better return on investment which enables growth for the organisation as a whole. Globally, the business can benefit from this process, but it also favours employment in the homeland – which has advantages for that other stakeholder, the employee.”

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Notes to Editor

1. ‘Offshoring in the financial services industry: Risks and rewards’ is available to download at www.pwc.com/financialservices. To obtain a hard copy, please contact Valérie Vandenbemden on 02/710.71.36 or valerie.vandenbemden@pwc.be
2. The Evolution of BPO in India, PricewaterhouseCoopers.
3. The financial services group of PricewaterhouseCoopers has developed a global programme of briefings to address key strategic issues facing the industry with the emphasis on drawing conclusions about best practice and future trends. Other briefings in the series include:
 - Growth
 - Improving Performance
 - Wealth management
 - Economic capital
 - Risk management
 - Rebuilding public trust
 - International Financial Reporting Standards
 - Compliance
 - Restructuring
 - Governance
4. PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services for public and private clients. More than 120,000 people in 144 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

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