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Outsourcing Policies in Cooperative Banking

A. Carretta

5.1 Introduction

Outsourcing in cooperative banking can, for the most part, be analysed by way of responding to three significant questions. These questions are as follows:

(I) For what ‘reasons’, and in what areas, is outsourcing used by particular banks and financial intermediaries, according to the main literature on this subject and the most significant practices described therein?

(II) What are the guidelines for ‘good’ outsourcing, aimed at creating value according to safe and sound principles?

(III) What are the opportunities and risks of outsourcing policies followed by cooperative banks?

5.2 Trends in outsourcing policies

Global trends in outsourcing indicate that the demand for this type of external service provider in the financial service industry is increasing, with ever more complex and articulated procedures that meet diversified needs, not only complying with reductions in costs but also having to do with the externalization of core activities of the bank or in any case with a strong strategic impact on the development of banks.

There is a growing international trend within the financial service industry to apply outsourcing policies, that is, resorting to third parties to carry out activities (or aspects of them) that would traditionally be carried out within the organization. According to estimates and
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forecasts given by the Basel Committee, the phenomenon of outsourcing involves, for example, more than a third of the financial system’s entire expenditure in information technology (IT) and, from a more general perspective, it involves 15 per cent of the entire activity of the financial industry. At least until 2008, the global rate of growth of outsourcing would be close to 11 per cent per year.

Outsourcing as a solution is becoming more articulated and complex. There are different forms of outsourcing: within networks of cooperative banks, or with alliances with suppliers, or purely with ‘contractual’ action with third parties. It is linked to decisions on diversification and vertical and horizontal integration which characterize the external development of banks.

The literature on this theme highlights numerous motives for outsourcing. Schematically, they can be listed as follows:

- reduction of production costs
- focusing of bank resources mainly on core activities
- access to specialized know-how
- decision not to integrate different cultures within the bank
- need to reconfigure the cost structure from fixed to variable
- search for a quality, not reproducible within the bank
- aversion to risk.

Similarly, reasons for choosing not to use outsourcing include:

- reliance on services providers
- confidentiality of data and of production processes
- loss of distinctive know-how
- outsourcing agreements too long and inflexible
- excess of staff, not otherwise employable
- difficulty in assessing the price of outsourcing services
- lack of competence of services providers
- difficulties in controlling outsourced activities.

In any case, the choice of outsourcing seems to be governed by the attempt to maintain a satisfactory balance between vertical integration, which pushes towards centralizing all those activities related to businesses of a bank, and resorting to the external market in search of the ‘best’ acquisition opportunities of necessary inputs.

In summary, the review of theoretical and empirical literature allows us to highlight two important conclusions that reconsider a number of