



International Trade Centre
UNCTAD / WTO



Ministry of Communication
(ITES Secretariat)

With the financial support of
CBI Centre for the Promotion of
Imports from developing countries

**“BRIDGES ACROSS BORDERS”
Fostering Outsourcing Partnership
in
Financial Services & Information Technology
6-9 November 2007**

Accra, Ghana



**CROSS-BORDER
OUTSOURCING
OPPORTUNITIES IN
FINANCIAL SERVICES**

**Dr Austin Nweze
Lagos Business School
Pan African University**



CONTENT

- **Capability Sourcing**
- **Global Trends**
- **Opportunities in Financial Services sector**
- **Nigeria in the picture**



“Clearly, it is now possible for more people than ever to collaborate and compete in real time with more other people on more different kinds of work from more different corners of the planet and on a more equal footing than at any previous time in the history of the world...”

Thomas Friedmann (The World is Flat)



Capability Sourcing



Capability Sourcing

**With the advent of
Globalization**

- **Organizations now focus on their ability to controlling and making the most of critical capabilities rather than ownership of capabilities**



- **Capabilities may or may not reside on the companies balance sheet**
- **Forward thinking companies are making their value chain more elastic and their organizations more flexible**



Current Situation

- **82% large firms in Europe , Asia and North America have some kind of outsourcing arrangement**
- **51% use offshore outsourcers**



- **Only 10% are satisfied with the cost they are saving**
- **Only 6% are overall satisfied with the offshore outsourcing**



Industry Trends



Industry Trends

- **Cost arbitrage in India is disappearing**
- **Talent pool is more limited than expected**
- **India wants to move upstream to remain relevant**



- **A vacuum is emerging as the Indian model begins to fail**
- **The move to China is failing due to cultural and language issues**
- **The industry is frantically searching for a destination that can fill the void**



- **India's 55% share of the world's third-party outsourcing market could fall to 45% by 2007.**
- **New entrants from Africa and Asia will outbid Indian companies in offshore services supply**



Reasons Organizations Outsource

- **To reduce cost (49%)**
- **Improve on focused area (17%)**
- **Move to variable cost structure (12%)**
- **Access to skills (9%)**



- **Increase revenue and speed (4%)**
- **Quality improvement (3%)**
- **Capital conservation (3%)**
- **Innovation (3%)**



What Customers want

- **Located in mainstream destination**
 - **Reputation**
 - **Physical Security**
 - **Executive Risk**
 - **Legal Recourse**
 - **Psychological Security**
 - **Geo-Political Stability**



- **Existing strong customer references**
- **Financial Strength**
- **Reliability**
- **Quality**
- **Cost efficient**
- **Scalability**



Opportunities in Financial Services sector



- **Industry research showed major components of business activities being outsourced by financial services companies.**



- **Outsourcing potentials in the financial sector include:**
 - **Transfer of risk to 3rd parties**
 - **Management capabilities**
 - **Nonproprietary activities**



- **Business activities that can be outsourced:**
 - **IT (programming, application development, coding)**
 - **Back office activities**
 - **Part of finance and accounting activities (e.g reconciling account poses many challenges to banks)**



- **Foreign exchange processing and documentation**
- **Call centers**
- **Administration (or quasi-clerical activities)**
- **Other nonproprietary activities**



Key concerns

- **Ability of company to manage business risks**
- **Measure to ensure compliance with regulatory requirements**
- **Vulnerability**



Mitigants

- **Clear/comprehensive outsourcing policies**
- **Establishing effective risk management program**
- **Contingency planning by outsourcing company**



- **Negotiate outsourcing contract**
- **Analyze the financial and infrastructure resources of the service provider**



Key Enablers

- **Security (Life & Property)**
- **Low Labor Rate**
- **Highly Skilled & Educated Population**



- **Enforcement of Business Laws**
- **Stability (Government & Populace)**
- **Developed Infrastructure**



Nigeria in the picture



- **The financial services sector in Nigeria is 93% dominated by banks**
- **The stock market is 80% capitalized by the banking sector**



- **90% growth in the equity market is by the banks**
- **Some of the insurance companies are owned by banks**
- **80% of stock broking firms are owned by banks.**



Challenges for Nigeria

- **Power/energy challenge**
- **Weak legal institutions**
- **Inconsistent government policies**
- **Security of life and property (Socketworks)**



- **Unstable political, social and economic conditions**
- **Poor quality infrastructure**
- **Corruption (public and private sectors)**
- **High cost of doing business**



Advantages for Nigeria

- **English speaking**
- **Skilled and educated workforce**
- **Democratic governance**
- **Growing economy**
- **Cheap labor**
- **Weak currency**

LBS
PAN-AFRICAN UNIVERSITY





The Future

LBS
PAN-AFRICAN UNIVERSITY





- **Rapid growth in financial services outsourcing globally**
- **\$356 billion of the US financial services industry activities will be outsourced to offshore locations by 2010 (Deloitte 2004 study)**

LBS
PAN-AFRICAN UNIVERSITY



- **IT related services are the most frequently outsourced activities**
- **\$120 billion out of an estimated \$340 billion spent on IT globally in 2003 was outsourced to 3rd parties (Bank Tech 2003 report)**

FINAL WORD

- **The next destination of financial services outsourcing is Africa**
- **Unleashed entrepreneurial spirit in the continent**
- **Democratization and improved business climate**

THANK YOU FOR LISTENING
Email: anweze@lbs.edu.ng