



# ITO in the German Finance Sector: Challenges and Success Factors

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Market Assessment  
August 2008

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For more details please contact:

Capgemini Outsourcing Services GmbH

Wanheimerstraße 68  
40468 Düsseldorf  
Tel: +49 211 5661 1132

Berliner Straße 76  
63065 Offenbach am Main  
Tel: +49 69 9515 1126

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For more details, contact:

In the U.S:  
Riverside Center  
275 Grove Street  
Suite 2-400  
Newton MA 02466

Phone: (617) 663 5737  
Fax: (617) 663 4801

In the UK:  
Atrium Court, The Ring  
Bracknell  
RG12 1BW

Phone: +44 (0)870 770 5967  
Fax: +44 (0)870 770 5975

In Germany:  
Im Mediapark 8  
50670 Köln  
Germany

Phone: +49 (0)221 5540 5566  
Fax: +49 (0)221 5540 545

# Key Findings

1. The current banking crisis will not drive IT outsourcing considerations. The key drivers for IT outsourcing are cost reduction for IT services, focus on the core business and the adoption of more strategic tasks in the IT department.
2. The need to reduce costs while improving the performance of IT services is the key challenge faced by IT departments in German finance organizations. The commonly quoted need for innovation and lack of skilled personnel, in contrast, are not perceived as significant challenges for German IT decision-makers in finance organizations.
3. IT budgets continue to be reduced in more than half of the German finance organizations, typically by 5%-10%. For around 35% of organizations, IT budgets are stagnant, while only 12% see budget increases, typically by 4%-5%.
4. While German finance organizations still have much higher company-internal value add ('Wertschöpfungstiefe') than other industry sectors (66-80% in financial services compared to 20-30% e.g. in the manufacturing sector), this study finds that the financial service sector is highly advanced as regards the outsourcing of IT services: German finance organizations have today outsourced 60-80% of their IT budgets.
5. The trend to outsource IT services is unbroken and German finance organizations expect to outsource a further 5% of their IT budget. Given that IT costs account for c.11% of overall revenues in financial service organizations (compared to around 3% in other most other industries), this means that IT service providers can still increase their share of wallet with financial service organizations on average by €100m-€500m, depending on the size of the organization.
6. Despite the ongoing adoption of IT outsourcing, German finance organizations express significant dissatisfaction, especially with desktop and helpdesk service provision. In particular in these areas, which have a high visibility within the organization and which have often been outsourced with a view to maximum cost reduction, organizations now realize that more control over services provided as well as additional investments are required to achieve satisfactory service levels.
7. In general, organizations have underestimated the planning, investment and continual involvement needed to make IT outsourcing a success. The experience that cost savings have not been met is named by 80% of organizations as a key barrier to IT outsourcing. Finance organizations also fear the loss of internal know-how and a lack of communication and management information when outsourcing their IT services.
8. German finance organizations are catching up with the global trend to near/offshore delivery of IT services. Currently, approximately 23% of IT services delivered to German finance organizations are provided from near or offshore locations. In the most mature countries for IT outsourcing (notably the U.S.), this share stands at 30-40%. German finance organizations expect their share of near/offshore delivery to grow by 30% over the next three years, thus reaching 31% by 2011.
9. Cost reduction focus and proven capability in the finance sector are key criteria when selecting an IT outsourcing provider. An existing relationship as well as strong brand and visibility in the German market are further selection criteria.

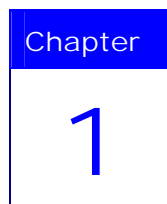
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# Introduction

## A

### Objectives & Scope

The financial services sector in Germany has experienced significant changes over the past years. This transformation process is characterized by the concentration on core business activities, an increase in cost efficiency and a stronger focus on sales activities. IT has an important role to play in the achievement of these challenges: it must fulfill the requirements of the business operations and take a proactive role in laying the foundations for business innovation. The outsourcing of applications and/or IT processes to a specialist service provider is one strategic sourcing option.

The present survey was conducted by NelsonHall on behalf of Capgemini. It examines the challenges and success factors for IT outsourcing services in the German financial services sector and illustrates market potential and opportunities for different IT service offerings.

The purpose of this study is to analyze IT requirements, IT outsourcing experiences and influence factors for IT outsourcing by financial service organizations in Germany.

The study uses user interviewing to establish:

- ❑ Key issues and initiatives for IT service provision
- ❑ Satisfaction with current IT service provision and priorities for IT service improvement
- ❑ Current level of IT outsourcing activity
- ❑ IT outsourcing purchasing intentions
- ❑ Perceived barriers to IT outsourcing
- ❑ Key benefits sought from IT outsourcing
- ❑ Factors that trigger IT outsourcing considerations
- ❑ Factors influencing the buying process for IT outsourcing services

The geographic scope of the study is Germany.

The scope of the project by IT service is:

- ❑ IT Consulting (Technical product/project consulting, e.g. plan to adopt Tivoli product; help to design SOA solution)
- ❑ Systems Integration (Integration of systems architecture and/or different applications e.g. installation of new applications into an existing IT architecture)
- ❑ Network Infrastructure Services (LAN/WAN management; operation of telecommunications infrastructure)
- ❑ Datacenter Services (Operation/configuration/monitoring of servers; data center housing)
- ❑ Desktop Services (Services around work terminal life cycle (e.g. desktop/notebook replacement/repair/configuration)
- ❑ Helpdesk and User Support Services (IT helpdesk services for users, e.g. Helpline for 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> Level support)
- ❑ Application Development and Maintenance Services (Design of new custom-built applications/software incl. maintenance for those)
- ❑ Application Management Services (Redesign/operation of existing applications, e.g. SAP operation)

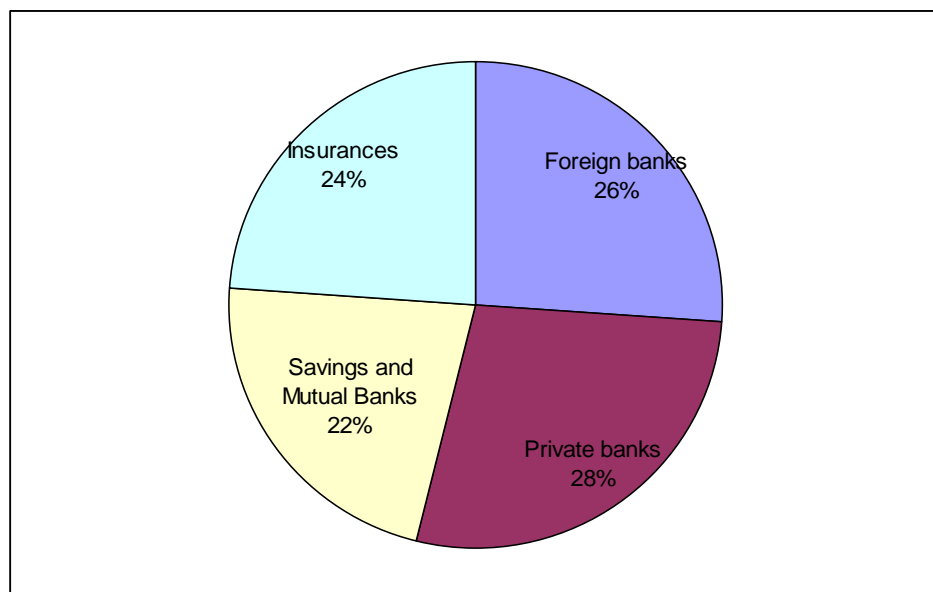
## B

### Methodology

This report is based on in-depth interviews with IT decision-makers (typically CIO, IT Director, Head of IT, Board Member with responsibility for IT) in 50 financial service organizations in Germany, covering different banking sectors as well as insurances. The breakdown of organizations covered is illustrated in Exhibit I-1.

*Exhibit I-1*

#### Interviewed organizations by type of financial service institution



The types of financial service organizations interviewed comprise:

- ❑ Private universal banks (18)
- ❑ Insurance companies (12)
- ❑ Investment banks (6)
- ❑ Real-estate credit institutions (3)
- ❑ Building societies (3)
- ❑ State banks ('Landesbanken') (2)
- ❑ Savings banks ('Sparkassen') (2)
- ❑ Mutual retail banks ('Genossenschaftsbanken') (2)
- ❑ Auto Banks (2)

Exhibit I-2 illustrates the breakdown of organizations interviewed by their number of employees in Germany.

**Exhibit I-2**

**Interviewed Organizations by Number of Employees in Germany**

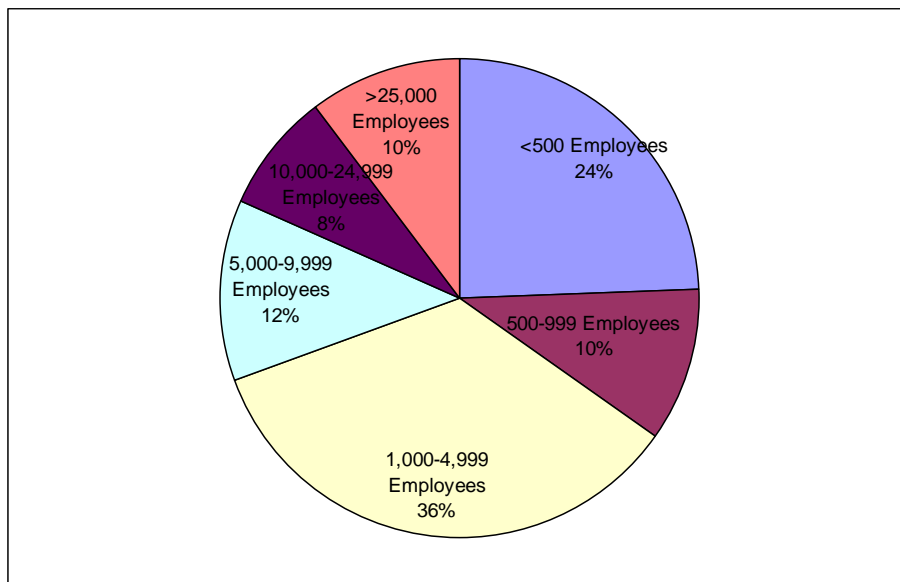
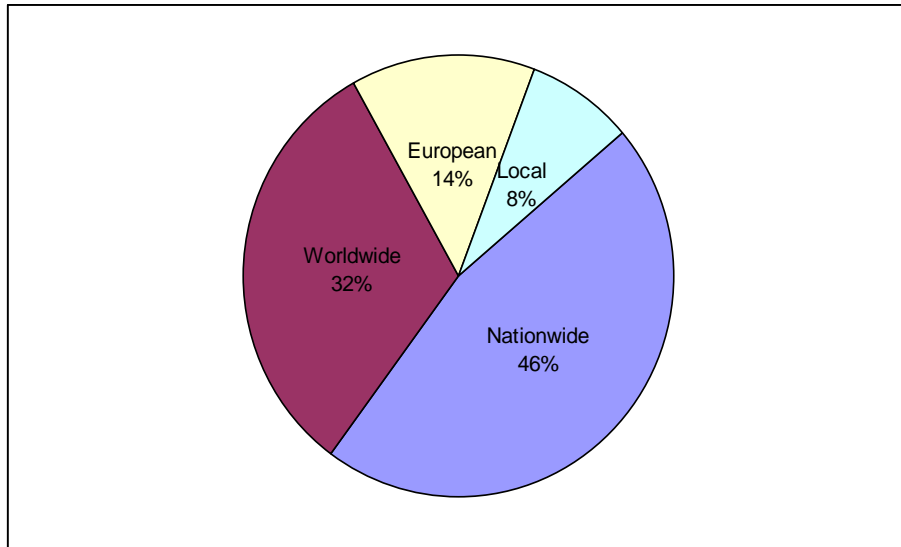


Exhibit I-3 shows the geographic coverage of the financial services organizations interviewed.

**Exhibit I-3****Geographic coverage of interviewed organizations**

Of the organizations interviewed, 54% operate only in Germany, while the remaining 46% have operations beyond the German market.

The rating system used to assess importance and satisfaction throughout the user survey is a 1 to 5 scale with 1 being not at all important/satisfied and 5 being very important/satisfied.

Chapter  
2

## Executive Summary

### A

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#### The need to reduce cost while improving the performance of IT services is the key challenge faced

The need to contain or reduce IT costs is still the main challenge faced by German financial service organizations in Germany. 53% of organizations face budget reductions, typically in the range of -5% to -10%. The need for cost reduction initiatives has to be balanced with the need for modernization of IT systems and improvement of services to end-users and customers.

While satisfaction with the capability to support the business in achieving business goals is relatively high, more than one-third of organizations, especially banks, are not satisfied with their current IT services capability for the running of day-to-day operations.

Nearly half of the organizations are particularly dissatisfied with the performance of their Desktop, Helpdesk and User Support Services. These are areas that have been a core focus of cost cutting measures. German finance organizations have typically outsourced approximately 90% of their Desktop and Helpdesk Services. The findings show that satisfaction with the outsourced Desktop and Helpdesk services is very low, illustrating that these are areas difficult to 'get right'. While no additional investment is planned, organizations are now looking to improve the balance of control between internal and external delivery and work more closely with the service provider to achieve improvements in the quality of service.

## B

### The trend to outsource IT services is unbroken but further growth is limited

As shown in Exhibit II-1, German finance organizations have today outsourced 60% or more of their IT budget. A fifth of organizations even outsource 80% of their IT budget.

*Exhibit II-1*

#### Proportion of IT budget Currently Outsourced and Potentially Outsourcable

	Today outsourced (%)	Considered ideal for outsourcing (%)	Potential for Growth (% points)
Foreign banks	64	70	6
Insurances	62	67	5
Private banks	56	61	5
Savings & Mutual Banks	60	62	2
<b>Total</b>	<b>60</b>	<b>65</b>	<b>5</b>

All German finance organizations consider their ideal proportion for IT outsourcing higher to be than the current level, implying that there is potential for IT service providers to increase share of wallet with their financial service clients. The potential increase is, however, limited to 5% on average, with investment and foreign banks showing greatest potential (c. 10% increase); Savings, Mutual and Auto banks and building societies have little or no potential for increase in share of wallet.

German finance organizations are particularly looking to outsource a greater share of their datacenter services (of which currently only 46% is outsourced), as well as IT consulting, Systems Integration and Application Management. Private banks in particular expect to outsource an additional 10% of their data center services.

Organizations are satisfied in particular with outsourced application services (application development and application management) as well as IT consulting and data center services.

Least satisfaction is shown with outsourced Desktop and Helpdesk services, where 56% and 62% of organizations criticize mainly a poor quality of service, lack of skills and resources, and too high costs.

## C

## Offshore is higher than nearshore usage, but both will grow

As illustrated in Exhibit II-2, 23% of IT services delivered to German finance organizations are provided from near or offshore locations. This share will grow to 31% over the next three years, hence implying an increase of 30% in the adoption of near/offshore delivery.

### Exhibit II-2

#### Current and Planned Usage of Near- and Offshore Services

Area	Currently (%)	Within 3 Years (%)	Growth (% points)
Nearshore	9.6	12.8	3.2
Offshore	13.4	18.2	4.8
<b>Total</b>	<b>23.0</b>	<b>31.0</b>	<b>8.0</b>

More IT services are currently delivered from offshore than from nearshore locations and it is expected that the use of offshore delivery will grow faster. The adoption of near/offshore delivery is similar across different types of banks, with the exception of savings and mutual banks who have a lower usage (17%) but also expect their usage to grow by c.8%.

Predictably, finance organizations with multinational operations currently make greater use of near/offshoring (29% of outsourced IT services delivered from near- or offshore locations). The percentage for organizations with domestic operations is 18%.

However, these domestic organizations anticipate higher growth of near/offshore usage (9% points) compared to finance organizations with multinational operations (6% points).

# D

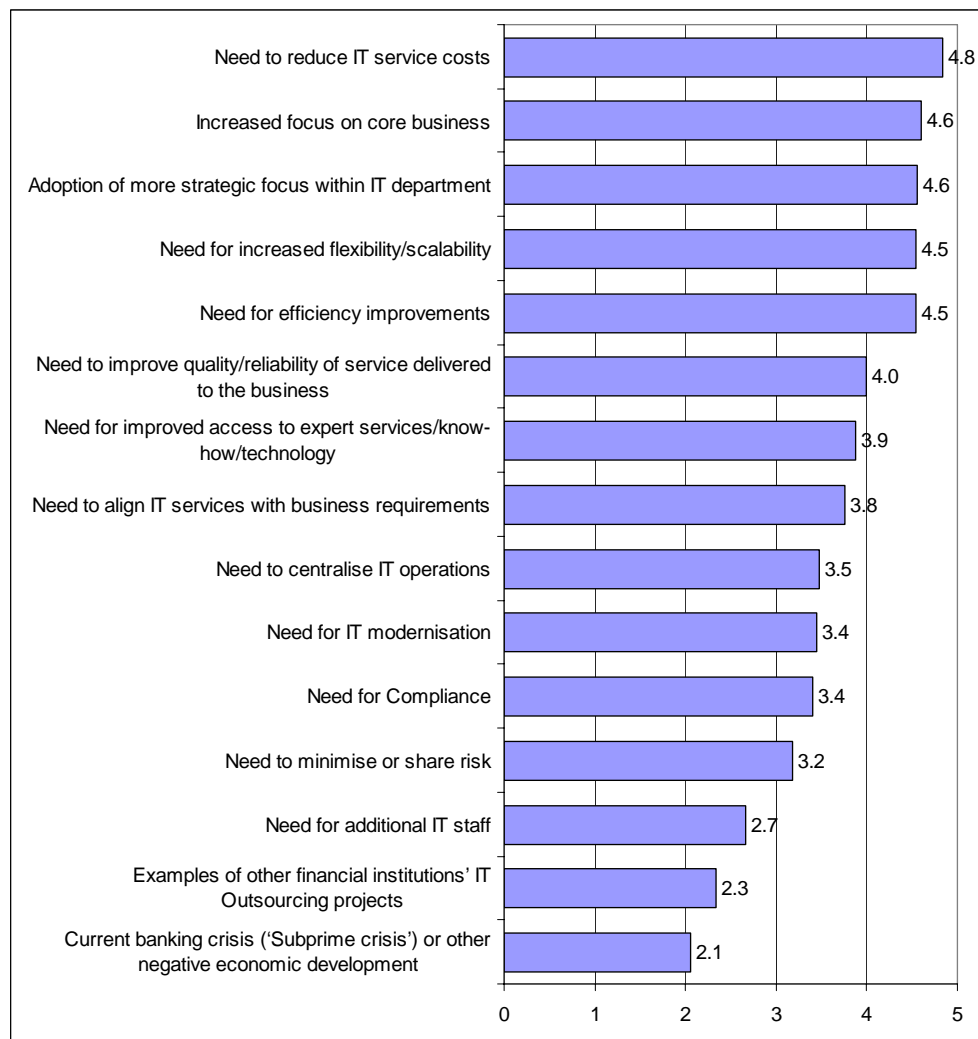
## Current banking crisis will not drive IT outsourcing

Only 2% of German finance organizations (notably private banks) say that the current banking crisis is a factor that will trigger outsourcing considerations.

As illustrated in Exhibit II-3, cost reduction is the main driver for IT outsourcing considerations, followed by the need to focus on the core business and the adoption of more strategic tasks within the IT department.

**Exhibit II-3**

### Factors That Trigger IT Outsourcing Considerations



## E

## Organizations underestimate the planning and investment efforts needed for successful ITO

While cost reduction is the main driver for IT outsourcing, German finance organizations have also experienced that cost savings expectations have often not been met in outsourcing arrangements. Hence, this is also perceived as the greatest barrier to further outsourcing. Loss of internal know-how and the lack of communication and management information are also seen as key inhibitors to outsourcing, as shown in Exhibit II-4.

### Exhibit II-4

#### Perceived Importance of Potential Inhibitors to Outsourcing

Barrier	Proportion Considering Highly Important (%)
Cost savings in IT outsourcing are not achieved	80
Loss of know-how within the company	74
Lack of communication and management information	74
Danger of lower quality of service	60
Concerns on cultural differences	60
Problems of communication (interpretation of requirements, language issues)	56
Lack of appropriate offerings from service providers (for specific requirements)	54
Loss of control	54
Resistance of employees/workers council/trade unions	42
Concerns about long-term dependency on service provider	32
Regulatory barriers to outsourcing	30
Too large change required/ too complex	26
Security risks	24
Lack of trust in service provider	18
Unclear allocation of roles and responsibilities in an ITO Project	12
High VAT rate makes outsourcing economically inefficient	8

In their own experiences with IT outsourcing, German finance organizations have encountered a range of problems, often resulting from internal shortcomings and exaggerated expectations. This suggests that organizations do not invest sufficiently in the creation of a business case, as well as the planning and ongoing management of an outsourcing arrangement.

External problems encountered suggest that service providers do not deploy sufficiently skilled resources for their clients and do not help to manage cost reduction expectations.

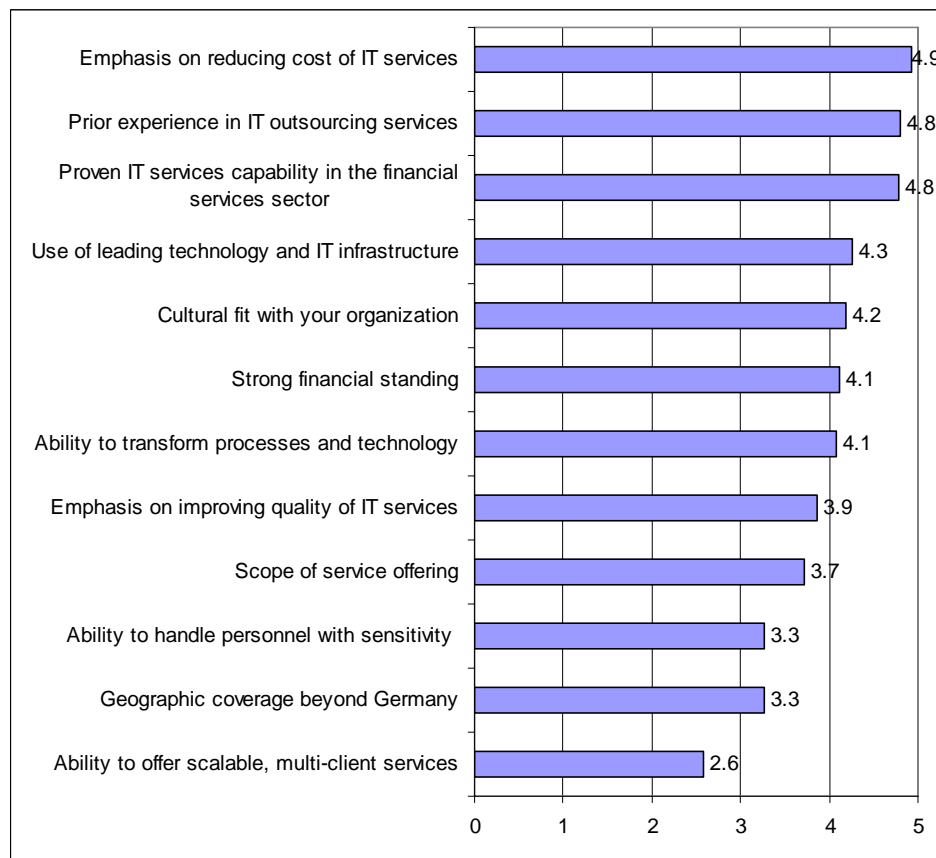
## F

## Finance organizations favor incumbent IT Service providers with industry expertise and cost reduction focus

When choosing an IT outsourcing provider, German finance organizations primarily look for cost reduction capabilities, and industry expertise as shown in Exhibit II-5.

**Exhibit II-5**

### Selection Criteria when Choosing and IT Outsourcing Provider



One hundred per cent (100%) of organizations consider cost reduction focus and proven capability in the finance sector as key criteria to be fulfilled by an IT outsourcing provider. Ninety six per cent (96%) of organizations perceive prior experience in IT outsourcing services to be a highly important characteristic.

Less than half of the organizations (primarily savings and mutual banks) consider skills in the handling of staff transfers as a highly significant capability of a service provider.

Amongst the key IT outsourcing providers in Germany, finance organizations tend to favor those that they have had previous relationships with.

As illustrated in Exhibit II-6, IBM and T-Systems are each considered highly suitable by 44% of organizations as highly suitable for the provision of ITO services, followed by EDS (40%) and Accenture (30%).

*Exhibit II-6***Perceived Suitability of Key IT Outsourcing Providers**

<b>IT Service Provider</b>	<b>Considered Highly Suitable (%)</b>
IBM	44
T-Systems	44
EDS	40
Accenture	30
Atos Origin	23
Capgemini	21
Hewlett-Packard	19
Fujitsu Services	16
Siemens IT Solutions and Services	12

In assessing the suitability of an IT service provider it is a major factor if the organization has had any previous relationship with that player.

For IBM and T-Systems this is the case for many organizations, while the lower ratings for Atos Origin, Capgemini and Fujitsu Services partly result from German finance organizations knowing little about their activities and capabilities.

Chapter
3

# Assessment of Current IT Services Capability

## A

### IT Initiatives and Challenges

German financial service organizations see themselves facing the following key challenges over the next year:

- ❑ Need to reduce IT spending as a result of slowing banking market or reduced budgets (13)
- ❑ Need to upgrade/modernize IT infrastructure and systems, e.g. to improve product sales or generally support revenue generation (4)
- ❑ Need for continual service improvement (3)
- ❑ Review security, e.g. of mobile applications (3)
- ❑ Increasing storage requirements (3)
- ❑ Insufficient network/bandwidth capacity (1)
- ❑ Growth in contact center (1)
- ❑ Need to be able to react to changes in the business (1)
- ❑ Cope with international growth (1)
- ❑ Manage unsteady growth in employee numbers (1)

The most important challenge faced by German finance organizations is to balance a reducing IT budget with the requirement to improve IT services and support business operations.

Key IT initiatives to be conducted by the interviewed organizations in 2008 include:

- ❑ Initiatives aimed at reducing IT spending:
  - ❑ Reduce internal IT personnel, e.g. for desktop support (4)
  - ❑ Reduce IT support time (1)
  - ❑ Develop more web-based applications (1)
  - ❑ Improve service efficiency (1)

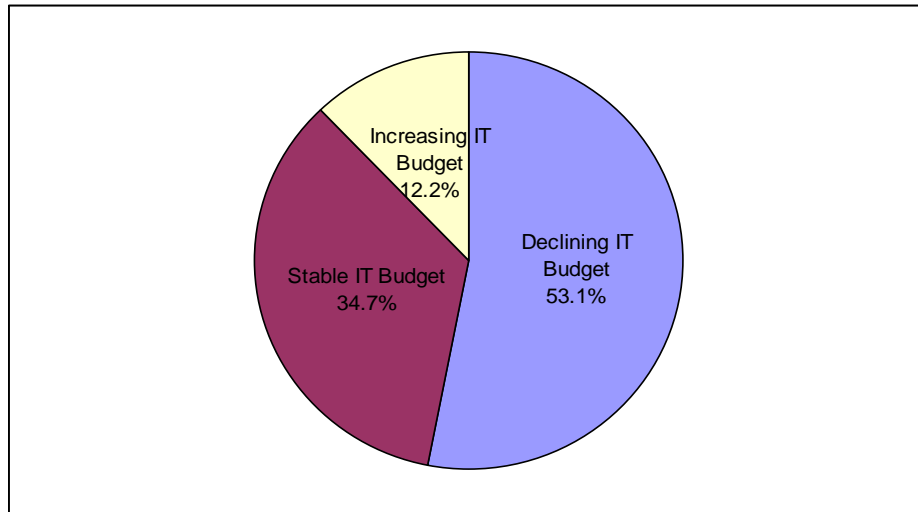
- ❑ Improve data management and storage (1)
- ❑ Keep systems in stable state to prepare for budget cuts (1)
- ❑ Improve user-friendliness of IT systems to reduce cost of helpdesk (1)
- ❑ Initiatives aimed at improving systems performance and integration:
  - ❑ Integrate/consolidate enterprise systems, e.g. HR and finance, or across subsidiaries (6)
  - ❑ Retire legacy systems (2)
  - ❑ Improve key systems, e.g. securities management and assessment, mortgage application processing, accounting system (2)
  - ❑ Improve use of management data and information (2)
  - ❑ Change core systems to incorporate new products and improve reliability (2)
  - ❑ Improve availability of key systems (1)
- ❑ Initiatives aimed at improving customer services:
  - ❑ Improve functionality of customer service systems, e.g. to gain better access to customer data, enable cross-selling (6)
  - ❑ Enable personalized marketing to customers (1)
  - ❑ Enable customer self-service, e.g. for retail products (1)
- ❑ Initiatives aimed at improving quality of service to end-users:
  - ❑ Improve service efficiency (2)
  - ❑ Improve support of collections management (1)
  - ❑ Provide end-user training in IT basics (1)
  - ❑ Roll-out mobile applications (1)
  - ❑ Enable platform-independent access through web-based applications (1)
- ❑ Initiatives aimed at upgrading IT infrastructure technology:
  - ❑ Upgrade desktop environment, e.g. with Vista (4)
  - ❑ Upgrade network hardware, e.g. replace cable with fiber (2)
  - ❑ Upgrade servers with gigabyte Ethernet (1)
- ❑ Initiatives aimed at improving security and risk management:
  - ❑ Develop risk management system (1)
  - ❑ Develop improved security system to reduce risk, e.g. from viruses (1)
  - ❑ Improve compliance (1)

Key initiatives planned for the next year are primarily aimed at improving systems performance, enhancing services to end-users and customers while at the same time containing or reducing the cost of IT service delivery.

Exhibit III-1 illustrates the breakdown of German financial service organizations by trend of their IT budget.

**Exhibit III-1**

**Development of IT Budgets in the German Financial Services Sector**



While only 13 out of 50 organizations named the reduction of IT spending a key priority for the next year, Exhibit K illustrates that more than half of the interviewed companies see their IT budget declining. Of those 53%, most experience declines of 5-10% but two organizations state that their budget is reduced by 15% and 20% respectively.

Of the organizations experiencing budget increases, mostly report 4-5% IT budget growth. No company reports an increase in excess of 5%.

## B

### Satisfaction with Current IT Services Capabilities

Exhibit III-2 shows how satisfied German financial service organizations are with their current IT Services capability.

**Exhibit III-2**

**Satisfaction with Current IT Services Capability**

Area	Importance	Satisfaction	Difference	High satisfaction (%)
Running day-to-day operations	4.8	3.7	1.1	66
Supporting the business in achieving business goals	4.8	4.0	0.8	80

Exhibit III-2 illustrates that the organizations interviewed rate the running of day-to-day operations and the supporting of business goals as equally high in importance.

One third of organizations (34%) are not satisfied with their running of day-to-day operations and 20% express medium or low satisfaction with their capability to support the business in achieving business goals.

Exhibit III-3 shows how satisfied foreign banks are with their current IT services capability.

**Exhibit III-3**

**Satisfaction with Current IT Services Capability: Foreign Banks**

Area	Importance Rating	Satisfaction Rating	Difference	High satisfaction
Running day-to-day operations	4.9	3.5	1.4	62%
Supporting the business in achieving business goals	4.8	4.2	0.6	85%

With importance ranked very highly, nearly 40% of foreign banks are not satisfied with their running of day-to-day operations.

Exhibit III-4 shows how satisfied insurance companies are with their current IT services capability.

**Exhibit III-4**

**Satisfaction with Current IT Services Capability: Insurance**

Area	Importance Rating	Satisfaction Rating	Difference	High Satisfaction (%)
Running day-to-day operations	4.6	4.3	0.3	83%
Supporting the business in achieving business goals	4.8	4.1	0.7	83%

Amongst insurance companies, dissatisfaction with IT service capability is low with only 17%.

Exhibit III-5 shows how satisfied private banks are with their current IT services capability.

**Exhibit III-5**

**Satisfaction with Current IT Services Capability: Private Banks**

Area	Importance Rating	Satisfaction Rating	Difference	High Satisfaction (%)
Running day-to-day operations	4.8	3.6	1.2	57%
Supporting the business in achieving business goals	4.8	3.8	1.0	71%

In the German private banking sector, 43% of organizations express low satisfaction with the running of day-to-day operations, while the proportion stands at only 28% for business supporting activities.

Exhibit III-6 shows how satisfied savings and mutual banks are with their current IT services capability.

**Exhibit III-6**

**Satisfaction with Current IT Services Capability:  
Savings and Mutual Banks**

Area	Importance Rating	Satisfaction Rating	Difference	High Satisfaction (%)
Running day-to-day operations	5.0	3.6	1.4	64%
Supporting the business in achieving business goals	4.8	4.0	0.8	82%

In the Savings and Mutual banking sector, more than one-third of organizations are not satisfied with their IT service capabilities for running day-to-day operations.

Exhibit III-7 outlines how satisfied German finance organizations are with their capabilities in specific IT service areas.

**Exhibit III-7**

**Satisfaction with IT Services Capability by Type of IT Service**

Area	Satisfaction	High satisfaction (%)
Application Development & Maintenance	4.3	86
Application Management	4.3	88
Data Center Services	4.2	86
IT Consulting	4.0	88
Systems Integration	3.8	70
Network Infrastructure	3.8	72
Desktop Services	3.5	52
Helpdesk and User Support	3.4	52

With an average rating of 3.9, overall satisfaction with IT services is relatively high. The organizations interviewed expressed least satisfaction with Desktop Services and Helpdesk and User Support: nearly half of the organizations (48%) are less than highly satisfied with those services.

Areas of dissatisfaction with IT Consulting include:

- ❑ Slowness of projects (3)
- ❑ Too costly (2)
- ❑ Lack of clear and visible focus/objectives/benefits in projects (2)
- ❑ Budget constraints (1)

Areas of dissatisfaction with Systems Integration Services include:

- ❑ Lack of in-house skills and capabilities (12)
- ❑ External resourcing is costly (5)
- ❑ Time to complete projects is poor (3)
- ❑ High risk of poor quality resulting in high cost impact on the business (3)
- ❑ Budget constraints (1)
- ❑ Struggling to find reasonable quality of external services (1)
- ❑ Lack of interest of external suppliers for taking on low-scale work (2)

In the area of Network services, quality is a major issue and points of dissatisfaction circle around poor quality of service provided by external suppliers.

Areas of dissatisfaction with Network Services include:

- ❑ Underperformance by external providers, e.g. missing SLAs for availability or bandwidth (4)
- ❑ Poor helpdesk service from service provider (2)
- ❑ Poor value for money from service provider (1)
- ❑ Poor relationship with the service provider (1)
- ❑ Poor supplier choice: decision based on cost not quality (1)
- ❑ Too high costs (1)
- ❑ Under resourced area, but seen as an overhead (1)
- ❑ Budget constraints (1)

In the area of datacenter services, the efficient use of services and the increasing need for storage capacity are key issues.

Areas of dissatisfaction with Datacenter Services include:

- ❑ Lack of capacity (2)
- ❑ Lack of control over compliance (2)
- ❑ Service provider lacks expertise in service provision (1)
- ❑ Services procured are not used efficiently (1)
- ❑ Lack of cost efficient storage offering from service providers (1)
- ❑ Poor availability and bandwidth (1)
- ❑ Increasingly costly data storage (1)

In the area of Desktop Services, problems arise as a result of ongoing reduced investment and cost cutting focus, which is now resulting in poor quality of service provided both internally and from external suppliers.

Areas of dissatisfaction with Desktop Services include:

- ❑ High costs (6)
- ❑ Slowness to respond to user needs and change requirements (4)
- ❑ Lack of investments in technology and personnel (4)
- ❑ Poor reliability and security of desktop environment (3)
- ❑ Perception of desktop services is poor (3)
- ❑ Lack of end-user training resulting in end-users causing problems (3)

- ❑ SLAs poorly monitored (1)
- ❑ Poor end-user support and lack of helpdesk services (2)
- ❑ Service provider slow to react to complaints/requests (2)
- ❑ Poor quality of service from service provider (1)
- ❑ High staff turnover resulting in lack of skills
- ❑ Inefficiencies in time and resource deployment

Areas of dissatisfaction with Helpdesk Services circle largely around a poor quality of service provided by external suppliers while the price is perceived as high. After having outsourced and gone for maximum cost reduction, organizations now realize that Helpdesk services are hard to do and are a highly visible activity within the organization. However, now plans exist to increase investment.

Areas of dissatisfaction with helpdesk services include:

- ❑ Service provider is slow to respond to user requirements (6)
- ❑ Service provider has poor skill levels and staff training, e.g. lacks local language support (10)
- ❑ Service provider has high personnel fluctuation or is under resourced (3)
- ❑ Service provider is not proactive in identification of faults or network problems (4)
- ❑ Service provider has poor security for user administration data (1)
- ❑ Service provider offers poor value for money (5)
- ❑ Service provider lacks knowledge of his clients business and systems, resulting in errors and poor quality of service (5)
- ❑ Service provider lacks or misreports management information (2)
- ❑ Service provider does not follow escalation procedure (2)
- ❑ Service provider has poor availability of helpdesk service (2)
- ❑ Loss of internal personnel and expertise results in poor 2<sup>nd</sup> level support (1)

While satisfaction is generally high in Application Development and Maintenance, organizations see some problems with skills and resourcing.

Areas of dissatisfaction with Application Development and Maintenance include:

- ❑ Lack of internal skills and resources for application support and integration work, resulting in security issues (3)
- ❑ Slowness in implementing changes (2)
- ❑ Too little budget allocated (1)
- ❑ Lack of local language support by external supplier (1)

While satisfaction is generally high for Application Management services, organizations face issues around effective resourcing for changing workloads and multiple skills that are required.

Areas of dissatisfaction with Application Management Services include:

- ❑ Lack of a mix and breadth of skills able to support multiple applications (3)
- ❑ Lack of resource e.g. for ad hoc workloads (2)
- ❑ Poor application know-how, having to rely on the application vendor (1)

Exhibit III-8 shows the satisfaction rating of different types of banks with different types of IT services.

*Exhibit III-8***Satisfaction with IT Services Capability by Type of IT Service:  
Foreign Banks**

Type of IT Service	Satisfaction: Foreign Banks	Satisfaction: Insurance	Satisfaction: Private Banks	Satisfaction: Savings & Mutual Banks
Application Development & Maintenance	4.4	4.5	4.4	4.1
Application Management	4.4	4.5	4.3	3.8
Data Center Services	3.9	4.6	4.1	4.2
IT Consulting	4.2	4.1	3.9	3.9
Systems Integration	4.0	3.6	3.7	3.8
Network Infrastructure	4.2	3.9	3.5	3.6
Desktop Services	3.9	3.5	3.0	3.6
Helpdesk and User Support	3.5	3.4	3.1	3.6
<b>Total Average</b>	<b>4.1</b>	<b>4.0</b>	<b>3.8</b>	<b>3.8</b>

The table illustrates that the levels of satisfaction by type of IT service do not differ markedly by type of financial service organization. Notable exceptions include:

- Private banks show a low level of satisfaction, especially with desktop and helpdesk services
- Savings and mutual banks are less satisfied with application management services

## C

## Priorities for IT Service Improvement

Exhibit III-9 illustrates the extent to which German financial services organizations are planning changes to their IT services over the next three years.

**Exhibit III-9**

### Planned changes by IT Services Type

Area	Currently (%)	Within 1 Yr (%)	Within 3 Yrs (%)	Total (%)
Application Development & Maintenance	4	0	6	10
Application Management	4	8	6	18
Data Center Services	4	4	10	18
IT Consulting	16	16	4	36
Systems Integration	24	18	8	50
Network Infrastructure	6	14	8	28
Desktop Services	16	20	14	50
Helpdesk and User Support	4	20	24	48

The table illustrates that the current focus of change projects lies on the systems integration, IT consulting and desktop services areas.

Over the course of the next three years, however, approximately half of the organizations are planning to address primarily those areas they are most dissatisfied with, notably Desktop Services and Helpdesk and User Support.

Planned changes for Helpdesk and User Support focus on a closer cooperation with the service provider to improve the value for money and retain or take back certain functions in-house. The activities do not foresee a higher investment in Helpdesk services, however. Planned changes include:

- ❑ Better balance of internal and external helpdesk delivery, e.g. taking a certain level of control back in-house (2)
- ❑ Demand from service provider to improve staff retention and work with him to improve skills, e.g. of internal systems (3)
- ❑ Adapt cost to requirements so as to improve value for money (2)
- ❑ Reduction of contract duration at renewal (1)
- ❑ Improve internal skill levels and retention (1)

For Desktop Services, German finance organizations are focusing on activities to reduce cost further while improving the quality of service. Planned changes for Desktop Services include:

- ❑ Reduce the cost of service and balance cost with quality of service (4)
- ❑ Improve security and data protection (1)
- ❑ Review supplier contract and press for improvements (1)
- ❑ Add new desktop service elements, provided free by the supplier (1)

- ❑ Engage service provider for virus/spam protection (1)

In the area of Systems Integration, organizations are looking at ways to efficiently resource for project work which occurs infrequently and constantly requires different skill sets.

Planned changes for Systems Integration Services include:

- ❑ Improve resource management through reskilling, restructuring, better staff allocation and retention (7)
- ❑ Outsource systems integration (2)
- ❑ Renegotiate supplier contract to improve quality of small projects (1)

In the area of IT consulting, planned activities focus on compliance improvement and performance improvements. To achieve this, organizations are looking for suitable offerings from external providers.

Planned changes for IT Consulting Services include:

- ❑ Improve compliance (2)
- ❑ Improve performance, e.g. through use of external providers (2)
- ❑ Achieve ISO certification (1)

For Network Infrastructure Services, organizations are planning to achieve improvements in the level of service they receive from external providers, with a focus on:

- ❑ Bandwidth extension (2)
- ❑ Improved economies of scale (1)
- ❑ Consolidation of telecoms and data services (1)

For Datacenter services, the focus of planned changes lies on measures to achieve cost reductions.

Planned changes for Datacenter Services include:

- ❑ Reduce cost, e.g. of bandwidth or of services delivered from an external service provider (3)
- ❑ Renewal/extension of contract with service provider (1)
- ❑ Improvement of cooperation with service provider (1)

In the Application Management space, German financial service organizations are looking to balance internal and external provision of services so as to maximize capability and efficiency.

Planned changes Application Management Services include:

- ❑ Increase personnel training to reduce dependency on software vendors and create internal capability (2)
- ❑ Centralize Application Management across international divisions to enable lower cost delivery (1)
- ❑ Outsource the management for new applications (1)

There are not many changes planned in the area of Application Development and Maintenance. Where they are, they aim for an improved service quality.

Planned changes for Application Development and Maintenance Services include:

- ❑ Recruit specialist personnel to achieve resilience for critical applications (1)
- ❑ Better align application development with business requirements (1)

Chapter

4

# Attitudes to Outsourcing IT Services

## A

### Current Sourcing of IT Services and Satisfaction with this

Exhibit IV-1 shows the percentage of the IT budget that German financial services have outsourced today, and the percentage they consider ideal for outsourcing for their organization.

*Exhibit IV-1*

#### Share of IT budget currently outsourced and considered ideal for outsourcing

	Today outsourced (%)	Considered ideal for outsourcing (%)	Potential for Growth (% points)
Foreign banks	64	70	6
Insurances	62	67	5
Private banks	56	61	5
Savings & Mutual Banks	60	62	2
<b>Total</b>	<b>60</b>	<b>65</b>	<b>5</b>

Two-thirds of German finance organizations have outsourced 60% or more of their IT budget. A fifth of organizations even outsource 80% of their IT budget.

All organizations consider their ideal proportion for outsourcing higher than the current level, implying that there is potential for IT service providers to increase share of wallet with financial service clients. The potential increase is, however, limited to 5% on average. While this percentage is low, it is important to note that, in the finance sector, IT costs account for around 11% of overall revenues, while this percentage is much lower (around 3% in industry sectors), so that the potential for IT service providers to the finance sector is still significant in absolute numbers.

Foreign banks have outsourced the highest share of their IT budget and show the highest potential for further outsourcing.

With only 2% growth potential, it is the Savings and mutual banks that show least opportunities for IT service providers.

The potential of additional IT budget to be outsourced by banks differs depending on the type of bank:

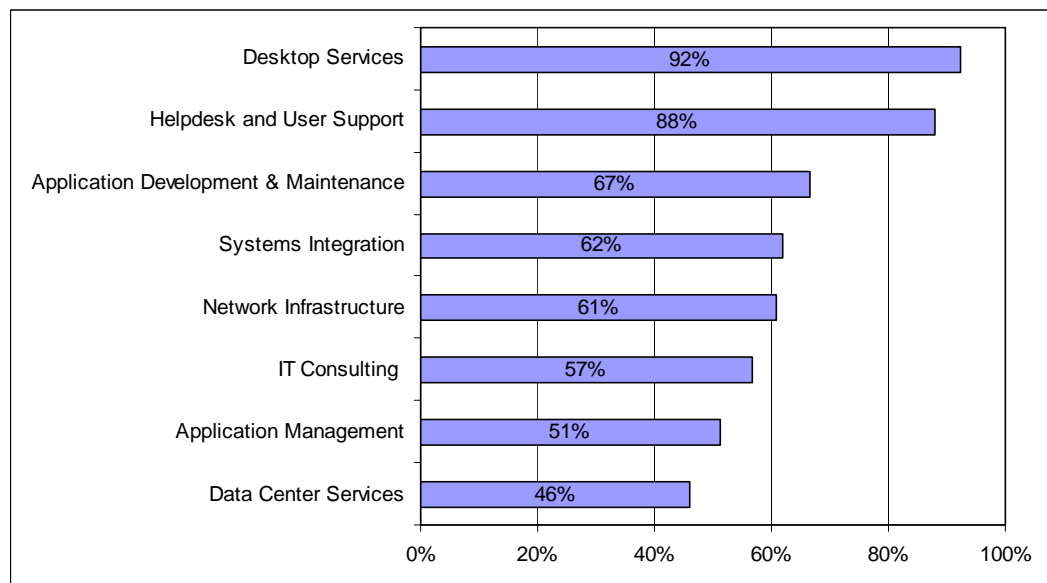
- ❑ Investment and foreign banks see potential for outsourcing a further 10% of their IT budget
- ❑ Universal and Savings banks see potential for outsourcing a further 5% of their IT budget
- ❑ Real-estate credit institutions see potential for outsourcing a further 3% of their IT budget
- ❑ Auto, Mutual, State banks and Building Societies interviewed see their currently outsourced share of IT budget as ideal.

Financial service organizations with national operations only have outsourced lower shares (on average 54%) of their IT budget compared to multinational organizations (67% on average). Expect further outsourcing potential, however, is similar with 4% for national finance organizations and 5% for multinational finance organizations.

Exhibit IV-2 shows the proportion of services that German finance organizations have currently outsourced by type of IT service.

**Exhibit IV-2**

### Percentage of IT Services Types Currently Outsourced



German financial services organizations have outsourced more than half of all types of IT services, with data center services an exception. It is notable, however, that German finance organizations often use captive IT service providers as IT outsourcers.

Exhibit IV-3 shows the extent to which different types of financial service organizations outsource different types of IT services.

**Exhibit IV-3**

**Percentage of IT Services Types Currently Outsourced  
By Type of Finance Organization**

Type of IT Service	Foreign Banks (%)	Insurance (%)	Private Banks (%)	Savings & Mutual Banks (%)
Application Development & Maintenance (ADM)	75	65	56	72
Application Management	45	55	49	56
Data Center Services	47	63	36	38
IT Consulting	63	53	54	57
Systems Integration	58	77	51	63
Network Infrastructure	61	63	56	65
Desktop Services	93	90	93	93
Helpdesk and User Support	87	84	89	93

The proportions outsourced in each service type do not differ markedly by type of finance organization. It is, however, notable that insurances outsource a larger share of their datacenter and systems integration services than banking organizations.

Exhibit IV-4 shows how satisfied German finance organizations are with their currently outsourced IT services.

**Exhibit IV-4**

**Current Satisfaction with Outsourced IT Services**

Area	Satisfaction	Share of organizations expressing high satisfaction
Application Management	4.3	86%
Data Center Services	4.0	76%
ADM	4.0	70%
IT Consulting	3.9	78%
Systems Integration	3.7	62%
Network Infrastructure	3.7	66%
Desktop Services	3.3	44%
Helpdesk and User Support	3.1	38%

Satisfaction is highest with Application Management and Data Center services, which are services of which organizations outsource only approximately 50%.

Organizations are least satisfied with outsourced Desktop and Helpdesk services, with 56% and 62% of organizations not satisfied.

The following points of dissatisfaction were expressed:

In Consulting and Systems Integration Services, organizations are especially dissatisfied with service costs and the level of skills and resourcing provided by the vendor:

- ❑ High cost of service (8)
- ❑ Lack of skilled people and/or adequate resourcing (8)
- ❑ Vendor is slow to respond to demands (8)
- ❑ Vendor does not understand requirements (4)
- ❑ Internal budget insufficient (1)
- ❑ Poor service agreement with the vendor (1)
- ❑ Vendor lacks business/industry expertise (1)
- ❑ Client cannot quantify vendor contribution (1)
- ❑ Vendor lacks flexibility (1)
- ❑ Vendor will not share risk (1)
- ❑ Loss of internal know-how (1)
- ❑ Poor quality of service (1)

Outsourced Network Services are criticized mainly for the poor quality of service:

- ❑ Poor value/quality of service (8)
- ❑ Lack of business/industry knowledge (3)
- ❑ Slow to react to change requests (3)
- ❑ Poor working relationship with vendor (2)
- ❑ Lack of flexibility (1)
- ❑ Poor quality of staffing (1)
- ❑ Lack of understanding requirements (1)

Providers of Datacenter Services are criticized for their poor technical performance:

- ❑ Poor technical performance (4)
- ❑ Poor technical support/response times (3)
- ❑ Problems with compliance/security (3)
- ❑ Poor value/quality of service (2)
- ❑ Lack of technology expertise (2)
- ❑ High cost (2)
- ❑ Vendor won't admit errors (1)

Outsourced Desktop Services are perceived to deliver poor quality and value for money:

- ❑ Poor value/quality of service (7)
- ❑ Vendor is slow to respond to demands (6)
- ❑ High cost (5)
- ❑ Lack of skilled people and/or adequate resourcing (3)
- ❑ Lack of technology expertise/state-of-the-art technology (3)

- ❑ Lack of industry expertise (2)
- ❑ Poor user perception of service quality (2)
- ❑ Vendor is not proactive in suggesting improvements (2)
- ❑ Poor desktop reliability (1)
- ❑ Lack of integration with other services (1)

External providers of Helpdesk and User Support Services are criticized for poor personnel skills and resourcing, resulting in poor service quality:

- ❑ Lack of skilled people and/or adequate resourcing (11)
- ❑ Poor value/quality of service (9)
- ❑ Lack of knowledge of internal systems (5)
- ❑ Vendor is slow to respond to demands (4)
- ❑ High cost (4)
- ❑ Vendor is not proactive in suggesting improvements (1)
- ❑ Language issues (1)

Where Application Development and Maintenance Services are outsourced, resourcing and speed of delivery are key issues:

- ❑ Vendor is slow to respond to demands (7)
- ❑ Lack of skilled people and/or adequate resourcing (6)
- ❑ High cost (3)
- ❑ Lack of knowledge of internal systems (2)
- ❑ Internal resources required for quality control work (2)

Organizations are generally satisfied with outsourced Application Management Services, but skills and resourcing are criticized here as well:

- ❑ Lack of skilled people and/or adequate resourcing (4)
- ❑ Lack of business/industry know-how (1)
- ❑ Poor value/quality of service (1)

Across all outsourced IT services, the main points of dissatisfaction are:

- ❑ High cost and poor value/quality of service
- ❑ Slow responsiveness to requirements
- ❑ Lack of expertise and efficient resourcing

Exhibit IV-5 illustrates how satisfied different types of financial service organizations are with their outsourced IT services by type.

*Exhibit IV-5*

**Satisfaction with outsourced IT Service types  
By Type of Finance Organization**

Type of IT Service	Satisfaction: Foreign Banks	Satisfaction: Insurances	Satisfaction: Private Banks	Satisfaction: Savings & Mutual Banks
ADM	4.1	4.3	4.1	3.7
Application Management	4.4	4.6	4.1	4.0
Data Center Services	3.4	4.6	4.0	3.9
IT Consulting	4.3	3.8	3.9	3.5
Systems Integration	3.9	3.2	3.7	4.0
Network Infrastructure	4.2	3.8	3.5	3.5
Desktop Services	3.9	3.3	2.5	3.6
Helpdesk and User Support	3.2	3.2	2.9	3.2

The levels of satisfaction expressed with different service types do not differ markedly amongst different types of finance organizations. It is notable, however, that private banks show a greater level of dissatisfaction with their desktop and helpdesk service providers than other finance organizations.

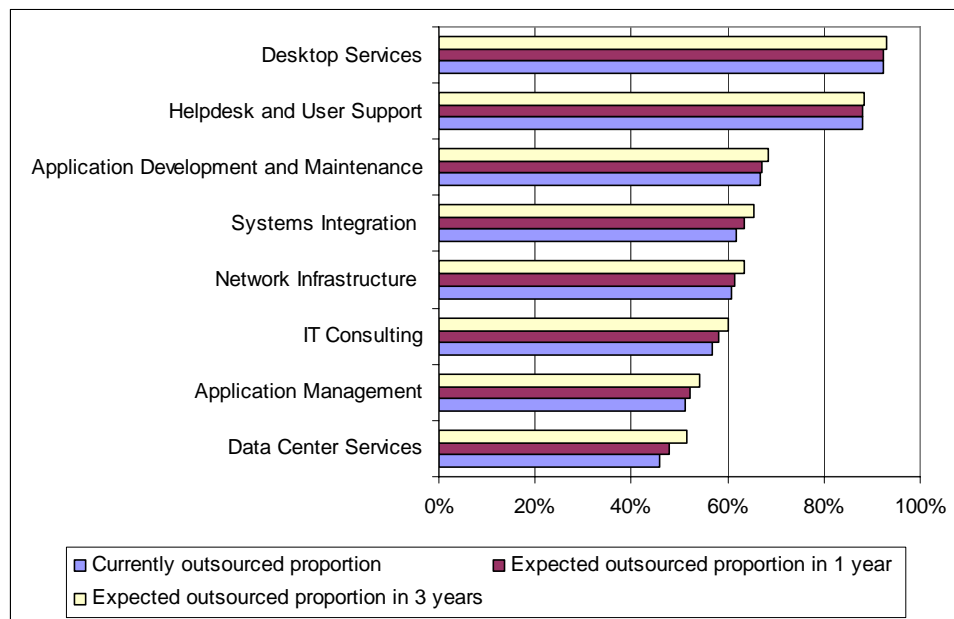
## B

### Expected Levels of Outsourced IT Services in the Future

Exhibits IV-6 and IV-7 illustrate what proportions of different IT service areas finance organizations are expecting to outsource over the next three years.

*Exhibit IV-6*

#### Expected future level of outsourced IT service by type



*Exhibit IV-7*

#### Expected future level of outsourced IT service by type of service

Service type	Currently outsourced proportion (%)	Expected outsourced proportion in 1 year (%)	Expected outsourced proportion in 3 years (%)	Growth potential (%)
Desktop Services	92	93	93	1
Helpdesk and User Support	88	88	88	0
Application Development and Maintenance	67	67	68	1
Systems Integration	62	63	65	3
Network Infrastructure	61	61	63	2
IT Consulting	57	58	60	3
Application Management	51	52	54	3
Data Center Services	46	48	51	5

Exhibits IV-6 and IV-7 illustrate that German financial service organizations expect their proportion of outsourced IT services to increase in all areas over the next three years, albeit only slightly. The greatest potential for growth is found in data center services, where organizations expect to outsource an additional 5%. Consulting, Systems Integration and Application Management each have potential for a 3% increase.

The outsourcing of desktop and helpdesk services remains high at 93% and 88% respectively, but no growth is expected here.

Exhibits IV-8 to IV-11 show the expected levels of outsourcing for different IT service types by type of financial service organization.

**Exhibit IV-8**

**Expected Level of Outsourced IT Service by Type:  
Foreign Banks**

Service type	Currently outsourced proportion (%)	Expected outsourced proportion in 1 year (%)	Expected outsourced proportion in 3 years (%)	Growth potential (%)
Desktop Services	93	93	93	0
Helpdesk and User Support	87	87	87	0
Application Development and Maintenance	75	75	76	1
Systems Integration	58	61	65	7
Network Infrastructure	61	62	63	2
IT Consulting	63	63	65	2
Application Management	45	46	50	5
Data Center Services	47	50	53	6

Foreign banks have a high potential for outsourcing growth in systems integration, data center services and application management, while no growth can be expected for desktop and helpdesk services.

*Exhibit IV-9***Expected Level of Outsourced IT Service by Type:  
Insurance**

Service type	Currently outsourced proportion (%)	Expected outsourced proportion in 1 year (%)	Expected outsourced proportion in 3 years (%)	Growth potential (%)
Desktop Services	90	91	92	2
Helpdesk/User Support	84	84	85	1
ADM	65	66	67	2
Systems Integration	77	78	79	2
Network Infrastructure	63	63	66	3
IT Consulting	53	55	57	4
Application Management	55	56	57	2
Data Center Services	63	65	67	4

Insurance firms are primarily looking to outsource more of their IT consulting and data center services over the next three years.

*Exhibit IV-10***Expected Level of Outsourced IT Service by Type:  
Private Banks**

Service type	Currently outsourced proportion (%)	Expected outsourced proportion in 1 year (%)	Expected outsourced proportion in 3 years (%)	Growth potential (%)
Desktop Services	93	93	94	1
Helpdesk/User Support	89	89	89	0
ADM	56	57	59	2
Systems Integration	51	51	53	2
Network Infrastructure	56	57	59	3
IT Consulting	54	56	58	4
Application Management	49	50	51	2
Data Center Services	36	40	46	10

While growth potential for outsourcing with private banks in Germany is generally low, there is a marked exception for data center services: over the next 3 years, private banks expect to outsource an additional 10% of their data center services.

*Exhibit IV-11***Expected Level of Outsourced IT Service by Type:  
Savings and Mutual Banks**

Service type	Currently outsourced proportion (%)	Expected outsourced proportion in 1 year (%)	Expected outsourced proportion in 3 years (%)	Growth potential (%)
Desktop Services	93	93	93	0
Helpdesk and User Support	92	92	92	0
Application Development and Maintenance	72	72	72	0
Systems Integration	63	65	68	5
Network Infrastructure	65	65	66	1
IT Consulting	57	58	60	3
Application Management	56	58	60	4
Data Center Services	38	38	39	1

There is no significant growth potential for outsourcing with savings and mutual banks in Germany. Only exceptions are systems integration and application management services where some demand is seen.

**C****Current and Planned Near- and Offshore Usage**

Exhibit IV-12 shows the proportion of outsourced IT services that is delivered from near- and offshore locations and how this is expected to develop over the next three years.

*Exhibit IV-12***Current and planned Usage of Near- and Offshore Services**

Area	Currently (%)	Within 1 Year (%)	Within 3 Years (%)	Growth (% points)
Nearshore	9.6	10.7	12.8	3.2
Offshore	13.4	15.0	18.2	4.8
<b>Total</b>	<b>23.0</b>	<b>25.7</b>	<b>31.0</b>	<b>8.0</b>

Near and offshore usage by German finance organizations today stands at 23% and will be increasing to 31% within the next 3 years, hence implying an increase of 30% in the adoption of near/offshore delivery.

Notable is also that offshore is greater than nearshore delivery and will also grow faster.

With 29% of outsourced IT services delivered from near- or offshore locations, it is finance organizations with multinational operations that currently make greater use of

near/offshoring. In contrast, the percentage for organizations with domestic operations stands at only 18%. However, the latter expect higher growth of near/offshore usage (9% points) compared to the former (6% points).

Exhibit IV-13 shows the current and planned usage of near and offshore delivered IT services by foreign banks.

*Exhibit IV-13*

**Current and planned Usage of Near- and Offshore Services:  
Foreign banks**

Area	Currently (%)	Within 1 Year (%)	Within 3 Years (%)	Growth (% points)
Nearshore	10.8	11.2	12.7	1.9
Offshore	14.2	17.1	19.6	5.4
<b>Total</b>	<b>25.0</b>	<b>28.3</b>	<b>32.3</b>	<b>7.3</b>

Exhibit IV-14 shows the current and planned usage of near and offshore delivered IT services by insurance firms.

*Exhibit IV-14*

**Current and planned Usage of Near- and Offshore Services:  
Insurance**

Area	Currently (%)	Within 1 Year (%)	Within 3 Years (%)	Growth (% points)
Nearshore	12.1	13.8	15.8	3.7
Offshore	14.2	14.6	18.8	4.6
<b>Total</b>	<b>26.3</b>	<b>28.4</b>	<b>34.6</b>	<b>8.3</b>

Exhibit IV-15 shows the current and planned usage of near and offshore delivered IT services by private banks.

*Exhibit IV-15*

**Current and planned Usage of Near- and Offshore Services:  
Private Banks**

Area	Currently (%)	Within 1 Year (%)	Within 3 Years (%)	Growth (% points)
Nearshore	9.3	11.1	13.2	3.9
Offshore	13.9	15.4	18.2	4.3
<b>Total</b>	<b>23.2</b>	<b>26.5</b>	<b>31.4</b>	<b>8.2</b>

Exhibit IV-16 shows the current and planned usage of near and offshore delivered IT services by savings and mutual banks.

*Exhibit IV-16***Current and planned Usage of Near- and Offshore Services:  
Savings and Mutual Banks**

<b>Area</b>	<b>Currently (%)</b>	<b>Within 1 Year (%)</b>	<b>Within 3 Years (%)</b>	<b>Growth (% points)</b>
Nearshore	5.9	6.4	9.1	3.2
Offshore	10.9	12.7	15.9	5.0
<b>Total</b>	<b>16.8</b>	<b>19.1</b>	<b>25.0</b>	<b>8.2</b>

Differences in the current and planned use of near/offshore delivery between different types of financial service organizations are not marked. However, with currently 17% of services delivered from near/offshore locations, savings and mutual banks have significantly lower usage than other finance organizations. They also expect their usage to increase by similar levels (around 8%) as other finance organizations over the next three years, but will then still have lower levels of near/offshore delivery.

## D

## Inhibitors to IT Outsourcing

Exhibit IV-17 shows the proportion of German financial services organizations who consider each of the issues listed to be of major importance as a barrier to outsourcing.

*Exhibit IV-17***Perceived Importance of Potential Inhibitors to Outsourcing**

Barrier	Proportion Considering Highly Important (%)
Cost savings in IT outsourcing are not achieved	80
Loss of know-how within the company	74
Lack of communication and management information	74
Danger of lower quality of service	60
Concerns on cultural differences	60
Problems of communication (interpretation of requirements, language issues)	56
Lack of appropriate offerings from service providers (for specific requirements)	54
Loss of control	54
Resistance of employees/workers council/trade unions	42
Concerns about long-term dependency on service provider	32
Regulatory barriers to outsourcing	30
Too large change required/ too complex	26
Security risks	24
Lack of trust in service provider	18
Unclear allocation of roles and responsibilities in an ITO Project	12
High VAT rate makes outsourcing economically inefficient	8

With the need for cost cutting a key challenge and requirement, it is notable that a large majority of German finance organizations consider a key inhibitor to outsourcing the fact that cost savings are not achieved.

The organizations interviewed named the following as key problems they have themselves experienced in outsourcing arrangements:

Internal problems:

- ❑ Cost expectations are not met (9)
- ❑ Loss of know-how and experienced staff (7)
- ❑ Disruptions during the transition phase (4)
- ❑ Expectations (regarding cost savings, improvements, timeframe) are too high (3)
- ❑ Problems with SLA fulfillment and monitoring (2)
- ❑ Lack of internal support for outsourcing (2)
- ❑ Lack of metrics available to create viable business case (1)
- ❑ Poor staff morale as result of outsourcing arrangement (1)
- ❑ Loss of control over system status and required updates (1)
- ❑ Lack of effective management of contractual terms (1)

External problems

- ❑ Poor vendor know-how/performance (9)
- ❑ Poor quality of service (5)
- ❑ Vendor loses or pulls off skilled personnel, or has staffing problems (6)
- ❑ Lack of confidence in the vendor (1)
- ❑ Vendor lacks understanding of requirements (1)

In their own experiences with IT outsourcing, organizations have encountered a range of problems, including both internal as well as external shortcomings. The internal problems encountered suggest that organizations do not invest sufficiently in the creation of a business case, as well as the planning and ongoing management of an outsourcing arrangement.

External problems encountered suggest that service providers do not deploy sufficiently skilled resources for their clients.

Chapter

5

# Buying Process for IT Outsourcing Services

A

## IT Outsourcing Drivers and Trigger Points

Exhibit V-1 shows how German finance organizations consider the importance of each of the issues listed to be a trigger for the consideration of IT outsourcing.

**Exhibit V-1**

### Factors that trigger IT Outsourcing Considerations

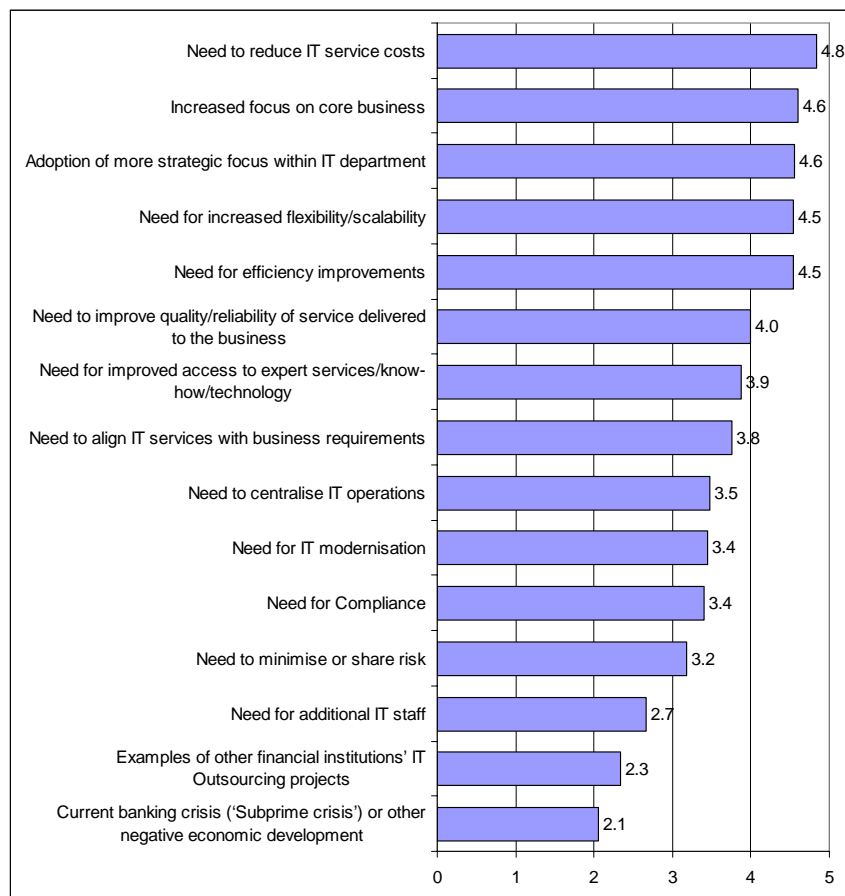


Exhibit V-2 shows the proportion of German finance organizations who consider each of the issues listed to be an important trigger for the consideration of IT outsourcing.

**Exhibit V-2**

**Factors that trigger IT Outsourcing Considerations**

Driver	Proportion considering highly important (%)
Need to reduce IT service costs	98
Need for increased flexibility/scalability	96
Increased focus on core business	92
Adoption of more strategic focus within IT department	90
Need for efficiency improvements	82
Need for improved access to expert services/know-how/technology	76
Need to improve quality/reliability of service delivered to the business	74
Need to align IT services with business requirements	72
Need for IT modernization	58
Need to centralize IT operations	54
Need for Compliance	50
Need to minimize or share risk	42
Examples of other financial institutions' IT outsourcing projects	36
Need for additional IT staff	16
Current banking crisis ('Subprime crisis') or other negative economic development	2

The prime driver for ITO considerations is the need to reduce costs for IT services, followed by the focus on core competencies and the focus on strategic tasks. The need for greater flexibility/scalability and improved efficiency are also important drivers.

Notable is that the current banking crisis or other negative economic developments do not form a trigger for ITO considerations, illustrating that ITO is unlikely to grow more strongly in times of economic downturn.

Exhibit V-3 illustrates which factors trigger outsourcing considerations for different types of financial service organizations.

**Exhibit V-3****Factors that trigger IT Outsourcing Considerations by type of finance organization**

<b>Driver</b>	<b>Foreign banks (%)</b>	<b>Insurance (%)</b>	<b>Private Banks (%)</b>	<b>Savings &amp; Mutual Banks (%)</b>
Need to reduce IT service costs	100	100	100	91
Need for increased flexibility/scalability	92	100	100	91
Increased focus on core business	85	92	93	100
Adoption of more strategic focus within IT department	85	92	86	100
Need for efficiency improvements	92	92	100	82
Need for improved access to expert services/know-how/technology	62	92	79	73
Need to improve quality/reliability of service delivered to the business	69	75	79	73
Need to align IT services with business requirements	85	83	79	36
Need for IT modernization	39	67	57	73
Need to centralize IT operations	54	50	71	36
Need for Compliance	39	33	71	55
Need to minimize or share risk	54	42	36	36
Examples of other financial institutions' IT outsourcing projects	15	17	14	18
Need for additional IT staff	15	17	21	9
Current banking crisis or other negative economic development	0	0	7	0

Cost reduction is a key driver for outsourcing considerations for most banks, however, less so for savings and mutual banks, who perceive the focus on core business and strategic tasks within the IT department as most important. Private banks also see efficiency improvements and increased flexibility as drivers for outsourcing.

7% of private banks see the banking crisis as an important driver for outsourcing, while no other organization perceives this as highly important.

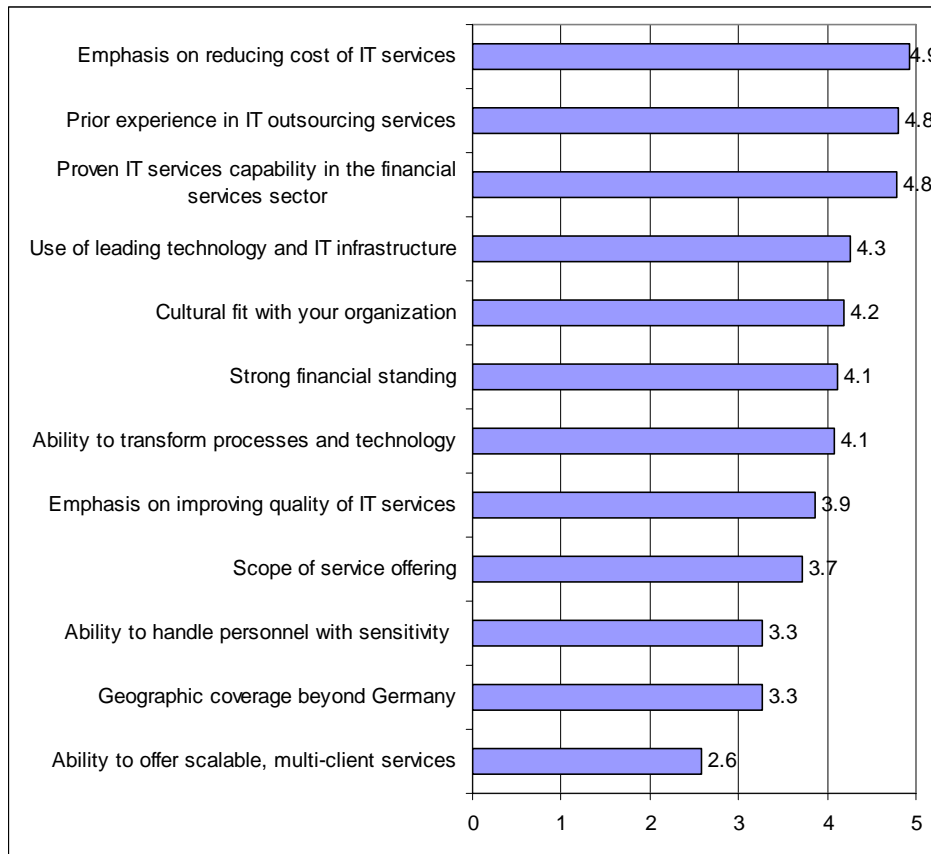
# B

## IT Outsourcing Provider Selection Criteria

Exhibit V-4 illustrates which criteria German finance organizations consider important when selecting an IT outsourcing provider.

**Exhibit V-4**

### Selection Criteria when Choosing and IT Outsourcing Provider



All organizations consider cost reduction focus and proven capability in the finance sector as key criteria to be fulfilled by an ITO provider. 96% of organizations perceive prior experience in ITO services as a highly important characteristic.

Exhibit V-5 illustrates which criteria different types of German finance organizations consider important when selecting an IT outsourcing provider.

**Exhibit V-5**

**Selection Criteria when Choosing and IT Outsourcing Provider  
by Type of Finance Organization**

Driver	Foreign banks (%)	Insurance (%)	Private Banks (%)	Savings & Mutual Banks (%)
Emphasis on reducing cost of IT services	100	100	100	100
Prior experience in IT outsourcing services	92	100	100	91
Proven IT services capability in the financial services sector	100	100	100	100
Use of leading technology and IT infrastructure	100	83	79	82
Cultural fit with your organization	77	83	93	82
Strong financial standing	85	75	86	91
Ability to transform processes and technology	62	75	86	100
Emphasis on improving quality of IT services	77	75	72	64
Scope of service offering	54	75	79	46
Geographic coverage beyond Germany	69	58	21	9
Ability to handle personnel with sensitivity	46	42	43	64
Ability to offer scalable, multi-client services	31	33	7	9

Emphasis on cost reduction and proven expertise in the finance sector are considered highly important selection criteria by all types of German finance organizations. Foreign banks perceive the use of leading technology and IT infrastructure as a highly important characteristic, while savings and mutual banks see the need for an ITO provider to be able to transform processes and technology.

Under half of the organizations consider skills in the handling of staff transfers as a highly significant capability of a service provider.

Of least importance to German organizations is the ability of service providers to offer scalable, multi-client services.

International coverage and delivery capability is a significant criterion for foreign banks and insurance, however is less important for private German banks as well as savings and mutual banks. This is due to the fact that the latter primarily operate within the country.