



Master Direction on Outsourcing of IT services for BFSI

Analysis by The Digital Fifth

How has IT outsourcing changed in the last few years

The business landscape has changed and evolved in the processes. The rapid adoption of digital banking and other online services post-pandemic has prompted IT outsourcing to change as well and follow suit. The main change associated with today's IT outsourcing industry is an effective strategy implementation in order to achieve operational efficiency. In the context of outsourcing in banks, the main priority shifted from cost-saving to improved Customer experience over the years. IT outsourcing has undergone significant changes in recent years.

- Specialised outsourcing services: As Fintech companies continue to grow and diversify, they require more specialized IT outsourcing services that can provide targeted solutions to their unique business needs. This has led to an increase in demand for services such as blockchain development, cybersecurity, cloud computing, data analytics, and AI/ML.
- Data Privacy: IT outsourcing partners who can offer advanced security measures and compliance with industry standards like GDPR, CCPA, and HIPAA are desired. The BFSI industry gives emphasis on negating cyber threats and security.
- Embracing cloud-based Solutions: IT outsourcing partners with expertise in cloud technology like AWS, Azure, and Google Cloud. Turning to cloud-based solutions has enabled higher efficiency and agility.

Why is IT Outsourcing very Important for BFSI

In order for a Bank or fintech to stay competitive they must be able to provide their banking services around the clock and 7 days a week. Trust and security should be synonyms with a bank and this should also translate to their digital services. Hence they must give a great deal of importance to outsourcing IT Technology that is secure. IT outsourcing can help banks control and reduce costs, focus on the business of running the bank, stay current with the latest technology, mitigate risk, and improve productivity. With the increasing complexities of IT infrastructure, operations, and security, outsourcing has become a viable and important option for banks to consider in order to stay competitive and achieve sustained growth. As recently as April 4th of this year SBI App YONO crashed and this disrupted the net banking and UPI services. This caused a lot of issues for the customers who were unable to avail of basic services like checking their bank account or passbook. SBI resolved this issue in less than 24 hours and they issued a statement that associated the issue with server and network traffic issues. IT outsourcing can help banks stay compliant with regulations and industry standards, which is especially critical for the BFSI sector. Managed IT services can provide the flexibility and scalability that financial institutions need to evolve and adapt to changing market conditions while ensuring that a bank's assets, systems, and applications stay current and continuous.

- Cost reduction: Developing and maintaining IT Infrastructure is time-consuming and very expensive. The necessary teams must be employed and trained. Hence it makes it more cost-effective and faster to outsource your IT Software.
- Access to expertise: The core competency of a bank is the financial services it offers. A bank does not have the expertise to create or handle the latest IT software. Hence by outsourcing their IT, they would get access to the firms that have their expertise in IT.
- Focus on core business function: Outsourcing IT functions allows BFSI companies to focus more on their core business functions, such as customer service, product development, and marketing

What are the challenges ahead?

While outsourcing IT services can bring many benefits, there are also several challenges that organizations may face when they outsource their IT capabilities. These changes mainly include the adoptions or changes banks must perform in order to successfully integrate with the Outsourcing companies.

- Increase in regulatory scrutiny: The increase in regulatory scrutiny poses a significant challenge for IT outsourcing, as banks must ensure that they remain compliant with all applicable regulations while also leveraging the benefits of outsourcing IT services. The banks must ensure that the outsourcer is complying with all the applicable regulations, as well as the bank's internal policies and procedures. This requires careful due diligence on the part of the bank, including assessing the outsourcer's data security measures, privacy policies, and compliance history.
- Pressure of Regular Audits, Risk Assessment: This poses a challenge because it requires outsourcing partners to have a deep understanding of the regulations and the compliance standard that govern the banking industry.
- Skill Set needed to manage contractual obligations: Managing IT outsourcing contracts requires a unique set of skills, including legal and contractual expertise, technical expertise, communication skills, project management skills, and risk management skills. As such, it can be challenging to find the right talent to manage these contracts effectively, and organizations may need to invest in training and development to build these capabilities internally or seek assistance from external experts.

RBI Master Direction and the 10 Chapters

The Reserve Bank of India (RBI) has released guidelines on outsourcing of financial services by banks, which includes guidelines on outsourcing of information technology (IT) services. The circular lays out the key principles that banks need to follow while outsourcing their IT services, The circular also sets out the responsibilities of the bank's management in outsourcing arrangements, including the need to identify and manage the risks associated with outsourcing, and to ensure that the outsourced services are provided in a manner consistent with the bank's overall risk management framework.

10 Chapters :

1. Preliminary
2. Role of the Regulated Entity
3. Governance Framework
4. Evaluation & Engagement of Service Providers
5. Outsourcing Agreement
6. Risk Management
7. Monitoring & Control of Outsourced Activities
8. Outsourcing within a Group / Conglomerate
9. Cross Border Outsourcing
10. Exit Strategy

The Digital Fifth Offerings

With this guideline coming into vogue all regulated entities have to either build a framework to ensure compliance or assess their current framework, assess gaps, and make it compliant. This is where The Digital Fifth can support regulated entities with

- a. Consulting - We provide bespoke solutions for the digital evolution journeys of clients ranging from established BFSI organizations to emerging game-changers alike
- b. Partnerships - We advise Fintechs on go-to-market strategies and enable strategic tie-ups between them and BFSI customers.

c. Training - We have conducted over 30+ certification programs & have trained 4100+ participants in various segments in Fintech.

d. Recruitment - We leverage our network to help BFSI entities source and recruit skilled talent.

Wish to know more about our services?

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KNOWLEDGE SESSION

Digital Transformation- Part I



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Key Points:

- Digital Transformation Overview
- Digital Banking Trends
- Critical Success Factors of Digital Transformation

5th May, 2023 | 3:00 to 4:00 pm

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MARKET NEWS

How will DigiLocker services help fintech and MSMEs?

The Ministry of Commerce and Industry reports that 40% of all digital transactions take place in India. Financial services have multiplied due to the high rate of internet usage and the prevalence of smartphones. Additionally in order to leverage the full potential of digitalization and the internet during the budget of 2023- 2024

Nirmala Sitharaman, the Union Finance Minister broadened the range of Digilocker services by making "DigiLocker" a one-stop solution for online document sharing.

Source: Mint

The Indian fintech ecosystem is setting global benchmarks

The Indian fintech ecosystem is perhaps the most unique in the world, with hyperscale payment infrastructure, thriving lending innovations, digitally savvy banks, and market-driven open-banking frameworks. This has helped the country achieve a scale of unheard levels – 71 billion digital payment transactions, Rs 11.8 trillion lent to retail and SME customers, and 55 million active neobank (online bank) accounts.

The Indian fintech ecosystem has broken the barriers of language, location, and illiteracy. Fintech firms have helped onboard new-to-credit as well as sub-prime customers. Jan Dhan and neobanking are helping ensure that every citizen has access to banking. A case in point is the high penetration of UPI.

Source: Moneycontrol



WEEKLY FUNDING

formi	Seed	\$ 165 K
Niro	Series A	\$14.4 Million
Kiwi	Pre- Seed	\$6 Million



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