

BC3402 Tutorial 2

Question 1

a) What do you think drove the changes to have IT moved in-house in DBS?

1. Loss of control / less flexibility
 - Major outage in 2010, when DBS was still outsourcing to IBM
2. Threats posed by fintech startups
 - Lazada's HelloPay merged with Ant Financial's Alipay
 - GrabPay
3. New possibilities with the advent of fintech
 - Institutional constraints for organic expansion and acquisition-led growth in emerging Southeast Asia and South Asia markets
 - Saw opportunities in driving technology-led growth instead of building banks the traditional way in these markets

b) What are the common risks involved in IT outsourcing in the financial services industry? Which of the risks involved are only specific to the financial services sector?

1. Strategic risk
 - Business conduct of the service provider can be against the strategic goals of the bank
2. Reputation risk
 - Poor services of the service provider could be harmful for the reputation of the bank and will harm customer relationships
3. Operational risk
 - Tech failure, inadequate infrastructure or any error in providing IT services by the service provider
4. Regulatory/ compliance risk
 - Service providers must be familiar with the legal requirements applicable to the products or services being offered
5. Exit strategy risk
 - Lower tendencies to have major overhauls, and due large scale of sensitive information might be stuck with one IT service provider

c) Do you agree that IT outsourcing in the financial services sector entails more risk than other industries?

Common examples of IT services banks outsource

- Front line IT support – service/support desk
- Technology infrastructure management, maintenance and support
- Cloud-based services and solutions
- Application development, maintenance and testing
- Transaction processing including payments, loans, deposits
- Sourcing, leads generation

c) Do you agree that IT outsourcing in the financial services sector entails more risk than other industries?

Depends on the services the company chooses to outsource but likely more risky

- Handling client sensitive information
 - Severe consequences that might follow if there were a breach
- Key sector that might attract unwanted attention
 - Economy is founded on a functional financial sector
 - Obvious tangible benefits (money)
- Highly-regulated and requires compliance with laws
 - Heavy penalties imposed in cases of breach
 - But regulation can be argued to reduce overall risk e.g. ABS Guidelines for Outsourced Service Providers

THANK YOU