BC3402 Tutorial 2 Question 1

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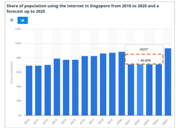
What do you think drive the changes to have IT moved in-house in DBS Bank?

Case evidence

> *"taking much greater advantage of the digital world"*
> *"If you want to be a digital company, you've got to take control of your intellectual property; you need to hire the very best engineers"*

Shift in the identified core competence

- **Changing business environment - Digitalisation**
  - Accelerated by the internet penetration of the local population ~90% today
- **Increasing strategic value of IT**
  - Building up business moat via intellectual property
- **Shift in *core competence* identified by DBS management**
  - Previously, IT was seen as a support service, outsourcing allows for DBS to focus on its core banking business
  - But now, see IT as a strategic advantage. If continue outsourcing, there is a loss of opportunity to develop in-house IT competence which will have negative economic and strategic effects



Internet Penetration Rate in Singapore, Statista.com

Indeed, this strategy is well-executed by management

- **Euromoney awards - "The World's best Digital Bank 2021"**

> *In digital terms, DBS can feel like 'the Terminator', in that it absolutely will not stop. The Singapore lender simply never lets up: it never stops innovating or finding creative digital solutions to problems. It is as integral to its customers' digital journey as any bank on the planet and has been for the best part of a decade.*

What are the common risks involved in IT outsourcing in the financial services industry?

Uncertainty

- **Business Uncertainty**
  - Assumption that the business's future direction and needs are clear
- **Endemic Uncertainty**
  - Constantly changing business requirements - costly contract amendments
- **Technological Uncertainty**
  - Possibility of outdated technology skills
  - Possibility of inexperienced staff

What are the common risks involved in IT outsourcing in the financial services industry?

Loss of Growth Potential

- **Loss of innovative Capacity**
  - Importance of maintaining innovative capacity in IT to exploit IT for the business
  - Limited opportunities for users who understand the business to interact with specialists who understand the technology on a continuing basis
- **Lack of organisational learning**
  - Management tends to learn the value of IT infrastructure by using them and seeing further opportunities for development

What are the common risks involved in IT outsourcing in the financial services industry?

Security and Controls

- Financial institutions handle large amount of confidential data – need to ensure robustness of internal control systems to withstand risks of cyber attacks and misuse by employees
  - Physical site security, malware protection, employee background checks and controls to protect critical or sensitive IT assets from unauthorised activity
- Risk of transporting data
  - As information and data could be moved to primary or backup sites located in foreign countries, the risks associated with the medium of transport, be it physical or electronic, should also be considered.

What are the common risks involved in IT outsourcing in the financial services industry?

Jurisdictional Risk

- Risk that arises from outsourcing to a foreign country.
  - Economic, social and political conditions and events in a foreign country that may adversely affect the institution. Such conditions and events could prevent the service provider from carrying out the terms of its agreement with the institution.
- Increasing focus for financial institutions that are exposed to the volatility that some of the countries where they operate may be high-risk areas for money laundering and terrorism financing.

Do you agree that IT outsourcing in the financial services sector entails more risks than other industries? Why or why not?

Yes, entails more risk

- **Economic Consequences**
  - Prevent lack of access to fin services -- total downtime <12 hours per year
  - E.g. DBS outage circa Nov 2021
    - Shee Tse Koon: "We have been working round the clock, together with our third-party engineering providers, to fix the problem and recover our services"
  - Ripple effects to SMEs, peer-to-peer payments due to prevalence of Internet Banking and Point-Of-Sale services
- **Outdated/legacy software systems**
  - To prevent outages, software upgrades are less frequent and technology is less cutting-edge
    - FCA: 33% use solely legacy systems, 53% use legacy systems for 'some' functions (S&P Global, 2019)
  - Each IT outsourcing adds processes, exacerbating the complexity
    - FCA: 17% of IT outages in 2019 were due to software change failures

Do you agree that IT outsourcing in the financial services sector entails more risks than other industries? Why or why not?

No, does not entail more risk

- **Privacy issues**
  - Data breaches can happen in all industries
  - Eg. The Kroger Co. (Pharmaceutical) – clinic customer information, including pharmacy records, were found to be at risk after a data security incident affecting an associated file-sharing company, Accellion
- **Contractual risks**
  - Inability to ensure that expected duties are performed
  - Eg. Texas outsourced to IBM – IBM migrated only the agencies of 5 out of 27 systems and did not perform nightly backups
    - As a result of this outsourcing failure, Texas lost $863 million

Do you agree that IT outsourcing in the financial services sector entails more risks than other industries? Why or why not?

No, does not entail more risk

- **Operational risks**
    - Issues arising from the outsourced IT service may result in ineffective or failed internal processes that can disrupt the flow of business operations
    - Eg. Virgin Airlines outsourced to Navitaire – The software crashed twice within its first 3 months and the system took almost 24 hours to get back up and operating
        - Led to thousands of passengers stuck to the ground and numerous flights being cancelled