Mohd Razif bin Abd Kadir: Shared services and outsourcing in the Malaysian financial sector

Address by Mr Mohd Razif bin Abd Kadir, Deputy Governor of the Central Bank of Malaysia, at the Shared Services and Outsourcing in the Financial Sector – A Joint Forum by Bank Negara Malaysia and the Multimedia Development Corporation, Kuala Lumpur, 13 November 2007.

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Distinguished guests, ladies and gentlemen,

It is with great pleasure that I welcome you to the inaugural forum on shared services and outsourcing (SSO) in the financial sector. This forum is jointly organised by Bank Negara Malaysia and the Multimedia Development Corporation in a cooperative initiative to enhance the significance of SSO in the Malaysian financial sector. The organisation of this event, which focuses specially on the financial services industry and its players, is a timely bringing together of minds to discuss the issues and concerns faced by financial institutions in SSO.

The growing significance of the global SSO market suggests to the financial industry players that the outsourcing of operations which would otherwise be performed in-house is certainly an idea worth exploring. According to a recent study by Frost & Sullivan, the global SSO market was estimated to be worth US$930 billion in 2006 and is forecasted to reach a market size of US$1,430 billion by end-2009. Further, the banking, financial services and insurance sectors had the largest SSO spending in 2006 at an estimate of US$273 billion or almost a third of total SSO spending. This is not surprising news, given that major global players in the industry such as HSBC, Standard Chartered and Citibank have established SSO centres on our shores. Regional players such as Maybank, CIMB and OCBC have also outsourced certain operations here to increase their productivity levels. We are happy to have them here today to share their experiences and perspectives.

It would not be presumptuous of me to say that the financial institutions in Malaysia are in an enviable position where SSO is concerned in view of Malaysia's standing as a leading destination for the establishment of SSO hubs. A.T. Kearney ranked Malaysia as the third most attractive outsourcing centre in their Global Services Location Index in three consecutive reports, including this year's index. The report states that Malaysia was a "natural choice" for outsourcing in view of its low costs, modern infrastructure, business environment and high levels of global integration. Frost & Sullivan ranked Malaysia as the fifth most attractive SSO location in 2007 whereby the finance sector was identified as one of Malaysia's niche areas, ranking fourth in this sector. Key strengths that they pointed out include infrastructure quality, favourable Government policies, political stability and cultural adaptability of skilled workforce. Indeed, the Multimedia Development Corporation has implemented various initiatives in developing the Multimedia Super Corridor or MSC Malaysia as a conducive and attractive environment for outsourcing activities. Leveraging on these competitive advantages of Malaysia would seem to be a natural progression for financial players who are looking to stay ahead of the game. Today's forum will be an opportunity for the sharing of views and experiences, with both local and global perspectives, on Malaysia's value propositions and competitive advantages as an ideal SSO destination.

In developing Malaysia's competitive advantages, efforts to position Malaysia as an international Islamic financial centre under the MIFC initiative have propelled Malaysia's standing in the global Islamic finance sector. With a strong and comprehensive Islamic financial system supported by a robust regulatory regime and well established legal framework already in place, the envisioned landscape is that MIFC will be a centre for the offering of Islamic financial products and services in international currencies with a large pool of highly skilled Islamic finance expertise. Leveraging on the growing significance of Islamic finance in Malaysia as well as globally and Malaysia's international standing as an SSO destination, the development of Malaysia's SSO potential in Islamic finance would harness these two strengths in a meaningful manner. Today's forum will explore the possibility of the pooling of resources by various Islamic financial institutions in Malaysia to develop a shared platform for the outsourcing needs of these stakeholders. The benefits from such an initiative would be apparent in terms of achieving economies of scale and the avoidance of duplication of resources. Of course, establishing the necessary infrastructure for such an initiative would entail considerable commitment to address all the practical issues and avoiding the pitfalls. It is hoped that the discussions during the forum will assist in gathering a consensus on the viability of such an initiative where efforts and resources involved may be substantial. Indeed, it should be noted that there is certainly potential in the development of this shared platform, where combined resources and expertise would foster greater efficiency and provide fresh impetus for a more meaningful and far-reaching development of Islamic finance in the international stage. The prospects of such pioneering works with the possibility of international appeal, if successful, would certainly be exciting.

Ladies and gentlemen,

SSO, at first sight, seems very much the domain of large global players – where opportunities for significant cost arbitrage involved in, say, the relocation of call centres from the UK to Malaysia seem to be very compelling and obvious options. Understandably, the issue of SSO is tread very cautiously by the smaller and boutique players in the industry. Where bottom lines are concerned, an institution's Board may find little appeal in the proposition of outsourcing where the cost-savings involved may seem minimal. However, there are many rewards to be reaped by an institution's successful execution and maintenance of SSO arrangements and a reduction in operating costs may only form part of the picture. The outsourcing of back office operations, say, allows institutions to accord greater focus on their core competencies and core businesses such as the execution of growth strategies or capturing market share. Back office operations, important as they are, can prove distracting in managing a financial institution, where the focus should firmly be on the heart of the institution's business. Outsourcing arrangements can lighten the load of such a burden and these operations can often be performed more effectively and efficiently by skilled outsourcing providers than if performed in-house.

Ladies and gentlemen,

The essence of a successful outsourcing arrangement rests on the institution's overall strategy. In executing a successful outsourcing strategy, the various risks involved have to be recognised and mitigated. Controls and effective oversight on the external parties have to be put in place to ensure that there is no over-reliance or loss of an institution's control. Clarity on roles and responsibilities is paramount. Outsourcing strategies which maximise rewards and minimise risks can prove invaluable to an institution in enhancing its competitiveness. Therefore, a key to this is to conceptualise the outsourcing approach and early identification of the gains and pains that may arise. Bank Negara Malaysia , in our efforts towards facilitating the development of stronger and more focussed institutions in the financial sector, will endeavour to reconsider any regulatory barriers deemed to be impeding the outsourcing arrangements of banking institutions and insurance companies in the future. Our only wish is that the outsourcing arrangements should not in any way affect stability in the financial system.

On that note, I wish you a productive and successful forum.

Thank you.