



# Outsourcing as a Strategic Tool in Banking: Industry Trends, Challenges, and Opportunities

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**Abstract**

This paper examines how outsourcing is used as a strategic tool in the banking industry. To answer this question, the researcher first explores the industry's challenges, opportunities and trends. Despite its size and its central role in the world's economy, the banking industry experienced major turbulences in the recent years due to several ongoing industry trends like digitalization, technological transformation and regulatory changes, which has led to an increasingly competitive market. The study uses expert interviews to develop an understanding of the role of outsourcing in the banking industry as well as gaining valuable insights of best practices. The researcher analyzes these interview results using the Resource-Based View (RBV) theory to provide a comprehensive understanding of how outsourcing can lead to sustained competitive advantage by leveraging specialized resources. The findings show that outsourcing is not merely a cost-cutting measure but a strategic tool to access specialized expertise and drive innovation to strengthen the firms market position. This thesis contributes to research in the field of strategic management in the banking industry and provides valuable insights into the importance of outsourcing practices.

**Keywords:** Outsourcing, Banking Industry, Resource-Based View, Strategic Management, Innovation

**Title:** Outsourcing as a Strategic Tool in Banking: Industry Trends, Challenges, and Opportunities

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## **Resumo**

Este artigo analisa a forma como o outsourcing é utilizado como uma ferramenta estratégica no sector bancário. Para responder a esta questão, o investigador começa por explorar os desafios, as oportunidades e as tendências do sector. Apesar da sua dimensão e do seu papel central na economia mundial, o sector bancário passou por grandes turbulências nos últimos anos devido a várias tendências actuais do sector, como a digitalização, a transformação tecnológica e as alterações regulamentares, o que conduziu a um mercado cada vez mais competitivo. O estudo utiliza entrevistas a especialistas para compreender o papel da externalização no sector bancário, bem como para obter informações valiosas sobre as melhores práticas. O investigador analisa os resultados das entrevistas utilizando a teoria da Visão Baseada nos Recursos (RBV) para fornecer uma compreensão abrangente da forma como a externalização pode conduzir a uma vantagem competitiva sustentada através do aproveitamento de recursos especializados. Os resultados mostram que a externalização não é apenas uma medida de redução de custos, mas uma ferramenta estratégica para aceder a conhecimentos especializados e impulsionar a inovação para reforçar a posição de mercado das empresas. Esta tese contribui para a investigação no domínio da gestão estratégica no sector bancário e fornece informações valiosas sobre a importância das práticas de externalização.

**Palavras-chave:** Outsourcing, sector bancário, visão baseada em recursos, gestão estratégica, inovação

**Título:** O outsourcing como ferramenta estratégica na banca: Tendências, Desafios e Oportunidades do Setor

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## **List of Abbreviations**

AI = Artificial Intelligence

BPO = Business Process Outsourcing

DORA = Digital Operational Resilience Act

ECB = European Central Bank

GDPR = General Data Protection Regulation

KPO = Knowledge Process Outsourcing

RBV = Resource-Based View

TCE = Transaction Cost Economics

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## **1. Introduction**

In 2023, the global banking industry managed assets valued at over 180 trillion US dollars (Statista, 2025), underlining its central role in the world economy. Despite its size, the industry has been experiencing an era of major turbulence for years. Fundamental changes in customer expectations due to digitalization and ever faster innovation cycles by FinTechs are challenging banks to maintain their market positions. In addition, regulatory frameworks such as the Digital Operational Resilience Act (DORA) and the General Data Protection Regulation (GDPR) require more thorough risk monitoring and stronger data protection than ever before. Caught between the pressure to modernize and strict compliance, many banks are looking for new ways to remain both profitable and competitive in the future.

In this regard, outsourcing has proven to be one of the key tools for adaptability. The number of outsourcing contracts has increased significantly in the European financial sector in recent years (ECB, 2024) - many of these agreements already include AI-based solutions for various bank functions. This can be seen as a broad trend: Outsourcing not only focuses on cost reductions, but to provide access to specialized expertise, which is essential in surviving in today's competitive markets. Moreover, selective partnerships with external providers can help banks to redirect their internal resources to highly valuable areas such as product innovation and customer experience.

Fundamentally, outsourcing is not about simply giving up on control, but about which competencies a bank focuses on and invests in. Nevertheless, caution must also be taken here: Fragmented workflows or loss of internal know-how are potential consequences of a poorly thought-out outsourcing strategy. With every potential outsourcing move, banks must carefully weigh up whether it strengthens or jeopardizes them. It is of major importance to follow a structured approach in which responsibilities, roles and strategic goals are clearly defined. Ultimately, it is not a question of whether to outsource, but how to do it to improve resilience, encourage innovation and gain a sustained competitive advantage in the market.

### **1.1. Aim of the Study**

This thesis explores the role of outsourcing as a strategic tool in banking, focusing on industry trends, challenges, and opportunities. The application of the theories of transaction cost economics (TCE) and resource-based view (RBV) is a recurring theme. Therefore, it is crucial

to comprehend how these frameworks influence outsourcing choices and how they enhance operational effectiveness and competitive advantage.

The dissertation is divided into two main parts: The first part consists of a literature review and the second part presents the empirical research. The literature review draws on the RBV and the TCE framework to provide a theoretical basis for understanding outsourcing in banking. It examines the existing literature on outsourcing, emphasizing the role of outsourcing in the banking sector and discussing the associated opportunities and risks of outsourcing critical and non-critical functions. In addition, the structure of the banking sector and the evolving trends in outsourcing are examined to provide a comprehensive context.

The empirical research section covers the methodology and results of expert interviews with professionals directly involved in outsourcing practices. These interviews provide practical insights into outsourcing strategies and address key trends, challenges and opportunities. The findings are analyzed in relation to the theoretical concepts outlined in the literature review and show how outsourcing has been used to increase operational efficiency, meet regulatory requirements and maintain competitive advantage. The study concludes with key findings and provides recommendations for further research.

## **1.2. Research Questions**

The chosen research question, “How do banks use outsourcing to increase operational efficiency, develop strategic resources and fulfil regulatory constraints?” discusses how outsourcing is becoming more and more significant in the banking industry. Due to increased oversight by regulators, technological advancements, and intense competition, outsourcing has become a crucial tool for banks seeking to reduce costs, streamline operations, and concentrate on their core strengths. Through an analysis of outsourcing's strategic role, this study aims to put light on how banks can best utilize this instrument.

Furthermore, the following sub-research question will guide this study:

- What are the major outsourcing trends in the banking industry, and how have they evolved over the past decade?
- What are the key challenges banks face when outsourcing critical functions, particularly in terms of regulatory compliance, security, and operational control?

- What factors drive the decision-making process for outsourcing in banks, and how do these factors differ between core and non-core functions?
- What emerging opportunities are there for outsourcing in the banking industry, and how might banks leverage these to maintain a competitive edge in the future?

These questions aim to uncover the dynamics of outsourcing in the banking sector. This will be achieved by demonstrating how theoretical frameworks, such as the resource-based view and transaction cost economics, can be applied to understand real-world scenarios. By doing so, this research will highlight strategies that enable banks to enhance operational efficiency while mitigating risks, ensuring compliance, and capitalizing on opportunities for innovation and growth.

### **1.3. Relevance of the Study**

Outsourcing has evolved into a pivotal strategic instrument in modern banking, shaped not only by the desire to reduce costs but also by the need to respond swiftly to market shifts, regulatory pressures, and technological innovations.

While Transaction Cost Economics (TCE) remains a well-established concept for examining outsourcing decisions, it mainly addresses such activities in terms of cost minimization and efficiency gains. Although this perspective is valuable, it can underemphasize the role of strategic capabilities and long-term positioning in the market.

On the other side, the Resource-Based View (RBV) offers an important complementary angle on outsourcing decisions. RBV highlights how a company can leverage in-house resources and at the same time acquire specialized external competencies to gain a sustained competitive advantage. This can have a particularly significant effect on the banking industry when banks use outsourcing opportunities to improve crucial resources, such as technological know-how, analytics skills, and regulatory compliance frameworks, in addition to reducing operating costs. By doing this, banks may be able to better adapt to changes in the market and higher customer expectations without devaluing their core competencies.

Moreover, the ongoing digital transformation, including FinTech partnerships and the rise of importance of artificial intelligence, continues to reshape how banks manage their value chain.

Outsourcing is one potential option to bridge to these emerging technological changes. However, the banking industry is a highly regulated environment, in which banks must ensure that all outsourced activities and third-party vendors act compliant to the existing regulatory frameworks.

Due to these industry trends, there is a clear need to move beyond the traditional TCE-centric view in the existing literature. By positioning outsourcing within the RBV framework, this research adds to the existing literature and provides valuable insights for banks and other financial institutions seeking not only to manage costs more efficiently but also to strategically strengthen their position in the market.

## **2. Literature review**

### **2.1. Resource-based View and Transaction Cost Economics**

The following chapter explains the theoretical frameworks of the resource-based view and transaction cost economics. These two theories are two central approaches in strategic management research that support companies in analyzing strategic decisions. While the resource-based view focuses on the importance of valuable, rare, inimitable and non-substitutable resources (VRIN), transaction cost economics considers strategic business decisions from the perspective of the efficiency of transactions, focusing on minimizing the costs and risks associated with economic exchange.

#### **2.1.1. Resource-based View**

What is missing is the so what, paragraph in the end, what is the main message of both theories (In summary, in a nutshell here at the end)

The Resource-based View (RBV) by Jay Barney (1991) focuses on emphasizing internal strengths and exploiting strategic resources to differentiate from other competitors in the market with competitive advantage. RBV therefore places particular emphasis on identifying, developing and securing the company's core competencies. Barney considers three key concepts that are important to understand the RBV: firm resources, competitive advantage, sustained competitive advantage.

According to Daft (1986), a firm's resources are the assets, skills, procedures, and knowledge it possesses that allow it to create and carry out plans that improve productivity and effectiveness. A competitive advantage can be established by incorporating those elements into the company's strategy.

Firm's resources are further subdivided into physical capital resources, human capital resources and organizational capital resources. Physical capital resources refer to everything that a firm physically owns like "*its technology, firm's plant and equipment, geographic location, and its access to raw materials*" (Barney, 1991). The human capital resources are the firm's employees (managers and workers), intelligence, training and experience. Lastly, a firm's formal reporting structure, its planning, control and coordination systems, and the informal connections within

teams and between the firm and its external environment are all examples of organizational capital resources. Nevertheless, Barney mentions that not all firm's resources are strategically relevant (Barney, 1991).

Barney makes a clear distinction between competitive advantage and sustained competitive advantage. He illustrates that a firm can profit from competitive advantage if it implements a valuable strategy that is not being used by any current or potential other competitors in its market. In contrast, a sustained competitive advantage can be achieved if the firm implements a valuable strategy not being used by other competitors as well as impossible to replicate the benefits gained through this strategy. However, not every firm is able to achieve sustained competitive advantage (Barney, 1991).

Central to the RBV and the evaluation of resources, is the VRIO framework, which refines the VRIN criteria by adding an "O" for organization. If all four criteria are met, the resource can create sustainable competitive advantage (Barney & Clark, 2007; Barney & Hesterley, 2015).

**Value (The Question of Value):** The first question is about the value of the resource which can enable the firm to utilize opportunities or neutralize threats. With that, efficiency or effectiveness are improved and customer value increased (Barney, 1995; Barney & Clark, 2007; Johnson & Gerry, 2014).

**Rarity (The Question of Rareness):** A resource is rare if it is not owned by other competitors in the market. A firm with a rare resource can differentiate itself from other competitors and subsequently gain competitive advantage (Barney, 1995; Barney & Clark, 2007; Johnson & Gerry, 2014).

**Imitability (The Question of Imitability):** The resource is impossible to copy or duplicate by other competitors in the market, making it of high use for the holder and therefore enabling to gain a competitive advantage. This can result from e.g. unique development or historical circumstances that the firm has taken advantage of (Barney, 1995; Barney & Clark, 2007; Johnson & Gerry, 2014).

**Organization (The Question of Organization):** The last question that the VRIO framework examines is about the firm's organizational structure, processes and systems. Only if they are

intact and supportive towards the uses resource to provide a competitive advantage (Barney, 1995; Barney & Clark, 2007).

However, there are several renowned authors who question the resource-based view and criticize it. Michael E. Porter, a well-known author in the field of strategic management research, criticizes the lack of view for external factors that are underestimated with the RBV (Porter, 1991). Also, Priem & Butler (2001) criticize the apparent lack of empirical testability and conceptual clarity as the RBV states that a resource is only valuable if the result is competitive advantage which makes it tautological.

In essence, the Resource-Based View frames outsourcing as a strategic decision that helps firms concentrate on their most valuable, rare, inimitable, and well-organized (VRIO) resources. If banks delegate lower-value or non-critical functions to external vendors, banks can preserve their internal resources for areas that improve their competitive advantage. This underscores that outsourcing is not only a cost-cutting measure, but rather a means to complement and enhance the firms existing resources. Banks that effectively apply the RBV in their outsourcing decisions can better align their resource investments with their general strategy.

### **2.1.2. Transaction Cost Economics**

The Transaction Cost Economics (TCE), originally introduced in its initial stages by Ronald Coase in 1937 in his seminal work "*The Nature of the Firm*" and later further developed by the nobel prize winner Oliver Williamson in 1975 in "*Markets and Hierarchies*", is a framework for measuring the costs associated with economic transactions. When deciding whether to outsource tasks or functions to outside providers ("Buy" decision) or carry them out internally ("Make" decision), TCE can be assistive. The primary goal of TCE is to reduce transaction costs which result from the planning, executing, and monitoring of transactions (Johnson & Gerry, 2014).

According to Williamson, there are two types of transaction costs: ex-ante costs and ex-post costs. On the one hand, ex-ante costs are expenses experienced prior to a transaction, such as those associated with information gathering, contract writing, and the negotiation towards an agreement. On the other hand, ex-post costs occur after the transaction and include costs for renegotiating terms because of e.g. unanticipated events, monitoring compliance, and settling

disputes. A company is more likely to internalize the activity rather than outsource it if these costs are higher (Holt, 2004).

When it comes to economic transactions, Williamson suggests three dimensions to be considered: uncertainty, frequency and asset specificity.

Uncertainty means the unpredictable events that occur when there are changes in regulatory requirements or shifts in the market where the firm operates. The challenge that comes with that factor, is that contracts with other parties are not likely to cover all scenarios, which can make the transaction more expensive than calculated. A firm tends to handle such activities internally, as they have greater control as well as the ability to adapt as needed (Slater & Spencer 2000).

The second factor is the frequency, which defines how often an activity happens. If it is repeated frequently, it could make more sense to keep it inside the firm to have better control over the transaction costs. Lastly, asset specificity, is the degree to which a resource or procedure is especially suited to a given transaction. Highly specialized resources are more likely to be retained internally by firms in order to reduce the risk of opportunistic behavior or the loss of control over essential assets, as well as to avoid reliance on outside suppliers (Riordan & Williamson, 1985).

The Transaction Cost Economics also considers two key aspects of human behavior: bounded rationality and opportunism. Bounded rationality refers to the limits that people have when assessing all possible outcomes of a contract, resulting in risks they oversee (Williamson, 1973). On the other side, there is opportunism, which Williamson describes as “self-interest with guile”, causing the other party of the contract potentially taking advantage of gaps in contractual agreements for their own good. These behavioral realities emphasize the need for safeguards and governance structures to protect transactions and ensure smooth operations (Williamson, 1985).

Despite its strengths, TCE has been criticized for its limitations. Ghoshal and Moran (1996) argue that TCE’s focus on opportunism underestimates the role of trust and cooperation in reducing transaction costs and fostering sustainable partnerships. Eisenhardt and Martin (2000) highlight its static nature, noting that TCE does not account for dynamic changes like

technological advancements or regulatory shifts, which are critical in sectors such as banking. Foss (2003) critiques TCE's narrow focus on cost minimization, emphasizing the need to consider strategic factors, such as maintaining core competencies, which can be better addressed through complementary frameworks like the Resource-Based View (RBV), a theory that was introduced in the previous subchapter.

In essence, Transaction Cost Economics highlights how outsourcing decisions center on whether the cost of internally managing a process exceeds the cost of contracting it out. From this point of view, banks should consider ex-ante costs (like negotiation or contracting) and ex-post costs (such as monitoring or dispute resolution) when deciding whether to “make” or “buy.” Functions that are standardized, low in asset specificity, or easily organized often present lower transaction costs through external vendors. However, TCE also alerts firms to the risk of opportunism and lock-in, emphasizing the importance of robust contracts, clear governance, and thorough vendor oversight. In this way, TCE provides a systematic view for understanding why banks choose to outsource certain functions while keeping others in-house, aiming to achieve the most cost-efficient and risk-managed balance possible.

## **2.2. Outsourcing**

Outsourcing is a business practice in which a company contracts out certain activities or processes to external service providers for a specific amount of time, cost and level of service. This allows companies to benefit from several advantages, such as cost reduction, improved operational efficiency and strategic alignment (Vine, 2005). By utilizing third-party expertise, companies can streamline their internal operations and focus on their core competencies (Sharma & Loh, 2009). This is an essential part of modern business strategies in all industries and enables companies to adapt to competitive pressures and technological advances (Oshri, Kotlarsky, & Willcocks, 2015).

In 1980s, outsourcing initially focused on outsourcing in the manufacturing industry. To reduce costs, companies then tried to outsource production processes to external providers. In the 1990s, the importance of outsourcing also increased in the services sector, particularly in the areas of IT and other business processes, which could be carried out more cost-effectively or better by external providers with specialized expertise and modern technologies (Kakabadse & Kakabadse, 2002).

The terms outsourcing and offshoring are often used interchangeably, but they have different meanings. When activities or processes are transferred to third-party providers, regardless of location, to utilize expertise and reduce costs, this is referred to as outsourcing. On the other hand, offshoring can be used when activities or processes are outsourced to another country. Thus, offshoring is simply a form of outsourcing where an external provider does the work but can also be done internally when a company outsources its own activities abroad. This key difference underlines the importance of outsourcing as a strategic instrument that can be used both at domestically and abroad (Sako, 2005).

### **2.2.1. Types of Outsourcing**

Companies can use outsourcing in different contexts which can be further categorized based on the extent of delegation, the number of the involved service providers, also called vendors, and the geographical scope of the arrangement. This categorization shows the flexibility and strategic use of outsourcing, allowing organizations to customize their approach to their specific needs (Schwarz, 2005). In some cases, firms can also use the process of back-sourcing, to reverse their outsourcing (Mederos, 2021).

Partial outsourcing or out-tasking is when specific tasks or functions are outsourced to external providers while retaining overall control of the process internally. This variation is often used when specialized or occasional activities that require external expertise are to be outsourced (IT support, data storage or legal advice). Out-tasking allows companies to maintain their focus on their core competencies while retaining greater control over the process (Schwarz, 2005).

This contrasts with total outsourcing, in which the entire responsibility for a corporate function or process is transferred to an external provider. This form of outsourcing is used in the areas of application or IT outsourcing, business process outsourcing (BPO) and knowledge process outsourcing (KPO). BPO primarily addresses transactional activities like payroll management, customer service, and HR operations, offering cost-effective solutions for routine processes. In contrast, KPO focuses on outsourcing high-value functions that require specialized expertise, such as financial analysis, market research, and legal services (Hodel et al., 2006).

Additionally, some firms apply a multi-sourcing approach within total outsourcing, which means that they outsource processes or functions to more than one service provider, where each

provider manages a different aspect of the function. Here, for instance, a firm can outsource IT infrastructure to one service provider while delegating development of software to another. This constellation allows firms to reduce the dependency on one service provider and leverage the strengths of specialized service providers. Nevertheless, it requires a robust coordination and governance mechanisms that ensure high-quality delivery of service (Hodel et al., 2006).

Furthermore, outsourcing can also be classified by the geographical score. In addition, a distinction is made between onshoring, nearshoring and offshoring. Processes that are outsourced onshore refer to providers within the same country as the client to avoid cultural and time zone related challenges. Nearshoring is when processes are outsourced to providers in nearby countries. The third variant, offshore outsourcing, on the other hand, refers to providers that are geographically further away, usually in countries with lower employee costs or specialized experts. This is particularly common in IT outsourcing, where countries such as India and the Philippines are popular destinations in practice (Oshri et al., 2015).

In certain situations, organizations may use backsourcing, a process where previously outsourced functions are brought back into the company. Backsourcing often occurs when the anticipated benefits of outsourcing, such as cost savings or improved quality, are not fully realized, or when companies seek to regain control over critical business processes. This decision highlights the dynamic nature of outsourcing arrangements and the importance of continuous evaluation of service provider relationships (Mederos, 2021).

### **2.2.2. Chances and Risk of Outsourcing**

Outsourcing appears as a constant practice in the business world as it can bring significant advantages through taken chances which can help companies in different areas. Nevertheless, there are also several risks and challenges that come along. The following subchapter will examine these aspects of outsourcing.

Outsourcing offers several advantages that can help companies optimize their operations and focus on achieving their strategic objectives. One of the primary motivations for outsourcing is the potential for cost reductions. Increasing cost transparency, shifting fixed expenses to variable ones, and utilizing economies of scale are ways that businesses might do this.

Outsourcing also increases liquidity and profitability by reducing upfront costs in non-core areas and using suppliers in low-cost countries (Hecker & Kretschmer, 2010).

Another important advantage is the ability of businesses to focus on their core competencies. By delegating non-essential tasks to outside expertise, businesses may concentrate on important tasks that increase innovation and competitive advantage. This strategic focus also reduces the hazards associated with routine or incidental work (Claussen et al., 2012).

Additionally, outsourcing improves performance by giving access to innovative technologies and specialized knowledge that may not be available internally (Garcia & Huergo, 2019). Businesses can gain from outsourcing providers' expertise and experience, which can lead to better service delivery and more creative solutions.

Considering its benefits, outsourcing has several dangers that, if not adequately managed, could have negative impacts on a company. The dependence it creates on outside suppliers is among the primary issues. Certain outsourcing partners can tie down organizations, making it challenging to move providers or return functions in-house. As operational knowledge and expertise move from the company to the provider, this dependence may eventually result in the loss of critical know-how. Another major concern is security, since outsourcing makes one more vulnerable to any data breaches or operational weaknesses (Schwarz, 2005).

Deficits in quality and performance are another issue. Due to standard processes that are unable to adjust to the requirements of the company, outsourcing may result in inefficiencies. Poor communication between the provider and the business can make these problems worse and lead to inadequate service delivery (Feng & Lu, 2012).

Cost increases are also a common challenge in outsourcing arrangements. While outsourcing often promises cost savings, hidden or unforeseen expenses—such as transaction costs or underestimated direct costs—can reduce financial benefits, so it should be well analyzed beforehand. Swenseth and Olson (2016) highlight that global outsourcing can introduce additional costs due to longer supply chains, increased transportation expenses, and defect rates, all of which may undermine the anticipated cost efficiencies.

Lastly, outsourcing may have less obvious but no less important effects. Employees at the company might worry about losing their jobs, for instance, because some tasks are being outsourced (Geishecker, 2007).

### **2.3. Global Banking Industry**

A key component of the global financial system, the banking sector offers essential services that support investment, commerce, and economic expansion. With roughly \$180 trillion in assets under management worldwide, banks play a vital role in maintaining economic stability and growth (Statista, 2025). With an average annual growth rate of 4.91%, the industry's net interest income, which currently stands at approximately \$8.94 trillion, is projected to reach \$10.83 trillion by 2029 (McKinsey & Company, 2023). These figures demonstrate the size and impact of the sector, which is deeply linked to all facets modern economies.

In terms of employment, the banking sector is a significant contributor to regional economies. In the European Union alone, over 2.15 million individuals were employed in banking roles in 2023, ranging from retail and corporate banking positions to specialized roles in compliance and technology (European Central Bank, n.d.). This workforce underscores the industry's critical contribution to economic opportunity and resilience.

Beyond its size, the banking sector is essential to risk management and maintaining financial stability. Banks serve as both catalysts and defenders of economic activity through effectively allocating capital, preserving liquidity, and protecting deposits. The sector's greater resilience after the 2008 financial crisis is seen by the global Tier 1 capital ratio, a crucial indicator of financial stability, which rose from 8.7% in 2009 to 14.3% as of December 2023 (Basel Committee on Banking Supervision, 2024). Institutions like the Federal Reserve and European Central Bank have been instrumental in navigating economic turbulence, employing monetary policies that support economies during crises.

In 2025, the global banking industry faces a challenging environment marked by slower economic growth, falling interest rates, and rising costs. Higher expenses, driven by technology investments and staff compensation, are putting pressure on profitability. At the same time, changes in consumer behavior and modest increases in loan delinquencies are adding to the

complexity. To succeed, banks will need to focus on managing costs effectively and finding new ways to grow revenues in a rapidly evolving landscape (Deloitte, 2024).

One notable response to these challenges is the increasing adoption of outsourcing. By delegating non-core functions such as IT infrastructure, compliance monitoring, and customer service to specialized third-party providers, banks can reduce costs and enhance operational efficiency. The strategic reliance on outsourcing, which has become a defining trend in the sector, will be examined in greater detail in the following subchapter.

#### **2.4. Outsourcing Trends in Global Banking**

Outsourcing has become a key pillar for global banks, driven by both the pursuit of cost savings and the need for greater operational resilience. Recent data from the European Central Bank (ECB, 2024) shows that the number of outsourcing contracts has risen significantly in recent years, especially for critical functions. This shift indicates that many banks are moving beyond basic cost-cutting strategies to partner with third-party providers, tapping into specialized expertise and streamlining internal processes. While regulatory pressures and strong competition remain central motivations, outsourcing also presents opportunities for innovation and agility—topics that will be explored in the following sections.

Digital transformation remains a major force behind banks' decisions to outsource certain operations. Many institutions partner with fintech companies to gain specialized expertise in areas such as mobile payments, AI-based analytics, and blockchain solutions, helping them reduce overhead costs and speed up product development (D'Aversa & Tuddenham, 2024). By delegating select research and development (R&D) or IT functions to third-party providers, banks can retain overarching strategic control while accessing more agile, cutting-edge resources (Dai & Shin, 2019). This approach reflects a broader drive toward innovation and flexibility, enabling banks to keep pace with rapidly evolving digital markets.

As digital transactions expand, banks must also ensure that external vendors comply with strict data protection standards—ranging from the General Data Protection Regulation (GDPR) to the Digital Operational Resilience Act (DORA), which takes effect in January 2025 (Obermöller, 2024). Under DORA, financial institutions are expected to conduct more rigorous risk assessments, maintain robust governance structures, and guarantee operational continuity

in the event of cyberattacks or other disruptions. Recent ECB (2024) findings indicate that around 70% of outsourcing contracts involve personal data, and many of these contracts involve providers located outside the European Union, increasing the complexity of risk management and the importance of monitoring cross-border operations.

Meanwhile, Robotic Process Automation (RPA) has emerged as another prominent trend, allowing banks to automate repetitive tasks such as data entry and compliance checks. These RPA solutions, often delivered by specialized third-party vendors, can help reduce human error and free internal staff to focus on more value-added activities. However, integrating outsourced RPA requires careful oversight to protect data integrity and manage the heightened reliance on external providers, especially for critical functions. According to the ECB (2024), over 30% of total outsourcing budgets are concentrated among just ten major providers, many of which are located outside the EU. This reliance on a small set of large vendors creates potential concentration risks should any one provider experience disruptions or fail to meet contractual obligations.

Together, these trends show that outsourcing in banking goes beyond basic cost efficiencies, encompassing technology-focused collaborations, regulatory compliance, and stronger operational resilience.

### **3. Research Methodology**

#### **3.1 Research Design**

A qualitative approach was adopted because outsourcing decisions in the banking sector involve a complex interplay of strategic, operational, and regulatory considerations that cannot be fully captured through quantitative methods alone. By considering the complex viewpoints and experiences of individuals directly involved, qualitative research enables a thorough investigation of how and why these decisions are made. By examining these firsthand accounts, the research can uncover context-specific factors and generate a richer understanding of outsourcing strategies, ultimately producing findings that are both practically relevant and theoretically grounded.

#### **3.2 Participant Selection and Data Collection**

The purposive method and the convenience sampling method—also referred to as the accidental sampling method or haphazard sampling method—were employed. When members of the target population satisfy specific requirements, like being available at a specific time, being eager to participate, or being easily accessible, the convenience sampling approach uses nonrandom sampling. The researcher's determination of what must be learned is the basis of purpose sampling. He then searches for interview subjects who are able and willing to share the material based on their knowledge or experience. Purposive sampling aims to focus on individuals who possess traits that will enable them to contribute to the relevant research (Etikan, 2016). The participants in the expert interviews were selected based on the following criteria:

- 1) The participant has relevant professional experience in the field of outsourcing.
- 2) The participant has used this relevant professional experience in the field of outsourcing in the banking industry at least in one financial institution.
- 3) The participant is not a young professional and is in a senior role.

The participant selection has been done in two different ways: first, over 50 people were approached on the professional business platform LinkedIn after research for relevant experience. Ten answers were received, and 40 requests were left unanswered.

Unfortunately, no one of the approached potential interviewees was willing to take part in the research. Secondly, the researcher's own professional network was used to select suitable and relevant participants for the expert interviews. This was built up through the professional activity at Deloitte Consulting GmbH in Duesseldorf, Germany.

The respective interview scripts were organized into different main and sub-topic blocks based on the research questions to be investigated. The questions in the main blocks were asked of each interviewee, while sub-topic blocks could also vary to ensure flexibility during the interview.

A total of six participant were identified, with three working at Deloitte at (Senior) Manager level, one Outsourcing Manager at the Berliner Savings Bank, one Director of the Association of German Banks as well as one Senior Consultant of PricewaterhouseCoopers.

All the interviews were conducted via the video conferencing tool Microsoft Teams in German. To enable the transcripts to be analyzed, they were translated into English using the translation software DeepL and ChatGPT. There is a possibility that some parts will be shown as written by AI, but it is written by the Author.

The length of the interview varied depending on the interviewee's availability as well as the length of their answers. The shortest interview lasted 26 minutes and the longest 38 minutes. They were all conducted between 18<sup>th</sup> and 28<sup>th</sup> February 2025. At the beginning of each interview, the interviewer gave a short introduction to the topic and the research itself to avoid any misunderstandings. All interviews were transcribed with a software tool called Jamie. The data was transcribed by the tool to obtain any relevant information. Filler words as well as repeating statements have been erased. A transcript of the first interview can be found in Appendix 1 for reference. Upon request, the remaining five transcripts will be provided. The questions were created based on the theoretical frameworks and literature review. In the course of the interview, questions were modified or not asked if the interviewee had already answered them in a previous question. The questions were open-ended so as not to lead the interviewee's answers in any direction (Gioia et al., 2013).

### **3.3 Data Analysis Method**

To develop an in-depth understanding of participants' perspectives, the interview transcripts were first reviewed multiple times. This systematic reading allowed for the identification of key themes, patterns, and repeated statements, which were then highlighted and systematically color-coded. Subsequently, the data were analyzed using the Gioia method, a rigorous qualitative approach designed to satisfy high standards of reliability and validity in research (Gioia et al., 2013). This methodology unfolds in three primary phases:

The first stage involves generating analytic codes and categories—often referred to as 1st-order analysis—where the researcher remains closely aligned with the language and terminology used by participants. At this point, many initial categories typically arise (Gioia et al., 2013). In the second stage, known as 2nd-order analysis, the numerous 1st-order categories are consolidated into broader codes and labels established by the researcher. These more abstract groupings reflect a deeper conceptual understanding of the data (Murphy et al., 2016). Lastly, in the third phase, themes are integrated to create an overarching framework or model that represents the core insights collected from the data. The visual display of these themes further supports the clarity of findings, ensuring the results are both theoretically robust and innovative (Gioia et al., 2013; Murphy et al., 2016).

## 4. Findings

### 4.1. Overview of the Analysis

Based on the data collected through the six interviews, there are several valuable insights and themes identified by the Author, which are methodically structured and presented in an Excel file which can be found in Appendix 2. In Figure 1, the three dimension that have been explored with are visualized and sorted according to Gioia’s classification. In total, 91 1<sup>st</sup> order concepts were identified. As a result, categories were created, and the data was summarized. Therefore, these quotes are taken directly from the six experts' interviews. The quotes from the first-order analysis were grouped for the second-order analysis, and an effort was made to identify any patterns. Several first-order concepts were reduced into abstract categories, which were then named. The so-called "theoretical saturation" occurred when no new second-order concepts could be found, marking the end of theoretical sampling. Thus, it was possible to identify 35 second-order concepts. Lastly, a final summary of the 35 2<sup>nd</sup>-order terms produced the five theoretical dimensions:

- 1) Strategic Drivers and Resource-Based Rationale
- 2) Technological Acceleration and Digital Transformation
- 3) Regulatory Pressure and Risk Management
- 4) Vendor Landscape and Governance
- 5) Scope and Capability Expansion

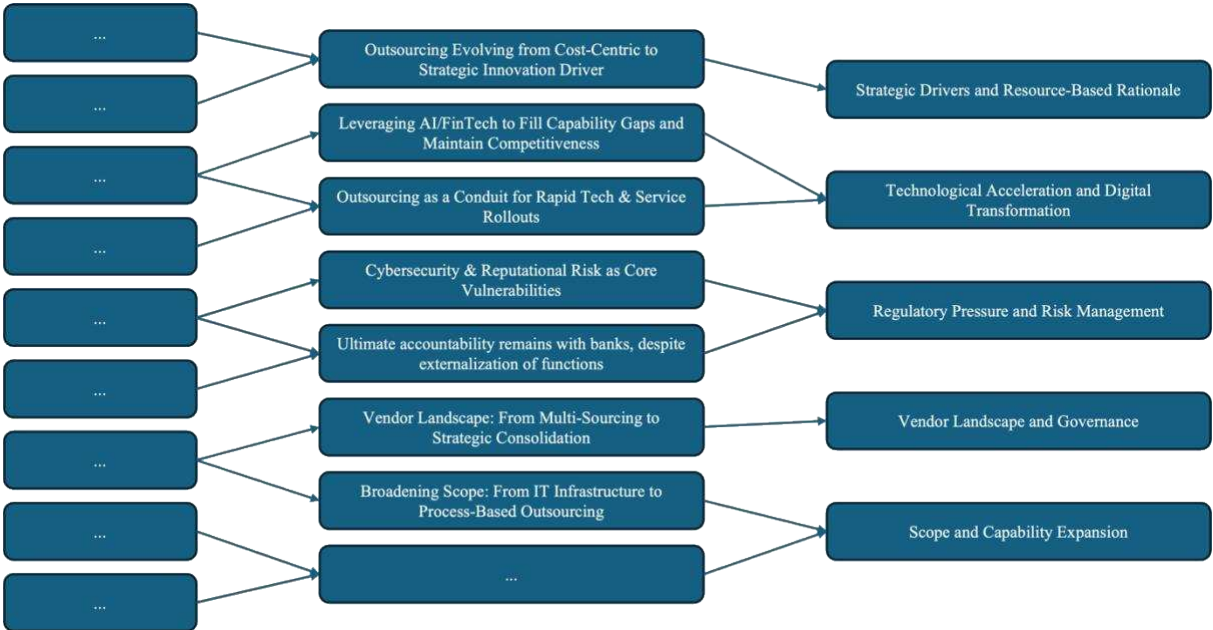


Figure 1: Overview of qualitative content analysis using Gioia's methodology (2013).

These five consolidated dimensions and the corresponding second-order concepts provide valuable insights into answering the research question: “How do banks use outsourcing to increase operational efficiency, develop strategic resources and fulfil regulatory constraints?” They shed light on how financial institutions use outsourcing strategies to optimize costs, focus on their core competencies and overcome compliance challenges. In this way, banks are responding flexibly to industry pressures and balancing operational requirements with evolving regulations. In the following section, the five dimensions identified are linked to the Resource-Based View (RBV), illustrating how outsourcing can serve as a strategic resource lever that allows banks to preserve or expand their core capabilities while adapting to the evolving demands of the banking industry.

## **4.2. Five identified Dimensions**

### **4.2.1. Strategic Drivers and Resource-Based Rationale**

Banks are increasingly using outsourcing as a strategic tool in order to maximize their resources and focus on their core competencies while getting access to specialized external capabilities. Here, the dual use of resource improvement and cost reduction is a vital issue. Interviewee 1 for example states, *“The two primary drivers are cost savings and focusing on core competencies. A third reason is access to specialized expertise—particularly in areas where banks lack internal capabilities.”* This shows that while cost efficiency is essential, banks are equally motivated by the need to strengthen the capabilities that they do not have in-house. Interviewee 5 reinforces this point by observing that *“Cost savings is often the primary factor. Another is quickly acquiring new capabilities without developing them yourself... If a provider already has a proven system, buying it saves time and avoids mistakes.”* This underscores how banks balance immediate expense reduction with the strategic imperative to broaden their expertise quickly.

The choice between outsourcing routine tasks and keeping core functions in-house is another significant aspect. Interviewee 2 explains, *“If a process is closely tied to the bank’s strategic direction, it’s more likely to stay in-house. Meanwhile, standardized processes with a high degree of automation are prime candidates for outsourcing.”* This statement connects with the concept of the RBV: core, unique resources are maintained internally while non-differentiating processes are outsourced.

Several of the experts interviewed stated that, in terms of strategic development, outsourcing is evolving from an exclusive cost-cutting measure to an accelerator for innovation and agility. For example, interviewee 3 stated, *“Outsourcing in banking is becoming increasingly sophisticated, moving beyond simple cost-saving measures to a more strategic and efficiency-driven approach.”* Interviewee 4 expressed a similar view: *“Banks are shifting from traditional outsourcing models to more flexible, technology-driven partnerships... as a tool for transformation.”* These two statements further emphasize the shift towards using outsourcing to gain quick access to new technologies such as AI and FinTech solutions. Interviewee 4 goes on to add that *“Specialized providers help us adopt AI-based customer engagement, real-time fraud detection, and predictive analytics quickly.”* By leveraging the expertise of external vendors, banks can reduce their time-to-market and pivot more rapidly in response to digital disruptions.

Furthermore, a long strategic outlook of the banks appears as essential. Interviewee 6 remarks, *“It’s always a long-term strategic matter. Focusing only on short-term cost-cutting won’t be enough; banks need to assess if external services align with their goals and values.”* This view emphasizes the idea that outsourcing decisions are not isolated transactions, but part of a bigger strategy to create a sustained competitive advantage by continuously improving their resource portfolio. Interviewee 4 highlights a similar theme: *“Banks must see outsourcing as a long-term strategic commitment. The key is choosing the right partners, structuring agreements for flexibility, and continuously checking alignment with our business objectives and regulations.”*

#### **4.2.2. Technological Acceleration and Digital Transformation**

The digital transformation is a still ongoing trend in the business world. Outsourcing decisions have been supported by advanced technologies, particularly Artificial Intelligence and innovative FinTechs. During the research, multiple interviewees confirmed the importance of digital transformation and highlight that it continues to reshape banking operations (*“Digitalization is still ongoing... we’re seeing AI enter the picture.”* as interviewee 1 expresses). Beyond simply adopting new tools, banks increasingly outsource to leverage specialized providers who can implement these innovations more efficiently.

Several participants also highlight the importance of cooperations with FinTechs. Interviewee 2 says, *“FinTech partnerships have become significantly more important in recent years,”*.

Additionally, he adds that service providers like Solaris or Raisin (Bank) offer full Banking-as-a-Service modules. This perspective is supported by Interviewee 5, who observes that *“Collaborating with FinTechs is becoming more important... instead of developing everything in-house,”* especially when banks face talent or resource gaps. According to Interviewee 3, *“FinTechs bring innovation, agility, and digital-first solutions that banks can integrate without extensive in-house development... banks are increasingly outsourcing niche financial services to maintain their competitive edge.”*

Also, another repeating aspect of this dimension is the role of AI in automating complex tasks. Interviewee 3 states, *“AI -powered solutions are enabling automation across various banking operations... banks can enhance efficiency, reduce human error, and improve regulatory compliance.”* Interviewee 4 points out that AI is significantly affecting *“risk management, customer service, and compliance automation,”* allowing banks to outsource high-tech functions that would be expensive or time-consuming to develop internally. This aligns with Interviewee 6’s (the outsourcing manager of the Savings Bank) statement that *“building our own AI solution is demanding and requires scarce specialists,”* making outsourcing faster and more cost efficient than developing a solution in-house.

Moreover, Interviewee 1 highlights how AI-related regulations can reinforce the case for outsourcing: *“There are also new regulations emerging around AI. The question is: do they have the expertise in-house to implement AI solutions? In many cases, the answer is no. This is why outsourcing remains a longstanding trend—banks bring in external expertise they lack internally.”* This adds a compliance perspective to the conversation, as relying on expert vendors can help banks navigate evolving policy demands.

Interviewee 5 further points to a ‘white-label approach’ to streamline innovation cycles: *“Outsourcing shortens time-to-market. Rather than build a new AI solution in-house, adopt a white-label approach—both sides benefit. For instance, adding a robo-advisor is faster than building it from scratch.”* Here, the primary benefits include quicker deployment and reduced development overhead.

Lastly, Interviewee 3 envisions new frontiers for next-gen outsourcing beyond AI: *“The future of outsourcing in banking lies in AI-driven automation, blockchain-based security*

*solutions, and embedded financial services... also sustainability reporting, real-time compliance automation, and digital identity verification.”*

The interviewees' statements underline how technological acceleration and digital transformation are pushing banks towards external partners that provide specialized skills. Banks benefit from outsourcing and can modernize legacy systems, launch products quickly and meet rising consumer expectations to strengthen their strategic position.

#### **4.2.3. Regulatory Pressure and Risk Management**

The third identified dimension shows how regulatory changes like the DORA framework are putting pressure on the banks in terms of outsourcing. In that matter, Interviewee 1 observes, *“I’ve been working in banking regulation for years, and in the past year and a half, I’ve been focused on DORA. ... Especially for critical functions, banks must now meet stricter control and governance requirements.”* Interviewee 1 also points out that *“Many banks previously had a more relaxed approach to outsourcing oversight, but with DORA, more providers and outsourced processes now fall under regulatory scrutiny. Some banks are struggling to keep up with the additional workload.”* This indicates a shift toward more intensive oversight, forcing institutions to develop robust internal frameworks for monitoring external service providers.

Moreover, several participants highlight the challenges of compliance and maintaining operational continuity. Interviewee 3 states, *“Even when outsourcing, banks remain fully responsible for regulatory compliance, data security, and operational performance. If a provider fails, the institution bears consequences legally and reputationally.”* This underscores the remaining accountability that stays with the banks that outsource their functions. They might save costs, but they keep the risk of regulatory breaches and sanctions as well as potential reputational damages, as Interviewee 5 confirms that assumption, *“Regulation is especially important. A misstep can result in fines, in the worst case losing your banking license or facing negative publicity.”* Because of that, due diligence of the provider and a continuous monitoring are essential. Interviewee 2 highlights similar concerns about cybersecurity and reputational harm: *“Cybersecurity and data protection are significant challenges... if a bank outsources sensitive customer data, a cyberattack could not only lead to financial penalties but also reputational damage.”*

One of the central responses to these pressures is having a well-functioning risk management. Here, interviewee 4 highlights that *“risk assessment and contingency planning are key.”* A missing or not functioning risk management can therefore directly impact the bank’s customers. One possible solution to that risk is creating Third-Party Risk Management frameworks which include aspects that interviewee 6 mentions, *“We use a multi-tier approach... define contracts with clear KPIs, SLAs, and audit rights. During operations, we do regular checks and audits.”* Interviewee 2 further notes the importance of exit plans: *“DORA mandates that banks must always be able to transition a service back in-house. That’s why we review contracts carefully and keep a backup option ready if the partnership fails.”*

Beyond this, some participants highlight the tension between strict regulatory demands and the need to remain competitive. Interviewee 2 notes, *“Due to the rising regulatory workload, banks must find ways to make their outsourcing processes more efficient... either through process optimization or leveraging technologies such as SaaS, platform solutions, or AI.”* Here, banks seek a balance between the increased control obligations that come with outsourcing agreements and the cost and innovation benefits of doing so.

Overall, these insights illustrate that outsourcing under stringent regulations like DORA demands more than just cost-benefit analysis. It requires comprehensive governance, robust risk management, and contingency planning to ensure that compliance standards are upheld and reputational risks are mitigated.

#### **4.2.4. Vendor Landscape and Governance**

Vendor relationships are naturally a key aspect of outsourcing strategies. Interviewee 1 underscores an evolving focus on FinTech consolidation, explaining:

*“FinTechs aren’t exactly new anymore... a more recent trend is that banks are consolidating their provider networks—instead of working with numerous small vendors, they prefer to partner with a few large providers.”*

He also notes, *“There is a shift from time and material contracts to fixed-price models. Another trend is value-based pricing, where a service provider’s compensation is tied to potential cost savings or revenue gains.”* Together, these remarks highlight how contract models are becoming more flexible and outcome-focused to better align with strategic goals.

Another significant aspect in that dimension is the development towards more nearshoring. According to Interviewee 2, *“A third trend is the shift from traditional offshoring to nearshoring... focusing on service centers in Eastern Europe.”* This statement is confirmed by Interviewee 3, *“Banks seek greater operational control while reducing geopolitical and regulatory risks,”* suggesting that closer geographic and cultural proximity can streamline oversight.

Many participants also mention multi-sourcing versus vendor consolidation, highlighting the challenge of balancing outsourcing benefits with internal control. Interviewee 2 observes, *“Banks have a wide range of vendors—some rely on master vendor models, others on multi-sourcing—to reduce dependency risks.”* Interviewee 1, however, sees a different trend: *“Banks are consolidating their provider networks... preferring to partner with a few large providers,”* which can simplify governance but may raise the risk of lock-in. Here, Interviewee 5 cites a real-world example, *“If Aladdin from BlackRock goes down, an asset manager can’t operate... You become reliant and may face higher fees.”* At the same time, Interviewee 2 stresses, *“Banks must remain flexible and avoid over-reliance on a single provider,”* while Interviewee 4 warns that outsourcing *“reduces direct oversight, which can lead to compliance risks if not managed well.”* Interviewee 6 adds, *“If we become too dependent on a single provider, disruptions or security breaches can hit us directly. We want to guarantee stable, customer-focused services whether we run them in-house or not.”* This tension underlines the importance of robust governance mechanisms, clear contractual frameworks, and vendor diversification strategies.

Overall, these perspectives show that effective vendor management requires careful contract models, potential nearshoring strategies, and ongoing oversight.

#### **4.2.5. Scope and Capability Expansion**

The fifth and last dimension shows how banks are changing their focus of outsourcing basic back-office tasks to IT operations such as data centers, network service, executed by specialized providers. Interviewee 1 notes, *“Very few banks today still run their own data centers—most of these services have been outsourced to specialized providers.”* He further adds, *“Many banks have already outsourced most of their IT—either to external providers or internal corporate units within their banking groups to achieve cost synergies.”* According to Interviewee 2, *“IT is usually at the top of the list. Many major financial institutions have spun off their internal IT*

*departments into separate IT service providers... Payment processing and KYC monitoring are also commonly outsourced.”*

Beyond infrastructure, the scope now covers payment processing, KYC monitoring, and more complex functions. Interviewee 3 points out, *“Risk management, regulatory compliance, cybersecurity, and AI-driven analytics are also being externalized,”* indicating a move toward specialized expertise that may be costly or time-consuming to develop in-house, as also already highlighted in the previous dimensions. They also highlight the transition from traditional outsourcing to advanced services: *“Traditionally, banks outsourced customer service, IT operations, and payment processing... Now, functions like regulatory reporting, cybersecurity, fraud detection, and AI-powered analytics are increasingly handled by specialized third-party providers.”* Interviewee 4 expands on this trend by stating, *“They are increasingly outsourcing specialized services in areas such as cybersecurity, AI-driven analytics, and regulatory compliance support, where external providers can offer expertise that would take years to build internally.”*

Moreover, Interviewee 4 points to how banks also leverage outsourcing for scalability: *“Another reason is scalability. If banks operate globally, they need solutions that can adapt quickly to shifting customer demands. Outsourcing allows them to scale up or down more effectively.”*

Meanwhile, cloud-based solutions become more and more usual, as Interviewee 5 cites an example of an asset manager that *“moved its entire IT to the cloud—its own software, plus software-as-a-service from different vendors.”* Interviewee 6 echoes this broadening scope: *“IT remains the largest segment, but we also see more outsourcing of compliance services, risk management tools, and payment processing... specialized providers can bundle these tasks efficiently.”*

In summary, the five dimensions presented—Strategic Drivers and Resource-Based Rationale, Technological Acceleration and Digital Transformation, Regulatory Pressure and Risk Management, Vendor Landscape and Governance, and Scope and Capability Expansion—offer a multifaceted view of how banks leverage outsourcing to strengthen their operational and strategic positions.

## **5. Discussion & Analysis**

This section provides an in-depth analysis of the findings, comparing them with the existing literature on outsourcing in the banking industry and the Resource-based View (RBV). Initially, a concise summary of the main insights from the qualitative analysis is presented. Subsequently, these insights are evaluated against existing research to highlight alignments and differences. Finally, theoretical implications and practical recommendations are presented.

### **5.1. Synopsis of Findings**

This research identifies five central dimensions that underline the strategic use of outsourcing by banks: Strategic Drivers and Resource-Based Rationale, Technological Acceleration and Digital Transformation, Regulatory Pressure and Risk Management, Vendor Landscape and Governance, and Scope and Capability Expansion. These dimensions show how banks use outsourcing not only for cost efficiency, but also strategically to access and integrate specialized external resources from other parties, aligning with the Resource-Based View. Banks strengthen and improve their resources, which is enabling them to gain sustained competitive advantage as well as innovational opportunities.

The first identified dimension, Strategic Drivers and Resource-based Rationale, highlights the increasing importance on cost savings, core competencies, and access to specialized external expertise by banks. Second, Technological Acceleration and Digital Transformation reveals how banks use outsourcing opportunities to be able to integrate emerging technologies such as AI and cooperation with FinTech companies fast. In that way, banks make sure to capitalize on specialized third-party skills to enhance digitalization and competitive advantage. Third, Regulatory Pressure and Risk Management underscores the relevance of third-party oversight and governance to minimize the risk of sanctions by the regulator because they might outsource functions to third-party providers, but they keep the responsibility. Especially the DORA Framework has been identified as crucial in that dimension. The fourth dimension, Vendor Landscape and Governance, shows a shift to strategic vendor consolidation and nearshoring to other European countries rather than offshoring to Asia, balancing efficiency gains while maintaining control and flexibility, therefore reducing dependency risks. Lastly, Scope and Capability Expansion outlines a clear trend towards outsourcing more complex, knowledge-intensive processes like cybersecurity, regulatory compliance, and AI-driven analytics, enabling banks to scale rapidly and efficiently.

## 5.2. Comparison with Literature

The research's findings can be compared to the existing literature in Chapter 2, showing key consistencies as well as new insights.

Traditional literature consistently highlights cost reduction and efficiency (Vine, 2005; Hecker & Kretschmer, 2010) aligning with this study's findings around strategic drivers. However, this research significantly expands existing perspectives by emphasizing outsourcing as a strategic enabler for innovation and competitive agility, enabling banks to gain sustained competitive advantage. This complements RBV's focus on leveraging valuable, rare and inimitable resources (Barney, 1991; Barney & Clark, 2007).

While past studies concentrate extensively on the Transaction Cost Economics, primarily analyzing outsourcing through transaction efficiency and cost minimization (Williamson, 1975; Johnson & Gerry, 2014; Holt, 2004), this research uniquely aligns more strongly with RBV.

This approach demonstrates that banks proactively use outsourcing to secure strategic resources critical for sustained competitive advantage rather than purely transaction-based cost savings. The results of the expert interviews regarding regulatory pressure through the DORA framework and GDPR confirm the identified aspects in the literature review (Obermüller, 2024). The interviewees provided nuanced insights into practical governance and vendor management strategies driven by the regulatory frameworks.

In addition to confirming the importance of resource-based advantages (Barney, 1991) and transaction cost considerations (Williamson, 1975), the empirical findings also confirm the discussions in Chapter 2.2 on different types of outsourcing as well as the associated chances and risks. For instance, several interviewees highlighted that routine tasks—such as data entry or IT maintenance—often lean toward total outsourcing (Hodel et al., 2006) because they enable limited strategic advantage and can be managed cost-effectively by specialized vendors. Meanwhile, more complex or highly regulated functions—particularly those involving personal data under DORA—reflect a partial outsourcing approach (Schwarz, 2005), allowing banks to retain oversight of compliance-sensitive activities while still leveraging external expertise.

Moreover, many participants underscored outsourcing's potential to boost performance and efficiency—findings that resonate with studies on the positive implications of outsourcing

(Hecker & Kretschmer, 2010; Claussen et al., 2012). At the same time, they also pointed to hidden costs, vendor lock-in, and the loss of in-house knowledge—challenges highlighted in the “chances and risks” sub-chapter (Feng & Lu, 2012; Schwarz, 2005).

Overall, the empirical data underscore that outsourcing decisions in contemporary banking represent not just cost-driven motivations, but also strategic motives related to innovation, regulatory compliance, and resource-based differentiation—which expands upon and, in some cases, challenges the simpler transaction cost or purely cost-centric views documented in earlier studies.

### **5.3. Implications for Theory and Practice**

The findings of this research have significant implications for both theoretical advancement and practical applications.

From a theoretical standpoint, the findings enrich the RBV by showing how outsourcing can be a strategic leverage for external resources to build and keep sustained competitive advantages in the banking industry. They also challenge the applicability of the RBV by underscoring the strategic significance of external partnerships with vendors and the access to specialized resources, while the traditional RBV focus on internal resource development. Moreover, the findings introduce a different understanding of how internal resources can complement internal capabilities of a firm rather than merely substituting them.

From a practical standpoint, the findings guide banks to strategically reconsider their use of outsourcing from only a cost-cutting measure to a strategic lever, emphasizing innovation, flexibility and technological enhancement. Therefore, banks should have mid- to long-term strategic orientations with capable vendors, prioritizing efficient governance frameworks to ensure regulatory compliance with existing frameworks as well as risk mitigation. Here, banks should have a top-notch approach when it comes to contract creation and management. Furthermore, policymakers can leverage these insights to design balanced regulations, supporting banks in achieving strategic agility without sacrificing essential oversight and control. These practical recommendations highlight the necessity for continuous adaptation to technological advancements and evolving regulatory landscapes.

## **6. Conclusion**

This chapter summarizes the primary insights derived from the research, provides robust recommendations for future research, and acknowledges the limitations of the study.

### **6.1. Summary of Findings**

This research recognizes critical strategic insights on outsourcing in the banking industry. Banks increasingly use outsourcing not only for cost efficiencies, but strategically to improve their focus on their core competencies, access external specialized expertise, and drive technological innovation - aligning closely with the RBV. Moreover, the adoption of emerging technologies, especially through partnerships with FinTech companies and AI solutions, became significant accelerators of digital transformation and operational innovation.

Regulatory pressures, particularly around the Digital Operational Resilience Act (DORA), drastically influence outsourcing practices, forcing banks to enhance third-party governance structures and maintain rigorous oversight mechanisms. Another notable shift identified is the consolidation and nearshoring within the vendor landscape, emphasizing strategic partnerships to balance efficiency, flexibility, and risk management. Lastly, the findings highlight banks' growing tendency to outsource complex, knowledge-intensive tasks such as maintenance of cybersecurity, regulatory compliance, and data analytics, facilitating quick scalability and improved responsiveness to market demands.

### **6.2. Recommendations for Future Research**

Although this research sets a foundational understanding of strategic outsourcing practices within banks, the findings still open several opportunities for future explorations.

First, future research could contain of long-term analyses, tracking how strategic outsourcing within banks evolves over extended periods, specifically assessing effects on competitive advantage within the industry, innovation capabilities as well as the positioning in the market. Such research could shed light on if sustainable competitive advantage is maintained through outsourcing practices.

Second, additional research regarding FinTech partnerships and AI integrations could focus on performance outcomes, evaluating their concrete contributions to banks' operational efficiency

and strategic agility. This can help to quantify the impacts of outsourcing technological innovation.

Third, comparative research across various geographic regions would provide valuable insights into how differing regulatory environments impact banks' outsourcing strategies. In particular, a comparative case study between European banks, which are all subject to regulations like DORA, and banks in other geographic regions with different regulatory intensity, could highlight best practices and strategic adaptations. A potential example for such case study could be comparing German Banks like Commerzbank and Deutsche Bank with American banks like Goldman Sachs and Bank of America.

Another aspect for future research is to explore human capital implications within strategic outsourcing. Potential studies could analyze employee perceptions, shifts in organizational culture as well as knowledge retention within banks that outsource, which can provide meaningful insights into managing internal resources and capabilities effectively.

Lastly, future research could examine crisis scenarios, assessing how banks leverage outsourcing relationships during significant disruptions such as economic recessions or cybersecurity incidents. The results could enhance the understanding of outsourcing as a tool for crisis resilience and operational continuity.

### **6.3. Limitations**

Despite the valuable insights provided by this research, it is important to acknowledge its limitations, which may have impact on the generalizability of the findings.

One of the first limitations is the sample size of the expert interviews. The number of six interviewees is potentially limiting generalizability, although it must not impact the quality in general. While the selected interviewees were industry experts, a broader sampling from more banks, consultancies or other institutions could yield richer, more diversified insights.

Moreover, the research focuses geographically on German / European banking institutions. It could be assumed that these findings may not be applicable in other regions with different

regulatory and market contexts. Future research could address this particular limitation by including global banking perspectives, as already mentioned in the previous subchapter.

This research focuses primarily on strategic and qualitative dimensions, while quantitative evaluations of outsourcing were left out due to the length restrictions for this thesis. Such quantitative evaluations could be the analysis of efficiency improvements, profitability or market share. A potential method to include this impact could be the integration of quantitative data to generate more empirical evidence to validate and complement qualitative findings.

Additionally, the banking industry is a rapidly evolving environment, which can cause that the research providing a snapshot, may quickly become outdated. To counter that, continuous monitoring and periodic updates on the industry would be crucial to maintain the relevance and applicability of the findings.

Lastly, inherent biases from qualitative methodologies, such as subjective interpretations and interviewee responses influenced by individual experiences, represent another limitation. Future research could adopt mixed-method approaches, combining qualitative and quantitative methodologies to mitigate these biases.

In conclusion, while this study offers valuable contributions to understanding strategic outsourcing in the banking sector, it is important to consider these limitations when interpreting the findings. The recommendations for future research outlined above provide a pathway for addressing these limitations and furthering our knowledge of how banks can leverage outsourcing strategically in an increasingly complex environment.

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## Appendix

### Appendix 1: Transcript of Interview – Example 1

1. Okay, let's get started with the first question. What are the key outsourcing trends you currently observe in the banking industry?

*Can you briefly define what you mean by a trend? What exactly do you consider a trend?*

*A trend refers to a commonly observed development in the market. It could be something driven by digital transformation, regulatory changes, or strategic shifts. What are banks currently focusing on? What is driving them?*

*Alright, I'll just start explaining.*

*Generally, in outsourcing, you have to distinguish between business process outsourcing (BPO) and IT outsourcing (ITO). Let's focus on ITO for now. As you mentioned, digitalization is still ongoing and far from being completed. Now, we're seeing AI enter the picture, just like RPA did before. AI is everywhere—whether on Instagram, in the news, or in industry discussions. There are also new regulations emerging around AI.*

*So, AI is currently a technological trend, but for banks, the question is: do they have the expertise in-house to implement AI solutions? In many cases, the answer is no. This is why outsourcing remains a longstanding trend—banks bring in external expertise that they lack internally.*

*However, this isn't necessarily a new trend. If we look at contract models, for example, there's a shift from time and material contracts to fixed-price models. In a fixed-price model, the service provider takes on the risk of delivering the project at a set cost, giving the bank better cost control. Another trend is value-based pricing, where a service provider's compensation is tied to potential cost savings or revenue gains generated by the outsourcing arrangement.*

2. Thank you for the detailed answer. Now, looking at specific bank functions—what are the most commonly outsourced functions? Which departments or processes in a bank are typically handled by external providers?

*In percentage terms, IT functions are the most outsourced in banks. IT operations, data center services, and network services are classic examples. Very few banks today still run their own data centers—most of these services have been outsourced to specialized providers.*

3. You already touched on technology earlier. What impact do developments such as cloud computing, AI, and FinTech partnerships have on outsourcing decisions in banks?

*FinTechs aren't exactly new anymore. Many banks have been working with FinTechs for years to integrate innovative solutions into their processes. However, a more recent trend is that banks are consolidating their provider networks—instead of working with numerous small vendors, they prefer to partner with a few large providers. This simplifies vendor management and allows for more strategic collaboration on topics like cloud computing and AI. For example, banks like Deutsche Bank and Commerzbank have strategic partnerships with large providers to explore new technologies together. This allows them to validate and scale innovations more efficiently.*

4. Now, let's move on to the next topic: challenges in outsourcing for banks. What do you see as the biggest challenges banks face when outsourcing critical functions?

*The banking sector is highly regulated. I've been working in banking regulation for years, and in the past year and a half, I've been focused on DORA. This regulation brings new oversight and risk management requirements for banks and their outsourcing arrangements. Especially for critical functions, banks must now meet stricter control and governance requirements. This results in increased operational complexity—banks must ensure they can effectively monitor and manage outsourced risks. Many banks previously had a more relaxed approach to outsourcing oversight, but with DORA, more providers and outsourced processes now fall under regulatory scrutiny. Some banks are struggling to keep up with the additional workload. Additionally, there are specific compliance requirements banks must meet, such as exit strategies, business continuity plans, and contingency planning. These requirements have always existed, but DORA makes them even more explicit. So, while it is a challenge, it's something that can be managed with the right approach.*

5. To stay on the topic of DORA, how do banks monitor their service providers to mitigate the risks associated with outsourcing? And what does regulation require in this case?

*Each bank has different governance structures to manage outsourcing risks. Typically, you have:*

- *First-line oversight: The department that outsources a function is responsible for daily monitoring and risk assessment of the provider.*

- *Central outsourcing management teams: Many mid-sized and large banks have a dedicated unit for overseeing vendor relationships and compliance.*
- *Risk management and compliance functions: These teams establish policies for assessing operational risks associated with outsourcing. Every outsourced process involves some level of operational risk, which must be assessed and documented. Additionally, departments like data protection, information security, legal, and compliance are involved in evaluating risks and defining necessary controls. These requirements are then embedded in contracts with service providers. Managing outsourcing is complex and involves multiple stakeholders to ensure risks are properly addressed.*

*It's also important to note that banks remain fully responsible for outsourced functions. Even if a provider fails to deliver and causes a major financial loss, the bank is still ultimately accountable. While contracts may specify liability clauses, the regulatory burden always falls on the bank—which is why risk assessment and oversight are crucial.*

#### 6. When banks choose to outsource a function, they do so expecting some benefits. What are the main reasons banks choose to outsource specific functions?

*The two primary drivers are cost savings and focusing on core competencies. A third reason is access to specialized expertise—particularly in areas where banks lack internal capabilities, such as AI or emerging technologies.*

*Additionally, during large IT transformation projects, banks may simply lack the internal capacity to handle everything. In such cases, outsourcing is used as a capacity extension, allowing banks to maintain business continuity while undergoing large-scale changes.*

#### 7. What factors influence the decision to keep a function in-house or outsource it? Are there additional considerations beyond cost?

*It always comes down to a cost-benefit analysis. If the business case supports outsourcing, it will likely happen. Many banks have already outsourced most of their IT—either to external providers or internal corporate units within their banking groups to achieve cost synergies.*

8. What new opportunities do you see for outsourcing in banking?

*The key benefits remain cost savings, focusing on core business, and gaining specialized expertise. Additionally, outsourcing allows banks to benchmark their performance against industry standards and leverage broader market knowledge from providers.*

9. Final question: Any last insights on where outsourcing in banking is heading?

*AI and FinTech partnerships will continue to shape the industry. Banks that do not engage with these trends risk falling behind. Regulatory oversight will also become stricter, so banks need robust outsourcing strategies to stay compliant while remaining competitive.*

## Appendix 2: Qualitative Analysis – Extract from the first rows

In case of any questions or a request for the full document, please contact the researcher:

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Interviewee	First-order Concepts (Direct Quotes from Transcribed Interviews)	Second-order Concepts	Aggregated Dimensions
Interviewee 1	"Generally, in outsourcing, you have to distinguish between business process outsourcing (BPO) and IT outsourcing (ITO). Let's focus on ITO for now."	Differentiating types of outsourcing (BPO vs. ITO) as a foundational consideration	Strategic Drivers and Resource-Based Rationale
Interviewee 1	"Digitalization is still ongoing and far from being completed. Now, we're seeing AI enter the picture, just like RPA did before."	Ongoing digital transformation with AI as a key strategic driver (under evolving regulations)	Technological Acceleration and Digital Transformation
Interviewee 1	"AI is everywhere—whether on Instagram, in the news, or in industry discussions. There are also new regulations emerging around AI."	Ongoing digital transformation with AI as a key strategic driver (under evolving regulations)	Technological Acceleration and Digital Transformation
Interviewee 1	"The question is: do they have the expertise in-house to implement AI solutions? In many cases, the answer is no. This is why outsourcing remains a longstanding trend—banks bring in external expertise they lack internally."	Leveraging AI/FinTech to Fill Capability Gaps and Maintain Competitiveness	Technological Acceleration and Digital Transformation
Interviewee 1	"If we look at contract models, for example, there's a shift from time and material contracts to fixed-price models. Another trend is value-based pricing, where a service provider's compensation is tied to potential cost savings or revenue gains."	Evolution of contractual frameworks (fixed-price, value-based) reflecting more flexible, outcome-focused outsourcing	Vendor Landscape and Governance
Interviewee 1	"IT operations, data center services, and network services are classic examples. Very few banks today still run their own data centers—most of these services have been outsourced to specialized providers."	Broadening Scope: From IT Infrastructure to Process-Based Outsourcing	Scope and Capability Expansion
Interviewee 1	"FinTechs aren't exactly new anymore... a more recent trend is that banks are consolidating their provider networks—instead of working with numerous small vendors, they prefer to partner with a few large providers."	Vendor Landscape: From Multi-Sourcing to Strategic Consolidation	Vendor Landscape and Governance
Interviewee 1	"I've been working in banking regulation for years, and in the past year and a half, I've been focused on DORA... Especially for critical functions, banks must now meet stricter control and governance requirements."	Intensifying Regulatory Pressure and Oversight (e.g. DORA)	Regulatory Pressure and Risk Management
Interviewee 1	"Many banks previously had a more relaxed approach to outsourcing oversight, but with DORA, more providers and outsourced processes now fall under regulatory scrutiny. Some banks are struggling to keep up with the additional workload."	Intensifying Regulatory Pressure and Oversight (e.g. DORA)	Regulatory Pressure and Risk Management
Interviewee 1	"The two primary drivers are cost savings and focusing on core competencies. A third reason is access to specialized expertise—particularly in areas where banks lack internal capabilities, such as AI or emerging technologies."	Core Motivations: Cost, Core Competencies, Specialized Expertise	Strategic Drivers and Resource-Based Rationale
Interviewee 1	"Many banks have already outsourced most of their IT—either to external providers or internal corporate units within their banking groups to achieve cost synergies."	Widespread IT outsourcing, including in-house spin-offs or corporate shared-service arrangements	Scope and Capability Expansion