

Risk Dimensions in Banking and Insurance

Tuesday, March 4, 2025

Key Drivers of Off-Shore & Alternative Talent Mix

Historically, the key drivers for global banks to offshore talent have been cost driven. Abundant supply of low cost and skilled labor to develop technology solutions, perform model development and other analytical tasks, as well as to provide operational services (e.g., HR, customer service) has fostered growth in offshoring labor.

With the maturing of offshore labor markets, there is an increased focus on organizational and talent development. In certain markets, such as India, competition for experienced talent has increased, making retention of staff who can manage a growing offshore labor force more critical. In financial services, firms are increasingly offshoring labor to be cost competitive. Financial services firms are offshoring a range of services including technology, analytics, as well as functions including operations, compliance and human resources. The demand for resources to staff these functions in the Banking and Insurance sector has added to the competition for talent.

As offshore organizations mature, financial services firms are also increasingly focused on performance including efficiency and execution speed. AI and third-party vendor solutions will continue to play a role in capturing further opportunities for improvement.

Indicators of Skill or Function Commoditized & Role of AI

Most financial services firms are adopting AI solutions to reduce the need for traditional labor. Early indications of AI transformation are introductions of new AI based services (e.g., bots for customer service, AI generated research) by competing firms. Competition for labor in GIC (Global In-House Center) locations and AI related services growth by third party vendors are drivers of increased AI deployment. Financial services firms are evolving towards a mix of digital and traditional workforce solutions. It is essential that firms monitor competitive developments in areas ripe for transformation including technology, analytics, as well as functions including operations, compliance and human resources.

Erosion in labor availability (hiring, retention) in GIC locations has contributed to demand for reshoring and adoption of AI-driven solutions. Rapid changes in sourcing of labor and use of AI can result in disruptions in services or alternatively, lead to an accelerated re-shaping of business strategy.

Challenges of Assessing Location and Staffing

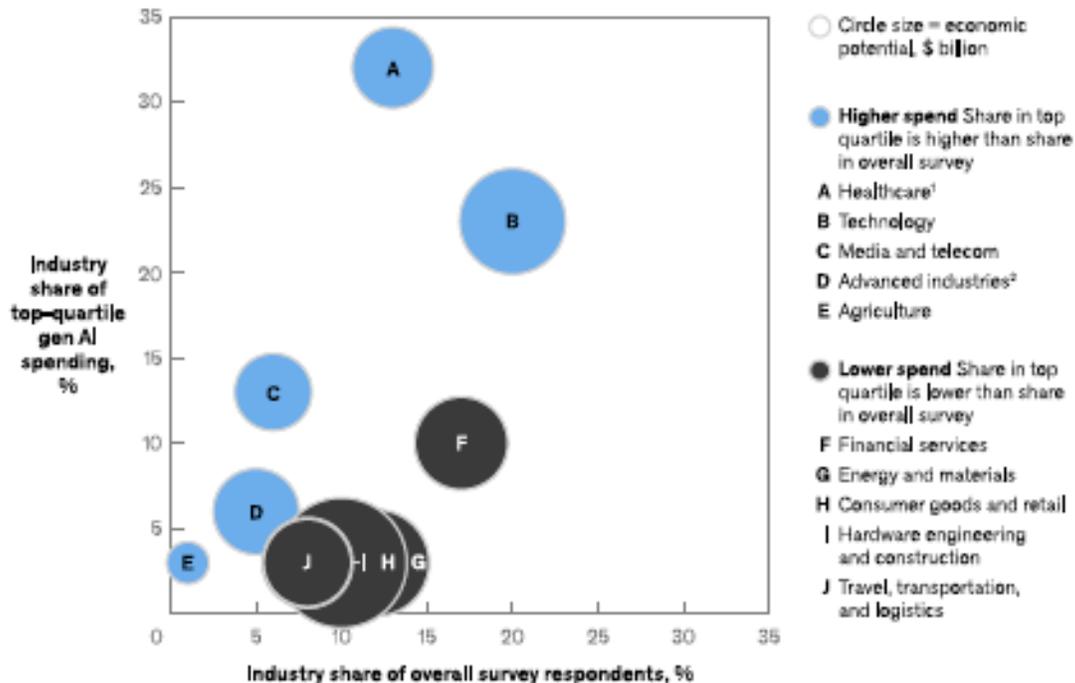
As firms seek to optimize their services, they will need to consider a range of factors:

- The choice of workforce location today is heavily influenced by geopolitical events. Uncertainty in trade policies with key markets including India, calls for consideration of potentially unexpected increases in labor costs for imported services. Escalation by the US government in trade tariffs, as well as government related lay offs may result in increased staffing domestically.
- Coordination of large teams globally and in GIC locations, will require supporting management structure. In GIC locations, highly skilled technical talent may also find it difficult to reach the next level of management, posing a challenge in establishing effective controls over offshore workforce execution. The need for strong off-shore management highlights the importance of establishing management training and development programs in these regions.
- The business impact of an offshore strategy may be eroded over time by under-investment in opportunities to automate key functions using AI, and by leveraging third party vendors which can be more cost effective in producing results. Competitors in financial services will need to focus on strategies that balance offshoring traditional labor, with AI and automation, as well as outsourcing. In one study, it was found that financial services companies are lagging other sectors in AI investments.¹ To catch up, financial institutions will need to redouble their efforts to leverage AI in addressing future staffing risks.

¹ The disconnect between AI spend and potential, McKinsey & Company, March 6, 2025

Companies' gen AI spend does not match the economic potential in their industries.

Representation in top quartile of gen AI spending vs overall survey representation



Note: Not all industries represented in survey are shown; only industries in top quartile based on self-reported gen AI spend as % of revenue are represented. Economic potential was determined using the following mapping of industries listed in the McKinsey report *The economic potential of generative AI*: (advanced industries: advanced manufacturing), (technology: high tech), (financial services: banking), (hardware engineering and construction: advanced electronics and semiconductors and construction).
¹Includes biotechnology, healthcare equipment and services, life sciences, and pharmaceuticals.
²Includes aerospace and defense and automotive and assembly.
 Source: *The economic potential of generative AI: The next productivity frontier*, McKinsey, June 14, 2023; McKinsey US CoO survey, Oct–Nov 2024 (n = 198)

McKinsey & Company

Evolution of GICs and Risks

In financial services, firms are increasingly offshoring labor to be cost competitive. JPMorgan Chase will grow its headcount in India by up to 7 percent in the next several years; the lender already employs 20 percent of its workforce in India.² Financial services firms are offshoring a range of services including technology, analytics, as well as functions including operations, compliance and human resources.

As growth in offshoring for financial services continues, offshore organizations will need to evolve to reach a state of maturity. Firms will need to invest in talent management including

² JPMorgan to grow India headcount, Reuters, May 30, 2024

management skills, development of core functional areas, and competitive compensation to retain top performers.

Increased competition for traditional labor in offshore locations will rise both due to increased internal demand in offshore markets, and increased demand for labor from financial services competitors. Firms will need to consider how to respond to the cost-benefit of workforce strategies as competition for resources increases.

Geopolitical and regulatory risks can introduce unknown or unexpected impacts to labor force strategies. Keeping abreast of these risks is critical to informing contingency plans to avoid disruptions in offshore services and execution.

Certain GIC locations are in geographical areas subject to climate change, particularly to severe weather and flooding. Climate events have impacted services in these locations in the past and are likely to increase in frequency and severity going forward. Firms should include potential disruptions to physical plants (e.g., data centers, communications) as well as to labor force availability during these periods. Similar concerns arise from conflicts and social unrest, as well as epidemics.

Challenges to off shoring

Cost Differentials

Mean income differentials between developing and developed countries shrink over time because of rising domestic demand for labor in developing countries as well as unfavorable trade policies which raise supply side costs.

Wages have more than doubled in China since 2008, driven in part by rising local demand and in part by domestic minimum wage policies.³ Rising wages raise the costs of goods and services from importing markets including Europe and the United States, reducing the competitive advantages of off shoring.

Uncertainty in trade policy with India, and increased tariffs to China will slow demand for offshore services. Trends in manufacturing signal a trend towards near-shoring in the US. For example, Apple will spend more than \$500 billion to build manufacturing and investments in AI and silicon engineering in states including Michigan, Nevada, Iowa, and North Carolina with 20,000 new hires.⁴

Overall, cost reduction is the most common reason for off shoring, but there is also a growing trend towards improving service quality, execution speed and talent development. Addressing

³ Next-shoring: A CEO's guide, McKinsey Quarterly, January 1, 2014

⁴ Press Release, Apple, February 24, 2025

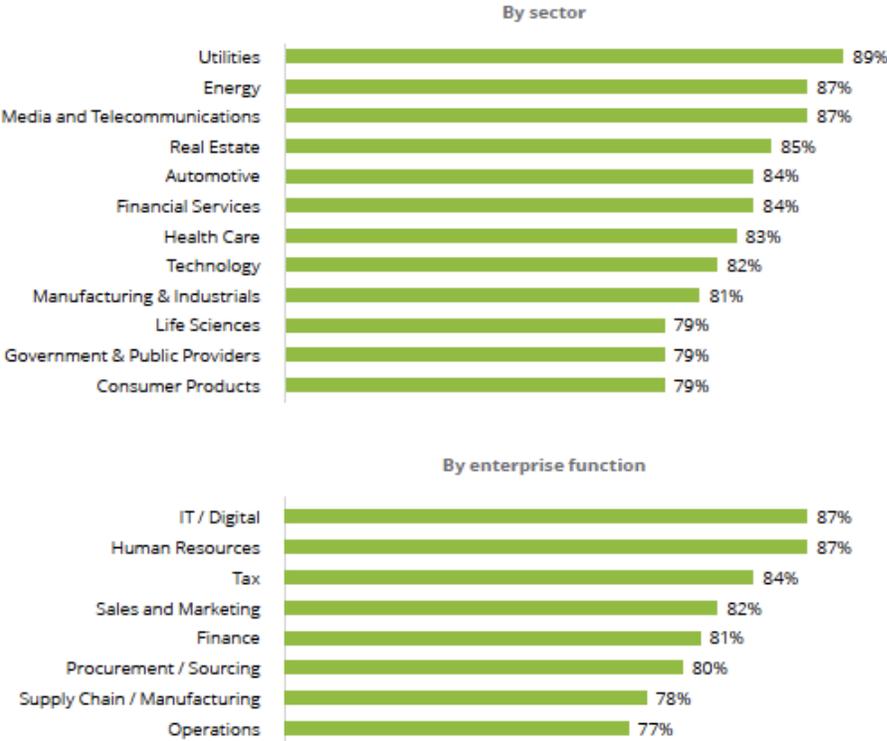
this trend will require improved management of offshore locations, better leveraging of automation and AI technologies, and consideration of onshore talent for critical management and development work.

Technology

Business models for offshoring are still evolving. Firms are increasingly turning to a mix of traditional labor and digital workforce capabilities. Firms are increasingly investing in AI and automation of key functions that are operational in nature such as customer service, sales, marketing and research as an alternative to low wage global in-house centers (GICS).⁵

According to one survey, 83 percent of executives expect to invest in the use of AI to improve worker productivity as well as automation bots, known as AI powered outsourcing.⁶

Organizations adopting or planning to adopt AI as part of their outsourced services (AI-powered outsourcing)



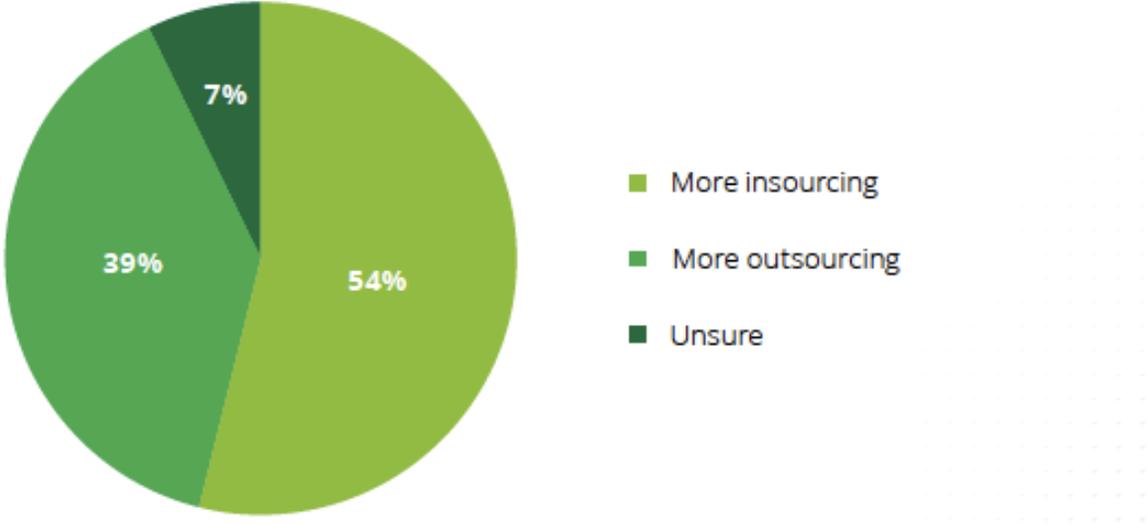
The balance between outsourcing offshore delivery and in-sourcing continues to evolve. Most firms have selectively chosen to bring in-house some capabilities to strengthen internal controls and intellectual property protections, as well as to reduce costs. That said, outsourcing to third

⁵ Multi-dimensional sourcing, Global Outsourcing Survey, Deloitte, 2024
⁶ Multi-dimensional sourcing, Global Outsourcing Survey, Deloitte, 2024

party vendors will remain a key strategy where vendors outperform, and third party vendor sourcing is expected to grow over time.

Whether financial services firms in-source or out-source, management of internal and external GIC workforce and digital workforce will remain a challenge. Management talent in offshore locations is in high demand, making the landscape and compensation highly competitive. Retention of experienced hires with the right skillsets in AI and technology in locations such as India has become challenging due to rising industry-wide demand.

Executives actively exploring incremental opportunities for their outsourced services



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As financial services firms continue to focus on both cost reduction, agility, and results, effective management of the evolving digital workforce model will require expansion of internal vendor management and digital workforce functions.

⁷ Multi-dimensional sourcing, Global Outsourcing Survey, Deloitte, 2024

% of Organization that have Extended Workforce Strategies for Below Talent Groups

