EUROPEAN CENTRAL BANK

BANKING SUPERVISION

2024 Outsourcing Register – Horizontal analysis

Horizontal analysis based on Outsourcing Register data collection

Directorate General Horizontal Line Supervision

Non-Financial Risk Experts

Background

2024 Outsourcing Register

The following analysis is based on the **2024 Outsourcing Register** data collection with reference date **31/12/2023**. This is the third year of data collection for the Outsourcing Register, which reflects outsourcing arrangements used by significant institutions (SIs). The aim is to capture the evolving **trends**, **complexities** and **global nature** of outsourcing within the financial sector, offering insights into how these practices are managed and their impact on institutions.

Contents

Overview – Outsourcing Register data collection

+15%
Active contracts

+4%
Of which: cover critical functions

+3%
Of which: with external providers

+15%
Service providers

-1%
Of which: provide critical functions

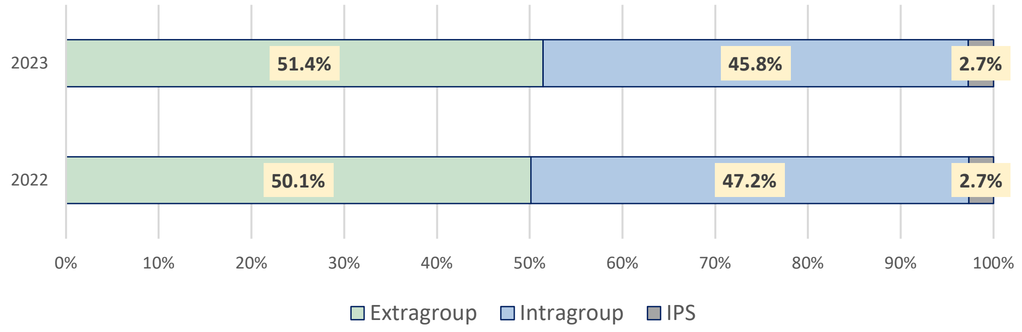
-3%
Of which: external providers

9.9% (-2 p.p.)
Critical functions non-compliant with EBA GLs

Contents

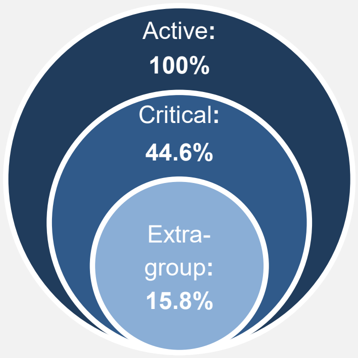
Direct service providers are equally split between external and internal service providers

Distribution of different types of contract in 2022 and 2023[1]



The **distribution** of intragroup and extra-group contracts is **evenly split** (with IPS being a marginal category). This is in line with last year's data.

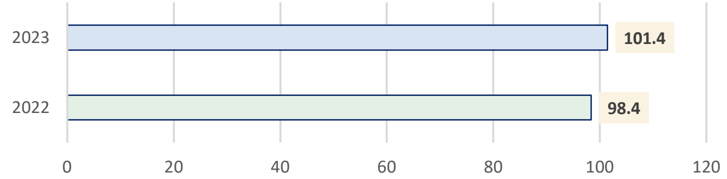
Breakdown of active, critical and extra-group contracts (in %) in 2023



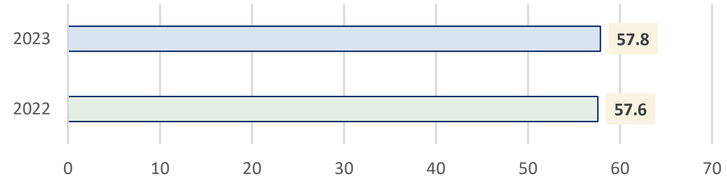
(1) Budget distribution figures are only provided for critical contracts.

Reliance on critical external providers increased

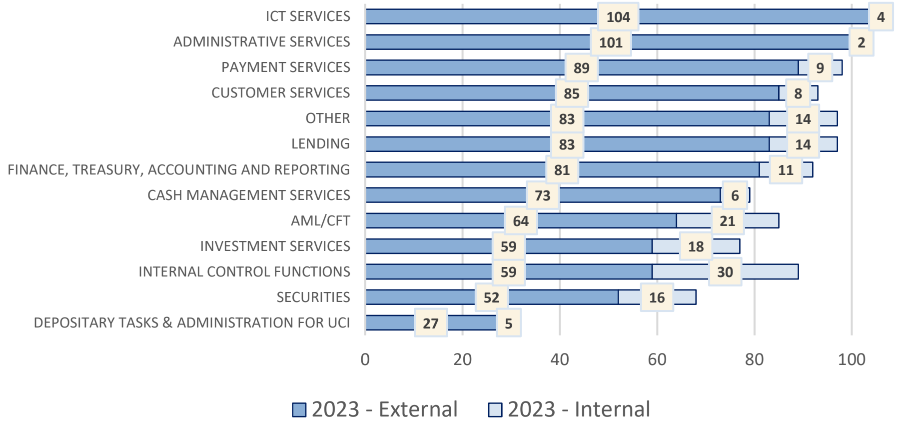
Average number of critical, external contracts per SI



Average number of critical, external service providers per SI



Number of institutions with signed contracts by category in 2023[1]

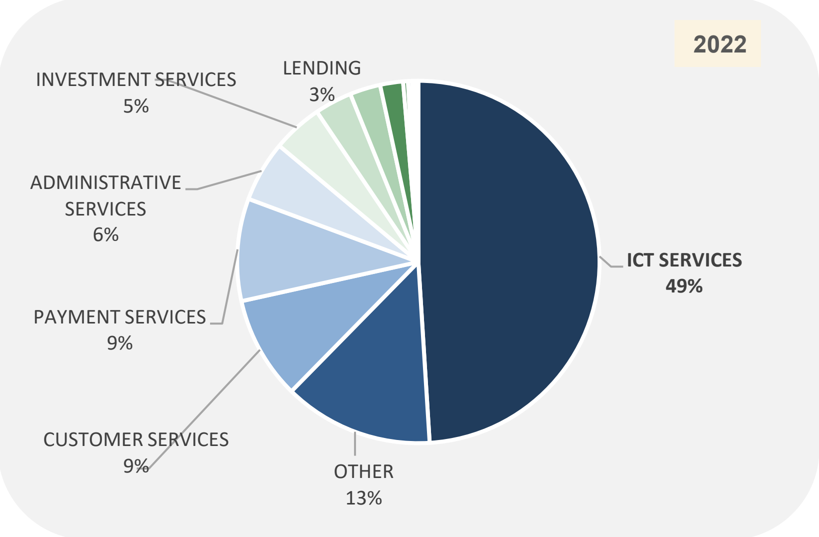


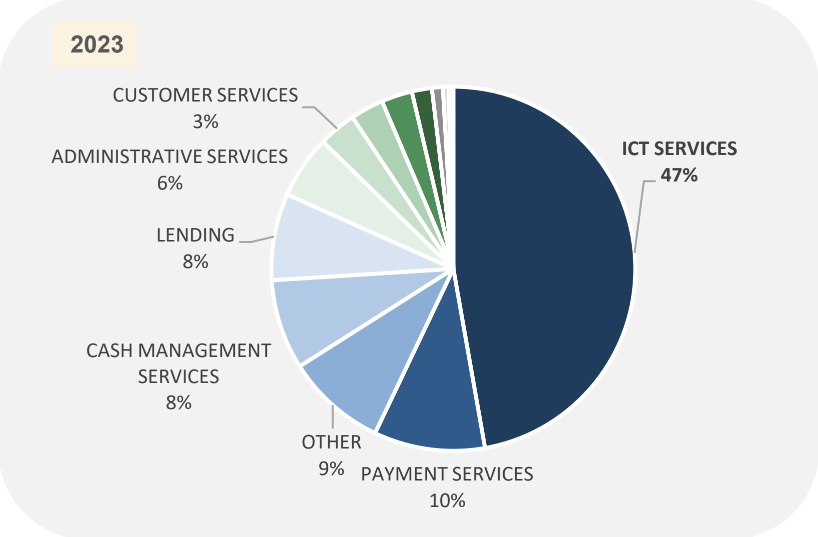
- **The average number of critical, external contracts per SI saw an increase** from 98.4 in 2022 to 101.4 in 2023. The number of contracts per SI varied significantly, with the minimum being 2 and the maximum being 1436.
- **The heaviest reliance** by SIs is on the outsourcing of **ICT services.**

(1) The graph is organised to first indicate whether an SI has an external contract. If not, it then examines whether they have an intragroup contract.

Budget share for critical ICT services remains high

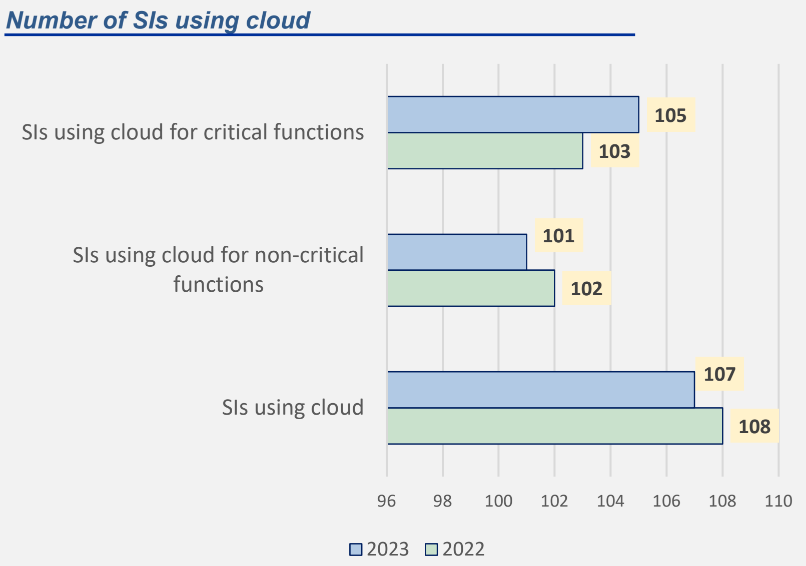
Distribution of budget spending by category[1]

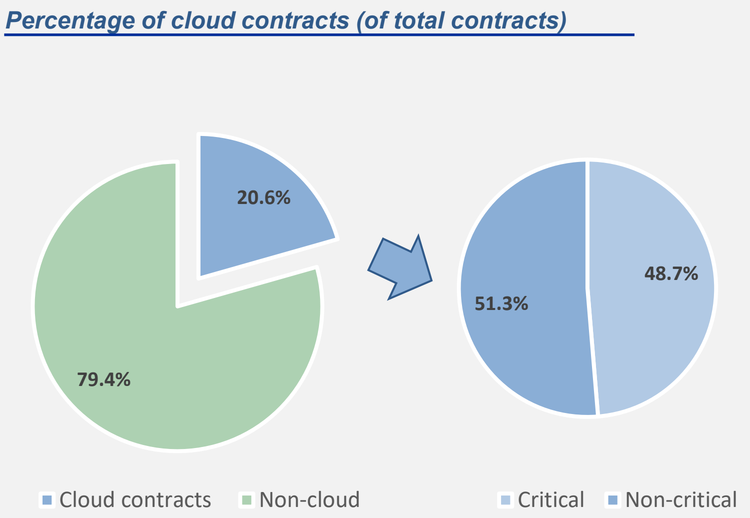




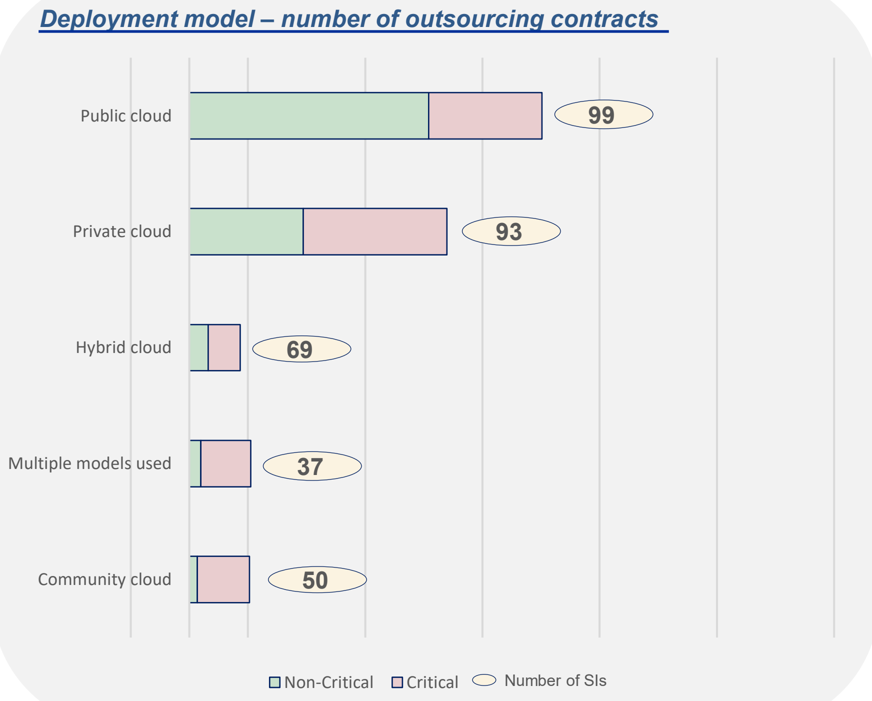
(1) The graphs presented apply for critical and external contracts.

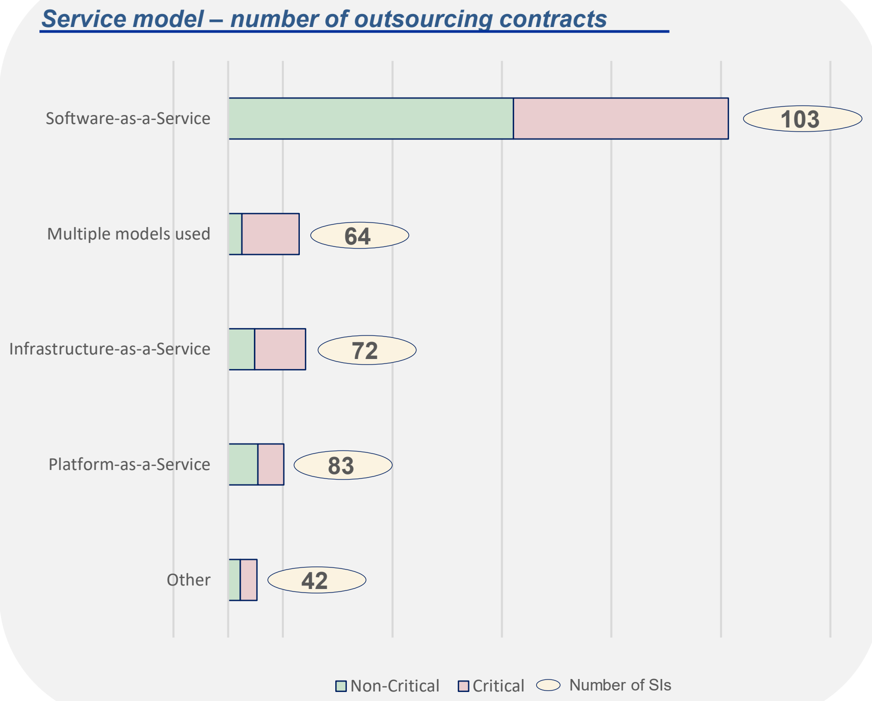
SIs remain highly dependent on cloud outsourcing





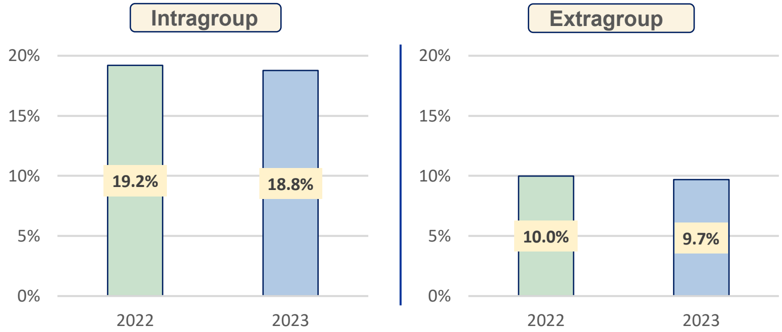
Public cloud and SaaS are the most used deployment and service models



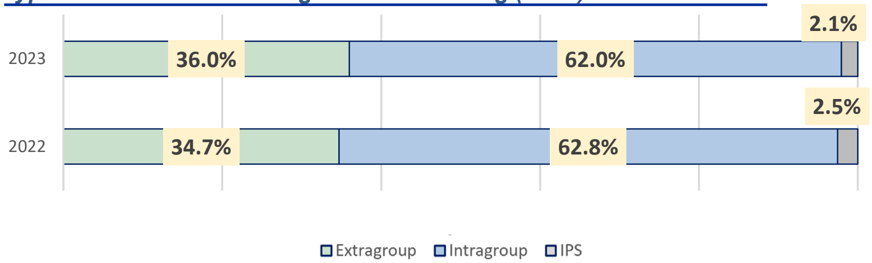


Share of contracts that involve sub-outsourcing has remained stable for both extragroup and intragroup arrangements

Percentage of contracts involving sub-outsourcing (as % of all)

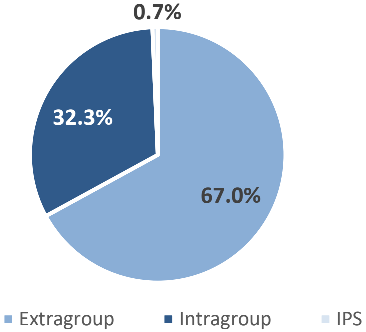


Types of contract involving sub-outsourcing (as %)



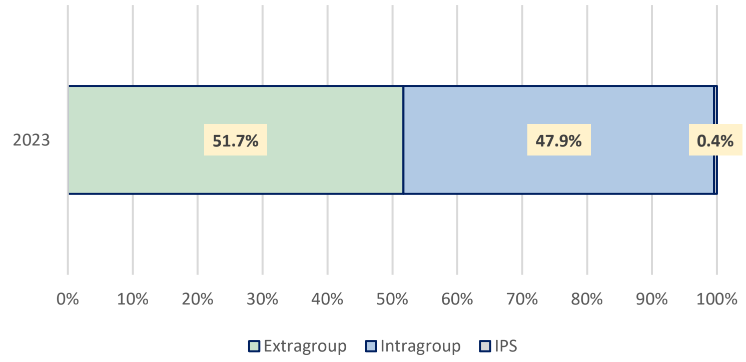
For contracts involving sub-outsourcing, the majority are critical, and service providers primarily delegate tasks to external providers

Distribution of types of sub-contractor (as %)

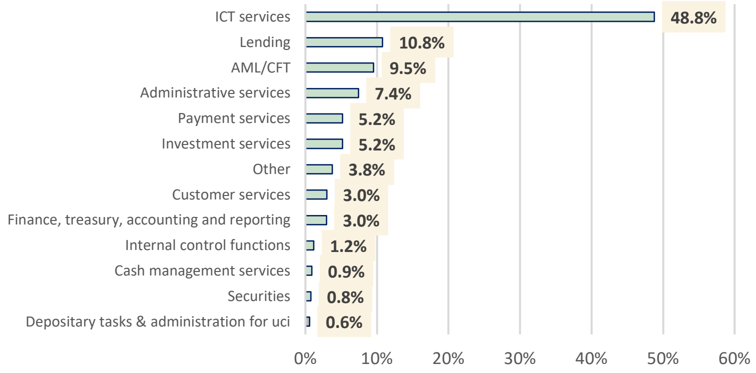


Over half of intragroup contracts are sub-outsourced to external service providers

Type of sub-outsourcing of intragroup contracts in 2023 (as %)



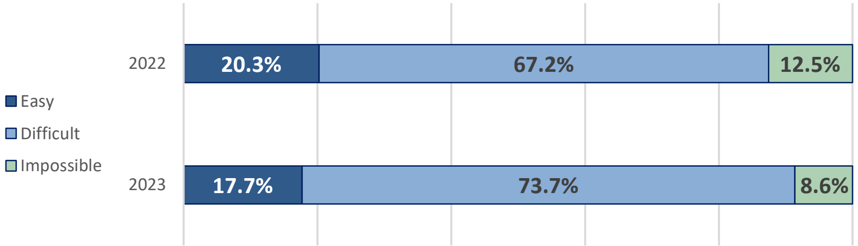
Categories of external sub-outsourcing of intragroup contracts (as %)



Over half of intragroup contracts involving sub-outsourcing are delegated to external service providers, with approximately 48.8% of this sub-outsourcing pertaining to ICT.

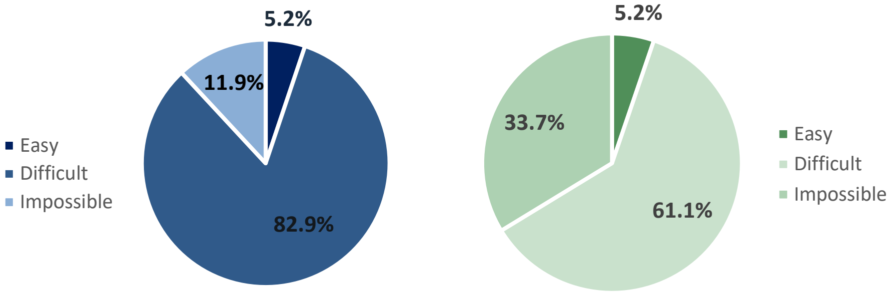
Significant dependencies on critical services provided by external service providers

Substitutability of contracts as marked by the banks

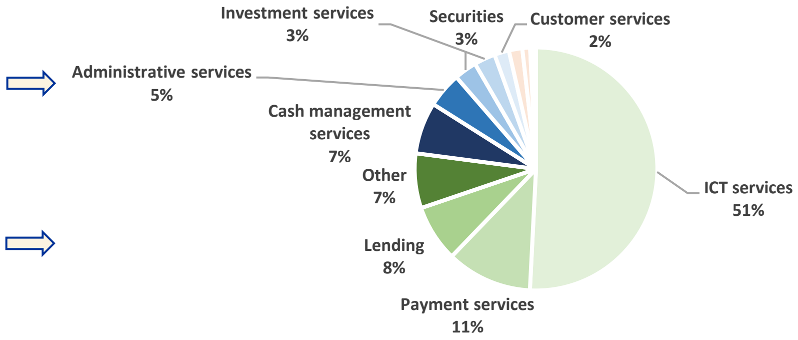


Most critical and external contracts are difficult or impossible to substitute and reintegrate. This subset of contracts, which accounts for around 82% of the external budget, warrants particular attention.

Reintegration of difficult (left) and impossible (right) to substitute contracts



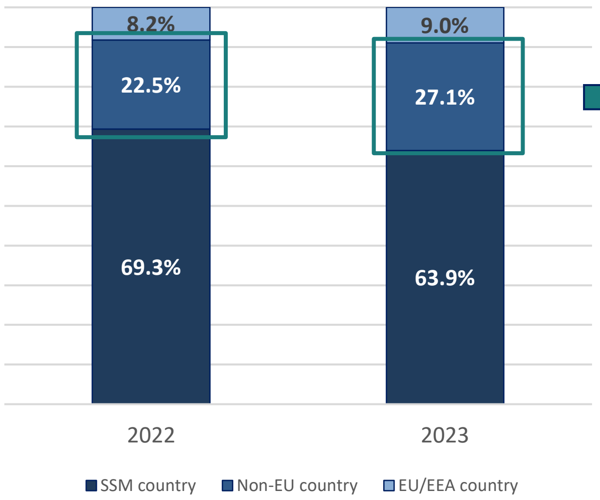
Categories of difficult and impossible to substitute contracts



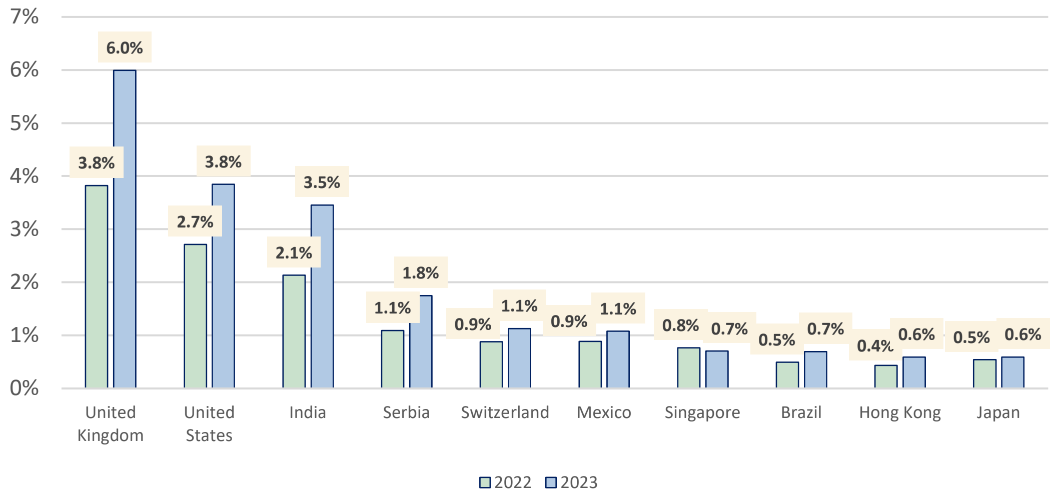
(1) This analysis only considers the values of external, critical contracts.

Share of services provided by third countries increased compared with 2022

Country of provision of services (as % of total)[1]



Top 10 countries outside EU by provision of services (as % of total)[1]

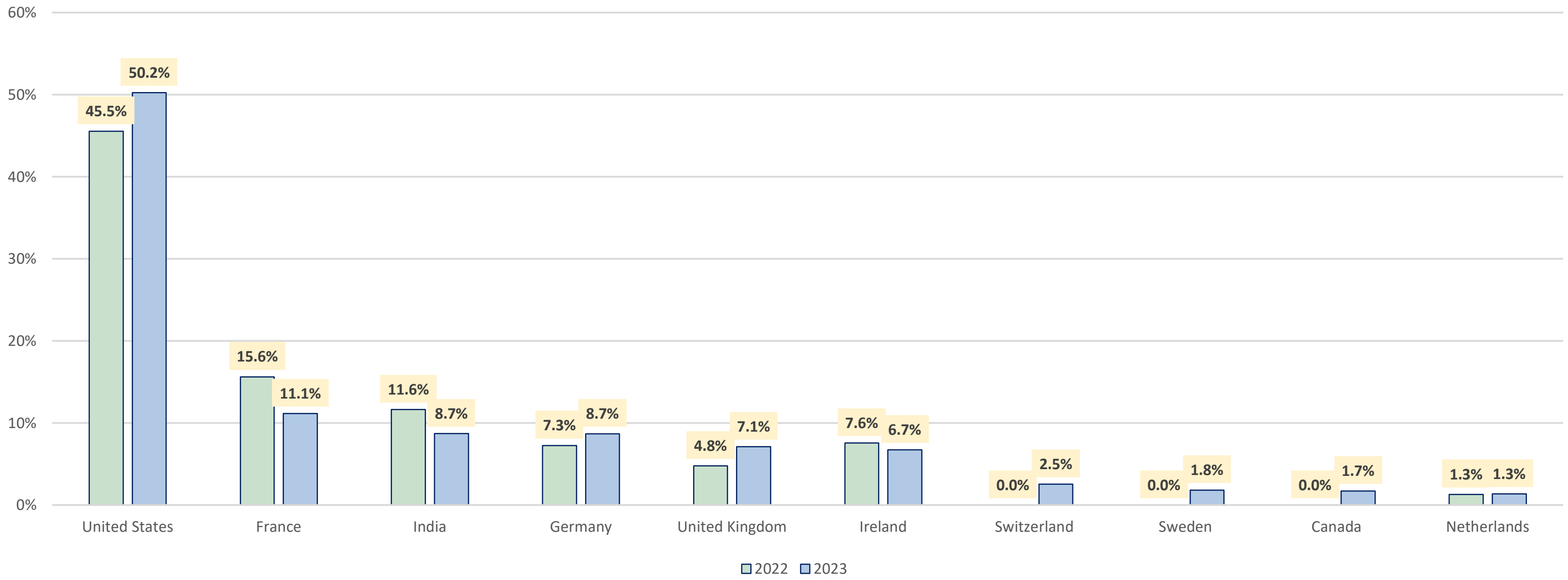


Most services are provided by SSM/EU countries. Among non-EU countries, most services come from the UK, US, India, Serbia and Switzerland. **The provision of services outside the EU increased significantly.**

(1) The data was analysed such that rows were duplicated in the dataset whenever multiple countries were identified for the provision of services. The analysis presented is conducted for external and critical contracts

Reliance on the top 30 providers with top parent companies from India, the US and the UK is increasing

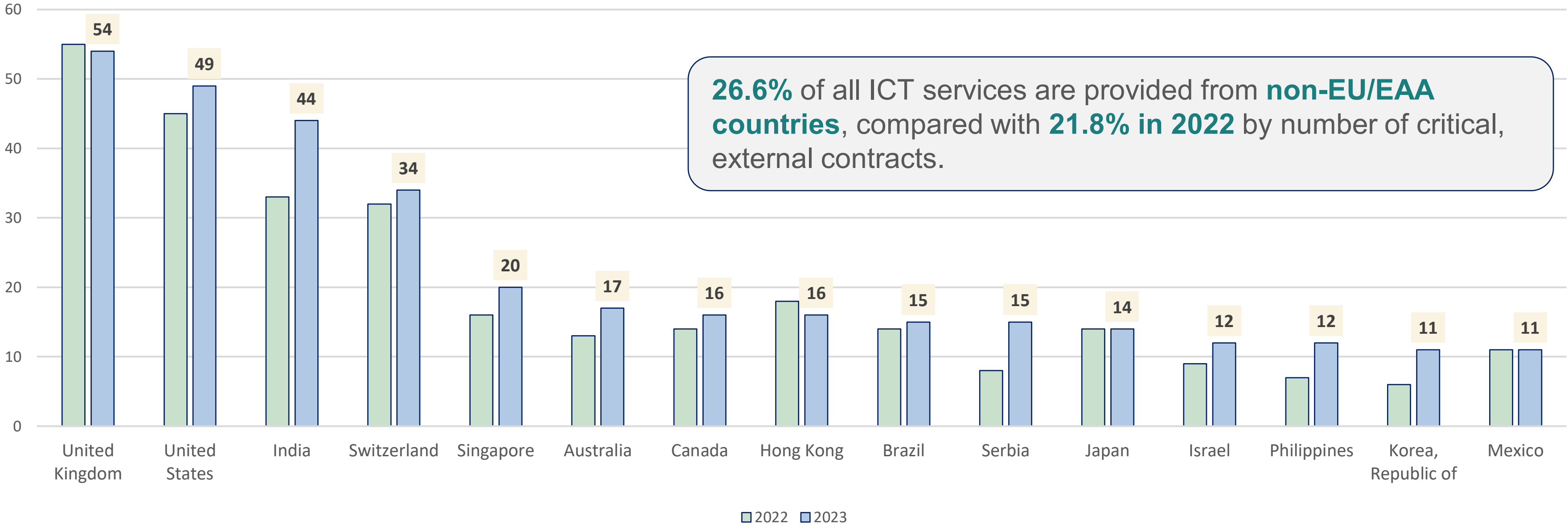
Country of origin of parent company of top 30 external providers (as % of the budget of the top 30 providers)[1]



(1) The graphs presented applies for critical, external contracts.

Dependence on ICT services performed in non-EU countries is growing

Number of SIs with external outsourced ICT services performed outside the EU/EEA[1]



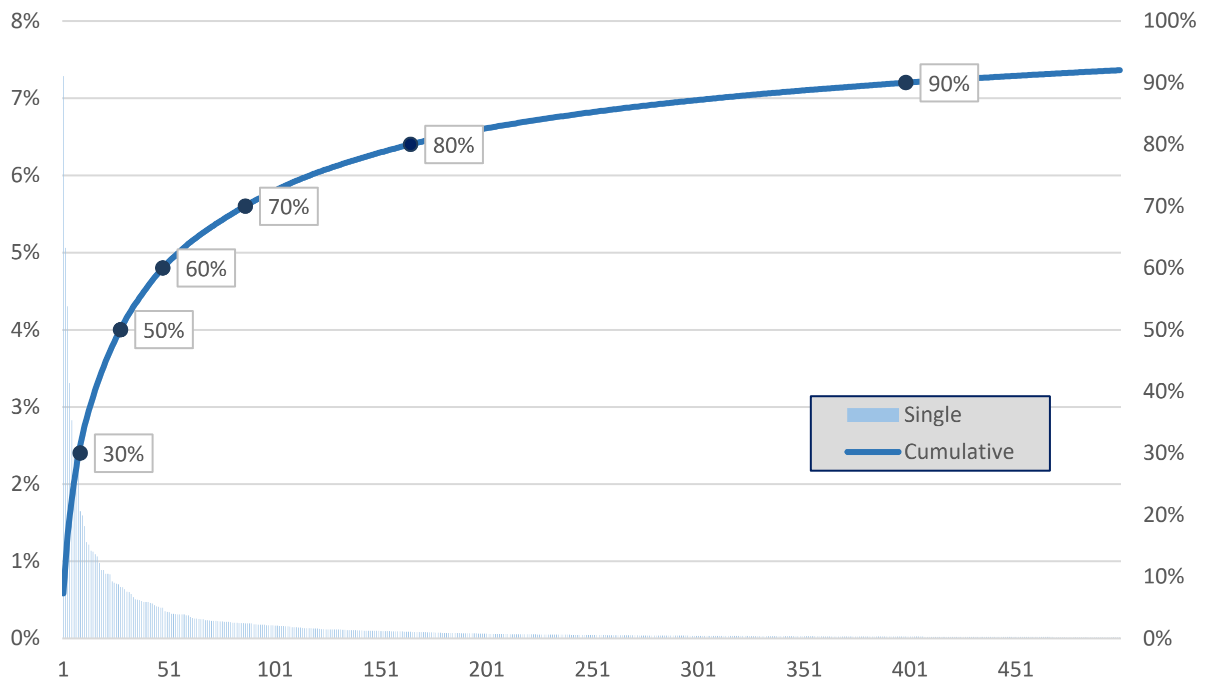
26.6% of all ICT services are provided from **non-EU/EAA countries**, compared with **21.8% in 2022** by number of critical, external contracts.

The dependence on ICT services performed outside the EU/EEA is growing. Except for the UK and Hong Kong, the number of SIs has increased/is equal in all other top 15 countries.

(1) The data was analysed such that rows were duplicated in the dataset whenever multiple countries were identified for the provision of services. The analysis presented is conducted for external and critical contracts

Half of the budget spent on 30 third-party service providers

***Budget per provider as percentage of total (single and cumulative) in 2023 –Top 500*[1]**

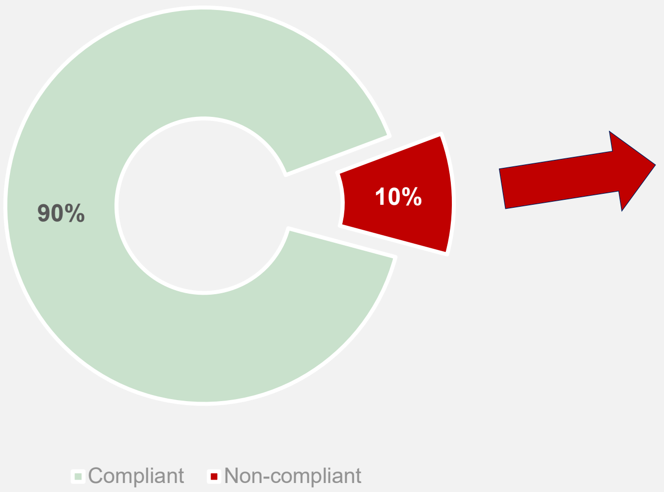


- **~50%** of the **total budget**[1] is allocated to the first ~30 external third-party providers
- **~90%** of the **total budget** is allocated to the first 400 third-party providers, with an aggregated budget of 17.6 billion euro.

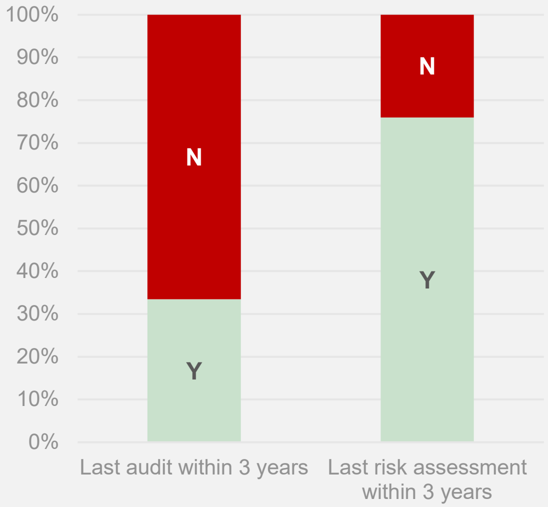
(1) The data shown is for critical contracts.

Compliance with EBA guidelines is steadily increasing, as are contracts audited over three years ago

Compliance with EBA guidelines in 2023



Audit and risk assessment analysis of non-EBA complied contracts in 2023



Contents

Conclusions

1. **Reliance on external providers:** Dependence on external providers has grown, with the average number of critical contracts with external providers rising when comparing 2022 with 2023.
2. **ICT Services Dominance:** ICT services remain the most frequently used category.
3. **Dependence on cloud outsourcing:** SIs continue to rely heavily on cloud outsourcing, with the budget for cloud services increasing significantly compared with 2022.
4. **Sub-outsourcing:** The majority of contracts involving subcontracting are sub-outsourced to external providers and deemed critical. Furthermore, more than half of intragroup contracts are also outsourced to external service providers.
5. **Dependency on external providers:** The analysis of critical functions outsourced to external service providers reveals that about 82% are difficult or impossible to substitute, of which 95% are difficult or impossible to reintegrate.
6. **Global outsourcing trends:** There has been a significant increase in external contracts with US service providers and a rise in outsourcing outside the EU, especially in the UK, US, India, Switzerland and Serbia.
7. **Concentration and external providers:** External outsourcing expenses for critical services show a concentration among a limited number of external providers. In line with last year’s number, half of the total budget is spent on the top 30 external providers.