



Impacts and Countermeasures of Financial Outsourcing on Risk Control of Commercial Banks

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Abstract. With the continuous change of business demand of commercial banks and the continuous promotion of outsourcing field by government departments, outsourcing of financial services of commercial banks has been developed unprecedentedly, and has rapidly become one of the important business strategies of commercial banks because of its advantages of enhancing core competitiveness, improving organizational efficiency, and avoiding business risks. However, financial service outsourcing is both an opportunity and a challenge for commercial financial institutions. While enjoying the outsourcing of financial services that can reduce costs, commercial banks also face some risks. Therefore, this paper analyzes the impact of financial outsourcing on risk control of commercial banks, and discusses the corresponding countermeasures. Firstly, the concept of financial outsourcing is expounded, and the risk matrix method and its application in outsourcing risk management of commercial banks are introduced in detail. Then, it analyzes the impact of financial outsourcing services on commercial banks in terms of personnel risk, technical capability risk and quality risk. Finally, the paper puts forward some supervision methods of financial outsourcing risk of commercial banks, such as preventing financial outsourcing risk comprehensively, expanding international cooperation, establishing perfect financial outsourcing business system, etc.

Keywords: Financial Outsourcing, Risk Control, Commercial Banks

1 Introduction

With the rapid development of China's economy and the continuous opening of the financial market, commercial banks are facing increasingly fierce competition environment and complex and changeable business risks. In order to meet these challenges, financial service outsourcing has gradually become an important strategic choice for commercial banks to enhance competitiveness, optimize resource allocation and reduce operating costs. In recent years, relevant government departments have issued a series of policy documents to actively promote the development of financial outsourcing business in order to promote financial innovation and industrial upgrading. Under this background, commercial banks have outsourced their non-core business or part of their core

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business to professional service providers, such as statement audit, software development, asset evaluation and so on. This strategic adjustment strengthens the core competitiveness of commercial banks to a certain extent, improves organizational efficiency, but also brings many new risks [1]. Financial outsourcing involves many fields, including information technology, human resources, business processes, etc., covering a wide range and high complexity. Out-of-control of outsourcing business may lead to the loss of key capabilities in some areas, such as the degradation of technical capabilities or the loss of talent reserves; quality problems in outsourcing services may affect the normal operation and service level of banks, thus damaging customer interests and bank reputation; legal, compliance, information and data leakage risks in the outsourcing process may also bring huge economic losses and legal disputes to banks. These risks are not only related to the stable development of banks themselves, but also may pose potential threats to the stability of the entire financial system [2]. Therefore, it is very important for commercial banks to realize the balance between risk and profit in outsourcing business to study the influence of outsourcing on risk control and its countermeasures. This paper aims to analyze the risks and management strategies brought by financial outsourcing, provide scientific risk management basis for commercial banks when developing financial outsourcing business, help them to effectively identify, evaluate and control various potential risks while enjoying the cost advantages brought by financial outsourcing, and ensure the healthy and sustainable development of financial outsourcing business.

2 Overview of Financial Outsourcing and Risk Control of Commercial Banks

2.1 Financial Outsourcing

With the continuous change of business demand of commercial banks in China and the continuous promotion of outsourcing field by government departments, outsourcing of financial services of commercial banks has obtained unprecedented development, which has rapidly become one of the important business strategies of commercial banks because of its advantages of enhancing core competitiveness, improving organizational efficiency and avoiding business risks [3]. However, financial service outsourcing is both an opportunity and a challenge for commercial financial institutions. Commercial banks are facing some risks while enjoying the outsourcing of financial services that can reduce costs. Financial service outsourcing is a means for financial institutions to complete their own business through outsourcing service providers on the basis of enterprise management. Some non-core, operational and costly businesses of financial institutions, such as statement auditing, software development and asset valuation, are limited due to their own energy and professional level. Therefore, through the form of service outsourcing to transfer to the relevant specialized agencies to complete, so that you can reduce the cost of operation, but also improve the efficiency of enterprise work [4]. With the continuous development of economy and society, the trend of outsourcing

financial services is constantly strengthening. The essence of financial service outsourcing is that financial institutions can be repositioned reasonably and resources can be scientifically allocated to various advantageous fields of financial institutions, and then strengthen their own core competitiveness in the market to achieve the goal of scientific and sustainable development.

2.2 Outsourcing Risk Assessment

Risk matrix method is to divide the impact of risks into five grades: Critical, Serious, General, Minor, and Negligible (as shown in Table 1), explain the probability of risk occurrence, and determine the probability of occurrence of five grades: 0%-10%, 11%-40%, 41%-60%, 61%-90%, 91%-100% (as shown in Table 2). According to Table 1 and Table 2, the risk matrix level can be determined (as shown in Table 3). Each outsourcing risk is divided into five levels of “Low, Low to Medium, Medium, Medium to High and High”, so that the size level of each risk can be determined.

Table 1. Outsourcing Risk Rating Table

| Risk Grade | Explanation |
|------------|---|
| Key | Once a risk event occurs, it will lead to the failure of the outsourced project |
| Serious | Once a risk event occurs, it will lead to a significant increase in project costs and a longer cycle, which may not meet the needs of outsourced business. |
| Ordinary | Once a risk event occurs, outsourcing costs will increase to a certain extent, extending the cycle, but still meeting some important needs in the outsourcing business. |
| Tiny | Once a risk event occurs, outsourcing costs increase slightly, outsourcing projects delay slightly, outsourcing needs can still be guaranteed |
| Negligible | Once a risk event occurs, it has little impact on the outsourced project |

Table 2. Outsourcing Risk Probability Range and Description Table

| Probability range | Explanation |
|-------------------|---|
| 0-10% | Very improbable |
| 11-40% | Could never occur |
| 41-60% | May occur in the middle of implementation |
| 61-90% | May occur |
| 91-100% | Very likely |

Table 3. Risk Comparison Matrix

| Risk probability range | Risk Impact Level | | | | |
|------------------------|-------------------|----------------|----------------|----------------|----------------|
| | Negligible | Tiny | Ordinary | Serious | Key |
| 0-10% | Low | Low | Low | Low to Medium | Medium |
| 11-40% | Low | Low to Medium | Low to Medium | Medium | Medium to High |
| 41-60% | Low | Low to Medium | Medium | Medium to High | High |
| 61-90% | Low to Medium | Medium | Medium to High | Medium to High | High |
| 91-100% | Medium | Medium to High | High | High | High |

As shown in Figure 1, the risks of financial outsourcing of commercial banks mainly include five categories: strategic risk, operational risk, reputation risk, compliance risk and legal risk. Among them, strategic risk covers out-of-control of outsourcing business and loss of talents in this field; operational risk involves exit risk, communication risk and moral risk; reputation risk includes service interruption risk and service quality failure risk; compliance risk includes risk that outsourcing business is not allowed in China and violation of laws, regulations and rules of the Bank during outsourcing service; legal risk involves contract term risk and information data leakage risk.



Fig. 1. Classification of Financial Outsourcing Risk (figure credit: original)

3 Impacts of Financial Outsourcing Services on Commercial Banks

3.1 Impact of Personnel Risks

Personnel risk mainly comes from personnel outsourcing in financial outsourcing services of commercial banks, where personnel outsourcing refers to the development, testing, operation and maintenance and operation participated by contractors, mainly commercial banks, and personnel of contractors. Taking commercial bank software testing as an example, personnel outsourcing often faces the problem of large turnover of personnel, the overall working ability and overall atmosphere of the testing team will be affected, and the unstable test quality is naturally easy to appear. At present, the competition in China's financial outsourcing service industry is fierce, and the frequent job-hopping of outsourcing service personnel is also common, so the management difficulty of outsourcing service personnel is greatly improved [5]. It should be noted that personnel outsourcing in financial outsourcing services of commercial banks may also face the risk of management personnel skills. This risk is mainly since managers need to deeply understand the business and have corresponding skills, and at the same time, they need to be responsible for communication with outsourcing service providers and

daily management of outsourcing service personnel, to better control risks and master progress [6]. Therefore, the challenges faced by relevant managers must be paid attention to. It should be noted that personnel outsourcing in financial outsourcing services of commercial banks also faces the risk of information leakage. For example, some commercial banks have outsourcing of important posts due to lack of personnel, which makes outsourcing personnel may contact production data, so the leakage of sensitive customer information must be paid attention to.

3.2 Impact of Technical Risks

Technical capability risk is also one of the risks faced by commercial banks in financial outsourcing services, which is mainly manifested in the reduction of information technology service capability and lack of internal management. The decrease of information technology service ability of banks is mainly due to the problem of excessive dependence on outsourcing personnel in the process of financial outsourcing, and the enthusiasm of technical structure, core business and system interface learning of bank employees will also be affected. However, due to the lack of responsibility and sense of belonging to banks, efficiency and quality-related problems are easy to appear, which eventually leads to the decrease of information technology service ability [7]. In recent years, the field of financial outsourcing services in China has developed rapidly, but some commercial bank's own personnel management ability cannot adapt to the financial outsourcing services. Under the influence of lack of effective management means and measures, the problem of internal management deficiency often appears. The increase of coordination communication cost, waste of resources and inability of own personnel to cope with it belong to the typical manifestations of this problem. Relevant disputes and the reduction of the quality of outsourcing service personnel may also occur.

3.3 Impact of Quality Risks

The financial outsourcing of commercial banks is easy to have quality-related risks. Similarly, taking the software testing of commercial banks as an example, many factors may cause software testing quality risks, such as insufficient ability of testing outsourcing service personnel, high mobility of testing outsourcing service personnel, limited supervision and management of outsourcing service providers, low overall testing technical ability of outsourcing service providers, failure of testing quality to meet expectations, prolonged testing cycle, overall work quality decline and other problems [8]. It should be noted that the appearance of software test quality risk is often strongly related to the lack of comprehensive analysis and evaluation of outsourcing service providers by commercial banks in the bidding process, such as failure to comprehensively analyze the service experience, technical level, service capability, industry reputation, safety protection measures and regulatory evaluation of outsourcing service providers, which also need to be paid attention to by industry insiders.

4 Supervision Methods of Financial Service Outsourcing Risks of Commercial Bank

4.1 Strengthen the Inspection of Outsourcing Service Providers

Firstly, it is necessary to select qualified outsourcing service providers with sufficient resources and practical experience; secondly, it is necessary to strengthen communication before reaching outsourcing cooperation agreement, so as to ensure that outsourcing service enterprises can fully understand the intention of commercial banks and have the ability to realize the expected objectives of banks; thirdly, it is necessary to fully investigate the credit level of the proposed cooperative enterprises, including enterprise goodwill, contract history and financial ability, etc. Only in this way can we avoid potential risks to the greatest extent and lay a good foundation for commercial banks to make financial outsourcing risk control plans before the implementation of financial outsourcing. Agreement is the basis of cooperation between commercial banks and outsourcing service enterprises [9]. Commercial banks should learn from foreign advanced experience and add necessary contents in the drafting process of contract. It usually includes detailed definition of outsourcing service scope, whether to allow secondary subcontracting of outsourcers, outsourcing performance evaluation methods and standards, protection of bank confidential data, emergency and recovery plans, notification of breach of contract and contract termination clauses, risk liability delimitation and treatment, etc. The contract shall also be validly notarized by a third party. Only in this way can the rights and obligations of both parties be clarified, and in case of outsourcing risks, the normal operation of banking business can be resumed as soon as possible and losses can be minimized.

4.2 Expansion of International Cooperation in the Field of Financial Outsourcing

Commercial banks can broaden their horizons and seek foreign advanced service providers to cooperate in the required outsourcing business fields; financial outsourcing service enterprises should also actively learn business concepts and technologies from foreign advanced enterprises in the same industry; the government, as the builder and defender of market order, should adhere to the principle of opening to the outside world and actively introduce foreign capital to participate in the construction of domestic financial outsourcing market. Financial outsourcing has been introduced into China from developed countries [10]. Although it has been actively explored for more than ten years, it has achieved certain results, but compared with foreign developed countries, the gap is still obvious. The development of financial industry can effectively promote the development of social economy, and the development of financial industry today needs a banking restructuring movement to activate the development power of domestic commercial banks, the development of financial outsourcing can effectively enhance the vitality of domestic banking industry, but in the development we still need to actively learn from foreign experience, introduce foreign capital to penetrate the domestic

financial outsourcing market, and promote the restructuring and integration of the domestic market. Especially in the field of financial outsourcing risk prevention and control, developed countries have relatively perfect risk prevention and control system and formulated a series of feasible financial outsourcing market management norms, which will provide a good reference for China to improve the supervision of financial outsourcing market as soon as possible.

4.3 Establish a Perfect System for Financial Outsourcing Business

For commercial banks, comprehensive outsourcing agreement content is crucial, which is the fundamental basis to ensure the effective implementation and implementation of financial outsourcing business. When commercial banks sign outsourcing agreements with outsourcing service providers, they need to fully consider the main links of outsourcing business, especially the basic business processes, relevant inspection norms and dispute resolution methods. In addition, the outsourcing agreement signed by commercial banks should also clarify the basic rights, responsibilities and obligations of both parties, and reduce the process risks generated by commercial banks in outsourcing business by means of agreement terms.

Fundamentally speaking, outsourcing business of commercial banks is a kind of cooperation between banks and outsourcing suppliers, but the result of this cooperation is expressed as business transactions between banks and customers. Then, in such a process of cooperation, the outsourcing service provider's own level, the quality of service personnel, the quality of business implementation, etc. will directly affect the business development of commercial banks. Therefore, the bank must establish a long-term effective outsourcing supplier selection mechanism to scientifically combine the outsourcing business needs, carry out effective rating on outsourcing suppliers, and comprehensively consider the experience level, personnel, qualification, reputation and other factors of outsourcing suppliers.

Commercial banks' financial outsourcing business is influenced by many factors besides the clear cooperative relationship with outsourcing service providers, which may cause the stagnation of outsourcing services, especially the interruption of outsourcing services caused by outsourcing service providers themselves. If these emergencies cannot be quickly and correctly reflected, commercial banks will be seriously harmed. Therefore, commercial banks should actively build outsourcing emergency plans and formulate emergency response plans for outsourcing business.

5 Conclusions

With the rapid development of economic globalization and financial technology, financial outsourcing has become a key strategy for commercial banks to optimize their operations. This study deeply analyzes the multi-dimensional impact of financial outsourcing on risk control of commercial banks, reveals potential challenges from personnel, technology to quality risks, and puts forward accurate risk assessment and con-

trol strategies by combining risk matrix method and other tools. By constructing comprehensive outsourcing supplier selection mechanism, perfecting outsourcing agreement content and formulating emergency plan, commercial banks can not only effectively reduce outsourcing risks, but also transform risks into opportunities to promote innovation and improve service quality. This study provides a systematic risk prevention and control framework for commercial banks in financial outsourcing practice, helping them to enjoy the cost advantages and efficiency improvement brought by outsourcing while ensuring business continuity and customer trust. In the future, with the further maturity of financial outsourcing market, commercial banks need to continuously optimize risk management system to adapt to the changing market environment and realize sustainable development.

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