

Government bank bail-out means turbulent times for IT contractors

An IT landscape that is very different from that enjoyed by contractors in the boom years of the last decade will favour contractors who can quickly adapt, according to a new report published by financial services research and advisory specialist the [TowerGroup](#).

Those that don't adapt to the changes forecast by the report risk a premature end to their contracting careers. But it's not all bad news, with the future forecast to bring some new opportunities to IT contractors.

The impact of the government's recapitalisation of major UK banking groups, the report warns, could have a fundamental impact on banks' IT strategy, with knock-on effects resulting in uncertain times for contractors.

Contractors working in the financial services sector, particularly in The City, have already suffered rounds of rate cuts, but up to this point no major lay-offs, despite the battering banking and related industries have suffered for over a year.

Attitude to risk

The key driver, says the report, is the radically different attitude to risk that banks who accepted the government bailout – such as [HBOS](#), [RBS](#) and [Lloyds TSB](#) – will have compared to those who have raised private equity, like Barclays, or had no funding gap to cover, like [HSBC](#).

"The solution will change the strategic landscape of the UK finance sector," explains TowerGroup European Research Director Bob McDowall, "and create a clear divide in business priorities for those who have and haven't received funding for the foreseeable future."

Banks that have been recapitalised, or, as TowerGroup puts it, nationalised, are likely to become highly risk averse and to focus on consumer and retail banking. This will result in reduced investment in high end risk management IT infrastructure, with existing systems deemed suitable for the new business model. This is potentially very bad news for IT contractors.

Increased investment

However, the IT contractors' knight in shining armour could appear in the guise of a u-turn on offshoring by these same part-nationalised banks cutting IT projects elsewhere, according to the report.

In an attempt to regain consumer trust by using UK based call centres, and almost certainly responding to pressure from their government owners to create jobs in the UK, it is anticipated that the major banking groups will have to rebuild competencies in areas thought lost forever to Asia.

So IT contractors based in the UK stand to win back a significant share of this new business in years to come, assuming they can keep costs streamlined at the same time as improving service levels.

And what of 'private sector' banking?

There remains considerable scope within the two major banking groups, Barclays and HSBC, that are not reliant on government cash for continued IT spend. But TowerGroup predicts that all strategic investment in IT is likely to halt immediately, whilst the banks assess their new competitive landscape.

Banks outside the state's sphere of influence may find themselves with higher risk markets suddenly empty of much competition and, given they are likely to engage with a greater level of risk than their state-owned counterparts, will have a rush of short-term tactical market opportunities, and supporting IT projects, until the market consolidates.

This presents an opportunity for short term gains for IT contractors to off-set the longer term pain of strategic projects being cancelled. And strategic investment will have to restart in the medium term if the banks are to remain competitive.

The 'big five' are not the only gang in town

Out of any major shake-up in a market comes opportunity. Whilst the big five UK high street banks have highly diversified specialist finance arms in addition to their major retail and consumer business, there are many more players out there ready to fill the vacuum.

The government's bail-out, McDowall says: "will also have wide-reaching economic implications beyond the finance sector. This intervention should be regarded as an economic rather than a financial solution."

So IT contractors should take heart from the fact that, although times are set to get very tough, there is already a light at the end of

the tunnel.

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