

# **Both hands firmly on the wheel:** How buy-side firms gain and maintain control in a business process outsourcing world



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## EXECUTIVE SUMMARY

The road ahead for buy-side firms is littered with potential potholes and barriers. From responding to changing investor demands, to navigating an uncertain macroeconomic environment and managing regulatory requirements, buy-side firms need to strike a fine balance between strategic priorities and operational accountabilities.

This is easier said than done. With investment returns, fees and profitability under pressure, firms are looking outside themselves for help with the operational efficiencies and innovations that they need just to stay in the game – particularly in operational areas that they find especially onerous. For many buy-side firms, this would be the management of post-trade processes. From Know-Your-Customer and Anti-Money Laundering, to new regulatory obligations, and managing corporate actions, operational pressures are real and burdensome. To alleviate these pressures, many firms are looking to partners to outsource their post-trade operations.

In order to explore the current opportunities and issues with outsourcing, and how firms can best set themselves up for success, Taskize surveyed 100 heads of operations, finance and risk from buy-side firms in Asia, North America and Europe.

### **Outsourcing is a popular solution to the lack of operational capacity.**

- We found that 65% of firms surveyed have already outsourced at least one key post-trade process to a third-party provider. However, we found financial process outsourcing to be ahead of the curve in North America compared to other regions.
- While outsourcing has traditionally been a cost-driven play, over half of firms now look to outsourcing as a way to tap into the latest back-office technology and to create capacity to focus on other strategic priorities, with 62% and 55% respectively citing these as top benefits of outsourcing.

### **While the broad business case for operational outsourcing is clear, there still remain many concerns.**

- The firms we surveyed are worried about data security and losing control or oversight over day-to-day processes.
- Buy-side firms are well aware of their ultimate accountability for any outsourced operational issues that may result in regulatory non-compliance, fines, data breaches, poor client service.
- Not only do they need to protect their firms' reputations and brand, but they are also cognisant of their own personal accountability – as enshrined under the Senior Management Certification Regime (SMCR).

### **These concerns are compounded by the frustration of not having the right tools for managing outsourced workflows.**

- In particular, email is dominant across the industry, with 100% of firms using email tools to manage outsourced workflows, often in addition to other point solutions.
- While dominant, email is simply not fit for purpose when it comes to managing inbound requests, tracking progress, and reporting on outsourcing provider performance.

### **Taskize enables buy-side firms and their partners to boost the benefits that effectively managed outsourcing can bring.**

Our comprehensive and customisable workflow platform creates more effective and productive processes, while delivering a level of security, transparency and oversight that other ways of working fail to deliver.

1. UNDER PRESSURE: THE TWISTS AND TURNS OF POST-TRADE OPERATIONS

Balancing strategic priorities with operational accountability

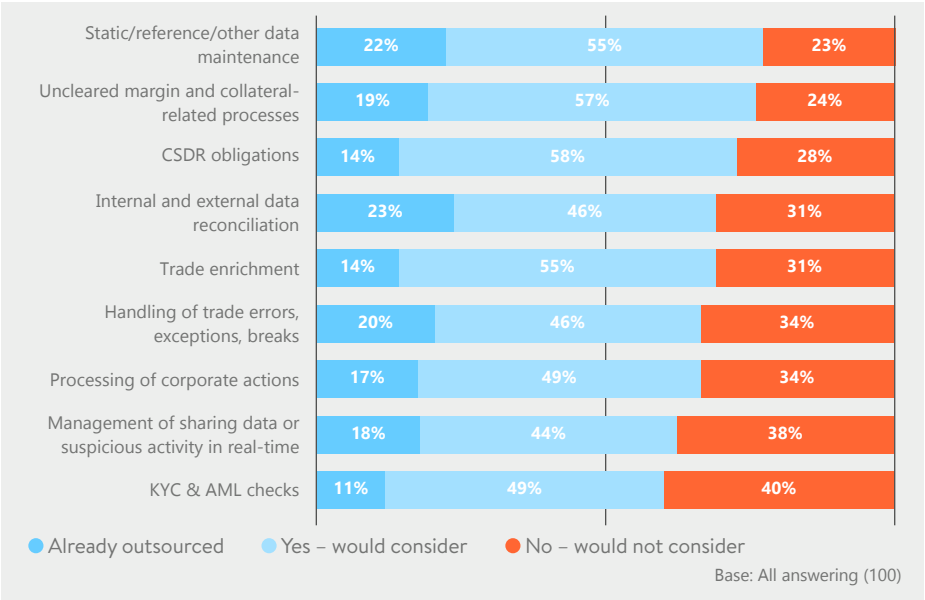
Buy-side firms have a long list of pressing priorities – optimising portfolios, managing balance sheets and capital, planning for new regulatory requirements are but the tip of the iceberg.

Amidst managing a myriad of strategic priorities, firms remain accountable for accurate and efficient operational outcomes every day, across a wide range of post-trade processes. These range from data maintenance, to uncleared margin and collateral processes, data reconciliation, and handling of trade errors and exceptions.

Operational pressures are real, with severe consequences when delays and mistakes occur. Firms need to continuously review and improve their operational capabilities and capacity to avoid expensive penalties, poor client service, and damage to their reputations and brands.

While being operational experts is, therefore, table stakes for firms, many

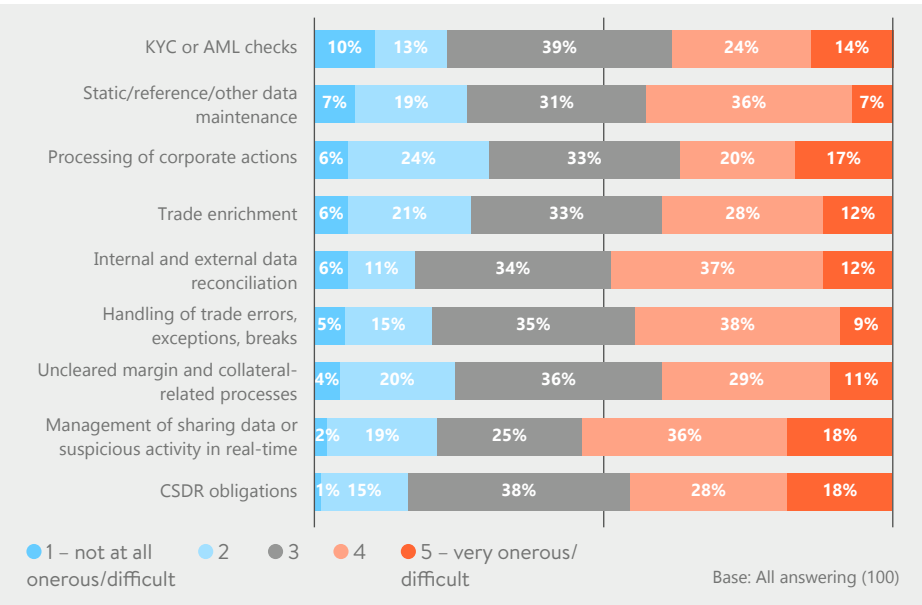
Figure 2: Which of the following post-trade processes would you consider outsourcing?



find post-trade operations onerous when managed in-house. Only a few firms do not believe that post-trade processes create an operational burden on their firms. For example, only 1% of firms surveyed feel that CSDR obligations, and 5% for handing trade errors, exceptions and breaks are 'not at all onerous or difficult.'

Even for KYC and AML checks, which firms ranked less operationally burdensome than other processes, the pressure is still real. In this case, only 10% of firms find KYC and AML checks 'not at all onerous or difficult,' while over a third (38%) report them to be 'onerous or very onerous' (see figure 1).

Figure 1: Which of the following post-trade processes do you find particularly onerous or difficult when performed in-house?



Overcoming operational burdens require creative solutions

Faced with challenges from fee compression, combined with tighter regulation and finite delivery capacity, firms are looking for creative ways to enhance operational capacity and obtain the latest technology to improve efficiency and remain competitive. Many see outsourcing as a means to these ends. And it seems that no process is off the outsourcing table.

In the pursuit of cost savings and creating operational capacity, the range of processes that buy-side firms consider eligible for outsourcing is now broader than ever before. **Over 60% of firms surveyed have already outsourced or would consider outsourcing** each of the post-trade processes listed in figure 2. In addition, we found that globally only 65% have outsourced at least one of these processes.



2. THE BOTTOM LINE IS NOT THE ONLY BENEFIT

Straightforward cost reduction or cost mutualisation have traditionally been the key drivers for outsourcing operations. Firms today certainly still see cost reduction as a major reason to outsource, with over half (53%) ranking cost as a top-three driver (see figure 3). However, the operational challenges faced by firms are now broader, and need to be addressed in more sophisticated ways than simply eliminating cost. As such, there is now a significantly wider range of outsourcing drivers.

Creating the instant operational capacity needed right now

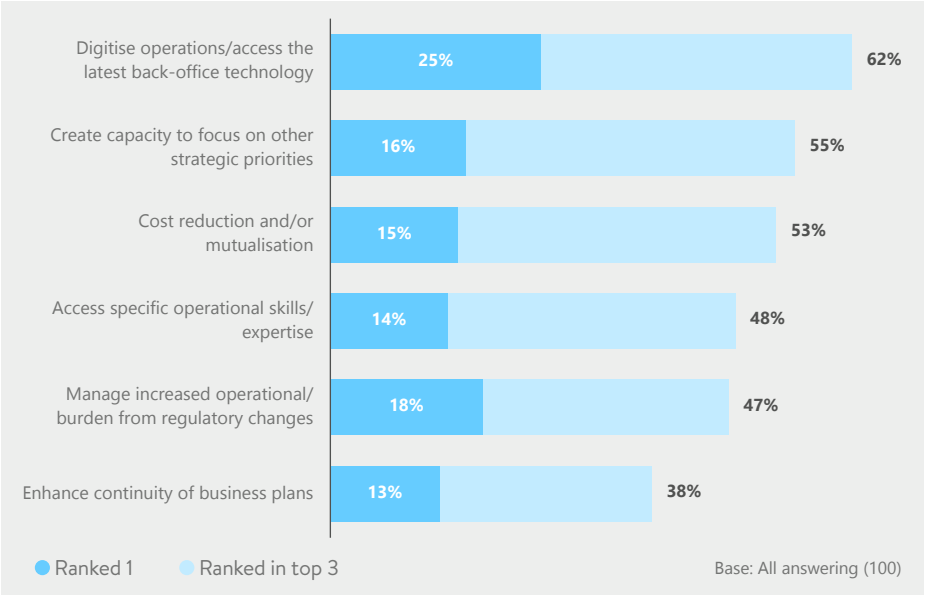
Firms are looking for ways to create extra operational capacity and reallocate human judgement and time to the more strategic and non-standardised areas that impact their reputation and competitiveness.

Our survey found that over half of firms (55%) believe extra capacity from outsourcing means focus can shift to other strategic priorities. In addition, firms anticipate the impending operational burden from new regulatory requirements on the horizon. Almost half of firms (47%) surveyed see outsourcing as a way to successfully resource and gain control over these increased operational requirements.

Tapping into the latest operations technology

Technology has long been seen as a solution to operational efficiency and increasing firm capacity. With a few notable industry infrastructure

Figure 3: Why does your firm outsource/plan to outsource post-trade processes? Select top 3 reasons in order of importance



exceptions, this typically involved a ‘buy versus build’ decision within each firm – with both choices bringing potential pitfalls and implementation costs.

With both ‘run the firm’ and ‘transform the firm’ technology budgets under pressure, buy-side firms are looking at more creative and cost-effective ways to tap into the latest industry technologies for their operations.

With building their own bespoke technology solutions either too costly or too risky, buy-side firms see outsourcing as an opportunity to benefit from the technology investments of their outsourcing partners. In fact, **62% of firms view outsourcing as an effective**

**way to obtain new technology and further digitise operations, with a quarter (25%) citing it as the number one driver of outsourcing post-trade operations.**

Outsourcing providers are motivated to invest in technology to improve efficiency and service. As their singular focus is managing processes for multiple clients, they invest in specialist skills and technology to efficiently and cost-effectively process large volumes, while continuously improving standards of service. Through outsourcing, buy-side firms are able to directly benefit from these technology investments, without having to make those risky and time-consuming investments themselves.



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### 3. PITFALLS AND POTHoles ON THE ROAD TO OUTSOURCING

#### It's not all upsides without downsides

The enormous potential of outsourcing needs to be weighed up against several possible pitfalls. Firms are highly aware that while responsibility for post-trade operations can be outsourced, the accountability for successful execution firmly remains with the firm.

While outsourcing post-trade operations is a growing trend, firms are keenly aware of the potential negative consequences should things go wrong. Firms know that ultimately the buck stops with them when it comes to a number of tasks, including regulatory compliance, data protection, and client satisfaction.

**While responsibility for processes can be outsourced, under the Senior Manager Certification Regime (SMCR), the accountability for ensuring regulatory compliance remains the outsourcing firm's legal responsibility.**

In addition, errors and service failures by the outsourcing provider reflect on the outsourcer's brand and reputation, and can have severe consequences on commercial relationships.

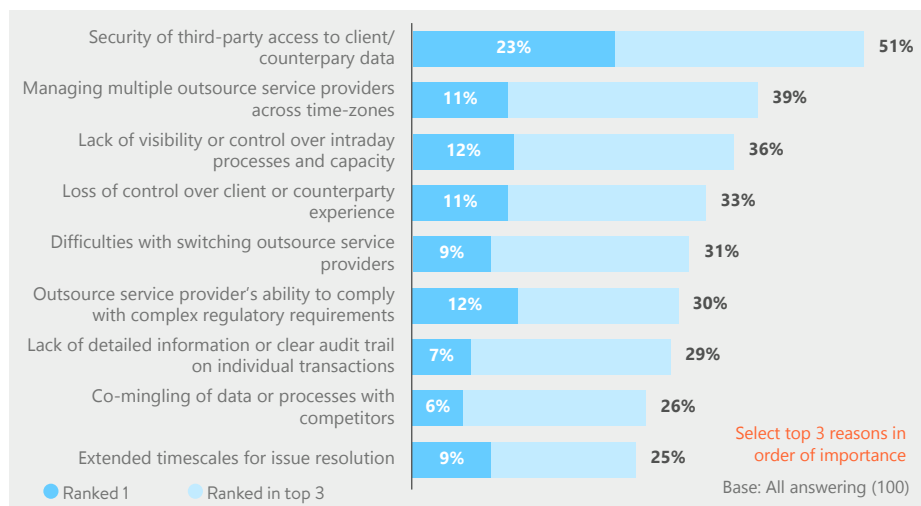
#### Data security concerns are front and centre

Data security is a major concern. Over half (51%) of firms surveyed consider placing the client and counterparty data in the hands of a third-party among the top three risks of outsourcing (see figure 4). Often, leaders in providing outsourcing are formidable competitors in their other divisions, which raises concerns about product differentiation and attentiveness to client servicing. Almost a quarter (23%) consider data security to be the most significant risk faced. Addressing data security concerns with the right checks, balances and technology solutions is, therefore, a baseline for ensuring outsourcing success.

#### Controlling the day-to-day process

Over a third of firms need to address the complexities of managing multiple outsourcing partners, across multiple time zones (39% of firms surveyed). Meanwhile,

**Figure 4: What do you see as the most significant risks, challenges or concerns regarding outsourcing post-trade operations?**



36% of firms consider the lack of visibility over intraday processes and capacity as a top 3 concern when outsourcing.

Care is also needed so that firms do not become too far removed from their clients that they are unable to ensure the quality of day-to-day service and issue resolution. For example, a quarter of buy-side firms are concerned that outsourcing brings a risk of extended timescales for issue resolution.

Inter-company workflows and tools, therefore, need to have robust and fit-for-purpose oversight and control mechanisms fully baked into their design to enable firms to outsource confidently, comfortable in the knowledge that they retain visibility over operations. Firms need to be able to let their outsourcing partners get on with the job of managing post-trade processes, knowing that they have the right level of real-time visibility should the need to jump in and help arise. Maintaining oversight over intraday workload and pipelines also gives firms insight into their outsourcing providers' capacity and capabilities beyond the mere achievement of service level agreements.

#### Unwinding relationships if it goes wrong

Firms are also highly aware that their name remains above the door, with a third (33%) concerned about the

potential loss of control over the client and counterparty experience when operations are outsourced.

Firms are also worried about the ease with which they can react and unwind operations should an outsourcing relationship turn sour. Almost a third of firms (31%) have concerns about difficulties with switching outsourcing providers.

These difficulties do not just affect the outsourcing firm but can also impact their clients. Switching providers will often require process changes that need to be communicated to and implemented by clients. From communicating new contact details for the new outsourcing partner to all relevant counterparties, to ensuring smooth continuity of service, switching can be burdensome and chaotic for a firm and its clients. Adding to the complexity is the fact that outsourcing providers, with the aim of providing better service, embed themselves into the firm's processes as effectively as possible. The ease of the hand-over process can impact perceptions of how easy a firm is to deal with, and its reputation in the market.

The use of technology, tools and platforms that can easily be deployed between outsourcing providers will address many of the concerns related to the ability to switch providers.

4. WAYS OF MANAGING WORKFLOW – NOT IN THE FAST LANE, YET

Whether managed in-house or outsourced, when visibility and workflow control is compromised, significant risk is introduced into operations. This can have serious consequences not just for individual firms, but also on the integrity of the entire ecosystem and client trust.

Establishing efficiency, control, and transparency in post-trade operations requires a smooth, secure and trackable means of transmitting requests and data between a wide range of counterparties and outsourcing partners. And while a variety of tools are used, from online chat, to phone, and even fax, across all firms, email is the dominant method of engaging with counterparties (see figure 5). 100% of firms surveyed exchange emails with counterparties when managing post-trade operations.

Dominant, but difficult

Despite its dominance, email is seen by the firms we surveyed as sub-optimal for post-trade operations. 100% of the firms we surveyed have experienced problems with using email. With its current limitations, email in isolation is seen as the wrong tool for the job.

The current features and functionality of email are hamstrung (see figure 6) by cybersecurity risks (cited as a challenge by 55% of firms), an inability to manage inbound email traffic effectively (50%), and by having no means to efficiently track, manage and resolve issues that are raised by email (49%). Clearly, the time has come to reassess how the limitations of email can be addressed and mitigated when it needs to be used as part of workflows.

Given the ubiquity of email, and the likelihood that it will continue to be used by many firms for some time, there is a real need to make it fit for purpose for workflow management.

Figure 5: What communication tools do you and your outsource service providers currently use to communicate with each other and other counterparties?

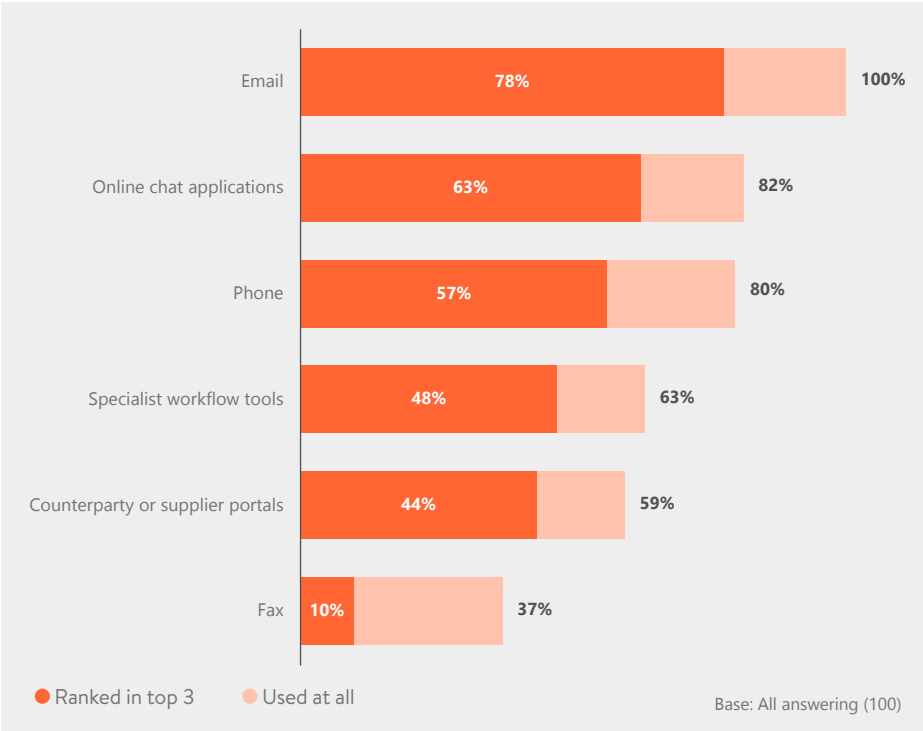
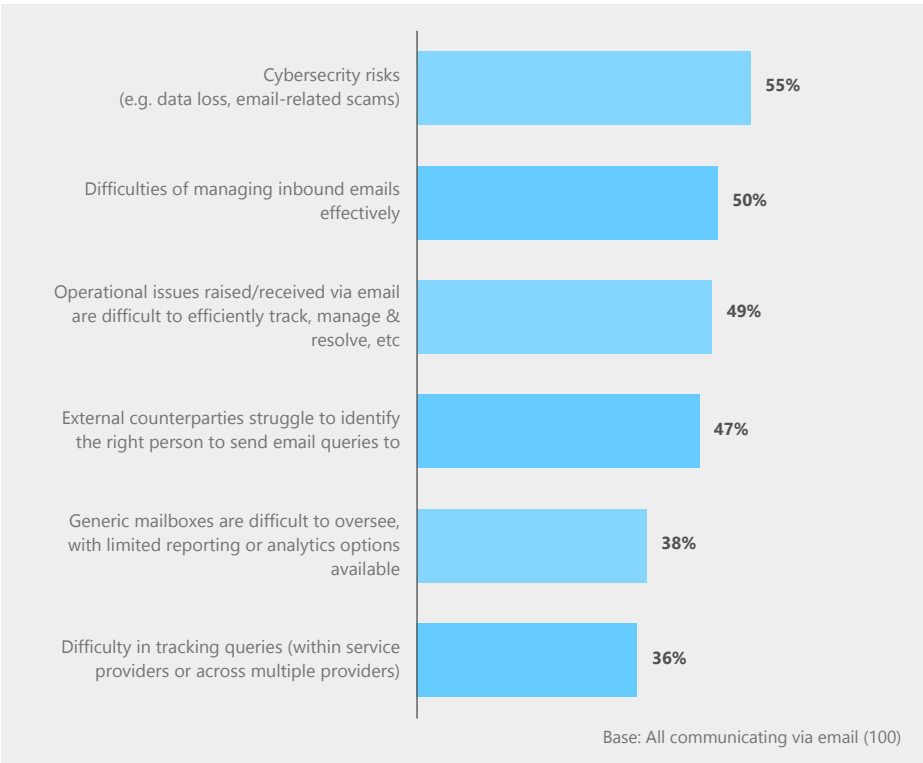


Figure 6: What do you see as the main issues of using email for workflow communications with outsourcing partners?



## 5. BOOST BENEFITS, REDUCE RISKS OF OPERATIONAL OUTSOURCING

The majority of firms are considering or already outsourcing a wide range of post-trade operations, to create capacity and tap into new technologies. However, a number of new operational burdens and worrisome risks have also been introduced from current ways of working with outsourcing partners. With significant consequences if control is lost, firms need the right tools for workflow allocation and oversight.

### Energise and optimise work allocation with Taskize

Taskize has been designed to specifically address the workflow challenges of post-trade operations, empowering operational outsourcing providers and their clients to more be more effective and productive. Greater efficiency and accuracy of workflows enable outsourcing providers to boost both their bottom line, and quality of service provided to their clients.

Managing outsourced workflow with Taskize means outsourcing buy-side firms maintain control and visibility throughout day-to-day processes. Taskize's secure Bubbles™ are purpose-built workspaces where issues can be shared easily between counterparties, providing oversight, control and efficiency across operational processes. Taskize Smart Directory™ makes it fast and simple for operations staff to easily navigate to the right counterparties, even in the face of high staff turnover and company re-organisations.

Taskize is also designed to specifically work with different operations strategies and approaches. Fully aligned to the most common outsourcing processes and staff augmentation approaches, outsourcing firms can utilise Taskize across many of their clients, in a safe and secure way.

A comprehensive suite of controls also means firms can hold outsourcing partners responsible for their obligations and SLAs, with fully transparent reporting on completed work, service level metrics and performance analytics. In addition, Taskize can be configured to ensure the right resources are allocated to the most valuable clients, supporting outsourcing partners to align service levels with client prioritisations.

Should the need arise, Taskize makes onboarding new outsourcing providers seamless. Clients are not impacted, as amendments to outsourcing arrangements won't require any changes to process or contact details on their end.

### Performance enhanced email

Everyone uses it; everyone has an issue with it. Email as we know it today simply does not perform as it needs to for operational outsourcing. However, its prevalence across the industry is driving a pressing need to find innovative means to make email work more effectively. To solve this, Taskize has also created an innovative solution for email built on its proven secure Bubble™ technology. It's easy to deploy and works seamlessly with existing email platforms and users' email addresses. With financial services-grade security as standard, Taskize Email Solution provides significant upgrades for email to more effectively manage incoming messages, track and monitor email-based workflows.

## METHODOLOGY

Ideas and Action, a London-based client engagement consultancy firm, was commissioned to conduct research from 4 to 12 August 2020.

One hundred respondents — senior executives and decision-makers in buy-side firms that outsource or are considering outsourcing any part of their post-trade processes — participated in a quantitative survey from:

- Asset managers
- Insurance firms
- Pension funds
- Mutual funds
- Hedge funds

All with at least USD100 million of AuM.

Geographies covered in the survey:

- Asia (Australia, Singapore, Hong Kong)
- North America (US, Canada)
- Europe (UK, Germany, France, Belgium, Switzerland)



# TALK TO TASKIZE

At Taskize, we design and stress test all our solutions to be purpose-built for operational workflows in Financial Services. Our technology design philosophy is simple – be easy to deploy and use, work in unison with current systems, provide financial services-grade security. Taskize is here today, and already being used at leading buy-side, sell-side firms, custodians and financial services utilities. The rapidly growing Taskize network is already 250 companies strong, across 50 countries.

If your firm is seeking to gain greater visibility and control over your outsourced operations, or are considering additional outsourcing programmes, talk to us. We help buy-side firms work in union with outsourcing providers, to boost the benefits and repeal the risks of the outsourced workflows they remain accountable for.

For more information, visit  
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Published September, 2020

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