



## **Insulate the business from outsourcing**

Once a business has decided to outsource the operational part of its business it has been said that a firm can never go back to in-sourcing again. Whilst never may be too strong a term, the fact is there are fundamental challenges to a firm wishing to either change its outsource provider or indeed wishes to take back control of its business operations.

Apart from loss of staff that have the operational know how to run the business, a firm will invariably adopt the outsource providers systems to process transactions, run fund accounting and reconciliation all of which means fundamental change, the scale of which would not be contemplated during the normal course of running a business. A firm can place itself at risk, jeopardising customer service and overall business performance by not receiving the data it is used to seeing in a timely manner.

So how can a firm wishing to outsource its operation help protect the business from change, give itself the best possible chance to reverse an outsource arrangement or choose to switch outsource provider without having to go through the upheaval and experience the disruption when first switching to an outsource provider.

An insulation layer acting as a window and translator between the firms front office applications and the outsource providers middle and back office applications makes a lot of sense. Insulation solutions provide full transparency between a firm and the outsourcers applications, allowing all critical trade data to be tracked as it is delivered and processed by the outsource provider. More importantly, an insulation layer will look for the arrival of critical trade settlement, account balance and corporate action data and will alert a firm if data is absent. An insulation layer will help a firm meet regulatory compliance requirements, improve information flows to assist trading, help identify trade failures and avoid the risk of data being sent into a black hole by reconciling trades that pass from a firm and are processed by the outsource provider.

When thinking of outsourcing, it is often the case that only parts of the operational infrastructure will finally be outsourced. For example, although much of the Back Office will be used externally, nearly all of the Front Office will remain in house.

Therefore some internal systems will need to be modified to provide data in the format required.

The immediate thought would be to get the requested formats for data and modify existing systems. However in many situations, this is not as easy as it sounds, especially when legacy or in house systems are involved that are not familiar to the outsourcer. Of course, for some of these, that integration work may be more difficult than others and creating data in the right formats can be a significant amount of work for the IT department.

In addition, other situations may arise:

- Acknowledgement processing. Sending out data will provide one or more acknowledgements that the data has been received and processed. What changes need to be made to internal systems if problems do occur or for unacknowledged transactions? How will these be highlighted to users? If multiple systems are used, how should the firm ensure that the inbound transaction feeds to the correct system? If data problems occur how are these rectified?
- Tracking transactions. It will often be the case that an internal reference number is associated with the transaction but that the outsourcer will also provide some reference for its own use. Tracking down transactions may prove difficult.
- Auditing. In an ideal world no problems should arise with the timeliness of transactions, but there is always the risk that there will be questions over late processing or missing transactions. As with existing third parties, a good knowledge of what happened and when can be vital in tracking down such issues. Some form of auditing of existing transactions is essential to achieve this goal.
- Testing. In an ever changing market upgrades to both internal and external systems will happen. How will these be tested? How much time can your outsourcer provide when this occurs? As with internal IT, test slots may be limited and hence, if problems are found, this could impact release schedules.
- Manually processed information. With some of the newer instrument types, there may not be systems currently capturing these transactions. Therefore how will these be notified to the outsourcer? If transactions are being enriched, can these be held up if static data is missing and possibly repaired before sending?
- Data. In terms of the data, is all information required by the outsourcer available and how will it be provided? It is often the case that legacy systems may use some internal codes that were previously substituted by existing systems and this will need to be replicated elsewhere. Is this available and can it be done within existing systems or is some additional post processing of the transaction needed before sending out the data?
- Moving. Though at the time the firm may be sure that it has chosen the correct outsourcer, what happens if things go wrong? What happens if in a few years the enterprise requires change and its needs would be better serviced elsewhere? This is probably the worst situation as all of the work that has presently been done will need to happen again.

Though part of the reason for outsourcing may be to reduce internal dependency and spend on IT and operations – the non profit making part of a business, some of the above points can mean that the initial project is more complex than first imagined.

To avoid or minimise the impact of these issues, one solution is to provide an insulating layer between the current operational systems and the outsourcer. In fact, adding a middle layer may be the ideal solution.

As it is rare to find internal systems working in isolation, it is probably the case that firms are already extracting the required information to feed to an existing system, though maybe not as complete as required by the outsourcer, possibly due to enrichment or other processing happening in the internal system being replaced. By feeding and enriching the

data in the insulation layer, you may be able to reuse an existing data feed with no modification required to the existing systems. You can even store more reference data than required such as internal codes to help business users understand where the issue lies and search for transactions from any system in from a single location.

All of these operations then allow a standard internal format to be provided easily. It is this format that can then be translated to the requirements of any outsourcer, with little to no impact on internal systems. This will also help if ever there is a requirement to move from one outsourcer to another as only the internal to external format is required to change.

Where the selected insulation layer provides a monitoring tool, this can be invaluable in providing a single window on the whole transaction life cycle instead of users moving between internal systems and the outsource systems. The monitoring system can be configured to highlight any problems and alert when expected events have not occurred thus freeing up time spent looking after transactions – a user can be alerted to exceptions while ignoring all successful information flow.

If manual message transformation or repair is required, this can also take place within the alerting component.

For any acknowledgements, all feedback from the outsourcer can be captured to provide a more accurate audit trail, and better benchmarking of systems and outsourcer performance. The information captured can then be formatted to be sent to any external system if required.

For testing, the insulation layer removes the headache of coordinating testing of all internal system changes with the outsourcer. When internal applications go through a change or upgrade process it is necessary to test the interface between this system and the insulation layer to ensure that the data arriving in the layer product is as expected and only once this is complete is a full end-to-end test required. This allows internal IT to carry out necessary upgrades and improvements without being constantly restricted by third party test window availability.

By going down the route of insulating your systems from the outside world before going to an outsource solution you are also opening up the potential number of suppliers who could meet your requirements. Additionally, with the insulation layer as a buffer, your outsource provider will not require familiarity with your internal systems.

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