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# Before You Dive Into Front or Middle Office Outsourcing – 5 key considerations and 1 cautionary alert

If, like many, challenges around reporting to your clients have you considering outsourcing your front or middle office activities, this article makes essential reading.

## **Merlys findings:**

Many asset managers (particularly those in tiers two and three) have recently been discovering that access to their online tools (such as systems for portfolio management, pre-trade compliance, order management as well as shared data files) do not work as smoothly as anticipated during prolonged periods of remote working.

As this has led to delays in client reporting and has deprived managers of real time market information, many are now looking to outsource those aspects of their front and middle office activities.

## **Recommendations:**

Our cautionary alert talks of Liability Clauses. This and The 5 key areas to think about: Expectations | IT Interface Costs & Implications | Choice of Outsourcing Partner | Timescale for Delivery & Implementation | Analysis are elaborated on below...

### **1. Expectations**

Top of the list of things to consider is the outcomes and benefits you are expecting. You will need to:

- be clear as to the specific outcomes you are after; these may be reduced running and market access costs, as opposed to the costs that your business bears as a result of your current set-up
- analyse whether those expectations are realistic
- consider how resilient the outsourcing will be for prolonged remote working. As the world explores remote working seriously it is likely that many workers will work remotely in the long term

## **2. IT Interface Costs & Implications**

Can your own system be adapted to resolve the issues?

- what is the likely cost if your existing IT systems and technicians can complete the transformation
- in the event that an in-house remedy is not practicable can your IT system interface with an external specialist's enhanced system and what are the cost implications of this option

**Other Resources:** Added into the consideration of cost you will need to take into account the need for internal or external resources to assess which option is more cost effective and/or which will best achieve the operational efficiency you seek.

**Upskilling:** In addition, you will need to consider whether your staff have the existing skills to operate the altered system, or how much training either by your internal IT team or external consultants will be needed to enable them to come up to speed.

## **3. Choice of Outsourcing Partner**

If outsourcing seems to be the right solution to explore, then the choice of outsourcing partner is key.

**Step 1:** Build a list of proposed outsourcing partners.

**Step 2:** Once you have identified possible partners then the selection process may well start with a beauty parade and a due diligence exercise to learn more about the companies you have chosen. You will need to:

- weigh up the reputation of the potential partner and its financial stability
- consider whether the interface between your IT systems and theirs is compatible or how extensive any required modifications might be in order for the systems to be able to work together
- discuss with the potential partner, future support, systems maintenance and on-going staff training
- Consider the affordability of the potential partner

## **4. Timescale for Delivery and Implementation**

Projects take time and resources to deliver...

**Step1:** Consider how fast you need to have the outsourcing solution in place. What is your deadline or level of urgency?

**Step 2:** elements of estimating the time and resources required will include:

- an understanding of the time and skills that will be required to identify the outsourcing partner

- the time and cost of negotiating the outsourcing contract including whether:
  - a) you have the expertise and resources in-house
  - b) if so, they have the time to invest in the project or
  - c) you need to hire in experts such as a lawyer, a project manager, IT specialists, trainers

## **5. Analysis**

At this point you will need to undertake some further analysis of:

- the adequacy of your resources both internal and external to ensure efficient delivery of the project
- the costs of capital to implement the changes
- the ultimate benefit to your business of carrying out the project
- the on-going costs involved in the running of the outsourcing

### **A Cautionary Word regarding Liability Clauses**

If you decide to proceed down the outsourcing route you need to be very careful about transfer of liability clauses. It is not guaranteed that such clauses will work, as for many regulated activities, ultimate liability to your clients will remain with you, so these clauses are critical to protecting your business. This reinforces the importance of being sure that you choose the right outsourcing partner and that you have the correct performance guarantees in place.

## **Conclusion**

Outsourcing can be an attractive solution to enhance the performance of your business and as a result impress your clients. It is not a solution for every situation and careful analysis of the choice of outsourcing partner, the necessary investment of resources and money and the goals that need to be achieved will be required to understand if it is right for your business enhancement.

*This article is a general overview of the structure of an outsourcing project. It is not intended to offer legal advice.*

## **How We Can Help**

At Merlys we have considerable experience of drafting and negotiating both in-sourcing and outsourcing agreements. If you would like to discuss any issue arising from this article, please call or email our expert Verena Charvet as below.



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*This briefing note is intended to act as general guidance and is not intended to offer specific legal advice. Merlys is very happy to assist you with any aspect of the content in this article, as it relates to your business.*

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