ADDRESSING COMPLIANCE CHALLENGES THROUGH OUTSOURCING

Financial institutions around the world are outsourcing and offshoring core processes to reduce annual costs, increase capabilities and improve quality. This allows management to focus on core business values and market strategies

By Carlos Mattos, Microsoft MVP since 2003, Development Manager, Microsoft Technologies, GFT Brazil

■ Motivation for Compliance Outsourcing

Today, businesses face increasing compliance requirements. Financial services companies are most affected by government regulations, reporting requirements and regional rules. The decision to outsource is driven by the following challenges:

Skilled professionals shortage

A primary reason for outsourcing is a lack of locally available resources. The supply of compliance specialists is small relative to the demands of highly regulated organizations. These demands are further complicated by operations spanning a global web of regulatory jurisdictions. The investment levels needed to recruit, train and retain people with the required knowledge and expertise continue to increase.

Continuous changes in compliance processes

Rapid, continuous, global regulatory changes make investments in compliance processes reactive. As a result, organizations often face higher operating costs and lower quality of compliance solutions.

High investments in technology infrastructure

Financial services companies must continuously invest in new technologies and infrastructure to address evolving compliance needs. Global organizations face even higher investments, redundantly answering similar regulatory questions in different ways, with multiple systems.

■ Understanding Compliance Outsourcing and Offshoring

Organizations unfamiliar with compliance outsourcing name data privacy, regulatory complexity, reporting accuracy, responsiveness and infrastructure as top factors that make compliance outsourcing impractical. However, these same challenges argue in favor of compliance outsourcing; in fact, specialists outside the organization can often address these factors more effectively and economically.

Benefits of compliance outsourcing

The right compliance outsourcing vendor will provide the following:
• Gains in efficiency and quality through leveraging structured processes.
• Access to subject matter specialists.
• Seamless execution of end-to-end processes, from compliance assessment through corrective action.
• Flexibility to scale deployment of skilled resources as needed.
• Data analytics/reporting tools that provide predictive trends and insights.
• Reduced burden on internal infrastructure and resources.
• Effective cost reduction.

Selective outsourcing

A strategy of selective outsourcing—choosing which compliance processes to conduct in-house and which to outsource—enables organizations to improve allocation of resources. This reflects the overall goal of outsourcing—to place operational processes with a third party who can execute them at high levels of quality with responsive and cost-effective delivery models, while freeing up internal resources for revenue-generating activities.

■ Outsourcing Models: Co-Sourcing

Compliance outsourcing is a type of knowledge process outsourcing (KPO). KPO can be very complex, as it calls for the application of industry knowledge, regulations, compliance frameworks, valuation, actuarial experience and data analytics to generate knowledge-intensive deliverables. This complexity is aided by a new wave of outsourcing known as the co-sourcing model. In contrast to traditional models where the outsourcing vendor provides ready-made solutions with little control or flexibility to organizations, the new co-sourcing paradigm allows firms to continue utilizing their proven platforms (comprised of bespoke and purchased applications), while leveraging a mix of resources based onsite, onshore and nearshore. This allows the organization to lower costs and utilize internal resources more efficiently, while maintaining transparency and involvement in compliance processes.

■ Comparing In-House and Outsourced Compliance

Each organization must develop and consider its individual business case for outsourcing compliance versus supporting compliance with an in-house operation, which may require ever-increasing investment in talent and IT resources. The following table presents a comparison between in-house and outsourced compliance:

FACTORS	IN-HOUSE	OUTSOURCED
Cost	Fixed	Variable/Reduced
Staffing flexibility	Limited	Just-in-time
Competency/Skills	Constrained	On demand
Talent availability	Limited	Readily available
Training impact	Time and cost	None
Global challenges	Significant	Minimal
Speed of change	Reactive	Proactive

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