

SOURCING TRENDS IN OPERATIONAL ACTIVITIES

ECB Operations Managers Group (ECB OMG)

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TABLE OF CONTENTS

- Setting the scene
- Trends in operations
- Benefits and risks
- What about regulation?
- The ESM perspective

SETTING THE SCENE

“An arrangement of any form between an In-Scope Entity and a service provider by which that service provider performs a process, a service or an activity that would otherwise be undertaken by the In-Scope Entity itself”¹

*“In the over-the-counter (OTC) derivatives sector, **outsourced post trade tasks** typically include trade matching and confirmation, portfolio reconciliation and compression, collateral management, trade reporting, credit limit checks, and custody of assets”²*

¹ Circular CSSF 22/806 on outsourcing arrangements

² IOSCO Principles on Outsourcing FR07/2021

- Outsourcing may include tasks that the entity:
 - Has not **previously** performed,
 - Does not have **the capacity or resources** to perform,
 - Does not **want** to perform.
- Traditionally, outsourcing is firmly established in parts of the business that are **non differentiating** and where **scale effects** are sizeable.
- The coronavirus pandemic has exacerbated the reliance of the financial sector on information and communication technology.

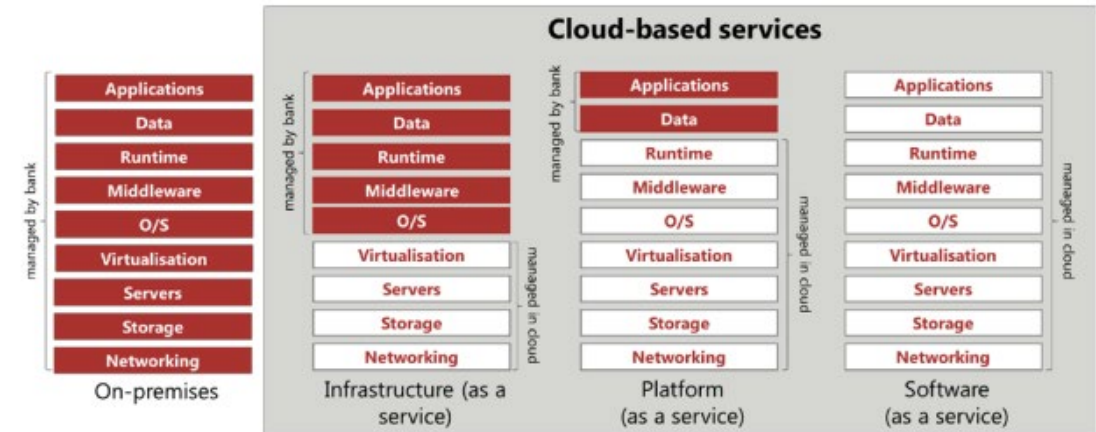
TRENDS IN OPERATIONS

- **Further growth** expected in outsourcing, especially in:
 - IT outsourcing
 - Business process outsourcing (BPO)
- **Driven by:**
 - Further standardization
 - Digitalization – process automation
- Increased **regulatory requirements** for both banks and service providers
- Strengthen **third-party risk** management, integrating resilience and business continuity
- **Environmental, social and governance (ESG)** factors will increasingly play an important role in outsourcing relationships

TRENDS IN OPERATIONS

- Future will come... as a service: “XaaS” or “Everything-as-a-Service”
 - From “classic IT outsourcing” to IT-as-a-service models:
 - Infrastructure-as-a-service (IaaS)
 - Platform-as-a-service (PaaS)
 - Software-as-a-service (SaaS)
 - From BPO to Business Process as-a-Service
- Providers centrally host services, and offer access to them on a subscription basis
- Access to services on demand, anywhere and at any scale
- Potential to increase resilience, flexibility and cost efficiency

Service models¹



“Cloud computing is an outsourcing relationship that is complex and is reshaping the financial services industry’s information technology profile”²

¹ Basel Committee on Banking Supervision, Sound practices: Implications of Fintec for Banks and Bank Supervisors

² IOSCO Principles on Outsourcing FR07/2021

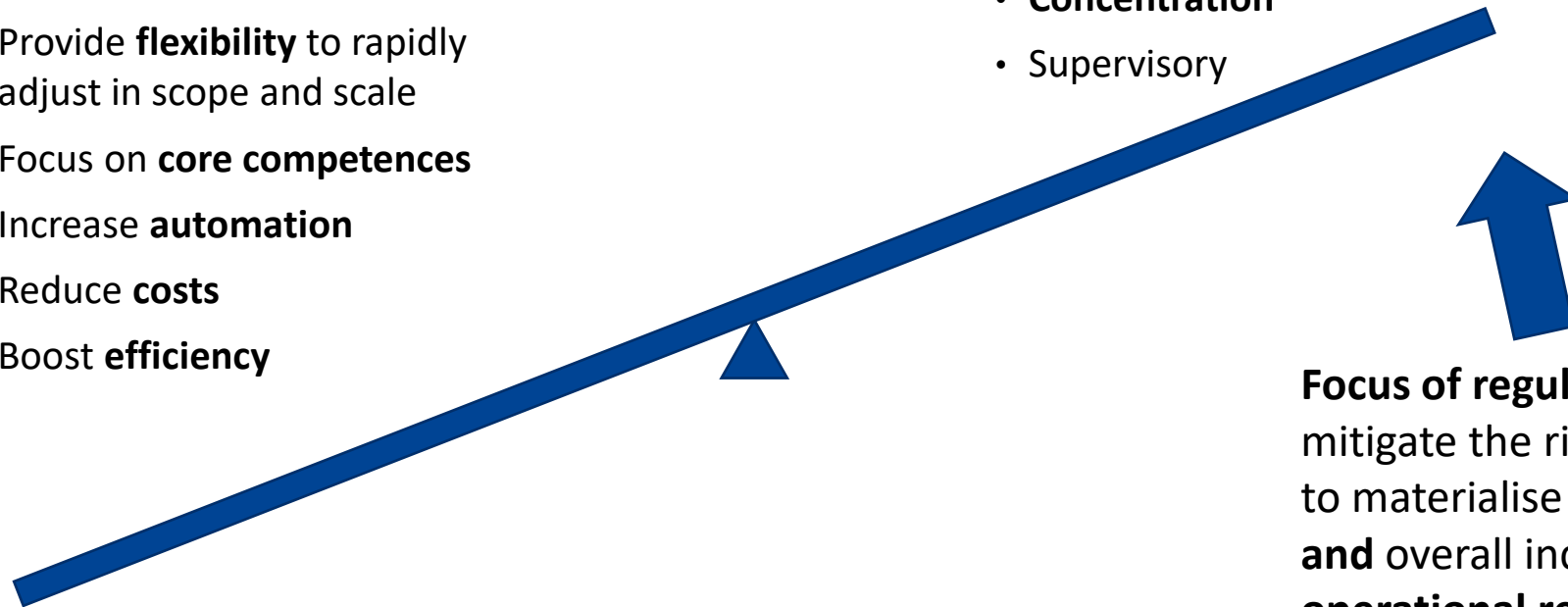
TRENDS IN OPERATIONS

- Bundling of services in **ecosystems** or outsourcing hubs
- **Big Tech and fintech** increasingly perceived as potential outsourcing partners
- **Partnership** between established providers and big Tech and fintech
- Post trade: **Increased connectivity** among systems and with market infrastructure

BENEFITS AND RISKS

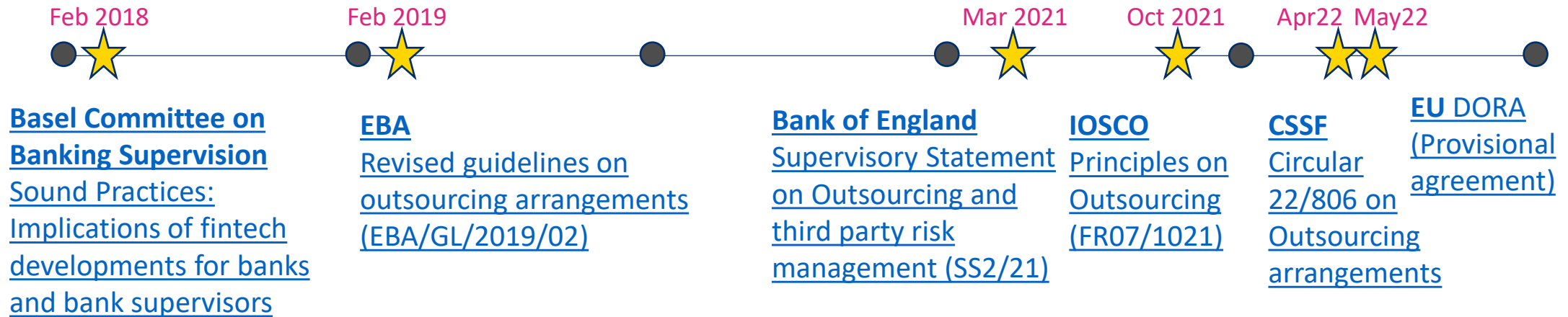
- Outsourcing can be a way to:
 - Drive **innovation** - facilitate access to new technologies
 - Access to **specialised resources**
 - Provide **flexibility** to rapidly adjust in scope and scale
 - Focus on **core competences**
 - Increase **automation**
 - Reduce **costs**
 - Boost **efficiency**

- While posing some potential risks and challenges:
 - Control
 - Data and technology
 - **Concentration**
 - Supervisory



Focus of regulation is to mitigate the risks with a view to materialise the **benefits** and overall increase **operational resilience**

WHAT ABOUT REGULATION?



- The entities retain **full responsibility, legal liability and accountability** for all tasks that they may outsource to a service provider to the same extent as if the services were provided in-house.
- Define expectations on **governance and record keeping**; minimum **contractual requirements** including data security, access, audit and information rights, sub-outsourcing, business continuity and exit strategies.
- Cover outsourcing to service providers located in **third-countries, intragroup** outsourcing.
- Integrate outsourcing to **cloud** service providers.
- Subject to the principle of **proportionality**

THE ESM PERSPECTIVE

- Strategic decision to rely selectively on Outsourcing
 - Allows access to capabilities that are not available in-house
 - Maintains flexibility in its operations
 - Better manages costs
 - Optimises the implementation of new capabilities
- Some examples:
 - IT fully outsourced from inception
 - Many applications hosted in private cloud
 - Murex as a Service
 - Post-trade services partially outsourced
- Latest developments
 - “Journey to the Cloud”, to move infrastructure to Public Cloud
 - Restructure the IT services into lots - Multivendor sourcing model
 - Monitor developments in post-trade space
- ESG and climate change
 - ESG defined as a key priority for the ESM
 - Starting to be considered in tenders
 - Advancing towards consistently include ESG in how we work



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