SOURCING TRENDS IN OPERATIONAL ACTIVITIES

ECB Operations Managers Group (ECB OMG)

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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

- 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.

¹ Circular CSSF 22/806 on outsourcing arrangements
² IOSCO Principles on Outsourcing FR07/2021
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
• 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

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

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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