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Wall Street & Technology

# Outsourcing Trends on Wall Street: Changing Attitudes

August 1, 2013
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**When considering outsourcing vendors, it is important to analyze the intangibles — to look beyond cost, schedule and compliance. The right partner should be of comparable size; for mid-size buyers, global brands most often do not translate to quality.**

Conventional wisdom holds that thou shall not outsource core competence. But these are not conventional times. When in living memory have operations and compliance groups grabbed the bulk of the budget and attention? Have they become, dare we say, core competence du jour? Perhaps not quite, but in a world where firms use third party vendors for everything from infrastructure to trading, from market data to investor reporting and beyond, the lines are blurry at best.

Technology, an area most commonly associated with the notion of outsourcing in the public mind, offers even less clarity. Does the mission-critical system's design, code, data, configuration, operational environment or any subset of the above necessarily constitute core competence or competitive advantage worth overpaying for? Firms are finding this question to be a lot less black or white, for a few good reasons. First, systems are increasingly complex and more often than not, by design include data and/or depend on functionality from third-party systems, often outside firms' control. Second, financial IT labor markets are red hot and personnel is increasingly dynamic. If a system's competitive value depends on the design embedded in a specific individual's head, it is a risk regardless of whether that person is employed directly or via third-party. Third, things simply change too fast. Today's secret sauce is tomorrow's dead weight, and betting the bank on a single point of failure is not smart.

So what should drive outsourcing decisions in this brave new world? On the infrastructure side, security, cost and customer service are the three key criteria to focus on. As far as development and operations go, it comes down to a few key points:

• **Efficiency**. Not to be confused with cost, which is a separate part of the story. A CTO and COO should lock themselves in a windowless room and ask a simple question: can we do this faster? As in, can we find, train, integrate and manage staff who will produce this piece of technology at top quality? If the CTO's answer is yes and the cost is high but manageable, then it shouldn't be outsourced. Yes, I'm an outsourcing vendor saying that if a financial client can do the project faster even at higher cost, they should not outsource. Pinch me. Speed of execution rules Wall Street IT. The problem is that it's a tough yes to get to – more on that later.

• **Sustainability**. Not so fast, says the COO. Now that the system is built, the fun starts in earnest. Let's go back to that room and ask ourselves – can we then run it reliably, maintain the pace of change, retain the key staff while keeping their R&D egos under control?

•**Compliance and security**. An author failing to mention these two in the list of key considerations – irrespective of the subject, really – deserves to be outsourced to Mechanical Turk. Jokes aside, clients should consider if consolidation in-house or outsourcing creates single points of failure, risk of information leakage or audit issues. Details are too numerous to list, but experience shows that outsourcing often is, on balance, a net plus for compliance programs, given vendor's scale, certifications and experience gained from multiple clients.

Efficiency and sustainability are tough criteria to attain. Wall Street is used to buying temporary staff loyalty each February, but the game has changed. Many brilliant financial software engineers privately wish they worked for Google, Facebook or the next shiny thing. A CTO needs a very high degree of confidence that the team he is building is genuinely interested in the product and not the paycheck to succeed.

Furthermore, outsourcing firms have gotten good – very good – and very fast. Their staff understands the business and has experience with similar systems. They have large, diversified resource base and are able to replace and re-train staff much quicker, as well as provide fast access to rare auxiliary skills such as UX, security testing and performance tuning. Their infrastructure is often more robust. And most importantly, they are easier to work with than ever before – a separate vendor management organization, PMO or different management process is no longer required, assuming the client's current staff has a bit of experience and an open mind. Outsourcing used to offer low cost at a high price of numerous operational compromises – it is rather opposite today, promising service that is faster and often better at a comparable cost.

When considering outsourcing vendors, it is important to analyze the intangibles – to look beyond cost, schedule and compliance. The right partner should be of comparable size – for mid-size buyers, global brands most often do not translate to quality. It is better be a top 10 client at a medium size vendor than an afterthought at a large one. The right partner will also be brutally honest – sometimes at their own expense. They will educate the client about the right way to go, their shortcomings, and will discuss project risks well before they play out. These things are next to impossible to find out from a paper RFP, but are really easy to see once the game gets going. Wall Street understands the language of risk and should not be afraid to experiment.

In a sign of changing times, there is no standard recipe as to what to outsource and what to keep in house. Virtually every IT project can be outsourced if the vendor can confidently check the boxes listed above.