



**WHITEPAPER:**

## **Front Office Outsourcing – Implementation Best Practices for Corporate and Investment Banks**

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## About the Author:

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# Front Office Outsourcing – Implementation Best Practices for Corporate and Investment Banks



## Introduction

Corporate and investment banks are increasingly leveraging offshore knowledge services to enhance the productivity and efficiencies of their front-office functions. Over the past decade, some of these firms have created significant offshore knowledge services platforms, which have helped them harness the potential of high-quality and cost-effective global talent pools and made them more nimble. The range and scope of offshored knowledge services have also evolved and expanded over time.

Unlike similar ITO/BPO initiatives, where implementation frameworks and processes are mature and stable, best practices for front-office outsourcing are evolving as both service providers and clients are gaining experience in implementing these initiatives across domains and market cycles. Copal Amba has been at the forefront of driving industry-best-practice for implementing such offshore knowledge services programmes.

This whitepaper, aimed at managers looking to implement such programmes at their organisation, provides our point of view on how to establish best practices, and details actual client experiences in implementing such programmes. Customers range from those that have rolled out these programmes in a structured and incremental manner to those that have dramatically restructured their existing operations by outsourcing end-to-end functions that were until then performed by specialised personnel onshore. The whitepaper also provides a step-by-step process for implementing such a programme, along with best practices to make these initiatives successful.

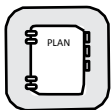
## Implementation Best Practices

Copal Amba has over a decade's experience in partnering with leading global Corporate and Investment Banks (CIBs) in implementing strategic front-office outsourcing initiatives. Over the years, we have built significant experience and expertise in transitioning complex front-office functions from clients' in-house teams, incumbent suppliers and clients' captive set-up across financial services domains and markets. In this section, we summarise approaches that programme managers can implement to ensure success of such initiatives.



### Senior executive sponsorship

Front-office outsourcing initiatives involve a diverse set of senior stakeholders in an organisation. Senior executive sponsorship is critical to building top-down momentum. Based on our experience, we believe an ideal executive sponsor is someone responsible for the business P&L and, in many cases, part of the firm's executive management. Such programmes also involve a change in the status quo for several front-office functions in their core areas for the first time. Therefore, it is important that individual business heads are also aligned to the programme's goals and objectives. It is practical to involve the Legal, Compliance and IT teams at an early stage as they play a key role in implementing such initiatives from an infrastructure set-up and controls perspective.



### Realistic three-year business plan

A realistic business plan will set the right internal expectations on outcomes from a front-office outsourcing initiative. While cost savings from such initiatives are intuitive and widely appreciated, setting up such a platform involves upfront set-up costs (dedicated IT and controls infrastructure, transition costs, travel, etc.) and time investments by various stakeholders (user departments, vendor management, Compliance, IT, ISMS, etc.). Based on our experience with other customers, we believe front-office outsourcing initiatives start generating cost savings within 6-12 months but take 2-3 years to provide strategic benefits. While the involvement of seniors within user departments is high in initial stages (typically the first six months of the engagement), it tapers off as offshore teams reach steady state. Any business plan should reflect this reality, with clear and realistic financial and operational milestones to track the success of such initiatives. As market conditions and goals change, the business plan should be flexible enough to accommodate these changes.



### Right offshore service partner

Selecting the right front-office outsourcing partner is key to ensuring CIBs derive maximum strategic benefits from such initiatives. The right partner will also reduce implementation risks and accelerate time to value. Within the broader outsourcing landscape, front-office outsourcing for CIBs is a very specialised area. While many Information Technology Outsourcing (ITO)/Business Process Outsourcing (BPO) firms offer these services, their

penetration and track record in this space are limited. It is important to have a focused set of initial shortlisted vendors based on their specialist capabilities so that the process for vendor selection can be made efficient and streamlined. Based on the nature of front-office services to be outsourced, managers can select the most effective approach to identify “best-fit” vendors. There are situations where the nature of services to be outsourced is extremely specialised and the choice of vendor for the initiative is evident. In such situations, a “rifle shot” approach to identify the right vendor can be considered and significant research done upfront to screen the most suitable partner. This approach will allow for the highest flexibility and speed of implementation, but may not yield the best price available in the market. In other situations, where the nature of front-office services to be outsourced is broader and there are multiple potential vendors, a “broad managed” process can be considered to identify the right vendor that will also provide the best economic value proposition.



## Efficient on-boarding and contracting processes

Many front-office outsourcing initiatives at CIBs get delayed on account of the time it takes to on-board a new vendor from a procurement perspective. It is important to get the go-ahead from procurement on the envisaged process so that the engagement kick-off is not bogged down by these processes. From a legal and contracting perspective, we have seen that it is easier to have a standard CIB front-office outsourcing vendor contract as the starting point rather than try to customise a typical IT/BPO contract for knowledge services. The standard vendor contract would have evolved through multiple experiences for such services and would hence take into account typical issues and safeguards that need to be put in place for such engagements. In many cases, a simple engagement letter that provides the scope of the work to be carried out by the vendor and other commercial details is usually adequate to get this going. It is ideal to ask for the standard vendor contract early on as part of discussions so that progress can be made in parallel to bring the engagement to a stage where it meets requirements of the specific situation.



## Effective solution design and building adoption with users

A front-office outsourcing initiative ought to achieve desired financial/strategic objectives in a way that minimises disruption and ensures user adoption. The outsourced support platform also needs to be able to adapt to changing market conditions. While this may seem obvious, very few firms actually take solution design seriously. Many outsourced support initiatives fail when the approach to solution design is simplified to just having junior analysts in a low-cost location and expecting it to rapidly mimic the original onshore process. The right CIB front-office outsourcing partner not only anticipates these challenges but also develops a comprehensive roll-out plan that mitigates them.



## Clear work scoping

Accurate scoping of the work prior to kick-off ensures the vendor and the customer know the roles they need to play for a specific engagement. Scoping of work is also important since many staffing and commercial aspects are related to responsibilities the service provider has to undertake. This also gives users of such services an opportunity to investigate the ideal way to leverage the outsourcing partner. In many cases, there might be an opportunity to leverage the outsourcing partner in a manner different from the original idea so that in-house staff can focus on areas that add maximum value. It is important to quickly bring users in front of the vendor's senior delivery personnel to iron out details. This allows the vendor to share best practices based on similar client experiences in order to shape the eventual solution. As a follow-up to the scoping discussion, the vendor can provide a mutually signed-off detailed scope of work (which clearly lays out roles and responsibilities of both parties), which can be made part of the contract with the vendor.



## Assembling the "best-fit" team

Mature vendors of CIB front-office services understand the most effective way to meet a specific requirement. In most cases, it is ideal to leave the process of selection of actual staff for the engagement to the vendor. The client should ideally focus on outcomes to be delivered and allow on-the-ground managers to determine the most effective way to address the requirements. However, the client should continue to provide training and insight so that the offshore platform gets more deeply integrated with onshore teams over time.



## Designing vendor SLAs

Designing service level agreements (SLAs) for supporting front-office CIB functions is tricky in many cases, especially where the work involves substantial judgement and cannot be codified to a pre-determined list of key performance indicators (KPIs). On the other hand, SLAs provide a framework to effectively monitor and govern a third-party engagement. It is important to design SLAs that are customised to the nature of services to be provided by the outsourcing partner. It is also important to have a narrow and focused set of SLAs so that the vendor and the programme manager can focus on right things to improve the service quality of the programme. In this context, it is important to have business users play an important role in designing SLAs so that they are aligned to their expectations and priorities.



## Tackling the infrastructure checklist early

Delays in setting up support infrastructure (dedicated IT connectivity, software applications, access to market data sources, etc.) are one of the key reasons for delays in implementing such initiatives. For users, it could mean loss of momentum and frustration at the initial stage of the programme. For the vendor, this could potentially push up costs as its team

waits for the support infrastructure to be put in place. It is very important to involve IT teams at an early stage and track the progress of such a set-up to ensure timely implementation. Similarly, it is important to plan in advance the range of data sources the offshore team would need access to so that it does not become a bottleneck in itself. For example, if the vendor's team needs a Bloomberg terminal, this needs to be identified in advance and planned for so that necessary tri-partite licensing arrangements are put in place in a timely manner.



## Assistance from incumbent vendor

In some situations, such initiatives may involve transitioning services hitherto performed by an existing provider to a new provider. Based on the nature of front-office services to be transitioned from the incumbent provider, its role can be equally important in ensuring the success of such an initiative. The incumbent provider may need to be specifically incentivised to co-operate with the new vendor during the transition stage. This could specifically relate to providing access to its employees to facilitate training and knowledge transfer to the new provider, facilitating hiring of key employees who have specialised knowledge of the process to the new provider, etc. Any incentives to the incumbent provider to facilitate the transition should also be appropriately factored into the business plan.



## Managing the first three months of the engagement

Based on our 10+ years' experience implementing such initiatives at CIBs, we have found that the first three months of an engagement are the most volatile, for both the customer and the outsourcing partner. Many practical issues faced early on relate to delays in setting up supporting infrastructure, push-back from users of these services who are content with the status quo, a mismatch in skill sets (for instance, the vendor personnel assigned to meet a specific requirement may be too senior or too junior for the role in question, which results in low morale or a high level of frustration), attrition and initial hiccups regarding the quality and/or turnaround time because the vendor's team needs time to become familiar with analytical practices and methods of users of these services. Having a robust governance structure where senior executives from both sides participate in a spirit of partnership goes a long way in addressing these teething issues in an effective manner and smoothing out implementation. It is important for both parties to communicate transparently and proactively so that issues are identified early and addressed effectively. The role of programme managers becomes vital in this context as they serve as a link between the offshore partner and the offshoring entity.



## Ensuring long-term value and relevance of these initiatives

This is a key, yet underappreciated area, which deserves significant attention to keep the front-office outsourcing initiative relevant over the longer term. As the initial enthusiasm towards/attention on new initiatives diminish, many such initiatives begin drifting. In some cases, individuals associated with the initial programme (on both sides) move on to take up new roles, and new personnel get involved in the programme. It is important to ensure an ongoing, two-way dialogue so that such programmes remain relevant through market cycles and as business strategy and needs evolve. It is also important that users and vendor delivery teams meet in person or through video conferences and build a rapport over time so that the teams can be more deeply integrated.



CIBs are increasingly taking a strategic view in implementing front-office outsourcing initiatives. In many cases, such programmes involve multiple domains (research, investment banking, sales and marketing, compliance, commercial banking, etc.). The complexity in the implementation of such programmes lies in ensuring individual needs of diverse business units (across domains) are effectively met by the outsourcing partner, which in turn has requisite skills to handle their specialist needs. In the next section, we have detailed a case study of a leading mid-market investment bank that implemented such a programme over 12-18 months

### **Strategic outsourced front-office support platform for a US-based mid-market investment bank**

A US-based mid-market investment bank wanted to set up an enterprise-wide strategic offshore knowledge services platform for investment banking and research support to lower operational costs and increase flexibility. The client wanted to free up bandwidth for onshore teams to focus on higher-value-added areas by having the offshore team take on more routine tasks previously performed by these teams



### **Implementation Highlights**

- 1 Clear programme objectives and commitment:** The president of the corporate bank drove the front-office outsourcing strategy and established clear three-year goals for the programme. Key elements of the strategy were to create a variable cost structure, free up in-house capacity for value-added activities and generate meaningful cost savings while ensuring phased and disciplined implementation of the programme.
- 2 Senior executive sponsorship:** The head of the firm's brokerage business was the executive sponsor for the engagement. He ensured that business leaders across investment banking and commercial banking were actively engaged in the entire process – vendor selection and due diligence, solution design – work scoping and transition and governance
- 3 Upfront involvement and effective co-ordination among diverse client stakeholders:** The client appointed a dedicated programme manager to drive the implementation. The programme manager was effectively able to involve diverse stakeholders within the firm (IT, ISMS, Compliance, legal, etc.) to ensure proper diligence and support for this programme and accelerated implementation

**4 Effective solution design:** A structured approach to an effective solution design involved senior managers from Copal Amba travelling onshore to the client location and interacting with business leaders and domain counterparts (on the client side).

**5 Ongoing and open communication:** All individual businesses involved in the programme engage in open and honest communication regarding their respective engagements' progress. An effective multi-tier governance structure has been put in place, which involves delivery supervisors and users, delivery management and programme managers, as well as quarterly governance calls with senior management at Copal Amba and business heads to guide the overall engagement.



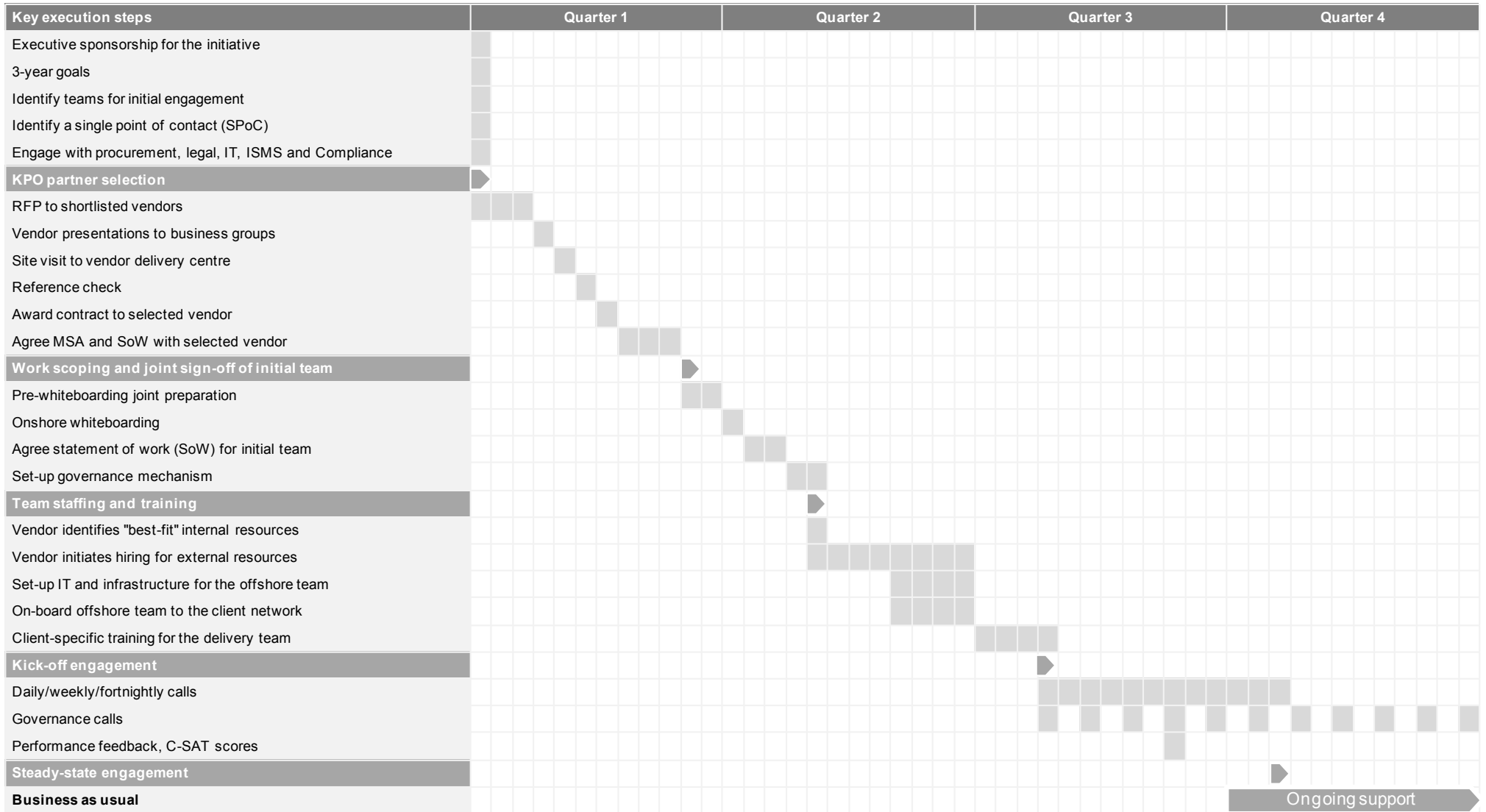
### **Client Outcome**

Over 18 months, the bank was able to successfully set up a 50+ FTE offshore engagement supporting its equity research, investment banking and commercial banking businesses.





# Implementation Steps and Timeline



Lift and shift of operations refers to the transition of end-to-end responsibilities for specific CIB front-office functions that were thus far performed onshore to the outsourcing partner delivery team. While the cost saving potential for such a programme is obvious, the complexity of implementation is substantial. There is the risk of a drop in both service quality and user satisfaction while the outsourcing partner comes up to speed with onshore team practices/methods and becomes familiar with users and their preferences. In many cases, such a programme also involves onshore job losses, which further complicates implementation.

The success of such an initiative requires detailed planning and management oversight to manage several inherent and obvious unknowns. In the next section, we have illustrated a case study of a 12-month implementation plan and steps to successfully execute a lift-and-shift programme.

### Lift and Shift of Research Production for a European Investment Bank

The customer, a Europe-headquartered investment bank, wanted to reduce in-house research production staffing and costs without loss of quality and service levels by transferring the entire research production platform to Copal Amba. The engagement involved a six-month preparatory phase and a three-month implementation phase.



### Implementation Highlights

- 1 Senior executive sponsorship and clarity of goals:** The front-office outsourcing initiative was in response to business imperatives in the brokerage business – depressed trading volumes and low asset prices. The client wanted to divest a range of non-core processes that were hitherto being performed onshore to an outsourcing partner to achieve significant cost savings. The head of the client's global equities business was entrusted the responsibility of driving the programme, which was being monitored at the board level in the bank.
- 2 Focused vendor selection process:** The client's programme managers spent time ahead of the engagement researching prospective vendors that had the necessary track record and reputation, customer base, management depth and domain capabilities to meet their requirements. They narrowed the short list to three prospective vendors and ran a tight selection process to choose their outsourcing partner. The process included an on-site due diligence of the prospective service vendors and a competitive trial process (spanning the range of services being outsourced) between the top two vendors. Copal Amba was finally selected as the partner for this engagement.

**3 Pre-announcement preparation and planning:** The client's programme managers and the Copal Amba transition team spent significant time planning and preparing for the engagement in order to minimise disruption to existing users on account of the programme. The programme managers engaged with Copal Amba's transition managers to set up the IT and support infrastructure for the engagement, exchange existing documentation/work output on processes to be outsourced and fine-tune the engagement structure, as well as with the Copal Amba team for the engagement.

**4 Clear internal messaging of announcement:** The client's programme managers had a clear strategy and approach for internal messaging of this initiative to existing users, specific individuals directly impacted by the decision, and other stakeholders. This ensured there was common understanding of the big picture behind the programme, which helped the Copal Amba and client teams work together effectively towards the desired goals.

**5 Effective knowledge transfer:** A senior transition team of Copal Amba delivery managers and domain specialists travelled to the client location to meet users and perform knowledge transfer with the existing team that was hitherto performing the operations. The Copal Amba transition team codified knowledge gained during this process into standard operating procedures, which were jointly signed off with the client.

**6 Parallel run to ensure quality levels:** The Copal Amba team spent upfront time in a parallel run, where it replicated the onshore team's process of creating deliverables. The experience gained during the process was used to fine-tune the solution design so that the move offshore did not disrupt service for users.

## Client Outcome

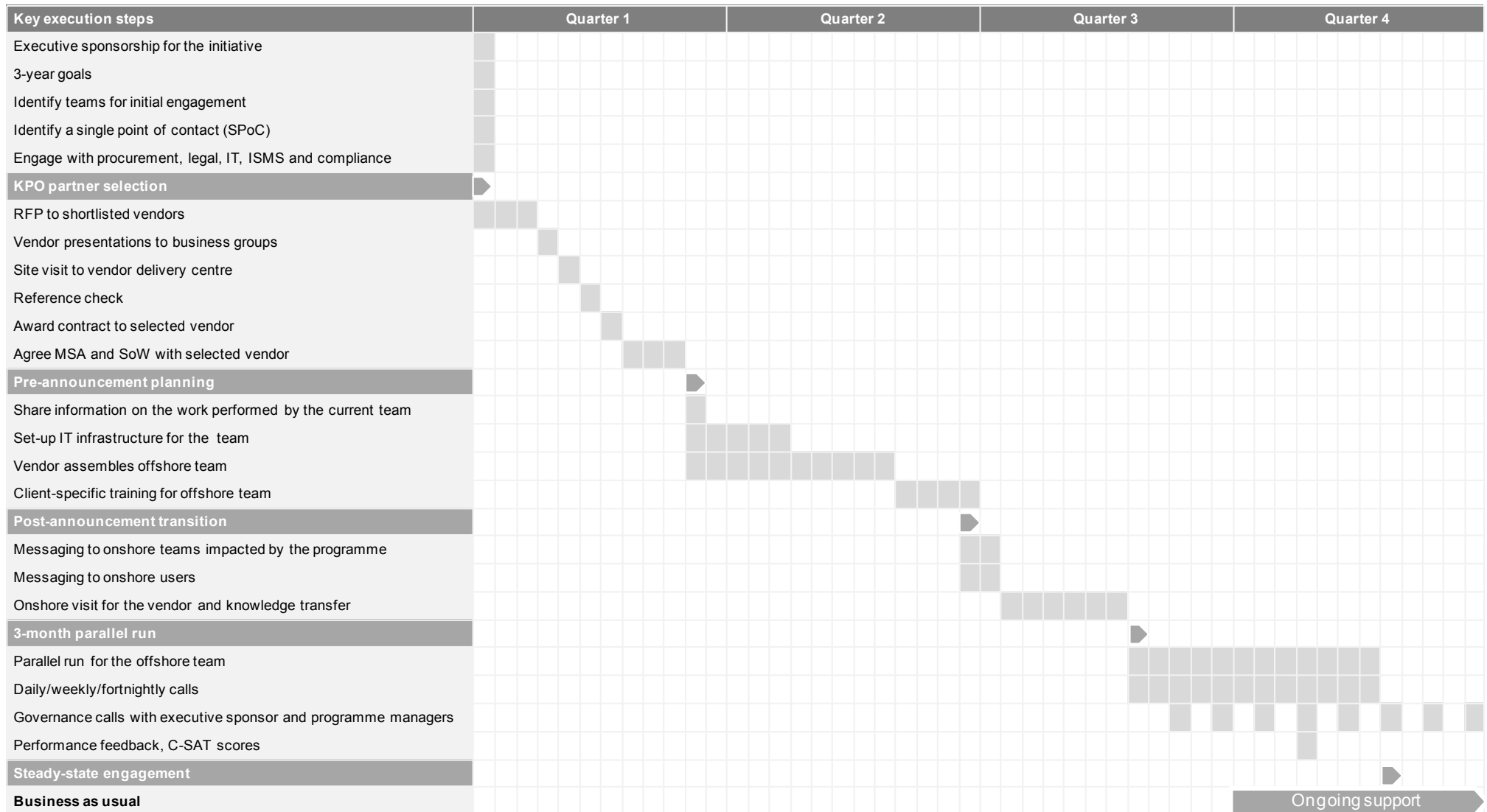


Transitioned an 11-member research production team in three months. Other than the supervisory analyst function, the entire research production, spanning editing, publishing, technology and operations support, is now handled by the offshore team.





# Implementation Steps and Timeline



For more information email us at

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#### **About Copal Amba**

Copal Amba is the leading provider of offshore research and analytics services to the global financial and corporate sectors. We have consistently been ranked #1 in our space by multiple independent customer satisfaction surveys. Our clients include leading bulge-bracket financial institutions, Fortune 100 corporations, mid-tier companies, boutique investment banks and funds.

We support over 200 institutional clients through our team of 2,900 employees. Our 7 delivery centres are located close to our clients and in proximity to scalable talent pools. Our clients have saved over USD1.5 billion over the past 11 years by using our services to enhance front-office efficiency.

Copal Amba's majority shareholder is Moody's (NYSE: MCO).

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