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Industry Leader Roundtable
Advice on the High Regulatory World of Financial Services
Part II

In part II of this two-part interview, Frank Casale, Founder and CEO of the Outsourcing Institute sits down with Peter Iannone of Alsbridge and Gene Chao of CSC to offer insight and advice for Service Providers in the high regulatory world of Financial Services.

Frank: Peter, I want to pick your brain. You advise many deals, what is your advice for service providers in this high pressure, regulatory environment? What could a service provider do to make themselves more appealing and more applicable to nervous buyers?

Peter: Everybody in the financial services market should have read the OCC bulletin. I am surprised that service providers don't know some of the regulations. Everybody is focused on their specific markets. Providers try to comply to something that no one has sat down and read; even the risk guys don't know what the bulletin says. We have put together slides that say, "Here is what the OCC asks. Here is what you need to do to comply."

Gene: This is a hot-button issue at both the individual and corporate levels. We made a very controlled effort into these next gen services. Whether it's storage as a surface, keeping with the physical architecture, making it virtual, or just focuses around our side offerings or credit card processing, etc., we focused on the technical and traditional IT aspects of those solutions. But to your point about regulatory and compliance areas, we still have a lot to keep focused on ourselves.

For instance, we had a major client before we went live. We said, "Hey, what about PCI compliance in a credit card environment?" Time out. There were hiccups and hurdles along the way. We are learning to find our way. We're stuck in an interesting pathway right now. We're in an environment where everyone is still focused on moving to the “third platform,” the social, the media, the analytics, the Cloud, but we find our clients have to leapfrog into what we call the “fourth platform,” which is really the business architecture. When it comes to regulatory compliance, the industry-specific solutions must wrap around the technical solutions. The speed to market is 100 percent reliant on compliance.

Frank: What impact do you see this focus on being compliant, mitigating risks, mitigating fund having on a destination solution selection? Off shore? Near shore? On shore?

Peter: It’s not necessarily the same regulation, but the safe harbor and where you can store data. The complexity of things, like the Cloud, as you said earlier, comes when we ask the following question: where is that data being stored? Right? So, there’s going to be a lot more scrutiny on those types of things. We find that in some of our bids with banks, we ask the suppliers, “You have proposed this very nice solution that includes some Cloud offerings or virtual offers, so where will the data reside?” You get a lot of stares, and the response goes something like, “That’s the whole point. We don’t know.” This stuff is great from a financial model in terms of it being super optimized. There is no audit trail on where some of the data is--at least it’s not easily accessible. That becomes a very big barrier to suppliers getting some of that innovation until that’s solved.

If you segment it, certainly the larger banks with the bigger budgets are focused on this. I think the regional banks are going to lag tremendously, but as the technology changes, they may leap frog. It will be interesting to see where that shakes out in three or four years. Back to the government and regulation. I think the mistake that some people are making is thinking that just because they have thought about it or even looked into it more, doesn’t mean they are compliant. An outside party should validate what a bank is doing, so if the regulators come in and they see a third party is involved, there is a lesser likelihood of a fine.

Frank: So, where do you even see the opportunities, challenges and/or risks? Of course it depends on the scenario, but generally, what are we looking out for? What are the biggest topics you are seeing out there; where do these possibilities lie?

Peter: There’s not a client--from the chief risk officer to the VPO to the CIO--who is not focused on vendor management, third party management, and OCC and FDIC regulations. The IT world is experiencing the same scrutiny. There is the risk of downstream if one of your suppliers is a major part of your third party relationships. Their suppliers have to abide by the OCC regulations. It flows. What the OCC is saying is to ensure to protect the bank and protect the customers, so you need these issues to be covered in contracts in order to continually monitor and manage.

Frank: The OCC regulations were recently announced in an October 13, 2014, bulletin. What should service providers draw from it when working in banking?

Peter: The OCC regulations really center around three things. First, have a continual monitoring of the suppliers and the services they provide. If you have a supplier that's filing Chapter 11, you should probably know. Second, have proper service and contractual terms. When most of us do transactions, we have proper service levels spelled out--termination for cause, convenience, change of control, however, the mass amount of contracts that have been done with banks don't cover such things. Third, have external people come in and validate the terms have been defined. It's not good enough just to say, "We have some of these terms covered in there." Just because you are aware of it and are working on it, doesn't mean you are in compliance. Have a third party come in signals to the OCC that you're on it, and decrease the likelihood of a fine.

Frank: I am seeing banks that had a sizable preferred vendor list doing a lot of multi-sourcing over the past decade. They really seem to be shrinking down to cut up a long tail to mitigate that risk and minimize the cost for the oversight. From the service provider side, how has this increased pressure of complexity, uncertainty, and doubt impacted your ability to provide a solution?

Peter: Supplier consolidation is more of a cost play. A lot of the banks over the last few years have gone a lot of staff augmentation, and app development. They had four, five suppliers and narrowed it down to two or three suppliers. Now they're saying, "at five thousand at staff augmentation, I really need to get into a managed service environment." So now it's goes from consolidation and go back to try to repatriate some of this or get an outsourcing contract on it, because managing five thousand contractors is kind of crazy.

Gene: When I look at contract renewals or new contracts, I notice a dichotomy. In one camp is the vendor, who says, "I am going to hold you to every letter of the contract." In the other camp, there are those who have the desire to find a provider that can be a true partner-that partner is embedded in the business and sees the big picture. While it sounds soft and idealistic, when it comes to operation performance and financial performance, the need for a partner drives a tremendous amount of behavior at a technical level.

Right now, it's a conflicted market when it comes to figuring out how to behave against a CSC or any market. There is more conflict there, like how does innovation play into this? Banks are now separating business as usual from "innovation buckets." They are no longer saying, "Inside this annuity deal, achieve innovation." Instead, they're saying, "Forget about it. Run it cheaply. Run it well." In some cases, cheaply and well don't mix so they will accept a level of performance for a better level of cost. Innovation budgets are separate. I don't know yet that it's gone well yet, but they are at least trying to say, "Focus there."

To read part I of this two-part interview, or for other information on this or other outsourcing & technology topics, visit us at www.Outsourcing.com