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p-Technology

Outsourcing IT a don't-do-it-yourself solution

Financial services firms are turning to companies that specialize in technology rather than building this expertise in-house

More and more, financial firms and brokerage houses are moving away from the old adage: if you want it done right, do it yourself. Indeed, when it comes to information technology, the financial services sector is turning increasingly to outside companies to provide them with the services and the technology they need to compete at home and in a global marketplace.

There are a number of advantages to outsourcing. First and foremost is access to expertise, says Arlene Driscoll, vice president of marketing with ADP Brokerage Services Group in New York, which provides transaction processing and information delivery services to the financial services industry around the world.

"We are the [technology] expert," Driscoll says. "This is our business. We do it extremely well. A brokerage firm is an expert at providing financial advice."

According to a 2000 report by Dun & Bradstreet Canada, outsourcing is big business in the Canadian economy. Canadian companies spent an estimated \$66 billion outsourcing last year, a 19% increase over 1999.

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About 70% of all Canadian companies have been outsourcing for more than five years and 29% of companies say they have increased the money they spend on outsourcing. Another 24% say they expect to outsource more, as much as 10%-20% in the coming year.

Globally, outsourcing is a \$1-trillion market. Information technology, logistics support and new media services are the areas financial institutions most often outsource.

Greg Nordal, president of Dun & Bradstreet Canada in Toronto, says, "Business conditions in the U.S. and Canada are very dynamic, and outsourcing remains a viable and financially prudent strategy – for both small and large companies. Changing competition is forcing Canadian industry leaders to rethink their allocation of dollars and concentrate on ways of managing their non-core competencies in an integrated and seamless strategy. Outsourcing is often the answer."

In the past year, the financial services industry has done a number of outsourcing deals worth millions of dollars (see accompanying story), several of them centred around information technology. There's probably going to be more because of the fast pace of change in technology and the high cost of upgrading and maintaining leading-edge IT tools.

Jean Robillard, media relations and financial communications officer with the National Bank of Canada in Montreal, says, "To understand how technology works nowadays, you have to have a very clear vision of what is implied. If you don't have this knowledge, you had better go with someone who has."

Even if you have the vision and the expertise in-house, brokerage and financial firms are finding it hard to locate and retain qualified IT workers. "These are high-demand skills that tend to be nomadic. Retention can be difficult," says Paul Lovell, business unit executive with IBM Canada Ltd. in Toronto.

"If you want to keep good people with good expertise, you will need to provide them with challenges," adds Daniel Rocheleau, executive vice president and chief business engineering officer with Montreal-based CGI Group Inc., the largest Canadian-owned IT service company. "When a project ends many internal IT people leave for another project in another company. Within IT companies, they just move to another project."

Rocheleau, whose firm recently acquired Star Data Systems Inc., adds that keeping up with changes in the technology arena can also be a major problem for brokerage houses whose primary areas of expertise lie outside this arena. "Technology evolves at such a rapid pace. It is so diversified and complex. Companies rely on other companies that have the breadth and depth to support them," he says.

By outsourcing, financial institutions should also be able to access the most current technology and speed to market for new applications. Outsourcing firms will routinely invest in "evergreening" or keeping it current, notes Rocheleau. "Every two to three years you have to reinvest in technology. The IT partner will do this [for you]," he says.

If a financial institution wants to bring a new application online, it can take immense resources, both human and financial. It also takes time. "We build robust technology quickly. It reduces the cycle time," says Lovell. "The outsourcer," he adds, "doesn't have to invest in infrastructure. They share in that cost with other customers."

Such economies of scale are a key factor in determining whether you should outsource IT service, says Brent Townshend, vice president of operations with the Investment Planning Council of Canada Ltd., based in Toronto.

So what should a brokerage, distributor or financial institution look for in an outsourcing company?

n similar thinking: "You need to have a partner that looks at the business the

same way as you do," says Rocheleau. "This takes time. You don't decide one day to outsource." You may not even decide in a year. Count on spending 12 to 15 months looking at outsourcing and outsourcing firms, says Nicholas Hames, vice president of financial solutions division with NCR Canada Ltd in Toronto which recently struck an outsourcing deal with Royal Bank of Canada.

n stability and reliability: One of the things you will need to evaluate is the stability and reliability of an outsourcing firm.

"You will want to have the confidence that if you outsource your back office [or any other function of your company] that your outsourcing firm is going to be there in five years," ADP's Driscoll says.

"These are long-term relationships," Rocheleau stresses. "You will want to outsource to a company that has a strong balance sheet and very few debts, and one that can afford to reinvest in new technology."

n reputation: Look for an outsourcing company with a solid reputation – even if you don't end up using its products. "I'm affiliated with IBM [Corp.], a trusted brand," says Lovell. "[But] that doesn't mean if the customer does not want to use the IBM product, we are going to push that down his throat. It's always the decision of the customer."

More and more customers are deciding to go with an outsourcing firm. At IBM, outsourcing to the company's Web-hosting division has grown 80% year-over-year for the past few years. That growth, says Lovell, is forecast to continue until at least 2003.

The growth of outsourcing is just the beginning, says Jay Cashmore, president and CEO of Toronto-based Ezenet Corp., a business solutions and integrated technology provider for the financial services industry. "We hope that it's the thin edge of the wedge," he says. IE

MEGA OUTSOURCING DEALS

IT outsourcing continues to grow. Here are some recent outsourcing deals in the financial services sector.

- Jan. 8, 2001: NCR Canada Ltd. won a seven-year, US \$172-million outsourcing agreement with Royal Bank of Canada. The agreement – the first of its kind in North America – calls for NCR to assume complete operational management of the bank’s self-service network, which includes more than 4,700 ATMs. “We see this as a growth business,” says Nicholas Hames, vice president of NCR’s financial solutions division WHERE.
- Dec. 5, 2000: AMA Financial Services Ltd. and its subsidiary Bridgewater Financial Services Ltd., both Calgary-based lending institutions, acquire a licence for two of Ezenet Corp.’s mortgage solutions.
In return, the Toronto-based business solutions and integrated technology provider will supply ongoing technical support and, under a custom development contract, will integrate the mortgage processing into the broker network for securing new business opportunities.
“It is very important that our partners have a proven track record. We chose Ezenet’s services because of its long-standing involvement with our industry and its proven ability to accommodate our business demands,” says Gerry Wagner, vice president of finance at AMA/Bridgewater.
- Oct. 24, 2000: New York based CIBC World Markets Corp., a division of Canadian Imperial Bank of Commerce, re-signed a multi-year contract to outsource its securities transaction processing to ADP Brokerage Services Group, a division of Automatic Data Processing Inc.
“ADP has always been able to provide the strategic products and services we need to meet our long-term business goals,” says Michael Weiss, managing director of operations, CIBC World Markets.
- Feb. 2, 2000: National Bank of Canada and Cognicase Inc. have signed a deal that will see Cognicase, a North American IT solutions firm, become “the preferred IT supplier of the bank and its affiliates for a period of 10 years.” In return, the bank will own 35% of the Montreal-based company’s shares.
“We wanted Cognicase to work in a privileged way with us. This relationship ensures us of an immediate link to Cognicase,” says Jean Robillard, media relations and financial communications officer with National Bank in Montreal.

-Donalee Moulton