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## **MANAGED SERVICES IN SECURITIES FINANCE: THE NEXT WAVE**



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**To gain an advantage in an environment of increasing competitiveness, financial market participants must build forward-thinking business strategies. Within the securities finance and collateral management sector in particular, one key decision is whether to manage solutions and resources in-house or via a third party.**

Many firms already outsource in one form or another for needs such as office space, telephones, ISP and communications lines. Even within the financial services industry, the idea of contract and billing services, collateral tri-party management services, and analytics are well established and widely used with great success.

We are now seeing a similar approach to the more traditional software model, where managing the trading life cycle is becoming part of the service model rather than a finite delivery of a packaged product. This allows for a more effective, future-thinking approach with scope to develop and provide additional services around this in a more risk-mitigated way.

To understand where the industry is now and what the likely developments are, it is worth examining the path that led us to this point and the key milestones in the cycle of technology solutions.

As always, these trends are driven by business needs, costs and suitable resources. Back in the early days of large scale business IT, service bureaus were an ongoing presence in the market. The reasons to use service bureaus were simple: hardware and expertise were incredibly expensive, and being able to provide services in a collective way allowed a greater number of firms to participate, thus reducing the cost of ownership. This could be described as the first wave of business IT.

Then a drastic change occurred: the cost of hardware fell dramatically, due in part to the large scale sourcing of electronics in the Far East using cheaper product development locales. Educational trends focused on skills in information technology, and the majority of deliveries evolved to the point where the idea of an underlying large-scale, skilled workforce became the norm.

Businesses invested heavily in building solutions in-house, which they then adapted to take advantage of the connectivity of the local and later Internet-based networks provided by third parties. This was the second wave of business IT management. The focus was on developing services in-house, while specialist software firms provided silo-focused products as well as the infrastructure and management of data.

Now we are in the stages of the third wave of evolution for business IT. This slowly developed as we moved from in-house management to data center-based solutions, especially among the larger players. I would argue, however, that we have more recently seen a move to the much more explicit delivery of solutions as a software as a service (SaaS) or cloudbased format from the start, not as an extension of an existing platform.

The trend towards outsourced solutions and services builds upon the bureau model and specialist applications and resource expertise of the past – and closes that circle. The idea of a fully interconnected environment is now integral to any serviceoriented delivery plan in today's business environment and an isolated environment is the oddity or based on specific reasoning.

There are a number of analogies of how business is now taking the lead from a more consumer-focused lifestyle. For example, consumers can now use mobile apps to deliver groceries and stream the latest movie, completely avoiding the need to visit a grocery or video rental shop, and in the latter case almost completely wiping out this section of the retail market.

Just a short while ago this would have been unthinkable, and as we become accustomed to this type of experience in our personal lives, our business expectations are following suit. We already see the proliferation of cloud-based solutions; Adobe is one example of a company transforming from an intensive, resource-heavy client-side product to a cloud-based management tool.

Driving this new wave of solutions are managed services such as SaaS and cloud . Managed services differ in several ways from the established data center of the previous wave by incorporating these crucial elements:

- Lowered total cost of ownership and management of the single cost-based approach.
- License transparency and adaptable licensing models.
- Scalability and the ability to easily add and take away services as the need arises.
- The provision of specialist services onsite, offsite, near shore and offshore.
- Industry and application expertise.

The managed services model is now becoming much more prevalent in the securities finance and collateral industry, giving firms the ability to concentrate on their core business.

And where to next? As we move through this third wave, I believe we will start to see much more traction across vendor delivered business process outsourcing. Perhaps even industry business process outsourcing utilities will evolve, which will bring the relationship between service provider and business execution to the forefront. Alongside this is the software experience itself and the amalgamation of service with delivery with zero footprint or connectivity overhead.

Planning for the future is key. As the trend of using SaaS and cloud-based solutions accelerates, the industry's focus must be on providing adaptable models that make it easy to address business needs. By learning from the past, financial organizations can build a strong foundation for future success and remain competitive in the marketplace.

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