

Welcome to April's edition of the Bulletin. I have been trying to work in the admittedly rather obscure punch line – “third time lucky, as Italian politicians say” – into this month's script, but without success. Further evidence, if required, that I should give up any ambitions to be a comedian and stick to what I know best ... consulting. So this month's condensed tour of the financial world will be “Berlusconi free”, and instead will look at amongst other topics - is the credit crunch accelerating a latent trend to more intelligent outsourcing, and why there is a silver lining to T5?

Trendy outsourcing?

As consultants we are always on the lookout for trends, in particular the strong under-current type of trend that has real staying power, but is hard to spot until it has you in its grasp and you can't do much about where it takes you. Not for us the very visible, breakers crashing onto the beach that look great but don't last long and are really only useful for full-time surfers. Well, back on dry land – the water really is still too cold at this time of year! – and rereading that first sentence, I would like to rephrase it as “on the listen-out for trends” as I find one of the best ways to get below the surface noise is listening to a range of views from people involved in the market place from a range of angles and picking out the common factors.

Take for example, the view of the CEO of one of our alliance partners. He, like no doubt many of you, had read Vikram Pandit, the incoming CEO of CitiGroup's [interview in the FT](#). As he said Pandit sure picked a fine time to take the helm of the banking behemoth. In the interview, Pandit vowed to slash the bank's cost base by up to 20%, deepening fears that Wall Street and the City of London are about to be hit by tens of thousands of additional job losses.

What my counterpart the CEO hears in this is not just the pounding surf of job losses, or, to mix the metaphors, sees the employment tide receding up the beach, not set to return for a few years. Instead he sees the stronger trend of large institutions seeking alternatives to running expensive in-house technology operations. In his view market disruptions such as the current credit crunch could yield opportunities for those firms that provide niche technology platforms through managed services. What he had heard was Pandit indicating that cost savings would not only come from cuts to Citi's 370,000-strong workforce, a potentially short term fix, but also from significant IT improvements and a deeper focus on core businesses for longer term benefits.

This message is re-enforced from other viewpoints – from a recruitment contact who now concentrates exclusively on a fast growing business of finding people who can manage the complexities of more sophisticated outsourcing arrangements for firms, to a fellow consultant who now specialises in helping market utilities set up shop, or research from sourcing advisor TPI who see a possible US recession as an incentive to outsource and see a growing appetite for industry-specific BPO. TPI postulate that instead of looking at generic accounting, HR and payroll outsourcing, firms, in particular financial firms, are taking a more vertical look at things — claims processing for insurance or mortgage processing – which

bundles technology *and* operations. As they point out, it is a much more strategic direction for companies to engage a third party to provide those sorts of services.

Such services are now proven in areas such as enterprise data management, business process automation, areas of finance such as accounts payable, commission sharing and client reporting. So then firms, such as MPIE alliance partner [Kurtosys](#) which provides a managed platform for data management and reporting, may find fertile hunting ground in those institutions that are cutting back on large in-house technology overhead. I would be interested to hear your view?

T5 – a helpful shorthand

I do sympathise with people caught up in the recent well publicised problems of the launch of London Heathrow's Terminal 5 (T5), but for those of us tasked with running large programmes in the financial sector it is actually quite helpful. Let me explain. Just think, the next time someone on the steering committee suggests that thorough testing of the final "cutover" activities of a long running programme is a waste of money given all the work that has been done so far, the programme manager can simply say "Oh, you mean just like T5?". Instantly everyone round the table, or even on the other end of the video conference in another continent, will remember and understand that this is not a set of tasks to be treated lightly, or indeed that there are significant risks in trying to do this phase on the cheap.

This link to risk is particularly important as many activities in financial firms are around getting the correct balance between risk and cost. However, whilst the current cost is usually clear, all too often the risks are understated, or not well understood – this can be neatly summed up in another current shorthand phrase "sub-prime". So it is a matter of balance and T5 will be a useful phrase – in the short term at least, before it is overused - to open up a more considered discussion of a programme's risks, so a better balance with cost can be struck.

Using the past to understand the present

As Victor Hugo once wrote "An invasion of armies can be resisted, but not an idea whose time has come." In the 1800's he was obviously not writing about the impact of current European financial regulation, but the principles he is expressing are still very relevant and can help us make some sense of the latest debate being played out on blog sites such as Finextra.com.

The detailed debate is too rich to present in full in this bulletin but at a high level the protagonists split into two camps. Firstly there are those that see SEPA/PSD, MiFID etc as invading regulatory armies to be resisted, whilst the others see them more as a reflection, probably an imperfect reflection, of the changing underlying ideas of how markets operate. For this second group resistance against the detailed regulation is largely irrelevant, they are looking to gain compliance and then move on to explore and exploit the common ideas, challenges and opportunities around transparency, wider market access, speed of execution, and new market venues.

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Whatever side of the debate you think is correct, there is no doubt that these new challenges and opportunities exist. Take the proliferation of exotically named market players - Chi-X, Turquoise, Rainbow, SmartPool, Virt-x, PLUSMarkets, Liquidnet, Millennium, BATS Trading, Equiduct - bidding for a piece of the fragmenting equity trading business. There are similar structural changes in payments and retail banking markets and as with any new ideas there are those in favour or those against. Indeed in some quarters there is a fear of anything new, but like those underlying, under-current trends we talked about earlier, the time has come for some ideas and the key task is to spot these ideas early enough to ensure you are positioned to take advantage of them. Finally, since we started this section with a quote, it seems right that we should end with one, so I will give the last words to the US composer John Cage. As he said "I can't understand why people are frightened of new ideas. I'm frightened of the old ones."

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