Outsourcing vs insourcing: is there another way?

Clifford Norton and Gilles Pelosato of AssetMetrix explore the key drivers behind both outsourcing and insourcing, and explain how technology-as-a-service can offer an alternative path.

Perhaps one of the oldest and most hotly debated questions when it comes to private capital fund operations is deciding whether to outsource or insource.

Both models have gathered staunch supporters on either side, with team outsource purporting the benefits of relying on external expertise, the ability to focus only on core competencies, and perhaps most importantly - charging the costs to the fund. On the other hand, supporters of the insourcing model laud total control over their processes and data, particularly potent in the private capital space where control is the name of the game.

But could the benefits of both the outsourcing and insourcing model be had? Can you have your cake and eat it?

Here, we explore the key drivers and considerations behind both outsourcing and insourcing, and provide a case study of a UK-based VC that has adopted technology-as-a-service.

Quick scale

Private capital funds tend to outsource their back and middle office processes in order to scale faster. But, often managers find they struggle to efficiently respond to the increased demand for information from investors as they do not have direct access to their data.

In response to this, managers often bring in software so they own their data and can access it instantly. However, this can cause inefficiencies when it comes to extracting data out of that system, or from multiple systems, to then present to investors.

Automation

According to a recent survey we conducted in collaboration with Brackendale Consulting, 68% of LPs said the GPs they have commitments with were slow to respond to requests as they were reliant on manual processes such as Excel. This confirms adoption of data automation is still lacking, and importantly reveals inefficiencies as more time and money is spent checking and verifying administrative outputs than necessary.

Risk management

Given the fiduciary responsibilities of any private capital fund manager, ensuring third party providers take risk management seriously is vital. Risk can be mitigated by automating data aggregation and having accredited controls in place, such as ISO/ISAE3042 certification on core workflow processes.

ISO/ISAE3042 certification means outsourced providers are independently audited on systems and organisation controls that enable risk mitigation when it comes to completeness, accuracy and auditability for accounting, data validation and reporting.

Value-add tasks

A major driver for outsourcing certain functions to free up team members' time to focus on value-add tasks. This is a huge benefit, especially for COOs of private capital funds. Most resources are often taken up by very low value tasks such as data computation and aggregation, which is of no value to the front office. By delegating low value tasks and having instant access to data via a web portal, the

ANOTHER WAY

Given the complexities and consequences of both outsourcing and insourcing models, AssetMetrix has developed a technology-as-a-service offering to provide managers with the best of both worlds.

A UK-based venture capital firm adopted our technology-as-a-service, as they required accounting and reporting outsourced services, as well as a technology platform for investor onboarding portal. Additionally, they were looking for a solution that would enable their investment team to focus on their core remit: investing.

They were faced with the choice of hiring a full middle- and back-office team or to outsource to traditional service providers. Recognising the opportunities a technology-as-a-service offering partnership would provide, being able to access their data but also leveraging an experienced administrative team, they selected AssetMetrix.

How their challenges were overcome:

- Web portal configured to their needs
- Digitised capital call and distribution workflow they can review and verify allocations to investors before a notice is released
- Platform to collect and manage investor information for KYC / AML checking all created operational efficiencies to support handing investor information in future funds
- Full quarterly reporting and a document repository for historical reports and notices
- Dashboards enabling users to better understand aggregated data across their entire portfolio to enable better decision making.

COO can refocus the team to value-add functions such as analysis and reporting, which are of more value to the front office.

Faster responses

Our recent survey also found only 17% of LPs receive replies from their GPs within a day from when the request was made.

This shows a concerning number of fund managers are taking longer than expected to respond to ad-hoc requests from their investors. A further 77% of respondents state that it takes between two days and one week for GPs to respond to ad-hoc requests for information. Furthermore, GPs need to check data received from the fund administrator, if they outsource, lengthening the turnaround time.

Aggregated view

Funds that insource tend to manage a web of software solutions, which can then be challenging to aggregate data into report outputs. They ironically still use Excel and Word as ways to create quarterly reports using raw data from software solutions. This is inefficient and not scalable.

This tapestry of solutions becomes even more complex should a firm wish to feed data into dashboards for actionable insights on portfolio company and fund performance. A technology-as-a-service solution should act as a central warehouse for data from multiple sources such as other software systems, fund administrators and data providers, but easily show data in presentation quality reports and dashboards at an aggregated view. This becomes more valuable if a firm uses multiple fund administrators and needs to aggregate data for reporting to investors which have interests in multiple funds.

Costs

Finally, a key consideration when it comes to outsourcing or insourcing is cost. Purchasing software is usually a cost directly attributable to the P&L, whereas costs for third party providers are a fund cost. ◆