

Growing Demand for Outsourcing Drives Opportunity

BY ERIC JONES

Times of uncertainty bring tremendous opportunity. In the wake of the recent financial crisis, numerous regulations have been proposed with the potential to change the landscape of the financial services industry for years to come, if not permanently. The implementation of the Dodd-Frank Act in the United States, including the Volcker Rule and the creation of the Consumer Financial Protection Bureau, as well as Basel III globally, will have dramatic but as yet unclear ramifications on every sector within financial services. Further exacerbating the situation is ongoing uncertainty throughout the market driven by the European crisis, continued concerns over unemployment rates, slow housing recovery and periodic “shocks” that undermine confidence in the market, such as issues surrounding Facebook’s IPO and J.P. Morgan’s hedging failure.

During times like this, it is essential that companies maintain focus on their clients and core competencies. In turn, this perpetuates the growing trend of outsourcing to third parties that have the time and expertise to cost-effectively manage a variety of non-core functions. One logical area where growing companies should consider outsourcing is corporate governance, risk management and compliance (“GRC”). The need for regulatory guidance and clarity has always been critical but never more so than in today’s environment.

According to Forrester¹, the market for GRC technology platforms alone is projected to double between 2010 and 2015 to \$1.4 billion. This is on top of the tens of billions of dollars already spent annually by enterprises on outsourced GRC and security consulting services. In addition, the GRC outsourcing market is well-established and served by a large number of providers that focus exclusively on providing GRC services to customers, often at a higher quality and lower cost than companies can reasonably expect to achieve on their own.

From the private equity perspective, increased scrutiny and extended review and approval processes related to investments in regulated entities, such as providers of financial services, support an investment thesis centered on outsourced technology and services for such end markets. This

thesis is particularly attractive when the trends driving opportunities in the underlying sector (i.e., financial services) are complemented by the momentum of the vendors themselves, as described above for providers of GRC technology and services.

For example, there are compelling demographic and industry-specific trends that make the independent broker-dealer (IBD) and registered investment advisor (RIA) space attractive for investment, including an aging population that will increasingly need financial advice and growing distrust of the traditional “wirehouse” brokerage firms coming out of the financial crisis. According to Cerulli Associates, there are nearly 133,000 IBD and RIA financial advisors in the United States managing approximately \$3.5 trillion of client assets.

At the same time, the current regulatory environment calls for companies in the space to improve the way they administer their internal governance, risk management and compliance processes, which requires significant focus and investment. One obvious solution companies are increasingly turning to is outsourced relationships with providers of GRC services and technology that can help them more efficiently and cost-effectively react and evolve to new regulations and compliance standards.

This illustrative example is applicable to any number of sectors within financial services, including asset management, banking, insurance, payments and specialty finance. It creates significant opportunities for both the companies who need to keep up with the ever-changing standards as well as the service providers who support them.

At a recent industry conference on how companies can navigate uncertainty in the financial markets, a common theme centered on the fact that one thing we know for sure about the financial markets is that they are constantly evolving in ways difficult to predict. It is in this context that providers of technology, expert advice and outsourced services in the GRC space should thrive, not only by addressing the regulatory craze of the moment, but by providing an ongoing solution to a constantly evolving and increasingly complex problem. ■

1. Forrester Research, “Market Overview: GRC Platforms,” November 9, 2010.

Companies who need to focus on core business can consider outsourcing functions like corporate governance, risk management and compliance services.

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