

A look at Outsourcing through BCM glasses

Cost reduction is a key business consideration in these difficult economic times we are currently going through. And as it happens to be, cost reduction is one of the key reasons¹ why outsourcing is being pursued. High time to have a BCM look at outsourcing, which has the potential of a major business benefit, but at the same time bears a significant risk to continuity of business.

Definition of outsourcing²:

Outsourcing is about the transfer of the management and/or day-to-day execution of an entire business function to an Outsourcing Provider (OP), where by the Outsourcing Organization (OO) and OP enter into a contractual agreement that defines the transferred services. Under the agreement the OP acquires the means of productions in the form of a transfer of people, assets and other resources from the outsourcing organization, which agrees to procure the services from the OP for the term of the contract.

Who's involved?

When looking at BS25999-2:2007; the specification 3.2.3.3 mentions: "Top Management shall appoint or nominate a person with appropriate seniority and authority to be accountable for BCM Policy and implementation." Based on this specification, it bears no doubt that the BC Manager should be involved in any Outsourcing project, since it represents a significant change in the way business is conducted. In reality however this is not always the case.

Alike BCM, Outsourcing as a practice is surrounded by good practices, standards, principles and regulatory requirements (especially in the banking environment³). Depending which regulatory requirements are consulted, one or more of following sample specifications can be found:

- Outsourcing must be based on a written contract⁴;
- The outsourcing organization must have an Outsourcing policy, procedures and continuous follow-up of risks involved in Outsourcing⁵;
- In outsourcing one must take of the establishment of ongoing and effective business continuity and information security monitoring programs⁶;
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¹ European Central Bank 2004, 89% of questioned banks mention cost saving as outsourcing reason

² Wikipedia, <http://en.wikipedia.org/wiki/outsourcing>

³ The joint Forum, Outsourcing in Financial Services, Feb. 2005

⁴ The Joint Forum, Outsourcing in financial services, Feb. 2005

⁵ DNB, Regeling Uitbesteding verzekeraars, 2004

⁶ FFIEC, Outsourcing Technology Services Booklet, June 2004

So hopefully the OO's that do not involve their BC Managers up front in the outsourcing project, have an adequate outsourcing contract template in place. Once more, in reality it is often not the case or it might even be that the OP imposes their outsourcing contract. In either case, hereafter a list items should be addressed with due care:

- Definitions: as BCM professionals we would like to see that definitions regarding business continuity management are those as used in the BCM Standards we all adhere too (e.g. BS25999-2:2007, SS540:2008, NFPA1600:2007,..), reality shows that there is often room for confusion (e.g. The meaning of Incident management as used in ITIL is not at all the same as what meant in BS25999-2, where an incident is considered to be a major operational disruption).
- Lifecycle: typically outsourcing contracts spans over multiple years (5 to 10 are no exception!), hence a management system approach should be installed. It does not really matter whether this is the 6-step lifecycle from BS25999-1 or the Plan-Do-Check-Act model as found in ISO standards, key is that BCM is being appropriately addressed for the entire term of the contract.

The outsourcing project will also go through a number of phases (pre-outsourcing, transition, outsourcing, and post-outsourcing), during all of these phases clear agreements need to be made about roles and responsibilities, so that optimal service provision can take place and continuity can be guaranteed.

- Liability: typically OP's will, for obvious reasons, try to limit their liability. This could be related to a fixed amount or to the level of Service Fees paid, or any other limiting condition for that matter. In our BCM experience, we do find that DR/BC providers agree to accept a liability for beyond the service fees paid to them, for the simple reason that do acknowledge that consequential damage caused by service failure could be significant.
- Terms & conditions: outsourcing contracts typically contain a clause for Service Non-performance or Force Majeure. When analyzing the definitions of Force Majeure we often find that situations like fire, flood, explosion, social event...are being part of this definition. Being BCM professionals this is obviously unacceptable to us; one of the key reasons to set up BCM is to build a response and recovery capability, able to handle major operational disruptions.

Another observation is that OO's do not yet systematically take advantage of the (auditable) BCM standards that are available. Rather than referring to the BCM Standard of choice and impose a certification process on the OP, the OO's try to describe what the OP should be doing with regards to business continuity management (e.g. plans that need to be written, tests that must be executed,...).

- Subcontracting: the OO is obvious keen to access vital skills and a pool of experts within the OP's organization. Never the less it does happen that the OP will subcontract specific pieces of the outsourcing contract. The OO must obviously be aware of this potential situation and should take appropriate measure so that his interests are preserved. Similarly the regulator may want to exercise audit rights on the OP's environment, and that of subcontracted parties.
- Incident management: -and here we clearly assume the BCM definition-. Outsourcing providers, are often dealing with very complex technical solutions and by design build in significant resilience and redundancy in the solutions offered. These solutions may be

hosted in the most secure and state of the art datacenters. Because of the attention paid in prevention, response and recovery are often not of the same quality.

The above list of items is obviously not exhaustive, never the less quite some strategic BCM issues around contractual risk in outsourcing are being addressed. It should be noted that a strategic check of the Outsourcing contract for BCM considerations is just a first step. This should be followed by a tactical and operational check, during which the outsourcing contract with all its schedules/appendices needs to be verified in detail.

Based on the above, it can be concluded that introducing the Business Continuity manager in an outsourcing project is highly recommended. Risk management and continuity of services are clearly within his domain of responsibility. In the end, the responsibility for services (and their availability/continuity) remains with the OO, regardless whether these are outsourced or not⁷.

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About Ascure:

Ascure is a qualified and independent Operation Risk Management Services provider, specialized in consultancing, training and staffing. Operational risk management, information security, business continuity, compliance to laws and -regulations are major cornerstones of our services. Ascure assists its customers with the incorporation of operational risk management at all levels and in all areas of their organization, including day-to-day operational decisions.

Ascure provides education and awareness, through the Ascure Academy (www.ascureacademy.eu) and BCM Academy (www.bcmacademy.be).

More information about Ascure services can be found at www.ascure.com and you can meet us at stand 41 on the BC World Conference in London on November, 11th and 12th 2009.

⁷ CEBS, Guidelines on Outsourcing, Dec 2006, Guideline 3