



Outsourced commission processing: a risk-managed approach

Why outsource?

As an AFS Licensee, you know that significant savings can be made by outsourcing those less strategic, but operationally important, business activities that do not contribute significant value to your business.

Business activities that make the most significant contribution should be retained in-house. These include: your intellectual capital, advice process, adviser relationships, buying power, compliance management, research etc.

Activities that tend to be less strategic, but operationally important, can be outsourced to partners who specialise in these areas, without impacting the value of your business. These activities include execution of compliance reviews, paraplanning and commissions processing.

Cost savings – are there hidden costs?

A key factor affecting your profitability is controlling the costs of delivering services to your adviser network. But cost savings are only part of the picture. You can build the most value by focusing on maintaining and improving adviser service delivery, managing business risks, and enhancing your business value proposition to retain your existing advisers and attract new advisers.

The cost of outsourcing needs to be considered relative to the total cost of delivering the service yourself. The total cost includes several types of risks – and these are not always easy to identify.

Outsourced commission processing

Whether or not you outsource your commission processing, there are risks to consider.

Risks	Strategies	In-house	Outsourced
Key person risk	Key people, team size, concentration of knowledge	Operation not scalable: More exposure to impact of leave . Knowledge limited to small team.	Scalable operation: Less exposure to impact of leave . More sharing of knowledge across larger team.
Financial risk	Timeliness and accuracy of payments Maintainance of control over costs	SLAs tend to be informal/less well defined & managed. Higher chance of impact on advisers and licensee. Higher costs.	Higher focus on formal/well-defined SLAs. Lower chance of impact on advisers and licensee. Lower costs.
Operational risk	Timeliness and accuracy of service delivery	Smaller scale means difficult to accommodate peaks & troughs.	Mitigate though scalable operation that can accommodate peaks & troughs more easily.
Reputational risk	Maintainance of quality of service to advisers, adviser satisfaction, loyalty, retention	No difference if (less rigorous) SLAs are met.	No difference if (more rigorous) SLAs are met.

Choosing a supplier

You can best manage your risks by carefully choosing the right supplier, however the wrong choice could inadvertently increase your risk.

When choosing a partner, some questions you may wish to ask include:

- What is the scope of their service? Since a significant part of the work involves interacting with suppliers, handling emails, handling adviser queries etc, how many tasks will you still have to do? Or do they provide a complete end-to-end service?
- Do they offer a Service Level Agreement?
- Are their customers satisfied? Have they achieved cost savings?
- Are they good to work with? Can they become your trusted partner that is more like an extension of your business than just another supplier? Will you be just another customer to them or be a vital part of their business?
- Is the software they use controlled by a third party? Can your partner obtain timely updates to ensure they meet their service levels – for example, when provider data formats change without notice?
- Are they committed to a formal written information security policy? Has it been reviewed by an informed external party? Do they have a formal customer data asset ownership policy?
- Does their information security including backup processes meet high standards? Do they have a disaster recovery plan and a business continuity plan?
- Has their security been rigorously vetted? Have their systems been subjected to penetration testing? Have their business processes been scrutinised?

- Is their office located in Australia or off-shore? Could different time zones and/or language issues impact time-critical communications with your advisers and providers?
- Is their data centre, or the data centre used by any of their suppliers, located in Australia? Is your data properly partitioned from that of their other clients or is it all in one database?
- Do they use a file hosting service to transmit data? Is it secure? Have there been any security incidents or breaches? If so, how have these been addressed?

Striking the right balance

All business strategies, including outsourcing, necessarily involve risk, and there is no panacea.

If you can strike the right balance, your advisers will remain satisfied and loyal, you will attract new advisers, and your business will flourish even more.

If outsourcing is part of your risk management strategy, you can achieve an optimal outcome by asking good questions, which will lead you to the right partner.

CoMetrix

CoMetrix Revenue and Remuneration (RnR) is a secure, accurate, scalable and robust solution for Australian Financial Services Licensees that face the complexity of managing and accurately distributing revenue from diverse fund managers, insurance companies and lending institutions to their authorised representatives.

Commission processing is an ideal candidate for outsourcing. Recognising that your business must balance the inevitable risks associated with performing this function in-house or by outsourcing it, we provide a secure, scalable and reliable full service offering that can help you manage your risks and achieve significant cost savings.

Cirrus Technologies

Cirrus Technologies are a highly respected boutique Australian-owned technology consultants that specialise in the architecture, design, development, integration and ongoing support services of Internet-based business applications.

Our expertise with JEE and .NET web-based technologies has led to international awards for our best-practices approach to application development.

Our approach is to build long term relationships with our customers, who view us more as an extension of their business, than just another supplier.

Our team of expert and experienced professionals can add lasting value to your business by providing unmatched support services for your application portfolio.