

Lessons from a Pandemic:

Outsourcing for Business Continuity and Disaster Recovery

THOUGHT LEADERSHIP

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In mid-March 2020, virtually every asset and wealth management firm in the US was forced to shutter its offices and make the dramatic shift to remote work. Many firms had to activate their business continuity plans (BCPs) for the first time. Working from home raised significant security questions and compliance risks. Firms were challenged to connect with the critical systems they relied on for trading, transaction processing and accounting. It didn't help matters that the markets went into a tailspin and investors were justifiably anxious.

Although the markets soon recovered, and the industry has earned high marks overall for its handling of the pandemic, the first few days and weeks were a scramble for many firms. For others, however, the transition to business-as-usual in a remote work environment went far more smoothly—thanks to outsourcing.

A New View of Outsourcing

Prior to 2020, the outsourcing debate largely revolved around costs and core competencies. Firms saw it as a way to reduce operational and IT overhead, and to free back- and middle-office staff from routine tasks to focus on higher value activity. In recent years, firms came to view outsourcing as a way to gain agility and scale in order to adapt more quickly to changing business needs. The business continuity aspect of outsourcing was usually an afterthought—a nice-to-have, but not the chief driver of the outsourcing decision.

The pandemic shutdown pretty much turned that dynamic on its head. Firms that were already outsourcing their core

technology and some or all of their back-office operations immediately realized the benefits of their business continuity planning. For firms that were undecided about outsourcing, the shutdown was the catalyst for moving mission-critical work out of their office servers and into an outsourcing provider's high-security cloud environment.

Now, if your firm is weighing the pros and cons of outsourcing, or doing due diligence on providers, support for business continuity and disaster recovery (DR) should be high on your checklist. With that in mind, this paper explores the value of outsourcing for business continuity planning (BCP), particularly in light of the pandemic's impact, and what to look for in an outsourcing provider relative to BCP and DR capabilities.

Business Continuity and Disaster Recovery: What's Required?

Business continuity and disaster recovery planning entered the wider public consciousness in the wake of the 9/11 terror attacks of 2001, and solidified after

Hurricane Sandy shut down the New York Stock Exchange in 2012. Although the two terms are often used interchangeably, there are important distinctions between them.

Business continuity planning addresses the broader, step-by-step procedures organizations will follow in order to sustain their business activity following a disruptive event, including defined employee roles and responsibilities and customer communication protocols. **Disaster recovery** is a subset of the larger business continuity plan that refers specifically to the restoration of a firm's technology infrastructure, data and operations.

SEC Rule 206(4)-7 requires registered investment advisors to have "written policies and procedures reasonably designed to prevent violation of the Advisers Act" of 1940. This has historically been interpreted to encompass business continuity planning, consistent with a firm's fiduciary obligations to its clients. In 2016, the SEC proposed a more prescriptive rule, 206(4)-4, specifically requiring firms to adopt formal business continuity plans and spelling out a number of provisions those plans should cover. To

date, that rule has not been finalized or enacted. However, the SEC, FINRA and other regulators have been consistently clear that they expect asset and wealth managers to have business continuity plans. Given the industry's increasing reliance on technology over the past two decades, those plans need to specifically address the "maintenance of critical operations and systems, and the protection, backup, and recovery of data, including client records."¹

In short, firms must be prepared to fulfill their fiduciary duties to clients in any of a number of worst-case scenarios, whether hurricanes, fires or floods, power outages, terror bombings or cyberattacks—and now, a global pandemic.

Securing Systems and Data

Outsourcing essential technology functions to a firm with an outsourcing platform is the easiest way to ensure access to critical software and data while maintaining strong compliance in the event of a disaster—assuming, of course, that the outsourcing provider does not fall victim to the same disaster. In other words, make sure your provider has its own business continuity and disaster recovery plans so it can support yours. That means maintaining data centers in different parts of the country and having redundancy among them to ensure resiliency in the event of a disruption specific to your locales. The provider should also have regular failover testing in place to ensure that your team can connect as expected to the systems and data your firm relies on every day.

In addition, the right outsourcing provider will be able to demonstrate that its facilities meet the industry's highest standards for security, both physical and digital. Cyberthreats are high on the list of potential disasters to plan for, and foremost among SEC examiners' priorities. Third-party audits and attestations are critical in assessing a provider's ability to withstand and recover from an attack. The Service Organization Controls or SOC framework, administered by the American Institute of Certified Public

Accountants, is considered the industry standard in outsourcing provider attestations. More specifically, the SOC 1 Type II report is an attestation that the provider's controls performed effectively against rigorous testing over a minimum six-month period.

Thinking Beyond Technology

As we have seen, however, business continuity entails more than disaster recovery, and outsourcing should not be just about technology. Outsourcing should add a level of depth and expertise to your team that you wouldn't otherwise have. As the industry began emerging from the pandemic, it experienced a higher than normal amount of employee turnover—which in itself is disruptive to continuity. Outsourcing certain operational functions, such as daily reconciliation, data management or reporting helps ensure continuity of support when employees leave and new ones transition on board.

The pandemic also brought to light instances of "key person risk," which occurs when only one or two power users understand the intricacies of a firm's technology infrastructure and operational processes. And when those individuals leave the firm, they take that knowledge with them, leaving disruption in their wake. Outsourcing can mitigate that risk by ensuring that a team of domain experts is always available to troubleshoot systems and execute processes. It's important, however, to choose an outsourcing team that is fully conversant in the technology and your firm's workflows, and not just providing "rack space" hosting services.

Outsourcing is different from just moving your infrastructure to the cloud, in which case you are still the system administrator and responsible for securing your own technology assets. A true outsourcing relationship includes full system administration, monitoring and maintenance—so when a disaster strikes, you only have one provider to call to ensure access to your systems and continuity of operations.

Stay Up and Running, Anywhere

Asset and wealth managers proved to be remarkably resilient during the pandemic shutdown, in many cases adopting new practices out of necessity that will continue to serve them well into the future. Firms also learned just how much they can accomplish outside the structure of offices. Without devaluing in-person collaboration and camaraderie, greater workplace flexibility is likely to define the post-pandemic professional environment. Firms that outsource and have anytime, anywhere access to their critical systems can enjoy optimal flexibility without compromising operational performance, compliance readiness or client service. What's more, they will have the peace of mind knowing that when the next disaster strikes—be it local or global, natural or inflicted—they won't be caught off guard.

About Advent Outsourcing Services

Backed by a SOC-1 Type 2 report, Advent Outsourcing Services (AOS) serves firms across the outsourcing spectrum, ranging from cloud-delivered technology to business process outsourcing. We have the breadth of capabilities to put together a highly customized combination of technology solutions and operational services tailored to each client's business needs and objectives. This single-source service optimizes efficiency, accelerates processes, improves communication and makes AOS a valuable extension of the client's back and middle office. Learn more at [advent.com](https://www.advent.com).

1. Leone, Anthony R., "Investment Advisors, Is Your Business Continuity Plan Effective In The Novel Coronavirus World?" Murtha Cullina, March 20, 2020 https://www.murthalaw.com/news_alerts/3000-march---securities-group-news-investment-advisors-your-business-continuity

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