



Q: What business functions can we outsource?

The use of outsourcing to facilitate the delivery of services provided by Electronic Money Institutions, Payment Institutions and cryptoasset firms is common and well understood by the FCA.

Outsourcing is viewed by the FCA as *“relying on a third party to provide an ‘operational function’ relating to its services. FCA guidance clarifies that operational functions “do not include the provision of any services that do not form part of the payment services or e-money issuance (e.g. legal advice, training or security) or the purchase of standardised services, including market information services”.* Most operational business functions could therefore reasonably be outsourced.

To outsource key business functions the firm will need to ensure that certain regulatory requirements are met, specifically to ensure that the outsourced functions are subject to oversight and control. In deciding what business functions to outsource:

- Consider what resources exist within the business to perform the function and whether outsourced support, in whole or part, is required.
- Remember that all outsourced functions will need to be overseen by a role within the firm therefore requiring some relevant expertise within the firm to oversee service delivery. For example, outsourcing IT related functions is fine but someone in the firm will need to have IT experience sufficient to ensure oversight of IT service delivery.
- The outsourcing of most first line operational business functions would likely be acceptable provided that oversight and control is maintained.
- Second line functions would typically be difficult to outsource, e.g. a risk management function or a compliance function would logically need to be performed by the firm (albeit some support could be sought from external sources).
- Balance outsourcing costs with the cost of maintaining the function in-house and consider the cost of maintaining oversight, changes in risk profile and associated cost implications, and ability to bring the function back in house if required.

The following functions are commonly outsourced:

- Operations and support, Hosting, Software maintenance and development for the transaction processing platform
- IT support and services for the office environment
- Customer services
- Transaction monitoring (AML and Fraud) and initial investigations
- Customer Due Diligence
- Sanctions screening and PEP checks
- Finance and accounting, Treasury and Settlements
- Human Resources
- Marketing; and
- Internal Audit.