



Financial Reporting and Risk Management Outsourcing

In the earlier period of outsourcing (1995-2000), a few global names began outsourcing less technical work as an experiment, slowly expanding to other critical functions. Over time, this has included areas like financial reporting and risk management. Financial Reporting is the accurate preparation of financial statements to provide stakeholders with a clear view of a company's financial health, while Risk Management identifies, assesses, and mitigates potential financial and operational risks, helping businesses make informed decisions and maintain stability. In the last two decades, financial reporting and risk management outsourcing have become a well-established industry, allowing businesses to enhance accuracy, compliance, and efficiency while focusing on core strategic goals.

A few key aspects of this industry are as follows: -

- **Regulatory Compliance:** Adherence to GAAP, IFRS, SOX, and other stringent regulatory frameworks prescribed by central regulatory authorities, and BCP policies. Non-adherence to these frameworks attracts strict punitive actions.
- **Risk Management and Mitigation:** This is one of the primary focus areas. Investment firms have major exposure to global financial markets, and, hence, identifying financial, operational, market, and compliance risks and managing them is always a key priority.
- **Financial Reporting and Accuracy:** Preparing accurate and timely financial statements (P&L, balance sheet, cash flow statements) is critical for making the right decisions in this industry.

- **Cost Optimization and Efficiency:** Growth, with higher costs associated with it, pressures investment firms' top lines. Hence, they constantly explore avenues to reduce operational costs, either by adopting new technologies or outsourcing.
- **Operational Risk and Compliance:** This is of utmost importance to this industry as the quantum and volumes of money and transactions are enormous on a daily basis, along with adherence to governing regulations in each country where they are operating. With the onset of AI and other technologies, these firms always seek collaboration on advanced fraud detection, cyber risk assessment, and regulatory compliance monitoring.
- **ESG and Climate Risk:** Increasing demand for ESG (Environmental, Social, and Governance) reporting has led to specialized outsourcing in climate risk analytics.
- **Access to Specialized Expertise:** Provides access to highly skilled financial analysts, risk consultants, and compliance experts. It also helps in reducing the risk of financial misstatements, tax penalties, or regulatory non-compliance.
- **Standardization And Process Optimization:** Establishes consistent financial processes across departments and geographies. Also, it will enhance efficiency through industry best practices and standardized reporting.
- **Enhanced Accuracy and Compliance:** Ensures timely and error-free financial reporting, reducing the risk of audits or penalties.
- **Improved Risk Management and Mitigation:** Data analytics, AI, and predictive modelling are used to detect potential financial risks.

Why Businesses Opt for Financial Reporting and Risk Management Outsourcing:

- **Cost Savings and Operational Efficiency:** Reduces overhead costs related to hiring, training, and retaining in-house financial experts.
- **Scalability and Flexibility:** Allows businesses to scale financial operations without investing additional resources. It also supports companies undergoing rapid growth, mergers, or restructuring.
- **Advanced Technology and Automation:** Ensuring accurate reporting through AI-driven tools, cloud platforms, and robotic process automation (RPA).
- **Focus on Core Business Strategy:** Frees up management time to focus on revenue generation, innovation, and business growth.

Important factors to be considered for outsourcing financial reporting and risk management:

- **Data Security and Confidentiality:** It is critical to ensure that sensitive financial data is protected through robust cybersecurity measures and strict confidentiality agreements; any breach could lead to legal liabilities and reputational damage.
- **Integration with Internal Processes:** The outsourcing partner's systems must seamlessly integrate with the firm's existing processes and technology stacks. This ensures operational efficiency and minimizes disruption to business continuity.
- **Choosing the Right Provider:** Select a provider with deep domain expertise & right technology stack, and strong references. Their ability to adapt to your specific needs is crucial for a successful partnership.

- **Compliance with local regulations where the firm is operating:** The outsourcing arrangement must comply with all financial reporting standards, risk management requirements, and regulatory obligations in the jurisdictions where the firm operates. Non-compliance can lead to penalties and legal challenges.
- **Taxation and Legal Compliance:** Ensure the outsourcing partner is knowledgeable about relevant tax laws and legal compliance requirements. This helps avoid financial penalties and ensures smooth operations across different markets.

Since the inception of outsourcing of non-voice processes in the early 2000s, this industry has now matured to a very large extent. Almost all the MNC investment banks, hedge funds, and private equity funds now have Global Capability Centers (GCC) in India, which manage not only the financial work stream but also other non-financial arenas. Major non-financial MNC firms operating in retail, logistics, and service-based

segments have some sort of exposure to Indian IT majors such as Infosys, Cognizant, TCS, etc. For example, the UK's leading omnichannel retailer, Currys Plc, has outsourced its O2R and R2R functions to one of India's IT giants.

The rise and establishment of GCC, especially in India, came back on the strong success of the initial outsourcing model, increasing global regulators' scrutiny, data security, the creation of Special Economic Zones (SEZ) by the Indian government for better taxation policies, and accessibility to a diverse talent pool of human resources at competitive rates or less cost charged by the outsourcing firms. With the rising cost pressure and the need to sustain the lean cyclical phases, outsourcing and GCC are the best alternatives discovered so far.

Ultimately, the success of outsourcing depends on choosing the right service provider with a strong track record in accuracy, compliance, risk management, and technological innovation.

About Nexdigm

Nexdigm is a privately held, independent global organization that helps companies across geographies meet the needs of a dynamic business environment. Our focus on problem-solving, supported by our multifunctional expertise, enables us to deliver customized solutions tailored for our clients.

We provide integrated, digitally-driven solutions encompassing Business and Professional Services across industries, helping companies address challenges at all stages of their business lifecycle. Through our direct operations in the USA, Poland, the UAE, and India, we serve a diverse range of client base, spanning multinationals, listed companies, privately-owned companies, and family-owned businesses from over 50 countries. By combining strategic insight with hands-on execution, we help businesses not only develop and optimize strategies but also implement them effectively. Our collaborative approach ensures that we work alongside our clients as partners, translating plans into tangible outcomes that drive growth and efficiency.

At Nexdigm, quality, data privacy, and confidentiality are fundamental to everything we do. We are ISO/IEC 27001 certified for information security and ISO 9001 certified for quality management. Additionally, we comply with GDPR and uphold stringent data protection standards through our Personal Information Management System, implemented under the ISO/IEC 27701:2019 Standard.

Over the years Everest Group PEAK Matrix®, ISG Provider Lens™, and Avasant RadarView™ have featured us for our competitive Procurement and Finance & Accounting Outsourcing Services and Business Process Transformation. We have also been recognized by International Tax Review, World Commerce and Contracting, International Accounting Bulletin, and Global Sourcing Association (GSA) UK.

Nexdigm resonates with our plunge into a new paradigm of business; it is our commitment to **Think Next**.

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