



Invest | Pro™

a Constellation Software Inc. Company



Operational Alpha for the small to mid-sized asset owner or manager

Consolidate and simplify the middle
office for greater efficiency

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With volatile returns and decreasing fee levels driving demand for greater efficiencies, asset owners and managers are revising their operating models, outsourcing arrangements and processes. In striving for operational alpha - permanent cost reduction and efficiency gains, large firms are well served by best of breed technology stacks to support the transformation. For small to mid-sized firms the challenge is greater.

In this report Matthew Baldwin, Global Head of Sales at Financial Risk Solutions, explores the efficiency gains small to mid-sized asset owners and managers stand to gain from consolidating and simplifying the middle office, and how to find the technology partners to support the journey.



Volatile returns or lower fees demand greater efficiency

It goes without saying that in a low return or low fee environment, it is essential to avoid high operational costs. With regulators forcing fees for products down, the need for efficiency is even greater. For example, in the United Kingdom, the maximum Annual Management Charge (AMC) for a default fund in mandatory pensions is 75 basis points, with the government default provider charging 30 basis points.

The upside of forced low fees can be vastly increased confidence from consumers who are mandated to save. However, it creates a challenge for the industry to thrive in this environment whilst still building strong products and developing scalable technology solutions for the increasing volume of new money flows.

CASE STUDY

AUD 1M saved by bringing the back office in-house



In 2019 FRS completed a business case analysis with a small Australian super fund with less than AUD 2bn in assets. We calculated that by bringing the back office in-house, they would save more than AUD 1m per annum, and add approximately five basis points to their member returns.

The evolution of the operating model - In-house to outsourced and back again

When I first began in the funds' industry in the mid-1980s, all providers were operating entirely in-house. The mid-sized life company in New Zealand, where I worked, had a front and back office. We used systems like Lotus 123 and HiPortfolio and ran the whole back office on green and black screen PCs. It was cutting edge at that time.

Then the move to outsourcing swept through, and for firms like ours, both the front and back office were outsourced. Over time it became clear to some asset owners that paying a premium for front office outsourcing to achieve market-level returns did not make sense. Business case analyses quickly showed that bringing this process back in-house made more sense, especially to the bottom line of member returns.

Technology has changed significantly since then, and the functional capabilities and automation levels of modern investment accounting and fund administration systems are significantly improved, along with the flexibility and scalability provided through the use of cloud services. When firms look at the technology available today, the argument for using any model other than the latest investment operations technology for a fully in-sourced, outsourced or hybrid model is very compelling.

Across the globe, we see a lot of middle office activity by pensions and super funds. Many are moving to a hybrid operating model, where the Custodian administers the level one funds, and higher-level funds are handled in-house. For the small to mid-sized asset owners, this is an attractive model for realising efficiency gains quickly.

Leveraging technology for efficiency - Machines for doing and humans for reviewing

We often see separate discrete systems for middle, back, IBOR, ABOR, data management, performance and attribution, risk, and compliance requiring a data warehouse or data lake. These are supported by hundreds of spreadsheets and require significant overhead to support them.

Compounding these challenges, if each new geography, asset class or investment strategy adds more systems or spreadsheets to the mix, it creates a situation where it is complicated and expensive to develop new products or offer unique fee structures.

The best way to achieve operational efficiency without introducing operational risk is to leverage technology. This can be achieved through fund administration software that provides an automated and exception-based operating model that embeds the daily task list, processes and processing parameters, along with a set of automated validation rules to check that the inputs into the process and the results of the process are within the agreed range.

This frees up employees to focus on the more valuable and interesting parts of the process the machines cannot handle, such as managing rare exceptions, investigating unusual results and making judgement calls as to whether the result is correct.

The core capabilities for any investment administration solution for the middle office, to supplement back office service providers, are:



Cash Allocation & Rebalancing



Fund of Funds Management (unit pricing and fees)



Data Management



NAV Oversight



IBOR + Cash Forecast



Performance and Attribution



Post trade compliance



Fund Factsheet & KID production



Regulatory Reporting (Solvency II, RG97 etc.)



CASE STUDY

**From 107 to 0
spreadsheets**



Before using **Invest|Pro™**, a client outsourced 300 daily priced funds to a global custodian. The outsourcer used one of the most popular Investment Accounting software packages available, yet still required 107 spreadsheets to complete the daily process.

Bringing that process back in-house and deploying **Invest|Pro™** eliminated the need for any spreadsheets. This automation meant efficiencies in Oversight processes were significantly increased, and the number of staff required for that function was halved. Six client staff previously managed the outsourcer, while today three people process the 300 daily priced funds in-house.

Measuring efficiency - What does operational alpha look like

There are many ways to measure efficiency. As a technology provider, we focus on three:



The ratio of funds to fund accountants



The number of spreadsheets required in the operating model



The level of automation indicated by the number of manual processes

At our bi-annual user conference last year we reported the number of Assets Under Management (AUM), the number of funds and the full-time staff headcount in the back office to demonstrate efficiency gains by clients on **Invest|Pro™**, our fund administration platform. A leading **Invest|Pro™** client had GBP 27bn AUM, 0 spreadsheets and 6,000 fund of funds managed by six people.

CASE STUDY

Hybrid Operating Model halves headcount



An **Invest|Pro™** client in Europe manages around 3,000 daily priced funds run in a fund of funds structure. The portfolios and funds at the bottom of the structure are multi-asset funds and are outsourced to a global custodian.

Daily, the custodian values the portfolios, calculates unit prices, then sends through the details to **Invest|Pro™** which validates the unit price and the valuation details. Our client then calculates unit prices and tax for the remaining 2,850 funds. This entire process requires less than three full-time employees.

Finding the right technology partners

Small and mid-sized firms thrive with technology providers that truly partner with their clients. While seemingly a safe bet, enterprise-level solutions can rarely afford the level of support or attention smaller firms require. Look for suppliers that work with firms of your size, whom you know will be sitting next to you solving problems and dealing with issues as they arise.

When it comes to costs beware of software providers that require the purchase of a different module for each asset type or to extract specific data. This can force a situation where licensing the software to process small volumes of positions in a new derivative type is not economical. This prohibitive pricing forces manual operations on spreadsheets, increasing risk and compromising efficiency. Find flexible licence fee models and open databases that ensure the operation has all the functionality it needs.

Finally, select a vendor who uses modern tools to automate testing and release preparation. Ensure that they have a copy of your User Acceptance Tests in their automated testing and that these tests are run every day or every time the code changes. This way, you have a very high confidence level that when you receive a new release, either during the implementation project or at upgrade time, it will work.

Modern systems in the fund administration and investment accounting area can drive excellent operational efficiency and reduce operational and key person risk. At FRS we have lots of examples of achieving this across 150,000 funds on **Invest|Pro™** in Europe and the Asia Pacific, for firms of all sizes.

About Financial Risk Solutions Ltd (FRS)

With over 20 years delivering Investment Administration software, Financial Risk Solutions Ltd (FRS) is a trusted technology partner to life assurance, wealth and asset management firms worldwide. Led by an expert team of actuaries, compliance and IT specialists, clients license FRS software to help navigate the ever-changing challenges of growth, regulatory pressures and competition in the industry.

The award-winning* InvestPro™ platform is relied on by over 60 blue-chip financial services and BPO clients to reduce operational costs, increase efficiencies and mitigate risk in the manufacture and management of investment products. More than 150,000 funds are managed on the InvestPro™ platform today.

Delivered on-premise or cloud-hosted, InvestPro™ securely automates multiple complex fund administration processes including unit-pricing, cash allocation and rebalancing; oversight and validation of operational activity performed by outsourced partners; and in Europe monitoring and reporting for PRIIPs, KID requirements, and Pillar III asset reporting for Solvency II.

FRS is part of the Constellation Software Inc. group and headquartered in Dublin, Ireland, with offices in Hong Kong and Sydney.

For more information visit frsltd.com or follow FRS on LinkedIn at www.linkedin.com/company/frs-ltd



2019 - Best Solvency II Tech Solution - Insurance Asset Management Awards, Pensions Technology Provider of the Year - Irish Pensions Award, 2017 & 2018 - Tech Firm of the Year - Insurance Asset Management Awards, 2016 - Tech Provider of the Year, Governance Risk and Compliance - Risk.Net Awards.



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