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Asset Manager
Oversight of
Service Providers

February 2017

Asset Manager Oversight of Service Providers:
Win Friends and Influence

There is no doubt that these are extraordinary times. 2016 was the year of Trump, Brexit, rising populism in Europe and isolationism in the United States. However, watching from the sidelines, I'm wondering whether "our" political leaders have been reading Dale Carnegie's 1936 classic 'How to Win Friends and Influence People'....or whether they skipped straight to journalist Toby Young's tongue-in-cheek memoir from 2001 'How to Lose Friends and Alienate People'?

The trends we are seeing in the political landscape, on both sides of the Atlantic, raise interesting questions about the status quo, and also about the importance of collaboration, trust and influence.

You might be wondering what this has got to do with investment administration. Allow me to explain.

In a trend seen throughout the Financial Services industry over recent years, asset managers have increasingly turned to outsourced service providers to solve operational, regulatory, risk management and commercial challenges. These agreements are based upon collaboration and trust, for whilst firms can outsource activities, regulatory responsibility ultimately remains with the asset manager ; firms cannot contract out their regulatory obligation. This is a sobering thought for asset managers, as even global banks can experience severe financial difficulties and be brought to the brink of collapse - whilst also operating as outsourced service providers.

Carnegie wrote in his book that 'If you teach a man anything, he will never learn' ; presumably meaning that change must come from within, and cannot be imposed. However, since 2012, regulatory push-back suggested that lessons would indeed be "taught" by the regulators, and a greater level of shadowing was expected regarding certain outsourced processes. In particular, the FCA ① in the UK wanted to address two main areas:

1. Oversight:

Firms should exercise due skills, care and diligence when entering into, managing or terminating an outsource agreement

① (the UK's FSA/FCA 'Dear CEO' letter in December 2012)

2. Resilience:

Firms should have adequate resilience plans in place to enable them to carry out regulated activities if a service provider were to fail

A number of outsourcing service providers in the industry are either global banks, or part of global banking groups – and as such are "too big to fail". Asset managers face a double burden of risk; their own regulatory responsibilities – as well as their outsourced service providers' risks.

Despite these risks, an environment of growing demands from regulators and clients, heightened competition and a need to best position their firms for future growth, asset managers are increasingly reliant on outsourced service providers. This operating model is exposing asset managers to a greater range of risks, which require more effective risk management.

Therefore, asset managers now need a deep understanding of how best to mitigate the regulatory risks– keeping tight control in a diverse and growing asset management industry – one where additional services are now the norm, and with a heightened regulatory presence across the globe.

Asset managers should have robust oversight procedures in place, but these should not require the asset manager to replicate the functions they have outsourced (e.g. maintaining dual records) as this would clearly negate the efficiencies gained by outsourcing in the first place.

An Oversight system must:

- Operate on high availability

- Use an exception based processing model

- Have processing logic "baked into the system"

- Require humans to get involved only to manage exceptions, operate the technology and perform appropriately high level functions such as audit, governance, risk and compliance oversight

Regulatory Technology (RegTech) can actually provide an oversight solution which mitigates risks, brings down costs, and creates conditions to grow AUM and revenues by allowing the asset manager to meet regulatory requirements whilst freeing up resources to focus on key competencies.
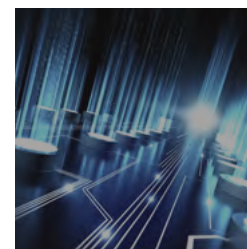
Conclusion

Carnegie's book also talks of 'rare individuals who unselfishly try to serve and give others an enormous advantage'. Asset managers have an opportunity for collaboration, embracing regulatory responsbilities and working with regulators, industry peers and across geographies, by using RegTech to grow their businesses by gaining trust and influence. A valid question is 'Which of the top 20 global asset managers will next double their AUM and by when, and what contribution will RegTech make?'

Oversight of Outsource Service Providers:
An FRS Invest|OPS™ Solution

Our vision of an Oversight solution for a global asset manager is based on our experience of working with both asset managers and outsourcers and leverages the key strengths of our fund administration solution.

Specifically:

- It is 100% web based – with the option to deploy in the cloud or locally and is accessible via computer or tablet. We think this is essential for a truly global solution and enables ease of use for the users across the globe.

- It also enables each country / region / business unit to utilise the standard group-wide validations and introduce their own validations or processing. Because our database is a fund accounting solution we are able to extend the processing all the way through to shadow NAV (net asset value) / unit pricing. AND can even be configured to perform the actual unit pricing in the event of the outsourcing TPA being unable to do so.

- Additionally the data for each region / country / business unit can be stored in its own data-store but analysed on a consolidated basis via our powerful Analytics capability. Additionally third party databases can be included in this consolidation for an additional licence fee.

Any Database Field

Any Calculation

Customisable Exception Reports

Block Downstream Processes

Email Alert Messages

Exception Handling

The operating model of an oversight system is unlikely to involve users being logged in to the solution all day – therefore email based notifications are essential. Again this mode of operating requires ease of use to be the highest priority as users may have to resolve issues that occur very infrequently.

Email Alert Messages

Analysis

Sign Off

The FRS oversight operating model can be run completely independently from the outsourcer or alternatively it can be set up on a more integrated basis.

There is flexibility and customisation options in how you structure the interaction with your outsourcers, this detail is agreed and the options are chosen during workshops with FRS.

Once sign-off is completed the required data can be exported via the same mechanisms as the import methods, auto generated emails are prepared and include the requisite reports attached to the email.

FRS understand relationships among the different partners in an outsourcing environment because we have been working on both sides of the fence for 18 years, and we have first-hand experience of great relationships and not so great ones. It is with this experience that we have positioned our technology to raise standards and shape a growing industry to best mitigate risks.

FRS is continually complimented on its people and the approach that we take. We are very different to other software suppliers in that we provide advice and guidance around your operating model based on our experience in the industry both with FRS and non FRS clients. We believe this leads to a higher industry standard and to better outcomes for our clients and stronger relationships.

Our licencing and support models are different, we don't ask clients to pay a large sum up front or a fixed amount every year for support. We are continually investing into the development of the software and are very transparent with our clients on the product roadmap. For those organisations using older vendor technology this is a refreshing change.

Finally FRS constantly seek to de-mystify and de-risk the complexities associated with global asset management and investment administration notwithstanding the fact that the sector has gotten more intricate and also more thorny with regulators as the industry has matured and flourished globally.

Frank Carr is the Chief Marketing Officer at Financial Risk Solutions (www.frsltd.com).

FRS supply its Invest|Pro™ investment administration software into 30 life and pensions companies and 5 outsourcers.

Dublin based FRS was founded by a group of actuaries and IT specialists in 1999.

Financial Risk Solutions was named 'Tech Vendor of the Year:
GRC' (Governance, Risk & Compliance) in the
Risk.net Buy-Side Awards in December 2016

Risk.net
Buy-Side
Awards
2016

Winner
Tech Vendor of
the Year: GRC

About Financial Risk Solutions (FRS)

Financial Risk Solutions Ltd (FRS) is a leading provider of unit pricing and fund administration software to financial services companies. Its Invest|Pro™ product family is a recognised leading benchmark in the investment fund administration area.

Invest|OPS™ (Outsourcing Partner Supervision)
Automates the validation of operational activity performed by outsourcing partners. It provides methods for assessing the standard of performance of the service provider; enables the investment firm to supervise the outsourced functions and to manage the risks associated with outsourcing. It also provides the firm with effective access to the data associated with the outsourced activities.

Invest|Pro™
Manages unit pricing and portfolio valuations, asset/liability unit matching, box management, trade order management, investment accounting, financial reporting and compliance with investment mandates in a single application. Product types covered include unit linked funds, portfolio bonds, self-invested/directed pensions, shareholder funds and with-profit funds. Invest Pro™ was specifically designed to securely automate complex fund administration processes.

Invest|GRC™ (Governance Risk Complaince)
Provides visibility of aggregate asset positions and other relevant compliance and risk management data. Invest|GRC™'s Data|Pump server application is used to populate and synchronise the Invest|GRC™ data warehouse with data from the company's investment systems and from external market data providers.

Knowledge based software

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