



ARTICLE

FUND ADMINISTRATION

WHY OUTSOURCING IS IN FOR ASSET MANAGERS

New research shows that asset managers are outsourcing more work than ever to third-party providers. But what are the benefits of this new operating model – and how can fund administrators capitalize on what’s fast becoming a major market opportunity?

What drives outsourcing?

According to a global survey by FIS and Longitude Research, a number of factors are driving asset managers to outsource more of their operations. Top of the list is the cost-effectiveness of outsourcing arrangements, cited by 58 percent of asset management firms. But a desire for faster processes is also important, for another 42 percent, as is the need to access advanced technologies such as cloud solutions (37 percent).¹

These benefits are helping counter the argument that asset managers must retain total control of their data. As they establish outsourcing partnerships, firms seem increasingly open to accepting their third-party provider as a trusted source of data. And providers, in turn, are extending their operations and services to meet their customers’ requirements and take mission-critical tasks off their hands.

For example, with the right technology, a fund administrator is now perfectly able to produce a real-time online investment book of record (IBOR) view of an asset manager’s fund accounting data. By continuing to create its own IBOR, the asset manager adds an unnecessary overhead and reconciliation point.

The shift from back to middle?

As fund administrators take on new responsibilities such as running the IBOR, they are broadening the scope of their outsourcing capabilities beyond the back office – and reflecting an important industry trend. While asset managers continue to outsource work most heavily in the traditional areas of fund accounting and transfer agency, there is a clear move toward increasing outsourcing in the middle office and investment risk management.

Today, only 12 percent of asset managers are outsourcing the lion’s share of their middle-office operations, compared to 27 percent who are doing so for fund accounting and 33 percent for transfer agency. But 29 percent cite plans to increase outsourcing of middle-office operations over the next five years.²

“The fastest-growing companies have moved past the need to do everything in-house,” says Martin Boyd, division executive, buy-side and post-trade solutions at FIS. “They don’t want to waste their finite resources on anything that does not differentiate their value offer.”

¹ FIS AND LONGITUDE RESEARCH, THE FIS READINESS REPORT – THE HUNT FOR GROWTH ACROSS ASSET MANAGEMENT, 2017.

² FIS AND LONGITUDE RESEARCH, THE FIS READINESS REPORT – THE HUNT FOR GROWTH ACROSS ASSET MANAGEMENT, 2017.

Opportunities for fund administrators

By providing middle-office services to asset managers, fund administrators themselves can not only grow their revenue but also elevate their role. With so much fund data flow at their disposal, they now have a premium opportunity to move from being a provider to a full-fledged partner for their customers, with valuable expertise in analytics.

The majority of fund administrators are beginning to recognize the importance of delivering data analytics and segmentation. But despite heavy customer demand, more than a quarter (27 percent) also admit they currently offer no data analysis tools at all, while more than a third have no plans to upgrade their tools within the next two years.³

The question is, can you afford to wait? Nearly half (48 percent) of fund administrators say that asset management clients already routinely request or expect analytics and segmentation services as standard.⁴ And to increase both partnership potential and outsourcing possibilities, 56 percent of administrators plan to strengthen their middle-office IT infrastructure in the coming year.⁵



Operational challenges – five steps to a superior outsourced service

To capture the middle-office outsourcing market, most fund administrators will need to make five key changes to their operations, processes and technology landscape.

1. Create a truly scalable operating model

The demand to service multi-asset funds across a wider variety of regions will require more administrators to adopt “follow-the-sun” operations, ensure 24-hour business continuity across all time zones – and make the investment required for functional teams to handle increasing volumes.

2. Review roles

Make sure you have the skills at your disposal to service new regions or middle-office products. The fund accountant’s role, for example, has been radically redefined from actively owning the end-to-end process steps to now being an overseer of functions. The ability to communicate across these functions demands a greater understanding of the causes and impacts of problems and decisions.

3. Improve communication

It’s more important than ever for asset managers and their administrators to establish a single source of data and a seamless flow of processes. This requires the middle-office administrator to be able to communicate effectively with the front office – making both robust workflow technology and specialist staff expertise a high priority.

4. Optimize process automation

Efforts to shoehorn solutions into a functional model and a lack of investment in technology have led to many administrators creating offline tools that strain their capacity and resources. Both innovative workflow technology and robotics process automation will be critical to freeing up skilled staff for more challenging roles that deliver more value and can attract higher fees.

5. Increase technology investment

Invest in replacing unscalable systems and offline solutions and developing a more integrated middle-to-back-office platform—collaborating more closely with asset managers and technology providers to build tools, technologies and services alongside one other. Don’t just develop solutions unilaterally and wait for customers to purchase them – look to reinforce your role as a trusted advisor.

3 LONGITUDE RESEARCH, FROM COAL TO DIAMONDS: 2020 VISION – THE FUTURE FOR FUND ADMINISTRATORS, APRIL, 2016

4 LONGITUDE RESEARCH, FROM COAL TO DIAMONDS: 2020 VISION – THE FUTURE FOR FUND ADMINISTRATORS, APRIL, 2016.

5 FIS AND LONGITUDE RESEARCH, THE FIS READINESS REPORT – THE HUNT FOR GROWTH ACROSS FUND ADMINISTRATION, JULY, 2017.

Conclusion – Line up, join forces and seize opportunities

Overall, fund administrators have enormous potential to increase the volume and speed at which asset managers outsource roles they have traditionally supported in-house.

By successfully aligning your interests with those of your customers, you will be in a stronger position to build mutually beneficial partnerships and increase revenue – even in the face of intensifying competition and pressure on fees. And with the right tools in place, a rewarding new market could be well within your reach.

About FIS

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