ISC

Investment Solutions Consultants

Delivering Market Leading Change for Investment Managers

Supporting the Globalisation of Investment Management

Background

Asset managers are constantly looking for growth in fees through improved performance and via growth in assets under management (AUM). This second avenue to growth can be achieved inorganically or organically. Our clients have grown inorganically through single large-scale acquisitions or through repeated acquisition of smaller 'boutiques'. The organic growth of our clients has typically been achieved by extending their global reach from their traditional geography.
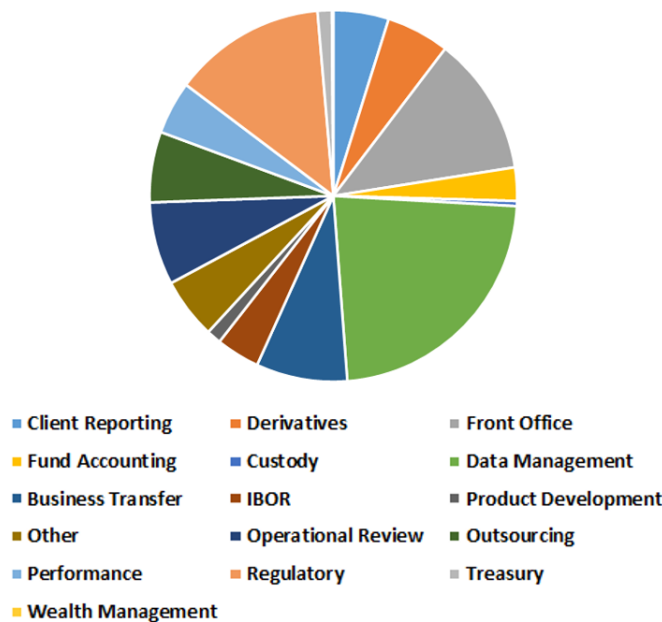
No two businesses are alike and both methods of growth lead to challenges of a global nature. Across the enlarged organisation there will be multiple instances of infrastructure performing the same function in different locations and both growth routes will require rationalisation of existing or implementation of new; human, IT and data resources.

The implications of globalisation for asset managers, solution vendors and providers of professional services and consultancy are significant.

The Challenges of Globalisation

At ISC we are celebrating our 10th Anniversary this year. We have performed an interesting and detailed analysis of the assignments we have been asked to deliver by our clients over this period and this has given us insights into the major challenges presented by the globalisation of asset managers' business.

ISC - Utilisation by Project Type

- Client Reporting
- Derivatives
- Front Office
- Fund Accounting
- Custody
- Data Management
- Business Transfer
- IBOR
- Product Development
- Other
- Operational Review
- Outsourcing
- Performance
- Regulatory
- Treasury
- Wealth Management

The chart above show that nearly a quarter of projects are driven by changes to data management, a consistent level of Front Office change and an ever increasing segment associated with regulation. A growing number of these assignments have some global element to them.
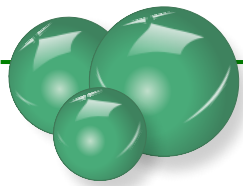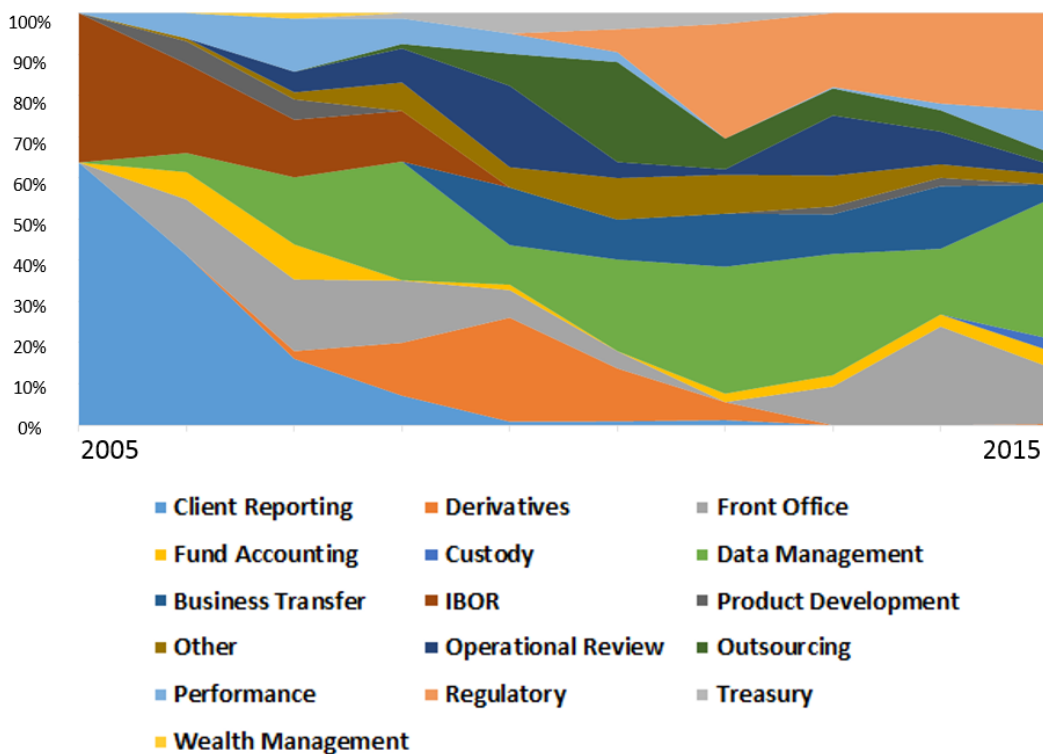
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The chart below shows an analysis of our utilisation over the last ten years and highlights the continued importance of data, the Front Office and regulatory change. Data projects used to be driven by regional requirements, but in the last 5 years there has been a global nature to these large projects. Our clients are asking us to transform platforms that solve discrete regional requirements into platforms with global reach. These platforms are expected to remove overlapping data functionality and meet international requirements. Security reference data and product data are usually the first areas we are asked to address.

Front Office change typically falls into one of two buckets. Firstly, our clients have multiple trading and order management systems across the globe and require a common platform, or secondly client systems need large and complicated functional upgrades so that a common platform can be rolled out from the parent region.

Regulatory compliance is more challenging, as some regulation has a global reach (e.g. FATCA) and some only a regional impact (e.g. EMIR). It is not uncommon to find contradictory regulatory requirements region vs region and this has driven very detailed and complex data programs to resolve and support these conflicts.

ISC - Utilisation by Project Type Over Time

Legend:
- Client Reporting
- Derivatives
- Front Office
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In regards to system functionality there are three different scenarios, generating problems that require solving in order to support global expansion:
- No existing capability – Where an organisation requires new IT infrastructure, processes and resources.
- A single instance infrastructure that is not fit for global purpose – Where a major upgrade and or realignment of infrastructure is required to meet a global challenge.
- Rationalisation to a single instance – Where an organisation has multiple instances of the same infrastructure (IT, process and people) and needs ideally to rationalise down to just one instance.

Meeting the Challenges

Before delivery can be attempted it is essential that the global requirement is understood and agreed by the senior, regional stakeholders. This requirement could be; "follow the sun trading", or a consolidated global view of positions or reference data. A physical signature against the agreed requirement is usually the best way to focus the minds of senior stakeholders!

Management of and communication to the senior stakeholders is equally important as agreeing the requirement. Nothing can be more frustrating than trying to solve region-on-region conflict as a result of poor communication.

Understanding and communicating the base position of each region is essential. It is good practice to establish the current state as early as possible as this helps define the resource required for each region to reach the future state. It is likely that there will be no common current state.

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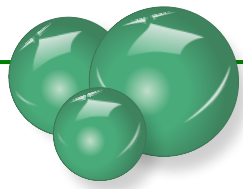
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The early derivation of a future state operating model is a very useful tool. This may only be a one page, high level logical model, but it provides a common sense of purpose and articulates the vision of the project to staff.

Where multiple instances of the same infrastructure exist globally it is essential to resolve, as early as possible, how many instances this can be reduced to. ISC have worked on projects to reduce the number of incumbent, back office investment accounting engines, from more than ten to less than three. Once the global requirements were established it became apparent very quickly that because of certain unique jurisdictional requirements (e.g. tax and language) that resolving the number of systems to a single instance was not possible. Sometimes there is a path of least resistance.

Establishing centres of excellence to support projects is an important step. This can be achieved where the requirements are common across regions. Security reference data management is an ideal target for a global centre of excellence. This supports the ideas of common standards and good data governance.

Speed of delivery is also important. Global projects are by their nature large, complex and long. The impact on "business as usual" and other in-flight projects can be enormous. If the business can see success being delivered (albeit piecemeal) confidence will build and tensions can be controlled.

High quality deployment requires a high quality technical and operational infrastructure. Nothing is more frustrating than creating a "gold-plated" end state only for the project to falter at the deployment stage. We have seen clients attempt a big bang deployment; this is very complex and contains a high level of risk. Risk can be controlled however by delivering to a single key location, akin to a major proof of concept approach. This region may not need 100% of the requirement, but to achieve delivery here and embed this is a significant milestone that again builds confidence. Thereafter, roll out globally in a logical fashion, constantly challenging whether the requirement is still met.

Recently ISC has been exposed to the advantages of data virtualization and we are interested in how this delivery mechanism may help asset managers deliver large and complex change projects in the future. Data virtualization is an agile data integration approach organisations use to gain a greater insight from their data and enable a faster response to ever changing analytics and business information requirements.

The industry has witnessed an increased focus on consolidating organisations' information in order to meet the expanding requirements of regulation in recent years. Management teams are coming to terms with the changing nature of the globalisation of their businesses. Data virtualization provides an alternative approach to data management and consolidated data views, with a reduced speed to market and reduced costs compared to alternative approaches.

The importance of data virtualization arises from its benefits over other forms of data management and may assist the delivery of global projects in some of the following ways:
- Rapid development is possible; speed to market is excellent (days and weeks vs months and years).
- Only short test cycles are required.
- Many examples of successful use develops goodwill amongst the users.
- Reduced data storage and associated costs over alternative solutions.
- Increases the speed of real-time access to data.

Conclusion
The quest for growth in AUM by asset managers and the global nature of asset management leads to some complex and costly requirements. Pragmatism, excellent communication and a clear understanding of best practice will, in our experience, deliver the improved and more efficient global technology, human and data resources to meet these demanding requirements.

The implications for software houses and solution vendors are significant. Greater globalisation means that system requirements are both broader and more complex. Systems implementation and support also becomes more challenging and the ability to provide this directly to clients, or via competent channel partners, is a key factor for success. Furthermore, cloud based technologies have become increasingly important opening new technical and operational opportunities for vendors and their clients alike.

Finally, for consultancies such as ISC, globalisation means that the next ten years are likely to be as interesting and challenging as our first ten.