SS&C | ADVENT®

Technology and Operations Outsourcing

A Guide for Asset and Wealth Managers

advent.com

For many asset and wealth managers, the question is no longer whether to outsource, but how much and which functions to outsource. This paper explores the range of outsourcing options and the strategic advantages of outsourcing today.

New ways to work: The changing face of outsourcing

Not long ago, technology and operations outsourcing in the investment management industry was largely regarded as a way for firms to reduce their IT overhead and back-office burdens. It offered a turnkey solution for firms to take advantage of advanced technology and operational expertise without incurring a big investment in hardware and software, system maintenance, or IT and back-office staff. Of course, in order for outsourcing providers to deliver at scale, they could not allow for much individual customization. Every client essentially received the same standardized system hosting and data management services. Predictable costs and convenience outweighed any perceived limitations or inflexibility.

How times have changed. Between advancing technology, competition among providers, and growing marketplace demand, outsourcing has evolved far beyond "one size fits all." And it is certainly no longer an "all or nothing" proposition. Today's more robust providers offer firms the option to outsource some or all of their core investment management technology, as well as some or all of their operational workflows. Concurrently, firms can choose to manage certain systems or processes internally while outsourcing others.

Moreover, the motivators for outsourcing have evolved as well, as firms think more strategically about how best to allocate and focus their internal staff time and resources. While cost is still a consideration, it is no longer the most compelling. Firms today choose outsourcing to drive greater efficiency and reduce operational risk, as well as for the agility to add new products, enter new markets, or scale up or down quickly as market conditions change.

Outsourcing typically allows firms to implement technology solutions more quickly than an onsite installation, and to stay current on technology with regular upgrades included in their service. Firms can offload compliance requirements to a provider that is likely more experienced and better equipped to handle them. Many firms value the "anytime, anywhere" access that hosted technology affords. Business continuity is an added advantage, as offsite technology hosting enables a firm to bounce back more quickly from a disaster. There's even an argument, in an era of ubiquitous data breaches, that confidential data may be more secure in an outsourcing provider's data center than on a firm's own servers. Outsourcing providers routinely put their facilities through audits and certification processes to ensure they meet current security standards.

The outsourcing adoption spectrum

As a result of these changing dynamics, more and more firms find themselves somewhere along the outsourcing "adoption spectrum," ranging from cloud-based technology hosting to full technology and business process outsourcing. Along that spectrum, firms can put together a highly customized combination of technology solutions and operational services that makes sense for their business needs and objectives. Firms can also opt for co-sourcing arrangements, in which the outsourcing provider manages a process (such as reconciliation) while the firm can access its data and make modifications as needed.

All this flexibility assumes, of course, that the provider offers both technology and operations outsourcing and has the full spectrum of capabilities a firm may need. Some outsourcing providers may offer technology hosting only, while others may specialize in a particular aspect of operations. This will likely prove limiting as a firm grows or its needs change. Further complicating matters, many hosting providers are only that—"rack space" providers that do not develop or support the software they are hosting, in which case the client firm has to deal with two vendors and act as the go-between to get issues resolved.

Source: 2016 Aite Group LLC

2008 versus 2016 *(percentage of total systems deployed)*
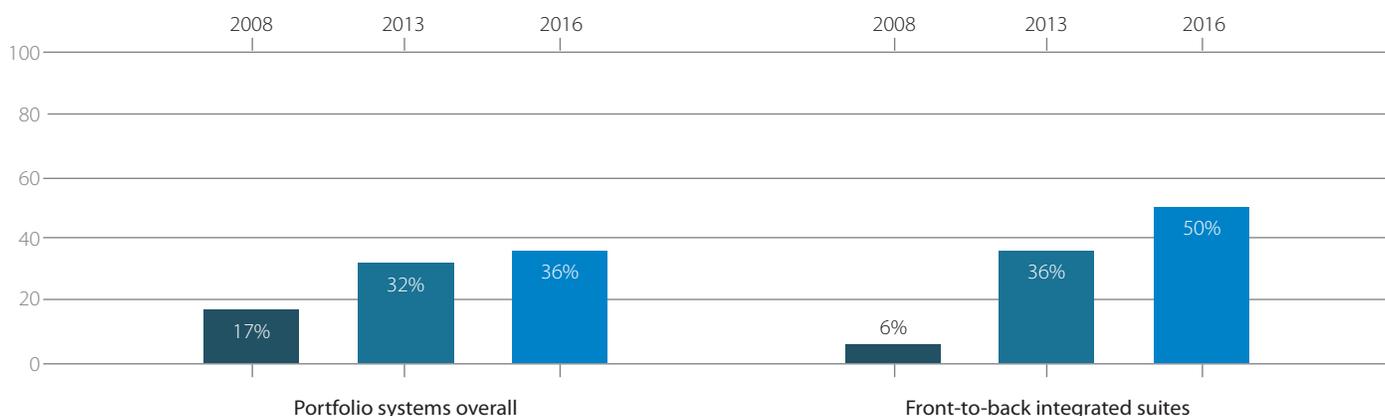
Comfort with the cloud: As more firms recognize the strategic value of outsourcing their core systems, cloud adoption has accelerated dramatically since 2008.

Finding a single provider that can deliver both technology hosting and a full range of operational services will prove much more efficient and likely more cost effective. Issue resolution will be far easier if the outsourcing provider is the same company that built and supports the hosted solutions. And if a provider offers a full range of options, it's easier to add capabilities with minimal disruption should the need arise.

What to look for: Rack space versus enhanced hosting

Within the realm of technology hosting, service levels and capabilities can vary widely among providers. One key consideration is whether a provider can host multiple systems supporting your core investment management functions, including portfolio management and accounting, trade order management, CRM, analytics, trading compliance, billing and more. If you are looking to offload as much IT responsibility as possible, it simply makes sense to work with a single provider that can handle all of it.

It's also important to look at the scope of services provided. Technology hosting is more than a matter of simply "lifting and shifting" your systems from on-premise to a provider's location. There are numerous factors to take into consideration:

- You'll want to be sure the provider meets stringent standards for security and risk controls, with the attestations and SSAE16 certification to prove it, in addition to managing and maintaining systems.
- A provider should be able to guarantee uptime and provide 24/7 monitoring to confirm that data uploads and downloads are successful, integrations are working as intended, workflows are in order, and the system is responding as it should. This level of service further distinguishes enhanced hosting from generic or rack space hosting.

As your business grows, and your needs become more complex, you will need to be able to adapt on the fly. With enhanced technology hosting, you don't need to rip-and-replace an old system. With the right provider you'll have a platform that can scale with your business, while sparing the extra expense of adding staff to

manage technology as your assets increase in volume or complexity. Furthermore, as technological innovations come along, the responsibility lies with the hosting provider to make the requisite investments to keep its platform on the cutting edge—not with you. Look for a hosting provider with a record of investing in continuous improvement and a clear roadmap to future enhancements.

What to look for: A large, customizable menu of operational services

Historically, the rationale for outsourcing back-office tasks such as data management and daily reconciliation was to relieve in-house staff of mundane, repetitive tasks and enable them to focus on more productive, revenue-generating activity. In smaller firms, it allows managers to focus on their core competency and not be distracted by administrative issues.

These are still valid considerations. However, more firms are realizing that operations outsourcing is not simply a matter of finding a provider that can "take it over." It's about finding one that can "do it better"—a provider with the systems,

More and more firms find themselves somewhere along the outsourcing "adoption spectrum," ranging from cloud-based technology hosting to full technology and business process outsourcing.

processes and people with the expertise to execute efficiently, improve accuracy and reduce compliance risks, following best practices borne of experience working with dozens of firms. In-house operations teams can then shift from hands-on tasks to reviewing the outsourcing provider's work and taking on higher value projects for the firm.

That said, there may be compelling business reasons to maintain direct control over certain processes in-house. That's why you will want to find a provider that not only offers a wide range of service capabilities, but also has the flexibility to allow you to selectively decide which services you need. Co-sourcing arrangements allow you to custom-tailor services in partnership with the provider for the benefit of your firm. The optimal provider will effectively serve as an extension of your in-house team, with a strong working relationship and clear channels of communication.

What to outsource?

With the flexibility to pick and choose among different operational processes, the question moves quickly from "Should we outsource?" to "What should we outsource?" Firms need to look at what they do best and what drives revenue— anything else becomes fair game for outsourcing. That typically includes the following:

Reconciliation

In a recent SS&C Advent webinar poll, firms cited reconciliation as the number-one activity they are looking to outsource. Firms acknowledge it's not a core business and keeping it in-house adds little value. Resolving exceptions is a big drain on the operations and accounting teams' time. In the Advent Users Group (AUG) 2014 Operations and Compensation Survey, firms reported spending 40 hours a month on average on reconciliation, with the number climbing to as much as 60 hours at larger firms. Extensive manual intervention causes delays and increases the risk of errors. By moving reconciliation to an outside expert, firms seek to gain efficiency, improve accuracy and redeploy staff to more productive pursuits.

In reviewing outsourcing providers, it's important that they have a track record of delivering reliable reconciled data every day. Look for a provider that offers comprehensive capabilities and can accommodate complex reconciliation scenarios, including position, cost basis and transaction reconciliation.

Reporting

Increasingly, firms are finding that the time spent on reporting— an average of 53 hours per quarter, according to the AUG survey—could be used more productively elsewhere. Reporting is another low-value activity that involves collating inserts from multiple systems, packaging them, then posting the packages electronically or

sending them through them mail. Because the quality of reporting is highly correlated to the cleanliness of data coming out of the reconciliation process, it makes sense to outsource both reconciliation and reporting to a single provider.

Outsourcing providers should have the flexibility to offer more than standard reports. The best providers meet highly customized reporting needs and are able to produce the full range of reports a firm requires, including period-end client reporting as well as internal management and compliance reporting.

Performance Management

Every firm has its own criteria by which it measures and analyzes performance. Compiling the data and calculations to address all the performance variations is a time consuming process. Performance management is a task that is ripe for outsourcing. The right provider will have the flexibility to deliver performance updates at intervals you designate, based on your firm's particular criteria, enabling you to focus your time and resources on analyzing and reporting performance rather than managing the underlying data.

Data Services

Firms are highly reliant on external data sources, including custodians and market data providers. Maintaining a complex maze of individual interfaces with data providers is extremely expensive, and time spent chasing down missing data from individual providers as a drag on efficiency.

Outsourcing is not merely a matter of convenience and cost control, but can actually deliver a strategic advantage.

And if the providers make changes to their service or technology, as they are likely to do, it's disruptive and can add further costs.

Look for an outsourcing provider that can aggregate and normalize daily security information and pricing data feeds from multiple sources on a single platform. The right provider will also be able to relieve your team of complex tasks such as corporate actions processing, and support manual processes such as statement updating. Outsourcing mitigates any disruption arising from changes and helps keep data costs predictable.

Meeting regulatory requirements

It's no secret that the global regulatory environment has become increasingly complex in recent years. Besides the glacial implementation of Dodd-Frank in the US, many firms have to deal with global regulations such as FATCA and AIFMD. The pending DOL Fiduciary Rule is expected to greatly impact wealth managers' operations and costs to achieve compliance.

It's critical to find an outsourcing provider that is up to date on these ever-evolving rules and can help you meet your reporting obligations. Confidence in the quality of data the provider is managing

for you is key to meeting regulatory requirements. Of equal importance, you should be sure your provider's systems, processes and risk controls can withstand regulatory scrutiny as well as operational due diligence on the part of investors. Reducing operational risk is one of the main reasons for outsourcing in the first place.

Outsourcing checklist

Technology

- Full suite of integrated solutions, including PMS, OMS and compliance
- Guaranteed uptime
- 24/7 monitoring for system performance
- Dedicated service and support
- Automatic upgrades at regular intervals
- High-security hosting facilities and SSAE16-certified risk controls
- Business continuity and disaster recovery

Operations

- Wide range of operational services, including comprehensive reconciliation, reporting, performance management and data services
- Dedicated team of operations experts
- Flexibility to customize selection of services

- Ease of integration with internal systems and processes
- Support for regulatory compliance
- Institutional-grade risk controls

Freedom to focus on your business

The fundamental logic for outsourcing technology and operations has not changed: it allows firms to apply their intellectual capital to investment strategies, client service and business growth. What has changed is the depth and diversity of options available along the outsourcing adoption spectrum. What has changed as well is the growing realization among asset and wealth managers that outsourcing is not merely a matter of convenience and cost control, but can actually deliver a strategic advantage—a smarter way to drive efficiency, manage risks, and gain the agility needed to adapt to a fast moving market. The key to realizing those benefits is working with an outsourcing provider that understands your objectives, offers a full range of solutions and services, and has the flexibility and expertise to customize them to your specific requirements.

SS&C | SMART PEOPLE
SUPERB TECHNOLOGY

advent.com | info@advent.com