Managing complexity and change in a new landscape

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Introduction

Leaders of global asset management firms are driving their operations and technology organizations to transform business processes and technology infrastructures. To enable long-term competitiveness, firms are redefining their global operating models through:

- A global footprint that maximizes the use of the 24-hour clock for business processes and technology development while enabling trading across multiple time zones
- The next generation of shared services organizations, outsourcing and data management programs to promote flexibility and responsiveness to changing investor and regulatory demands
- Cost-management programs that include product rationalization, assessment of distribution channels, a critical review and rationalization of global business and applications, and ongoing assessment of the use of low-cost locations
- Strategic investment in technology and data management to enable growth, along with more consistent and efficient processes

While specific areas of focus vary across small, medium and large firms, a number of common themes have emerged as firms reposition their global operating models in response to the convergence of long-term downward pressure on management fees and increased operating costs.

Driving asset growth by expanding global distribution channels and focusing on a premier client experience and brand management

In response to long-term declining margins, firms are focusing their corporate strategies on distribution and brand management for asset growth. The need to improve distributions channels is currently the primary driver in changes to the firm operating model. US managers are expanding their brands in Europe, while firms in all locations are assessing how to expand the direct-to-consumer model.

Adopting a strategic approach to complying with a dynamic regulatory environment

Global firms must comply with a changing and complex regulatory environment that places significant demands on not only the compliance organization’s people and technology, but also on the core investment operations infrastructure overseen by the COO. Leading firms are differentiating their capabilities and competitiveness by holistically assessing and implementing strategic change programs to address a multitude of regulations by a multitude of regulators with all their overlaps and conflicts. While challenges and competitive opportunities span business processes and legacy applications, data management and its associated challenges of quality, timely delivery, effective analytics and reporting are paramount. Medium to large global asset managers are implementing new and enhanced compliance programs that require changes to existing organizational structures, functional alignment, processes, systems and data to manage global regulatory compliance. For individual firms, the cost of compliance is substantial. Based on a recent EY survey of global COOs, more than four out of every five firms globally spend 10%-25% of their operations budgets on compliance.

Defining and implementing the next generation of global location strategy

Over the past decade, global expansion has been heavily focused on technology development and testing, as well as performing selected operational functions, such as reconciliations. And this expansion has been traditionally concentrated in a few locations. As medium and large forward-looking asset management firms evolve to the next generation of offshoring, they are increasingly looking to leverage...
their global footprint by creating a global operating model, where the technical and data infrastructure supports an increased number of business processes across the front-, middle- and back-office operations. Firms are creating global centers of excellence in a more diverse set of low-cost locations, balancing such trade-offs as proximity to senior management, cost of travel, information security, depth and breadth of skilled resources, and political and environmental factors. Our research indicates that the majority of firms view selectively maximizing the use of global low-cost locations as a core component of their business strategy. For smaller and midsized firms, near-shoring remains the more cost-effective approach.

For US firms of all sizes, the tax advantages of the offshore locations are a primary driver for diversifying from traditional financial center hubs. Where scale supports the strategy, these firms are moving from function-specific relocations to taking a cross-functional approach that effectively takes a critical mass of an organization, from senior management on down, and relocates to a lower-cost location. This approach has the added benefit of providing site diversification and enabling business continuity planning.

Expanding the use of third-party outsourcing throughout the operating model
Asset servicers are a fundamental component of an asset management firm’s global operating model. With the exception of a minority of firms, the question is no longer whether to outsource; instead, firms are considering which functions can be outsourced, the optimal number of providers to use and how third-party providers can be integrated effectively to enable timely data access by the enterprise.

Outsourcing has grown significantly in the last few years as firms drive outsourcing into the middle office and closer to the functions that traditionally interact with the front office investment team, such as performance measurement and attribution. Even firms that are unlikely to outsource a significant number of functions that use third-party providers for selected products, such as exchange-traded funds (ETFs) or Undertakings for Collective Investment in Transferable Securities (UCITS).

Identifying cost savings in existing shared services organizations
Establishing shared services can serve many purposes: streamlining operations prior to outsourcing, preparing for relocating all or part of the organization, or simply reducing operating costs and increasing the effectiveness of the control environment for processes viewed as too mission critical to outsource. Centralizing and standardizing business processes, such as reconciliation, or technology functions, such as testing and data services, are mature practices across the industry.

For leading firms, the next phase of shared services organizations is focused on driving down costs through reassessing the location of the centers, as well as reviewing business functions that may have previously been considered too complex or close to the customer to be moved into a shared services organization. In addition, top-tier firms are adopting process excellence and efficiency methodologies that originated in manufacturing, such as lean process improvement, to drive efficiency, scale and cost savings in existing or new shared services organizations.
Expanding and maturing data management and information security programs

Operations and technology leadership in top-tier firms are driving their organizations to implement world-class data management standards. While few firms have developed an enterprise-wide data management platform with the exacting level of efficiency and quality standards demanded by stakeholders, committing resources to data management is a priority. Data plays a significant role in a firm’s ability to comply with global regulations, establish a truly global footprint and realize benefits from a wide array of cost management programs across the organization. While firms agree on the importance of data governance and management, their opinions on how to accomplish the goal varies. The degree to which standards are centralized and set at the enterprise rather than the local level varies by firm size, with larger and more geographically disperse firms less able to centralize.

Rationalizing the number of business applications, adopting vendor solutions and driving toward simplicity throughout the systems infrastructure

The ability of leading software providers to support the scale, scope and global footprint of top asset management firms, along with the realization that technology is no longer a differentiator in many parts of the value chain, has enabled asset management firms to reduce infrastructure complexity and cost. For example, firms are rationalizing the number of applications and replacing legacy custom applications with vendor-based solutions. In the front office, where large firms have historically supported two, three or more platforms based on asset type, the drive is to consolidate on a single trading and order management platform. Demonstrating how slowly this shift takes place across large, complex infrastructures, participating firms in a recent EY survey indicated that strategic spend far outweighed maintenance at 65% of the budget for smaller firms, while legacy infrastructure and greater complexity results in strategic spend outstripping maintenance by only 3%-4% in both medium and large firms.

For midsized firms, the move to vendor-based solutions or platform upgrades is being driven by software vendors that offer hosting solutions, thereby expanding the service model’s flexibility and functionality.

Seven in 10 firms recently surveyed maximize the use of shared services organizations for functions performed in-house.
Conclusion

Which firms will emerge the winners from this new market environment? A few critical success factors are becoming evident. Market leaders will be firms that can deliver on the following:

- **Deliver customized and scalable solutions through effective data management and sophisticated client reporting tools.** The ability of firms to effectively govern risk, drive process efficiencies, employ effective enabling technologies, integrate global organizations, meet regulatory requirements, drive product innovation and offer differential client experience depends on solving the increasingly complex data management challenges.

- **Think differently about new capabilities that can be enabled with big data and emerging data technology capabilities.** The volume, variety and velocity of data in asset management firms may be as great as, if not greater than, any other industry. The opportunity to ingrain advanced analytics and data-driven recommendations at the point of decision-making across investment teams, risk management, investment compliance and operations is a challenge few, if any, firms have mastered.

- **Create flexibility within the operating model, enabling rapid response to client demands, market conditions and regulatory change.** Operating in the global marketplace and expanding into emerging markets, while maintaining market share and margins in established markets, mean firms need to have organizational, technology and governance models that can respond rapidly, effectively and efficiently.

- **Leverage external third-party service providers while increasing flexibility and speed to market.** Third-party servicers are becoming a standard arrow in the quiver of leading firms. Whether asset managers use providers for specific products, regions or broad-based outsourcing, boards of directors and firm leadership are increasingly seeing the value in the role service providers can play in a global operating model.
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