

Financial Services

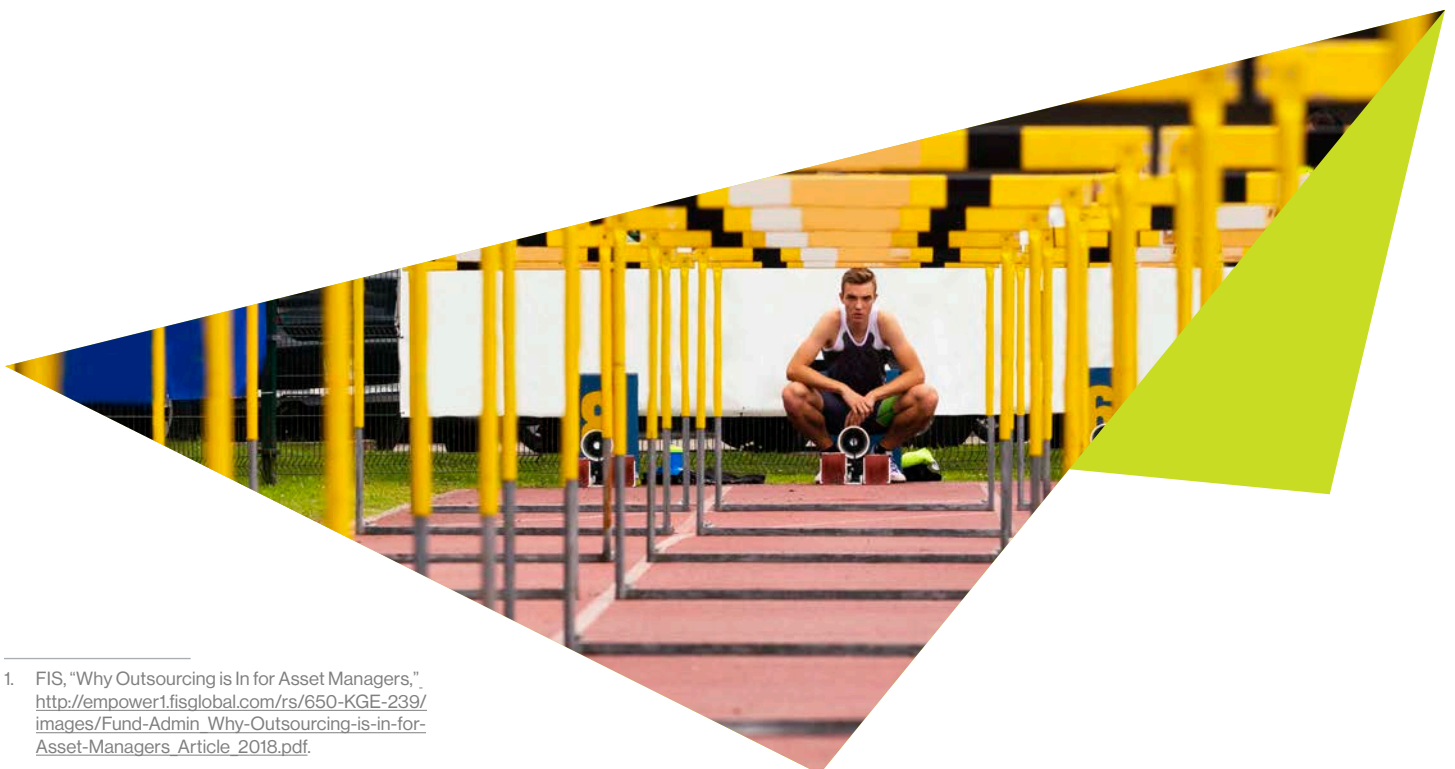
3 Ways Asset Managers Can Strengthen Operational Efficiency in Today's Transformative Environment

Stagnant growth of assets under management, shifting product preferences, and relentless fee pressures have forced asset managers to rethink operating models to drive operational efficiency. These financial institutions are also hampered by a heightened regulatory agenda and an unending wave of disruptive technologies.

Forward-looking asset managers are taking stock of core competencies and looking for opportunities to outsource noncore functions. As custodians bolster governance and security capabilities, institutions are gaining comfort in outsourcing functions ranging from fund administration to annual financial statement production.

Estimates on the number of firms that outsource some or all of their investment management functions range from 12% - 50%.

A 2018 FIS survey indicates that 10% - 15% outsource the bulk of their middle office activities, 25% - 30% fund accounting, and 30% - 35% transfer agency functions.¹



1. FIS, "Why Outsourcing is In for Asset Managers," http://empower1.fisglobal.com/rs/650-KGE-239/images/Fund-Admin_Why-Outsourcing-is-in-for-Asset-Managers_Article_2018.pdf.

How can asset managers safely pass the baton to service providers to drive long-run efficiencies?

Train for the Marathon — Not the Sprint — to Drive Long-Term Success

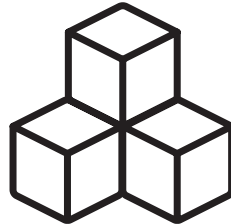
Reimagining an operating model that may have been in place for years, or even decades, can be a daunting task — especially considering these models span geographies, subsidiaries, and operational and technological constraints from prior system integrations and acquisitions.

From Guidehouse's experience, there are 3 primary steps to plan and execute an operating model transformation to drive long-run operational efficiencies with a focus on strategic cost management.

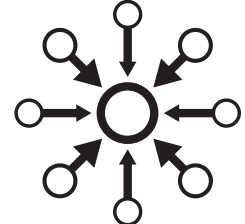
3 Key Steps Asset Managers Should Take Now



1 Review the existing operating model, to ensure the asset manager can take advantage of continuously emerging capabilities in the provider landscape. Increase **understanding of the current operating model, existing pain points and cost drivers** across products and geographies. Further, asset managers can evaluate whether a fundamental redesign is needed to solve the problem or if there is an opportunity to outsource function(s) to focus efforts/funding on core competencies.



2 Expect vendors and service providers to come forward with **different flavors of an integrated model**. Having an internal point of view will provide a reliable strategic framework to prioritize initiatives. There is not a “one size fits all” solution that makes sense across the asset management landscape. Be prepared to evaluate multiple options and pick the best set of solutions for you.



3 Developing a **cross-functional consensus** on the future state target operating model is critical. The model and road map should incorporate additional scenarios using different growth assumptions and changing product mix. A case in point is the emergence of private assets as a preferred asset class across asset managers and asset owners.

“Guidehouse believes institutions that adopt a strategic and cost disciplined approach, leveraging emerging technologies and adjusting for continuously evolving work, workforce and workplace dynamics will emerge as winners. Strategic Cost Management (SCM) provides an integrated and end-to-end approach to optimize cost structure, while maintaining focus on the growth journey.”

Jonathan Berry
Partner, Guidehouse



Hurdles That Can Impede the Planning and Execution Phases

Once the new operating model and desired benefits are determined, executing this transformation can present many challenges without proper planning, consistent execution, and energetic oversight. Don't let these hurdles prevent you from winning the transformation marathon.

Organizational Complexity Limits Ability to Holistically Understand Operating Model

Asset management operations tend to be segmented and frequently siloed, due to acquisitions, alliances, and product development across disparate lines of business. These can leave the organization with divergent/unusable sets of data, limited integration between key systems, and little cross-functionality throughout operations. As a result, very few people in the organization will understand the end-to-end operating model, or critical aspects of the broader organization leveraging the data provided.

Model Assessment Requires Strong Governance and Organizational Consensus

The organizational consensus of disparate geographies and countless business functions, is required in order to fully capture, prioritize, manage, and implement all operating model requirements. Asset managers are frequently ineffective or inefficient at implementing a multi-attribute assessment tool when examining an operating model. Not appointing an "impartial" (even internal) resource to govern the operating model transformation can lead to a solution that works for only part of the organization, or a decision that is driven primarily by one factor (usually cost), rather than a critical balance of capabilities that includes cost, client service, or other client-specific attributes.

Improved Understanding of Cost to Serve Can Eliminate Misguided Investment

Shifting and complex customer demands complicate the asset managers' ability to accurately determine the cost to serve clients. Operational changes needed to meet escalating client demands add expense in terms of resources required, additional or unforeseen risk, and potential losses. It is critical that asset managers understand the areas that require manual intervention, rework, or extra layers of review.

Multiple Integrated Systems Demand Keen Eye for Selection

The various types of capabilities, software, and models that technology vendors and service providers offer can be overwhelming to asset managers, especially those who have been largely immersed in the same operating model for years. Leveraging the knowledge and expertise of a third party can help set expectations for the asset manager and provide a baseline understanding that can advance operating model discussions with potential vendors and service providers.

Winning the Race: Case Study on Outsourcing with Reduced Fees for Existing Services

On behalf of an accounting and transfer agency division for a Top 15 asset manager, Guidehouse led a request for information process with six custodians, a nonbank fund administrator, and a software firm. We assessed the providers based on overall capabilities, the effectiveness of their client service models, and their demonstrated expertise and pedigree in the specific areas of scope. Additionally, we collected and benchmarked fee estimates based on our client's book of business.

Guidehouse developed a custom fee assessment tool for the engagement, which was then provided to the client for future use. Based on our analysis, the client was able to negotiate fee reductions with their current provider, resulting in more than \$2 million of savings annually for the same services.



About us

Guidehouse partners with financial industry leaders to navigate complex issues and operationalize pragmatic solutions around process improvement, business model transformation, technology enablement, and outsourcing. Our combination of industry, technology, and risk and compliance experience is unique, and allows us to provide a complete end-to-end solution that few others can match.

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Guidehouse is a leading global provider of consulting services to the public and commercial markets with broad capabilities in management, technology, and risk consulting. We help clients address their toughest challenges with a focus on markets and clients facing transformational change, technology-driven innovation and significant regulatory pressure. Across a range of advisory, consulting, outsourcing, and technology/analytics services, we help clients create scalable, innovative solutions that prepare them for future growth and success. Headquartered in Washington DC, the company has more than 7,000 professionals in more than 50 locations. Guidehouse is a Veritas Capital portfolio company, led by seasoned professionals with proven and diverse expertise in traditional and emerging technologies, markets, and agenda-setting issues driving national and global economies. For more information, please visit: www.guidehouse.com.

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