

TOOLING UP FOR THE MOVE TO GLOBALISATION

With increasing numbers of mergers and acquisitions in the fund administration space and a more global focus, how can players in the industry keep pace with demands for technology, talent retention and good service? Industry experts give their view in our latest roundtable discussion

Henry Smith: *Does Citi's recent takeover of Bisy's Group, in order to gain an edge in the hedge fund and private equity sectors, confirm a growing trend towards acquisitions rather than organic growth to stay competitive, at least for those players with the deepest pockets?*

Gordon Forrester: That acquisition highlights what is a huge underlying trend in the move towards globalisation. You see it in how much asset managers in the US are building out of their global platforms. I think it is a larger play and the administration and service businesses will likewise follow suit. What is going to be important in this marketplace, from an asset management standpoint, a custodial standpoint, an administration standpoint and an investor servicing standpoint, is that you are going to have to have the ability to leverage up on a global basis to be a significant player and a significant contributor 10 or 15 years out. I would expect to see further acquisitions similar to that, and on that type of scale, if not bigger.

Eric Dickinson: That was specifically around bringing capability to support complex products for Citi, which obviously is a major requirement for the asset management industry globally at the moment. Your point is that there have been some other acquisitions recently, like Bank of New York and Mellon, and there is definitely going to be a continuation of acquisitions on a global basis, but I think each of those needs to be looked at in terms of what benefit it brings to the market and to the individual operations.

Tim Wood: I think the key point is globalisation. Buyers are becoming more and more global, and the requirement for any service provider to deliver in almost any jurisdiction, any geography, is and will become a prerequisite. So this is a fairly logical step in a well-established trend.

Henry Smith: *Another recent development is the announcement of the ending of the outsourcing agreement between F&C and Mellon, a deal agreed prior to F&C's merger with ISIS. Again, this deal is another in a suc-*

The Roundtable Panel



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cession of what might be called a catalogue of failures over the last three years of headline outsourcing deals, particularly in the lift out space. How did you react to this news?

Tim Wood: I think there are probably a lot more successes that have gone through the industry than failures. The failures obviously attract the publicity. It also puts a marker in the sand of where we are in the evolution of outsourcing. We have yet to see anybody move from one provider to another, so this is a significant event in the sense that somebody has terminated a contract, as opposed to not doing it, or doing it and staying with the provider. So whether they insource or appoint another provider, I am not clear, but the point is that somebody has done it and this is relatively unusual.

Ian Stephenson: Mellon were somewhat unlucky given the transaction with F&C/ISIS. Somebody was going to be a loser. But I also think this development highlights the complexity inherent in very large deals – they are intrinsically difficult and highly risky for both parties.

Eric Dickinson: They ended up in a situation where they had Mellon doing half of the business and themselves doing half of the business in-house. The winner had to come out of that. Perhaps they just thought they would be outsourcing subsequently, and perhaps it is better for them to have the control, getting it onto one platform themselves prior to maybe outsourcing it.

Alpesh Patel: On this issue of outsourcing, I read a book a couple of years ago about how this industry is probably one of the last to be looking at India for outsourcing some of the back end stuff. All the major investment banks and accounting firms have some form of administration out there, and this will come to the hedge fund and private equity administration industries as well, because one of the key drivers behind this, of course, is cost. The other is talent, and lack of talent results in the costs increasing as well. In any event I think we are going to see that trend increasing with administration, the same way we have seen across every single aspect of investment banking and of accountancy, and to some extent this is a merger between the two.

Ian Stephenson: That trend has started. A year ago we had no one in Calcutta, but today we have 300 staff supporting our hedge fund and traditional funds businesses, and we are growing that aggressively to in excess of 1000 over the next two years. One of the challenges to maximise offshoring is the extent to which clients will accept that move offshore. Our experience to date suggests that if you are careful with what you do, and clearly leave the front end client layer in the country, then clients tend not to object – and there is this tremendous cost and skills benefit in offshoring, particularly to India.

Eric Dickinson: Does that include the financial engineering skills that are required to support complex products and OTC derivatives?

Alpesh Patel: I am chairman of an outsourcing company in Mumbai, and we have got just under 300 staff there, doing the complex stuff. They are the PhDs, the MBAs – the guys you either cannot afford or cannot get in New York or London. That is actually one of the easier things to move across.

Probably one of the more problematic aspects is when I need to get hold of the person who is sending us over the NAVs each month and we have to go through the line items. Just in terms of timing I want to make sure I have got the right person and I can get hold of them. In this business, with time being of the essence, that is going to be more problematic than finding the rocket science skills.

Barry Carroll: I suppose that there are two types of people – those who have outsourced to Asia and those who have not. I'm an accountant who falls in the latter category. I have heard of some of the "war stories" of people outsourcing and then having to pull out when they realised that it wasn't working (it was a disaster). I often think, however, that it is just outsourcing done badly. I believe that outsourcing can be very effective for certain elements of the market, however for us, who are very specialised in private equity, we would not dream of going to India. In Asia there is no real expertise to be found for our sector. We currently employ 60 people and they are difficult enough to find here, in arguably the world's largest financial centre. It is not an issue regarding an MBA or a guy with a high IQ, the issue for us is obtaining people with the relevant experience or people we can train up.

Henry Smith: *Back in the early-1990s Dublin was promoting itself as a centre of low cost labour, but now salaries have gone up and poaching of staff is common. The same is happening on the investment management side right across Asia, even in*



Alpesh Patel: *Singapore is more or less error free, but all creativity goes out of the window. That is fine we do not want them to be creative with our NAV*

mainland China. Is it just a question of time until we see the staffing of the investment services side being affected in the same way?

Alpesh Patel: I am out there about every six weeks and get reports from our company and we are already feeling that squeeze to some extent. But over there unemployment levels are so high and that gives you fierce competition – the people you have got are afraid of just fishing around because they know there is a large enough pool out there. Now, that pool may narrow in time, it is bound to come to this sector sooner or later. But in any case, in some areas we are paying people western salaries to keep them, because the best of the best are hard to find anywhere, even in a large population pool.

In the mass ranks, you are pretty much doing the same things you are doing here, you are trying to give them the benefits of working with your brand, within your company, to retain them, but at the moment we are not seeing that squeeze, but it will come. The first thing that will happen is wages will just keep rising. Of course, it is not just a cost issue, because if wages do rise we can match costs, it is a talent issue, and you can at least find the people out there.

Tim Wood: It is worth remembering that India is not the only place in the world where costs are advantageous. Dexia has moved some of our fund accounting processes to our Singapore office, where again, it is a low cost environment, but you also have the advantage of a very disciplined talent pool. Error rates are low, and there is not much difficulty in keeping

people doing the same job for a period of time. If we look at somewhere like Dublin, as you mentioned, if fund accountants decide they want to be something bigger and better after nine months, that creates its own problem.

Alpesh Patel: That is a very important point. I do not think I have had one set of NAV figures on the Excel spreadsheets which have not involved something we consider a blazing error. With India, and certainly Singapore, there are fewer errors, for whatever reasons – maybe it's cultural, maybe something to do with early-stage schooling, maybe it's just that this is all that somebody ever wants to do and they just want to get this process driven task done right. I know in Singapore all creativity goes out of the window, but that is fine, we do not want them to be creative with our NAV.

Barry Carroll: Is the problem a cultural one or is it just overtrading? Is that not what Dublin has experienced? As a Dubliner myself I would like to think that our education system is actually very good, however, Ireland is overtrading.

Ian Stephenson: Turnover levels are around the 30 per cent mark in the fund administration industry – a lot of that at the junior end. The government has traditionally insisted on minimal activities being conducted within the state, but we are now seeing that position loosening. So the regulator has woken up to the fact that there is not sufficient supply to support the growth and is now embracing much more the need to improve the labour supply by proxy, effectively by using other countries.

Henry Smith: *What challenges does the industry face with regard to investing in the necessary technology and expertise to service increasingly complex instruments?*

Barry Carroll: Capacity is the biggest problem we all have, essentially there is more demand for our services than we can supply.

Eric Dickinson: Some of the established fund administrators have developed their scalable platforms to support much more the traditional instruments, and the big challenges that they are faced with come from hedge funds and over the counter (OTC) derivatives within long-only funds and Ucits funds.

We have a pan-European capability, but also an investment bank within Société Générale, which has a lot of expertise in OTC derivatives, and we have been able to take that expertise and in-source it to investor services. Now we can now provide some of those complex product services like asset servicing, performance fees, independent OTC pricing, etc. It is a big challenge for the major outsourcers.

Gordon Forrester: The drive for alpha is at the centre of a lot of what we are talking about here. If you look at the impact that is going to have on fund administration units, you are seeing firms like Merrill Lynch and Morgan Stanley start to come in and say, 'We can help you with structuring your 130/30 operations'. So it has opened up the field to some more non-traditional players to come into this business and impact it. How do you deliver quality in an increasingly complex and global environment? Sometimes I think we forget the huge impact that service quality has on asset management brands. Those NAV errors have a huge impact on client fails, they are either getting revised statements or they are getting cheques in the mail for amounts that they were due for trading errors, etc, and the more complex and globalised the environment we deal in, the more important the need for quality of service, and the role of choosing who those service providers are. Maybe even more important to an asset manager than cost per account.

Alpesh Patel: Yesterday I spent – you could say wasted – three hours with one of our major investors on e-mail traffic centred around NAV, because our administrator made some mix ups. And we are a pretty plan-vanilla equity long-short – we are dealing S&P500 stocks, we are probably doing about 30 trades a month, nothing complicated, no international arbitrage, no OTC. With the next strategy that we have launched, we feel it is simple enough to go down the managed account route and just remove the administrator completely. We have not yet had a complaint from an investor asking



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why they have not yet received their monthly NAV statement, but it is getting to the stage where it is the 16th or 17th of the month before we are getting it out. Ours is the world's largest hedge fund administrator and I was expecting greater accuracy greater timeliness, which does make me worried.

Ian Stephenson: In the hedge fund area one clear trend that we are seeing is our clients demanding daily indicative valuations. Our primary hedge fund service came with the acquisition of Bank of Bermuda, who provided a very typical monthly NAV-based service. Quite independently we developed our whole outsourcing, middle office services to support UK-based asset managers, where we value any fund, every day, but indicative rather than putting our official seal on it. We now have clients for whom we calculate the official NAV monthly, but every day we are producing indicative valuations for the front office.

Alpesh Patel: On the indicative we just use the prime brokers to mark to market, and then we know there is going to be a little bit of drag that we can add on. So we tend to do that in-house.

Gordon Forrester: Technology underpins a lot of the issues in the marketplace. How many fund accounting and custodial systems can really deal with a lot of the complex derivative instruments we are seeing? How many providers are using the basic system they have and band-aiding around it with talent overlays? That leads us back to the question of who will be the players of the future. I just do not know how many of the players are investing what they need to get up to scale in terms of process on a lot of these transactions, and these instruments, and I do not think the smaller players are going to be able to play in that type of marketplace.



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Tim Wood: I think that is quite right. People try to make their custody or fund accounting systems handle complex instruments they simply were not designed for. Or, more worryingly, one or two competitors that have bought a hedge fund administrator try and do a forced systems integration. I think it is important, with acquisitions of hedge fund administrators, to recognise that the systems are fundamentally different, in terms of capability and what they deliver. The holy grail of having one single platform does not necessarily mean one single computer.

Gordon Forrester: The migration of hedge fund techniques into Ucits funds means you can no longer say, 'Well this is a small part of the business that I can throw 400 smart people at'. I do not think you can annex out a small team for hedge fund business while mainstream asset managers are starting to run 130/30 in their mutual funds or credit default swaps in their fixed income funds. We need to integrate this in our mainstream processing, and that is the inflection point I think the business is at right now - the meat and potatoes of your business is moving in that direction.

Tim Wood: Pricing all of this stuff represents a fairly major headache for most providers. There are specialist-pricing vendors, but there are not enough, and they do not have the sufficient coverage to satisfy everybody's requirements. So it is inevitable that this is going to be a developing area of the industry.

Eric Dickinson: It is an area that we have focused on quite strongly, and we offer independent OTC pricing capabilities for investment banks and asset managers.

Martin Steward: *We have seen prime brokerage evolving into prime services over the last few years, and I wonder to what extent they have the capacity to compete in this area, where you would think they have the skillsets?*

Tim Wood: We have seen the emergence of prime brokers playing in parts of this field. Some of them have greater capabilities than others, but yes, I think this is something we should be cognisant of.

Alpesh Patel: It is a good point. But speaking to some of our investors when they have raised queries, it is quite nice from a user perspective to be able to say, 'Our prime broker is independent of our administrator'. I think it adds to your credibility. So I suspect, whilst there is probably a business case for the prime brokers to do that, I am not sure it is necessarily a good thing for the industry, and I am not sure there would necessarily be as much a demand as one might imagine.

Gordon Forrester: I think these issues also have implications from the asset management side of the business as well. There has to be a realisation on the part of the asset manager that they are going to have to be much more of a partner with the custodian banks and with the fund accountants, that they own part of the responsibility for running more complicated strategies. There has to be dialled up oversight and dialled up communication here. You cannot expect a fund accountant to understand a complicated derivative instrument, there needs to be a context. I see this today - there are more people dedicated to connecting with the fund

administration people, and the fund accountants, out of the investment division. It is not just the TA and the fund accountants and the administration group, you are starting to get more connectivity with folks in the investment division. I think that is a good thing for the business.

Alpesh Patel: I would add that that partnership is necessary even with simpler stuff. I think that if we were doing it all over again one of the things we would do is probably fly over to Dublin, and sit down with the people who are managing even our relatively simple operation, and explain to them what we are doing. Probably go through every single item of what they are going to use in the NAV each month, and say 'well, this is our view on it, and this is yours'.

Barry Carroll: It is important to get the best out of your provider - if I had a penny for every time ego or old fashioned practices result in sub-optimal performance... People do not invest enough time in their outsource relationships. The old fashioned idea - 'they are just the idiots over there that we pay 10 basis points to' does not work. When you are sitting there day-to-day, with all this work and only a limited number of hours in the day, which clients are you going to give priority to? Naturally, it will be the ones who have taken the time to create a relationship with you.

Henry Smith: *Given all of these issues, where does the industry stand in STP implementation?*

Ian Stephenson: The complications we tend to see are around the straight-through process, rather than how to account for an instrument. How do you get the information into your system and how do you reconcile it all at the other end? Administrators and custodians live and breathe swift messaging, for example, and that whole process breaks down in the derivative world. We have very well-defined protocols and systems for equity-bond matching, but if you do not have a similar model with derivatives then you have a gap that is quite hard to fill. It is not just a systems issue - it is a data standards issue. This is probably the area of most concern to the industry and where a lot of the spend will be directed.

Barry Carroll: What everyone here has talked about is quality and in the retirement cycle you see all the basic stuff. The one thing we all agree on is that it is going to grow massively - way beyond our expectations - and that is our biggest challenge. We must not underestimate the amount of work there is. People do not screw up or give bad service in our industry because they are stupid - it's because they are

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FT Mandate editor Henry Smith hosts the latest roundtable as the group prepares to debate the issues surrounding the fast-changing fund administration industry

overtrading. They are also using what we used to term 'sneaker-ware' – you pretend it is straight-through processing but actually a person runs (in their sneakers) from one part of the process to the other. There are a lot more people who do that than we would like to admit. Nobody is at the level of straight-through processing that we all truly aspire to.

Henry Smith: *In terms of number of players and their capabilities, what is the fund administration landscape going to look like three-to-five years hence?*

Barry Carroll: There is going to be a polarisation. What everyone has talked about here is quality and yet these big acquisitions tend not to be highly successful. Indeed, because big organisations look upon them as an EBITDA curve, a cash cow – they rarely anticipate the opportunities and inject what is really required. When you acquire you change the culture of the business, dismantle it and then put it all back together. This helps players like us because I suspect some of the larger banks try to commoditise their client base and try and standardise everything. People do not fit into the same box any more, everyone wants something different – the hedge fund world, the private equity world, everyone!

Eric Dickinson: I do think it is different for those players that are a part of banks and where the investment-banking arm is very much integrated.

Barry Carroll: I am with you, but I have seen from my KPMG days, and working for a few fund administrators, that it rarely happens successfully.

Eric Dickinson: But it does happen in some places. It does in our organisation and I know it does in other organisations. If you take the big custodian banks, like Bank of New York and so on, they do not have investment banking arms, so they do not have the expertise and the cross fertilisation that people like Société Générale, HSBC, BNP Paribas.

Henry Smith: *Barry, can you tell us something about the specific administration needs of private equity funds?*

Barry Carroll: Things like technology and capacity are issues that face us all, but in general private equity fund admin is vastly different from anything else have talked about here today. The kinds of structures are almost always partnership structures – sometimes a feature in the hedge fund world. Most private equity funds in the world are self administered, unregulated, do their accounting and reporting on simple general ledgers with Excel. People are looking for quarterly reporting – not daily or weekly or monthly – but it is very technical because of the waterfall calculations which are very complex, so you need people that really have their heads screwed on.

What people really want is a solution, and technology is a big part of this. Either they do it themselves or their outsource provider is using a core system that does not have a lot of what

we call 'workarounds'. Those solutions – which have only genuinely become available in the last three or four years – are software packages out there that are fully integrated, multi-currency, limited partnership general ledger packages with investor web reporting modules.

On the other hand it is more of an aesthetic business than hedge funds. Clients want something that looks highly presentable – as a result, we spend a certain amount of our time making it look glossy. So as well as having a bunch of accountants we also have specialist report writers who make things look professional.

Finally, there is massive demand and growth in the industry. I think it is the only part of the investment management sector where the same party raises the money, collects it, holds it, invests it, calculates his own fees, reports to investors, distributes money back to investors, and gives back the remainder of cash at the end of the 10+ year life of the fund. You have got some audits in there, but an audit report is not the same as something from an independent and competent fund administrator. New managers do not want to set up their own back office – they want to outsource. And if that ever became more mandatory I think I would really have to bury my head under my desk as the phone would not stop ringing.

Henry Smith: *We have mentioned the increasing complexity of the fund servicing business. Is this going to keep prices fairly high, or are there downward pressures on the cost of fund servicing?*

Gordon Forrester: You have downward pressure because of the affected margins in the asset management side, particularly in the US, because you are getting more of this on our mediation on the mutual fund side of things, from more institutional and sub-advisory buyers. But then you have the realisation by the asset managers that there is a limit to how far they can put downward pressure on you, because quality and accuracy hold such a high premium in the service business. So two opposite forces are in play, but I do think that the quality, particularly with some of the complexity, will help sustain key players.

Ian Stephenson: Global custody prices have been falling year on year for a long time, but, as we have said, there are new complexities. A price has to be paid for new, non-commoditised services. OTC pricing has a cost, and institutional funds are starting to move parts of their funds into these instruments – but I do think there are elements of the customer base who do not appreciate that cost. If you are pricing these instruments every day – for a retail mutual fund, for example – the challenge is, how do you verify the model, how frequently do you do it, does the auditor/trustee actually understand

the model? Therefore, in addition to the administrator there are costs for the audit firms and trustees who need to understand the basis of the model, which requires them to have the appropriate expertise.

Tim Wood: I think clients are realistic about the costs involved in administering alternatives and the more complex instruments. It is not sensible as a provider to have just one blanket price across all instruments. That said, as an industry in seven or ten years time, all these terribly complex things that we all burst into tears over will be standard, part of a core offering, and there will be some other amazing new thing that will be considered alternative. So the pricing will go up for now, people will accept a higher price now because it is new and different for a lot of people, but that will not last.

Henry Smith: *The value-added services are the ones we hear about most often, when mandates have been awarded. What is the next frontier in value-added services? What new value-added services do you envisage being rolled out in future?*

Barry Carroll: Virtual support – like a virtual CFO or a virtual financial controller. You will be able to go along to a client and say you are going to pay us this amount, but we are going to have a guy in your office five days a week as part of your team. It is actually there for a number of bigger mandates, but it will become more frequent on a generalised basis, maybe one day a week. We have offered that to clients. Monday is their big day, so we say, ‘Right, your relationship accountant will be in your office all day Monday’.

Alpesh Patel: *That is something that we have been doing for quite some time as well, with custody and outsource.*

Barry Carroll: Training is one thing we discovered completely by accident. We put a couple of training courses on for clients’ more junior staff members, and even middle ranking staff members, and the take-up was frightening. There will be more of that, we do not understand the value chains of all of our client’s businesses properly, and when we do understand more, there will be more services that we would naturally want to give them.

Gordon Forrester: As asset managers globalise another big area of value added will be starting to get your arms around how you service different clientele and different market places. This is not one standard fits all here – a lot of the bigger players have custodian relationships and operations that span multiple countries. I think there is a huge opportunity here for custodians and service providers to

help in terms of educating the asset managers, and helping them as they grow their businesses outside of their current domiciles, to understand how they interact with clients, whether the direct investor or the broker in these countries, on the parameters of how business is done, how trades are processed.

We are going into Taiwan right now, and spending time with the TAs, people like Bisys, etc, has been hugely informative for us, because it helps you understand the mechanism of doing business within the country, the different share price structures, why they are structured the way they are, how they are funded, and sometimes just elements of how massive distribution agreements are formed. There is a huge element here that service providers can help with – a lot of times when you go to the law firms you get a legal perspective, but the framework of doing business, particularly the transfer agent services, can be phenomenally helpful.

Eric Dickinson: Ucits III touches on that as well, in terms of providers that are pan-European being able to help their clients distribute in those countries by providing add-ons to the TA services – paying agent services, etc, but also understanding the legal frameworks and the best way to distribute in a given country. If you already have established operations in those countries you will understand those markets, and you can offer your client a lot of short cuts in terms of being able to establish their businesses in those different jurisdictions. You can also provide legal advice, education, plus other services – because we have legal people in different countries – we can do part of that work as well.

Tim Wood: That is right, it is not simply geographical depth, it is also geographical expertise. These are great opportunities for a provider to differentiate themselves – it is just taking that gap that exists between provider and buyer and actually doing some overlap. I think there is a fairly fast moving trend towards outsourcing conversations being linked to supporting clients’ distribution strategies, rather than just the financial dynamics. Global distribution is absolutely critical. Buyers are more global, so we need to be able to support clients in all of these different geographies. I think the financials will always be a critical factor, but there are more and more components of that whole deal that take prominence over that on occasion.

Henry Smith: *If we are looking at the top tier of large fund administrators, with huge volumes of assets under administration, how do you seek to differentiate yourself when competing for a fund servicing contract?*

Ian Stephenson: It varies from market to market, but our approach traditionally has been to compete on quality of service. That’s partly down to our history – we had a business with no clients, so to grow a client base you have to deliver a good services. Undoubtedly most fund management organisations also want a good price, so it is how you can deliver on price.

Tim Wood: Prices are always going to be a critical factor, but the real differentiators are timeliness and accuracy and consistency. What does quality of service mean? It is being able to



Ian Stephenson: *global custody prices have been falling year on year for a long time, but there are new complexities*

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contact and get a sensible answer from somebody who is empowered to change things, fix things, get things done. Not some call centre environment where they are just taking a message and passing it through the system. That is where we see the real differentiator. Of course price is there somewhere, but the real differentiators are something else I think.

Alpesh Patel: It is like buying anything - you are only ever going to compete on service and price. The one thing to add into that is that we were willing to pay a slightly higher price for the brand name. I suppose in this industry, perhaps more than many, those brand names matter. It did not just apply to the administration side, it actually applied to our lawyers as well. We were willing to pay a bit more, even though we know it is pretty commoditised. We had a pretty plain vanilla structure - Cayman master-feeder with an Irish Stock Exchange listing - but it was worth paying that bit extra to have on the prospectus that we have gone with that provider, which hopefully added a little bit extra to the marketing or discussions with the investor.

That is an advantage for the bigger boys, but what we also found with some of the smaller companies was that they seemed to be slightly less price flexible. They had their menu of items, and you were almost stuck with having to pay for things you were not going to use. I suppose that is the typical problem when you are buying services, and another is that in a service industry you cannot determine quality until you have used the services. You have to rely on the brand, word of mouth, and that is the great unknown in this industry.

Eric Dickinson: What about factors like flexibility and future proofing? In other words, looking at the platforms a provider has, and what your future business plans might be, and how they would behave if you came up with a new requirement, and perhaps what their platforms would be?

Alpesh Patel: For us that was less of an issue, partly because we tried to keep things as plain vanilla as possible. The administrator that was in second place, which was slightly cheaper, was SS&C, and their whole sell was about the technology. It did not really fit with what we needed, so they were giving their sales pitch on how fantastic they are on technology, but that was not really so relevant to us. That is probably a bad sales technique on their part more than anything else - we started getting the impression that we were going to be paying for stuff we did not need or want.

Eric Dickinson: If you are a Threadneedle or an F&C then your requirements for how you would handle the future are going to be very important when you make your decision about who



Barry Carroll: financial stability and ownership stability are important. This is a generalisation, but people do not do enough due diligence on their outsource providers

you are going to work with I would have thought.

Alpesh Patel: You are willing to pay now, knowing that you are going to need some of that flexibility and upgradeability later on, even if you do not need it today. I think the simplest analogy, and there is an obvious reason why this comes to mind, is when you are looking to upgrade your IT in your own office, and you are buying the hardware, you pay a bit extra for having that upgradeability in the machines. It is because you know you are going to need it two years down the line.

Henry Smith: *As fund administrators, what do you look for in a transfer agency system, and how do you assess the claims of different TA systems?*

Eric Dickinson: There are a number of prominent systems on the market that have been around for quite some time. So it depends what you want to do with your TA system. Do you want to use it in Continental Europe, do you want to use it in the UK, do you want to use it elsewhere in the world? TAs tend to have quite a lot of local jurisdiction requirements, so you are always going to have those to deal with in each country you work in. Obviously, in France you have the CSD model, which you do not have in the UK and Luxembourg for example.

We had a particular requirement at Société Générale to provide a TA capability following our acquisition of Unicredit's securities services business last year. What came with that was the responsibility to administer the Pioneer funds, and to do that we needed to provide

services like trail commission calculation, etc. Rather than going and selecting the TA system, we identified a small TA operation in Luxembourg, called European Fund Services, which was using a pretty modern and flexible TA platform. Obviously we got our IT people to do some detailed due diligence on that, in terms of what other jurisdictions it could be used in, and basically European Fund Services is now our TA offering using Multifunds.

Whether that will be the final solution for providing TA in the UK, I do not know at the moment. It may be better to take one of the market leaders and use that for the UK, but Multifunds is capable of supporting the TA business. So we would do it on capability, flexibility, ease of development, scalability and cost.

Henry Smith: *When firms are in this transitional stage of merging a new business following an acquisition, how successful are they at keeping clients of the purchased company - and even their own clients? Often you hear of servicing standards going awry during that period often due to staff morale issues or redundancies.*

Tim Wood: I had first hand experience with the joint venture with RBC and Dexia, and we are now 18 months into that. In terms of clients, we did not lose any significant business over the JVs. In fact, we have won significant business as a result of it, being able to offer more products and services in more geographies. So how do you maintain things, how do you make sure morale is not affected? The first point to do is to make sure

that you are two well-suited organisations, not just culturally, but in terms of ownership and attitude, products, services – pretty much in every way.

On the people front, it boils down to the cultural side of things to some extent. We have put an enormous amount of effort into putting people in front of each other, face to face, meeting colleagues, and giving everybody a joint purpose – one firm, one vision. That is incredibly important, to get everybody aligned on what the point of the whole joint venture was, and is, and where we are all going, and that comes right from the top.

Organisations who are not as successful at doing that sort of thing have not got that level of communication with clients, or with their staff and their teams globally, giving everybody a single purpose, and explaining to clients what is in it for them. If you look at some of the recent custodian acquisitions or mergers, client communication, anecdotally, has been pretty appalling.

Barry Carroll: Financial stability and ownership stability are really important. This is a generalisation, but people do not do enough due diligence on their outsource providers. Sometimes there is a mindset that it is just the fund administrator, and they do not realise actually how important this link in their chain is. So they do not give it the attention that it requires. They often appoint a person who is not right to do the due diligence and make the decision. Generally speaking, the US is far more developed in dealing with this than we are. On average they tend to be better on due diligence. When businesses are acquired or sold the culture changes and a lot of people will ask questions about the ownership and about the financial stability. No one wants to buy into an administrator and two years down the road, know it is going to be sold, so people are very interested in who owns the business, what the long-term ownership stability is like, and whether the culture of that business will continue. That is the beautiful part of our industry – it is a marriage, people do not want to get divorced after a few years.

Henry Smith: *Any final comments on the challenges faced by the fund administration industry?*

Barry Carroll: For all of us providers, the problem is one of demand outstripping supply. If you look at the US market five, six or seven years ago, 30 per cent of asset management firms outsourced. Now it is something like 60 per cent or more. God help us when that happens here. Then again, we gave a client the bullet about six months ago, because they were always paying our fees way too late,



“IF YOU ARE A THREADNEEDLE OR AN F&C THEN YOUR REQUIREMENTS FOR HOW YOU WOULD HANDLE THE FUTURE ARE GOING TO BE VERY IMPORTANT WHEN YOU MAKE YOUR DECISION ABOUT WHO YOU ARE GOING TO WORK WITH I WOULD HAVE THOUGHT”

ERIC DICKINSON, SOCIÉTÉ GÉNÉRALE SECURITIES SERVICES

while we had lots of potential new clients banging on our doors. I think there are going to be some shocks to the system. We had a strategy session recently in our business, and the one recurring problem we always make is underestimating growth. We are not unique in this respect, it is industry wide.

Ian Stephenson: In addition to the complexities we have discussed around instruments, fund types and strategies, and so on, in my 20 plus years I have never seen such regulatory change, particularly in Europe. However, savings and investment in Europe continues to grow, so it is a very attractive market; Asia is also extremely attractive, so we will see tremendous growth coming out of both those geographies over the next decade. HSBC has got that footprint, so we will have these growth challenges, but those are nice problems to have.

Eric Dickinson: There is going to be massive growth, there are going to be more outsourcing deals. I do think that if you look at the two types of player, the global custodians and the global banks, you will see the global banks with investment banking arms progressing faster in terms of offering services to support more complex products than necessarily the traditional global custodians.

Tim Wood: This is a business that is moving faster than it has ever moved before. It is becoming more complex, and it is incumbent on all of the providers in our industry to recognise that, to make sufficient investment, deliver on service, quality, timeliness and accuracy every single day, and absorb these challenges that are thrown at us from the client's side with relish – and make sure that we do a very good job.