# European fund servicing enters a new age

"The age of the traditional Transfer Agency all of nothing approach is about to be consigned to history; prepare for the service partner" Paul Roberts of International Financial Data Services looks into the future of the fund servicing marketplace in Europe

A new breed of service provider is emerging in Europe, whether that is in Frankfurt, Milan, Luxembourg, Dublin or London. The fund service partner, this new animal, will spell the demise of the traditional all or nothing transfer agency supplier. Why, because they provide everything the traditional transfer agent could not; flexibility, access to new markets and a partnership to achieve genuine top quality, focused service.

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In B2C marketing we are moving in to the world of micro marketing; the age is here where products are being developed for the individual purchaser. Why should the market for providing services to fund distributors be any different just because it is B2B?

The fund marketers want to "know their customer" and then provide offerings to meet their overall wealth management requirements. Why should their suppliers only offer a take it or leave it, one size fits all, service? It is no wonder that so many fund distributors and manufacturers feel that they have to keep everything in-house.

In the early days of outsourcing, technology and service mindsets only permitted a Yes/No decision. Clients had to decide whether they wanted to handle every aspect of service or use a supplier for it all. However reality is not that straightforward, customers and markets are not that standard or homogeneous.

No one fund distributor is the same, every organisation now decides on their own core competencies at a much more detailed functional level, be it telephone servicing, maintenance, settlements or enquiries etc, The days of the 'do it all in-house' or 'outsource it all' as the only options are fading. Then there are "sub decisions" within each of these functions where the thinking is channel by channel. Is it critical to keep internally the servicing of distributors because they can deliver more volume than the end client; others will think the opposite and say that the end customer is the one that needs advice and so must be looked after from within. A third angle requires the question to be examined on a market-by-market basis.

On a further dimension, the pace of acquisitions, new initiatives and new product introduction gets faster. We all say every year that the pace of change in the last years has been exceptional; then we find that the pace of change in the next year is even faster, and so it continues. Companies need the reassurance that they can share this load, perhaps while they can build necessary infrastructure or prove to themselves that the market it foresees is really there. Alternatively it may be to share the burden of a particular peak of business at tax year-ends or at the height of bubbles such as the technology share boom.

This demands from the service provider a new mentality, technology capability and a real partnership approach client by client.

## Value add from the service provider

Most fund distributors have traditionally concentrated on a limited range of distribution channels. In most markets this has been normally some form of direct channel either via direct marketing or via a branch or sales force that

the company managed. Financial advisors like those in the UK are fairly new to emerge in mainland Europe, but coming they are, and at the same time fund manufacturers are having to deal with the rise of third party financial advisors, fund supermarkets, multi managers and branded distribution players. Rapid change is upon us and will continue for a number of years to come.

This brings a new world to service delivery for many organisations, for so long used to providing service to in house distribution channels only. They need access to partners with experience of the independent distribution markets to provide cost effective and practical tools and service capabilities to third party distribution channels. Here the service provider should no longer only be the record keeper sitting in its box but rather be able to participate actively in the design and establishment of the necessary service processes.

## Other examples

**Fund Supermarkets/Multi Managers** – This is a well-documented next step in the market and really signifies the differentiation between distribution and manufacturing. The need for expert investor recordkeeping has not disappeared. It is now needed by a wider range of players. The supermarket model is at least one degree more complex than the traditional fund manager model, and there are still the requirements of handling unpredictable volumes, the pulls of different distribution outlets, all to be balanced with timely reconciliations and other controls.

**Brand Channels** – Organisations with large client bases from outside the traditional fund industry will be looking to leverage these databases and offer them additional value added services, such as investment products. Creating their own fund company is too costly, but the use of multi manager products and white labeled funds

*Paul Roberts*

will continue to emerge as everyone wants to take a piece of the action. This will require service providers able to assist these new entrants and systems capable of supporting some stringent branding requirements, and the ability to provide segmented investor servicing solutions.

## Service expectations

Expectations of service quality standards whether from investors, fund distributors and manufacturers or regulators are not static. They all impact the service provider.

As they get access to more investor data, fund providers will segment their customers and provide targeted and specific services based on the category of investor: comprehensive and tailor made services for high net worth individuals; specific services and features to institutional customers; and cost effective services to the retail markets. Even these classifications are breaking down - the recent searches for the elusive mass affluent indicates that once very low volume services are being extended to ever-larger markets.

Providers will expect systems and service partners to be able to handle growth, new products, and regulatory changes as a matter of course.

Investor expectations will be set by a variety players from 'e-tailers' right through to banks, who after years of being behind the pack are now often leading the way with the creation of service expectation standards for the public. Standards established in one area of the financial services industry are now rapidly moving across product. Banking levels of instant processing are now expected in the fund industry, you place a deal into your account and you expect to see it immediately; waiting a day or so will not do.

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As the importance of funds as a long term savings mechanism increases right across Europe, regulators' expectations of the standards of service in terms of speed, transparency and accuracy will steadily mount and the rule books will become more extensive.

Those service providers that choose not to evolve to meet these ever more sophisticated demands will see their business diminish, even in a growing market.

Although a highly flexible service model will be one critical element, service provider's will also require-

- Compliance, controls and risk management processes that ensure, and can demonstrate assurance, that investors are treated in accordance with rulebooks etc. These processes themselves must be dynamic to ensure that for instance, changes in service model can be properly handled, in a compliant way whilst maintaining quality and productivity
- Distributable technology that permits work to be handled independent of geographical limitations.
- Technology that allows rapid automation of tasks so that quality levels can be maintained.
- Technology that maximizes STP, and, if the distributor encourages it, Customer Self Service; and finally, and perhaps most importantly,
- A relationship with their service company that enables the two organisations to work together to deliver best in class services, products and technologies to their chosen market place, for investors, advisors and institutions.

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This may all sound a bit idealistic or even over dramatic; the ideas of the research laboratory, not able to be delivered in practice. However the tools and techniques are rapidly being introduced and so, I would suggest, merit a more detailed examination.

## Relationship management

The transfer agent is traditionally operations or technology led. The costs of dedicated customers service experts is seen as an unnecessary overhead in a low margin business. It is thought that the person managing the floor can also mange the client or that a team of conglomerate wide banking experts can also handle the relationship for investor record keeping. A false economy.

The needs of investor recordkeeping are specialised. Clients are active with new projects and initiatives and need someone able to work with them on their planning and delivery. They want transfer agent experts to help them through legislative changes and into new markets. Loyal clients want reliable service but they also want an organisation that listens to them and works with them.

This also means being prepared to be measured and report regularly on your actual performance and to be rewarded accordingly- including for good performance. It means having open communication channels, planning sessions, client briefings, extranet and active user groups, including specialist ones on topics like call centres.

## Technology

The technology requirements for servicing collective investments have evolved at a breakneck speed over the past few years, and will continue to evolve. Much has been written about dealing over the web; but few businesses will trade solely over the web. I am going to look at some other key areas that are often neglected in discussion, but I hope not in service delivery.

**Intelligent Work Management Solutions** – Initially it was as volumes of business grow that the need for highly intelligent and flexible workflow management solutions became apparent. Workflow used to equate to imaging and archiving paperwork. Now it is a MUST for many other reasons, whether work is generated from paper, from exception processing or from other sources.

- **Regulatory compliance**. With the traditional heavily paper orientated environment, and all the pitfalls of paper flowing round an office, how can you tell whether all the deals were entered on time, are all exception items resolved speedily, how do you stop fraudulent back dating of deals, how do you know how much work there is to handle before the cutoff?

- **Prioritisation**. How do you ensure your staff doesn't process just the easy work items and the complicated cases are left aside, or put in the drawer?

- **Economies of scale.** How do you have the ability to handle the tasks yourselves that are critical to your business whist gaining the economies of scale and expertise from outsourcing the other tasks?

- **Client reporting**. How can you monitor your performance against an SLA in a credible way for your client if you depend upon staff logging everything by hand?

- **Customer servicing**. How do you turn letters around within a day and keep telephone callbacks to a minimum, if people need to hunt for paper client files?

Especially if your contact centres are distributed close to the customers.

- **Productivity**. How can you predict staffing levels if you do not know how much work there is to do and how long pieces of work take? How can you address over-lengthy processes or work to improve the work of staff who are slow, if you cannot measure what is happening?

The market for systems and services is about to change beyond recognition, providers who refuse to embrace change will pay a heavy price, those who want to evolve will have to have a total commitment to the business

To run an efficient and controlled administration operation, paper and paper faxes and separately filed correspondence output must be removed from the equation and total control implemented. Imagine being able to monitor your work levels at an instant, switch staff between different work types at the touch of a button, have the facility of have immediate information and total control. For some groups this is a reality today, for others just a dream, but for the fund industry to survive at the reducing margins the dream must turn into reality.

**Management Information** – Older systems struggle to provide the levels of access to information that we require even today. The Sales and Marketing divisions of the most successful fund distributors understand their business because they have access to timely information in a wide variety of ways. Campaigns are no longer set in stone, they are interactive events, and the people in control want information at the touch of a button to analyse the business metrics in a variety of ways. So do your distributors. MIS must be provided to all interested parties in a way that they can manipulate it and produce the reports that really answer their questions not what the IT department believed it was asked to develop six weeks ago!

**Robotics** – With pressure on costs, we all need to maximise automated processing with no need for human interaction, this allows managers to control costs in ways never dreamt of a few years ago. Whilst less glamorous than web based processing, using robotic tools such as report input processing and intelligent character recognition can gain far more immediate scale benefit for a much smaller investment layout. Think of taking exception reports, robotically making individual work items of them, and then directing automatically to processing staff to update. Costs are down, turn around times are speedier, financial measures, such as debtors, are improved, and experienced staff are adding value not doing basic tasks.

**Contact centres** – Often seen as a hassle for the service supplier; others see it as a superb opportunity to demonstrate service. With the right technology, management and attitude, contact centre provision can become major service differentiator for a service provider and is another area where economies of scale really can be achieved.

Electronic output- the opportunity to collect ones own documentation over the net and then file it electronically seems too simple to be true. It enables companies to achieve real cost savings in postage and printing, develop interactive reporting and get the documents out there earlier- and also to improve the compliance picture by being able to monitor whether the electronic document was ever opened! We can't yet tell whether it was read!

## Controls and measurement

Technology is no good if it is not used properly. The idea of measurement is not to harass those doing the work. It is to enable the right action to be taken because the manager has objective measures rather than an impression. It is to enable accurate planning to cope with forecast volumes and events.

Once introduced a real time measurement system makes life at work fairer and less contentious for all.

## E-Business

Having said I would not cover the web, I will now! There is much discussion about the cost and time to deliver eBusiness solutions; less about the take up and ways to accelerate them. Here the TA with its view across a wider market can help by promoting lower cost "start up" solutions that can evolve. Secondly the TA can work to propose alternatives to these current business practices, which act to prevent straight through. As an example I think of the UK's addiction to "cheque and application form" business where a viable alternative needs active promotion. The modern TA must work with its clients to identify alternative solutions.

# Summary

- The market for systems and services is about to change beyond recognition, providers who refuse to embrace change will pay a heavy price, those who want to evolve will have to have a total commitment to the business.
- Fund distributors will increasingly want to focus on core competencies at a 'micro' level per function, per channel, per market. Service providers need to be able to support this level of granularity in their service model offering.
- Service providers need to be able to operate outside the technology and administrative spheres and act as advisers to their clients in addressing new geographies, new distribution channels and new markets
- Technology of varying sorts will play an ever-increasing role in service delivery, from robotics to online web processing, to customer segmentation for call centres.
- Paper pushing between departments will disappear in favor of efficient and flexible process and work management technologies.
- Investors and advisors will demand the best of the best, in the systems, services and products available, they will want to do business in both traditional channels and via new technologies.
- Most importantly the successful fund distributors and companies servicing them will be those that can work with in partnership developing individual solutions to particular needs in specific markets but based on relationships that are likely to transcend national boundaries.