

## **Investment operations outsourcing still to achieve universal acceptance - but substantial rewards forecast when providers get their proposition right**

**London, 30 January 2006** - Investment operations outsourcing will not become a mature, proven product until a critical mass of clients have successfully completed their migration to the providers' strategic solutions, research by Investit Intelligence has concluded.

Although investment administration outsourcing (covering custody, funds' administration and transfer agency services) is well established and well-proven; investment operations outsourcing (comprising processes downstream from trade execution) has yet to reach this state of maturity. Less than one third of the 30 or so deals announced to date have fully migrated to the providers' enterprise platforms.

However, investment operations outsourcing should still be taken seriously. If approached carefully and correctly, it will be a viable proposition and make a significant contribution to business success.

Until recently, general sentiment towards outsourcing has been positive, but sentiment turned in 2005 with the termination of three high profile transactions and conflicting market surveys as to investment managers' interest in outsourcing.

Investit's "Outsourcing Mid Term Report – a time for reflection?" research was prompted by this lack of transparency and uncertainty as to the true state of achievement within the industry. Investit conducted in-depth research with investment managers who have, or are, outsourcing - and those who have decided not to outsource. Investit also conducted in-depth research with the major outsourcing solution providers. From this research, Investit was able to identify common issues and concerns evident across the industry.

Key findings from the research included:

- Both managers and providers have underestimated the complexity, duration and resource required to fully complete implementation, for both the 'lift out' and subsequent migration to the provider's platform.
- Extensive reengineering of the manager's remaining systems, processes and behaviours – across the whole firm – and active engagement of key business areas - especially the front office – is essential.
- Providers' solutions fall short of meeting investment managers' evolving needs, particularly derivatives handling capabilities.
- Managers have focused on resolving historic problems and replacing aging platforms, rather than meeting the requirements of future business strategy.
- There is an inherent conflict between managers' desire for flexible, bespoke solutions and providers' goal of increasingly standardised service offerings.
- Managers and providers have difficulty in agreeing to, and delivering on, mutually acceptable tactical and strategic product and service enhancements.

- Original commercial expectations overstated and are only being partially met.

The research paper identifies current industry successes - the outsource providers are clearly concentrating on the implementation of their strategic solutions and migration of clients from legacy platforms, a process expected to complete by early 2008.

In response to some of the shortcomings experienced by the industry, Investit has proposed a series of core principles and best practices which, if followed, will improve those achievements seen to date.

**Commenting on the report, James Hockley, Consultant at Investit said:** *“While most strategic solutions have yet to fully deliver there is now a far greater understanding, clarity and belief of what the end product will look like. Investment managers’ key requirements for outsourced solutions are evolving. Managers’ traditional focus has developed beyond cost containment and technology limitations to incorporate business growth, product development and instrument expansion.”*

With only about 10% of global assets under management involved in investment operations outsourcing partnerships to date, there is huge market potential and substantial rewards for both managers and providers – if a solid, and sustainable outsourcing proposition is delivered.

Looking forward five years, Investit believes that investment operations outsourcing will demonstrate:

- **Increasing maturity:** platforms delivered and standardised approaches to data architecture and best market practice processing methods introduced
- **Clearer drivers:** managers will be more determined to outsource commoditised, non-differentiating and non-core services and develop clearer more realistic economic models
- **Greater market acceptance:** as increasing convergence and standardisation between managers’ needs and providers’ products are realised.

**John Robertshaw, Principal at Investit said:** *“2005 was a pivotal year and the lessons from current experience need to be learnt, by managers and providers alike, before outsourcing of investment operations can emerge as a stronger and healthier proposition for the future. We have developed a best practice blueprint which will give managers greater confidence that they reach the right decision when considering outsourcing; and if applied at each stage of the programme, will overcome many of the problems previously experienced in these transactions.”*

- Ends -

#### **About Investit**

Investit is the leading fund management consultancy providing integrated investment and operational advice and research. Investit was founded in 1998 and includes five core expertise areas: investments, client management, performance and risk,

operations and systems. In 2001, Investit People was added to provide specialist recruitment services to our clients. In 2004, Investit Projects started work, providing a unique outsourcing service for business projects. Investit Intelligence completes the offering with a range of specialist surveys and detailed research papers. For further information go to [www.investit.com](http://www.investit.com)

### **About Investit Intelligence**

Investit Intelligence is a customised information tool for all people concerned with turning high-level business plans into reality. Investit Intelligence consists of a number of research and survey services.

- **Investit Intelligence Member Service**

The member service is an interactive service where members take an active role in selecting, shaping and researching topics by voting on new discussion and research ideas.

- **Investit Intelligence Business Process Assessment – defining best value**

BPA is a service where Investit works closely with COOs of investment management companies to identify the value output of all business processes and how that compares with peers – it's an essential decision-making tool.

- **Investit Intelligence IT Value Survey**

The IT Value Survey looks in detail at the spend, effectiveness and plans of companies IT departments. It is an annual survey particularly designed for COOs and Heads of IT.

- **Investit Intelligence Performance & Risk Survey**

The Performance & Risk Survey is the only tool specifically designed for, and by, Performance heads in Investment Management companies. It looks at performance and risk systems, performance roles and remuneration, future trends and benchmarks against peers.

### **For further information**

Robert Sanders  
Marketing and Communications, Investit

+44 (0)20 7920 9030

Sally Todd/Jemma Whicheloe  
Penrose Financial

+44 (0) 20 7786 4815