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A New Look at Outsourcing: A Key Strategy for Recovery

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The ability to adapt to changing market conditions has always been a critical element for success in the financial services arena. But in today's market, asset managers will have to go beyond adaptation and in many respects reinvent themselves in order to ride out a perfect storm of industry pressures.

Recovery from the recession of 2008-2009 promises to be slow. Net revenues remain threatened as investors continue to gravitate toward lower-margin and "safer" products. And consolidation

among distributors exerts pressure on institutional pricing and revenue sharing. Surviving in a risk-sensitive, capital-intensive environment will require asset management companies to restructure operating models as they seek to increase revenues and transform costs, while responding to changing investor needs.

Considering Costs

According to "Recovering from the Storm," a recent report from **McKinsey & Company**, asset management firms need to reduce costs by up to 40% in order to sustain average historical margins and to fund investments they need in order to grow. Yet, according to the report, "few firms have taken the necessary actions on costs" to achieve these goals.

Expenses translate into lower returns, which translate into weaker performance. As management firms look to take their

product and distribution strategy to the next level, they must look at restructuring operating costs—while remaining flexible to current and future requirements.

In the operations environment, firms must manage IT infrastructure spends for any proprietary systems they maintain, as well as back-office spends related to associates, technology and compliance. And they must do this with an eye to delivering significant improvements in service and quality.

Striking a careful balance between investing for growth while addressing expenses will lead firms to explore opportunities for greater collaboration with service providers.

Alternative Models

Technology and operations outsourcing has long been a strategy to enable firms to focus on core competencies, help manage expenses and improve efficiencies. In the current economic climate, however, the decision to collaborate with a service provider extends beyond turning over important but non-core functions such as mail processing and transaction processing.

In the new model, technology and service vendors play a highly strategic role in helping firms to reestablish their footing in the marketplace. Service providers will support management company efforts to maximize distribution effectiveness, as well as help achieve greater operational efficiencies across a new and evolving product mix. In a growing global market, firms will look to service providers to help position them to pursue international growth opportunities. And in an era where risk is prevalent, firms will find their relationships with service providers critically important for assistance in mitigating risks associated with governance, organization and processes.

Ops & Tech

More than ever, asset managers require highly scalable solutions to manage the challenges they face today while enabling them to adapt as necessary. They must find ways to leverage lower-cost services, as well as technology to reduce errors and streamline processes. At the same time, the requirement to deliver flawless service, adapted to the method their customers prefer, is absolutely paramount.

As firms evaluate their own operations infrastructures, they must determine whether it still makes sense to rely on their own systems and processes, or whether an alternative model will best enable them to focus on recapturing assets and developing new products.

Leveraging Relationships

In the new year, asset managers will be looking to leverage their resources to remain competitive and rise above the crisis. One of those key resources is their relationship with their transfer agency services provider.

The economic climate today presents an opportunity to delve deeper into that service provider relationship and learn more about

the capabilities and breadth of solutions that vendor has to offer. Can firms utilize these capabilities in deeper ways within their operations—and can they find applications for those resources in other areas across their enterprise? There may be opportunities to streamline processes and manage expenses that haven't yet been considered.

Now is the time to maximize the value of service provider relationships. Some firms will find it's appropriate to turn over core recordkeeping systems, while others will determine it makes sense to broaden their relationships to include distribution service support or scalable core service systems and automation tools. Beyond functionality, firms will look more closely at the knowledge and experience their service provider can bring to bear on their operations.

Asset management firms can find strategic ways to manage expenses and harness efficiencies while at the same time noticeably improving the customer experience. As firms ride out the rest of this economic storm, they do have options. Success is one of these options. 