



Year in Review

This month, we take a look back at last year's "14 for '14" – our montage of industry predictions and trends paired with movie themes.

Industry Perspectives | December 2014



Year in Review

This year, we're reflecting back and grading ourselves on the accuracy of our predictions using the thumbs-up/thumbs-down scale. Grab your ballot and popcorn and see how we did as we recap and update our earlier thinking on the key themes for 2014, including the hits, retakes, sequels, and script revisions that the year brought us:



1. IBOR – The Sequel

Everyone's favorite four-letter, IBOR, did not run away and hide in 2014. If anything, the marketing push intensified, as software vendors and service providers alike continued to push their IBOR vision and offerings to the forefront of industry conversation. We saw IBOR white-papers pop into our email from front-office vendors, major custodian banks, consultancies and of course, the portfolio and fund accounting solution vendors that were primarily responsible for pushing the acronym in the first place. That said, a formal definition from the asset management community has continued to prove elusive despite the presence of working groups and conference activity devoted to the topic. IBOR and its cousins ABOR, MBOR and TBOR appear here to stay.

It is our job at Citisoft to guide our clients as they navigate the disparate options and solutions addressing the ultimate goal of all of this – ensuring that they have an efficient investment management process designed to ensure accurate and timely positions, cash and trading activity from the front to the back of the house. The devil is in the details!



2. RFPs + POCs – (Casting Call)

There are probably more than a few vendors/providers who would pay good money to make the RFP process go away towards the end of the year, but alas, the RFP is not dead. The industry is in the midst of a new cycle of technology investment and operating model change and so both RFP and Proof of Concept activity was been strong throughout 2014, albeit focused on different functional areas. RFP's were active in 2014 for core systems and services such as accounting and broader middle office outsourcing, while POC's have continued to be a popular path in areas that are data consumption-focused including investment data analytics and client reporting.

Looking forward to 2015, we expect the POC will be an increasingly popular choice for evaluations for two reasons: 1) Vendors in less mature areas such as global settlement systems, EDM tools, and reporting applications are pushing for POC's to establish credibility with new clients and 2) fewer core vendors overall and a clear appetite from them to leverage partnerships (ex. business intelligence and reporting) will inevitably lead to vendors claiming "we have a partner tool that can do that," and investment manager's saying "prove it."



3. Quality Conundrum – (Fledgling Actors)

When we discussed this topic earlier this year, we didn't come right out and say that we were talking about Millennials, so let's dispense with the vagaries, and call it what it is – yes, we're talking about Millennials! If you're reading this and happen to be in your mid 20's to early 30's, then congratulations on your decision to pursue an exciting career in the asset management world. While it may not be Silicon Valley and no, you weren't the one who invented (and sold) Instagram, this is a fast-moving industry that's impacted every day by disruptive forces such as increased globalization, technology change and regulatory complexity.

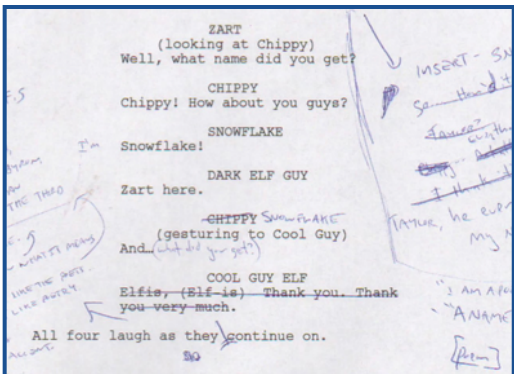
The best and brightest are challenged every day in an industry that's been around for centuries. Yet, we still find in conversations with our clients (and in our own internal meetings) that identifying and luring the next generation of talent to our industry proves difficult. Is this a cyclical bump, or are we seeing a seismic shift? Maybe we're all just waiting for Google Investment Management to jump into the market, and we'll get the best of both worlds.



4. Hosted Options – (Night at the Drive-In)

Simply put, hosted application models are now the norm in our industry from the front office all the way through to the back office; that said, we still talk to vendors that haven't developed the infrastructure to offer an ASP or managed service as a legitimate deployment option. And guess what? They are losing business. Asset management firms of all shapes and sizes agree that it is not a competitive advantage to host large-scale, enterprise systems and applications in-house.

The vendor and service provider community, by and large, has responded with viable options ranging from straightforward ASP to wholesale outsourcing arrangements and the technical infrastructure necessary to support their client base. Those vendors still on the sidelines run the risk of going the way of the dinosaur, and no, this is not a plug for the new Jurassic Park movie.



5. The LEI Becomes Reality – (Script Revisions)

Like many new regulatory challenges we're faced with, the industry is finding a way with some pain and moaning but little investment and no big tech projects. But alas, our experience tells us that when something is perceived to be kind of a big deal, and it seems to be handled in the course of normal business, someone, somewhere... has found a workaround and it's being addressed with human capital and disparate processes. What we thought we knew with respect to technological changes is to be continued...



6. Data Evolution – (Extras on the Set)

An exciting year for the evolution of buy-side data strategies and architectures – your average data warehouses, marts, and reporting tools are being supplemented with solutions for non-structured data, virtual and in-memory BI, and strategies for better data analytics and access. The buy-side is a late adopter of technology, so the term Big Data will likely be long gone by the time we see full adoption of some of the technologies. However innovative firms are figuring out where these solutions fit within their strategic data architecture.

Long term Big Data as a source for valuation, economic, research, and other data sets supporting investment management itself is decades away if at all, however the technologies will continue to evolve to support customer acquisition, product strategies, risk management, operational reporting and supplemental research.



7. Outsourcing Outlook – (Best Director)

Outsourcing is increasingly seen as a game changer in the Asset Management industry. Once upon a time, outsourcing was limited to commoditized functions such as fund accounting, securities recordkeeping and custodial services. However, there has clearly been a push farther up the food chain with several firms looking to the rapidly maturing outsourcing providers to deliver a variety of middle office functions ranging from transaction processing and portfolio accounting to client reporting and performance measurement. In several cases, asset managers now view their outsourcing partners as an extension of their business that enables them to navigate an increasingly complex regulatory environment, expand into new geographic markets and realize improved speed to market when introducing new products and asset types to their client base. In fact, calling outsourcing in our industry a “trend” is a bit of a misnomer; outsourcing is here to stay, and the industry would be remiss to ignore its benefits.



8. Vendor Consolidation = Vendor Risk – (Studio Mergers)

The vendor consolidation trend, as predicted, continued in 2014. SimCorp’s acquisition of the Equipos Coric client reporting platform and SS&C’s recent acquisition of DST Global Solutions served as nice bookends to another busy year in the FinTech vendor community.

We don’t view this trend positively, as the consolidation of choices and lack of new entrants into the software market has left our asset management clients with a dwindling menu of options when looking to transform their business through technology upgrades or transitions. In our view, the shrinking ‘standalone’ vendor market has played into the hands of the service providers and outsourcers who can offer a differentiated level of service and the financial strength to alleviate some of the vendor risk that is increasingly top of mind for firms looking to improve their operating models. Whether we’re talking about analytical data or other types of investment data, many of our client conversations this past year have centered on data. Our clients continue to look to solve their business and infrastructure challenges with the latest tools available, however, they have also recognized that they have to start first with solving their data management issues.



9. Risk Data: We Have a Problem – (Ongoing Dialog)

The push for more real-time delivery of data, whether to the front office or to the compliance group, continues to put a strain on the back office to deliver such information cleanly. In addition, data management challenges will continue to be prevalent with the ongoing proliferation of investment strategies being developed. Because of these factors, solving the data management dilemma, not only for analytical data, but firm-wide data consumed, will continue to be an imperative in 2015.



10. Looking For Global Regulatory Harmony – (Actors Strike)

The regulatory environment continues to cause consternation for investment managers even though the pace of new regulation has been held reasonably in check over the course of the past year. Each and every survey you read or hear about in a webcast asks what keeps senior management of these firms up at night. Invariably, the top answer is the on-going regulatory burden that is borne by the investment managers. Not only is it the particular regulation itself that is difficult to digest and implement a process for, but it is the cost, both implementation and on-going maintenance, that continues to grow as well. Investment managers continue to ask themselves, and the regulators, what is the true benefit of all this regulation for the investing public?

Regulation in the name of transparency is all well and good, but has anyone truly examined if all of the recently implemented or pending regulation has truly benefited those who the regulators are trying to protect? Considered on a more global basis, regulatory harmony among regulators across the globe, and even in a single jurisdiction, is still considered a goal versus a reality as we stand at the end of 2014. Whether there will be any traction in the upcoming year in this area is tough to predict, especially considering that minimal progress has been made to date. However, there remains a prevalent line of thinking that global regulatory harmonization can be a reality. Unfortunately, until such time, investment managers will continue to expend a large amount of resources tackling regulatory requirements on a regional basis without the ability to gain any efficiencies in the risk and regulatory function in their firms.



11. Best of Breed, Now More Inclusive – (Box Office Mojo)

Last year we recommended that asset management firms take a step back and review their holistic IT and operations strategies prior to making a leap into an increasingly complex solutions landscape. Someone was listening, as Citisoft saw unprecedented activity in our Advisory services practice; Strategic Assessments, Systems Evaluation & Selections and Outsourcing Services Evaluation & Selections are in vogue as our clients grapple with making sense of the various options available to them when contemplating a shift in their future state operating models. The ability to translate the solution offerings and myriad

deployment options currently available in the marketplace is a challenge for the industry; engaging with a trusted partner and advisor as you wade into the changing landscape is paramount if you are contemplating a platform or operating model change.

The quest for a single global technology platform is becoming increasingly less prevalent in the industry. Many firms are looking to outsourced service providers to give them a single service across many areas of their business, and fewer firms today believe it feasible or practical to try and “shoe-horn” in a single application or application architecture to support a global business. Some parts of the value chain have seen a consolidation of technologies, and single systems covering the global business, but these are predominantly in the front office. Once you move into the middle and back office areas, the ever changing needs of the local businesses and increases in geographic-specific regulation, have resulted in a single system solution being impractical and restrictive.



12. Global Platforms – To What End (Honored to Be Nominated)

We believe that building a global operating model to embrace the optimum solutions and services is the way forward. This operating model must be designed to allow the ultimate business agility, but also utilize services and technology to its maximum benefit. The model must also be built to support future needs and not focused solely on solving today’s problems and will be very different across our client base depending on the business focus and needs of the organization.



13. The Juice to Lead Data Forward – (Choose Wisely)

While we continue to see an increase in firms appointing senior data leaders to drive their businesses forward, the move is still in its infancy and the industry does not have a consistent answer to this conundrum. One of the key factors we have seen here, is that in order to gain the full benefits of a senior data leader, a firm must also consider re-organizing the firm and amending existing job responsibilities to support such an appointment. This in itself can be very disruptive in the short term and many firms have yet to make the full commitment to this new business approach.

This coupled with a lack of proven and experienced candidates to fill the roles, has meant the volume of appointments of this type has been slow. We believe this trend will continue, but many firms are becoming increasingly aware that solving the data conundrum is far more complex than merely appointing a data czar to own it.



14. Citisoft Forecast – (The Envelope Please...)

Asset management firms did not disappoint us in 2014 as we experienced a three-fold increase in the number of firms looking to evaluate their existing operations and technology infrastructures with the end goal of making significant investments in technology solutions to greatly improve the investment management process. Asset management companies are back in a revenue growth mode and are revisiting their current strategies for technology, viewing IT as a competitive advantage similar to the sell-side, as opposed to a cost center that only supports investing with limited value add capabilities. We expect this technology wave will continue to grow in 2015 as firms begin to execute the strategic plans put in place in 2014.

North America

Paul Migliore

paul.migliore@citisoft.com
1 (617) 428 9582

Tom Secaur

thomas.secaur@citisoft.com
1 (617) 428 9584

Peter O'Toole

peter.otoole@citisoft.com
1 (617) 428 9381

David Bates

david.bates@citisoft.com
1 (617) 428 9583

Beth Cavanagh

beth.cavanagh@citisoft.com
1 (860) 558 4708

Europe

Jonathan Clark

jonathan.clark@citisoft.com
+44 (0) 207 236 4219

Steve Young

steve.young@citisoft.com
+44 (0) 207 236 0430

David Renn

david.renn@citisoft.com
+44 (0) 1908 546 187

Follow Citisoft!



Connect

[linkedin.com/company/citisoft](https://www.linkedin.com/company/citisoft)



Visit

[citisoft.com/blog](https://www.citisoft.com/blog)



Follow

[@Citisoft](https://twitter.com/Citisoft)



Citisoft partners with the world's leading Investment Management firms and service providers to create impactful and effective solutions to today's complex business problems. Our sole focus is assessing, designing, and delivering results-oriented operations and technology change across the entire Investment Management process.

Please visit us at www.citisoft.com for more.