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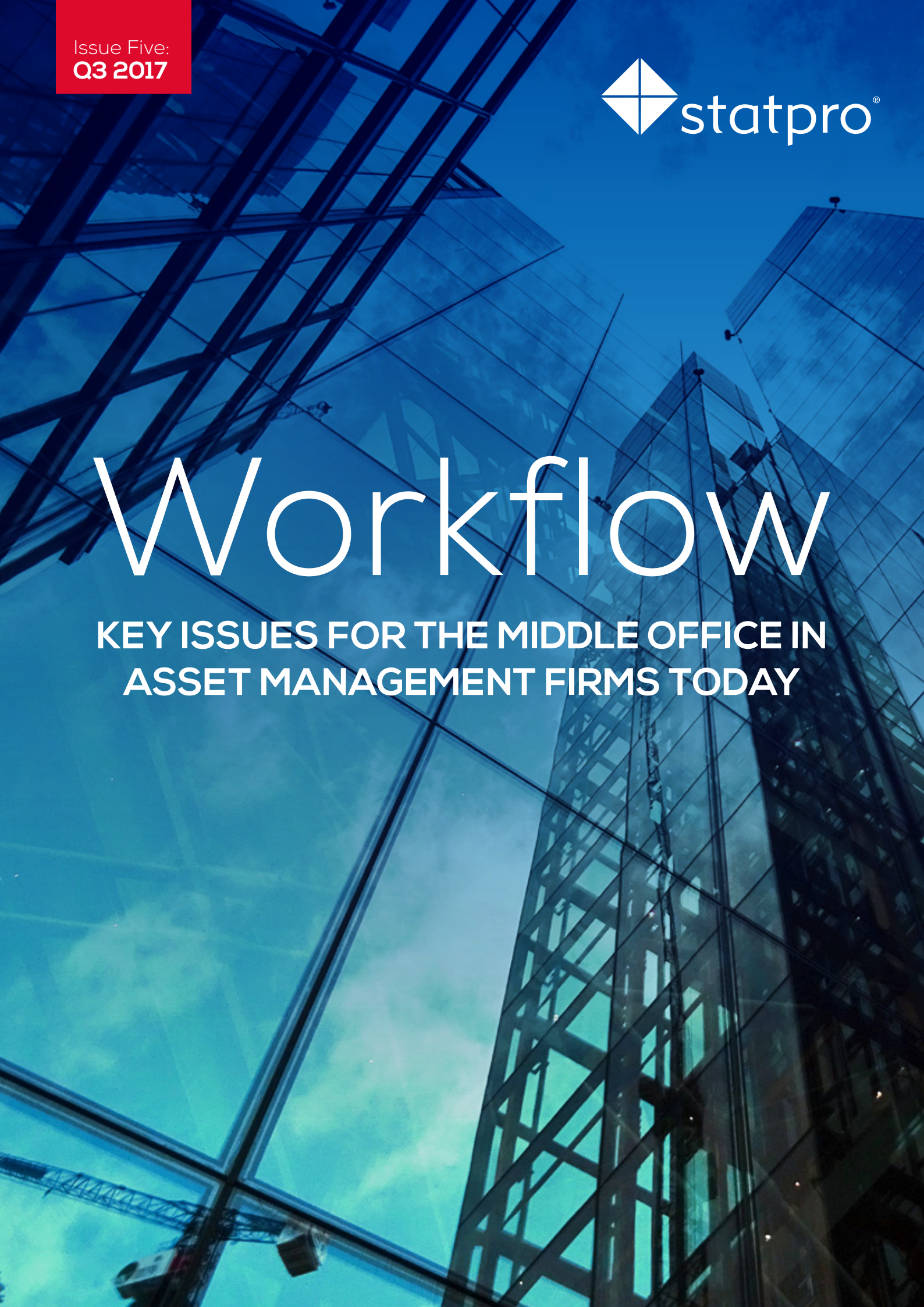

Workflow

KEY ISSUES FOR THE MIDDLE OFFICE IN ASSET MANAGEMENT FIRMS TODAY

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What is the future role of IT within asset management?

Why asset managers need to embrace new technology and switch from managing IT to delivering insight and value.

The impact of new technology on the middle office – and therefore on the business as a whole – is all-encompassing. At the very top level the support of portfolio management could be redefined entirely as AI machine learning and advanced analytics come to the fore and become compelling.

The IT management tasks associated with traditional software, such as back-ups, upgrades, and maintaining multiple physical environments are not competitive differentiators. They don't make you a better asset manager. They are simply the required tasks of a legacy technology stack. The future of IT within asset management will be about managing the data and bringing it all together alongside the business, to help find alpha and real value.

Ultimately, firms need to look at their existing technologies and future investments as a competitive advantage as opposed to a cost center or overhead. Software advances now provide an unparalleled opportunity to improve analytical capacity, operational process and quality, and thus engage more deeply with investors. Without doubt this is a massive competitive advantage waiting to be taken.

NEIL SMYTH, MARKETING & TECHNOLOGY DIRECTOR, STATPRO

Read the eGuide

Can the cloud result in ‘API’ days?

Asset management firms have been slow to leverage cloud technology, but with the right standards and usage there can be a multitude of benefits.

The asset management industry has been notoriously cautious when it comes to actually adopting the cloud as opposed to just thinking about it. This lack of trust in third party providers was historically due to concerns over data security, lack of control and business continuity risks. There were also worries about whether providers would be able to guarantee performance, scalability, and service with what was then an emerging technology.

However, attitudes are changing. One of the biggest selling points of the cloud is the ability to share information without requiring local software or cumbersome FTP processes. One such area of data sharing that is adding real value is through Application Programming Interfaces (APIs). These interfaces make it possible to programmatically extract data from systems and import it into others, whether they are cloud-based or not. These invisible links are an essential part of any cloud migration strategy as they allow you to connect systems and data and move away from legacy application silos.

The keys to successfully using API are:

- The degree to which APIs are available
- The types of data extractions supported through Web API calls
- The framework of rules and governance that binds them
- Having a well-defined data management framework

Read the full article

"Many asset managers are also starting to take advantage of the development of smart technology solutions when it comes to performance measurement and analysis by their middle offices."

The development of smart, intelligent platforms

The rapid pace of technological development in areas such as artificial intelligence and robotics is certainly capturing the public's imagination at present.

A string of recent studies have highlighted the societal and workforce changes that are expected to take place over the next few decades as the ability of computer systems to learn and effectively think for themselves increases.

In February, advisory firm PWC published a report which found that 52% of CEOs around the world say they are "exploring the potential benefits of humans and machines working together", while 39% are already looking at how advances in AI could shape their companies' demand for skilled workers in the future.

As might be expected, a lot of the media coverage following this report talked excitedly of the "rise of the robots" and the threat to current jobs that new technology could pose. Many news reports focused on PWC's estimate that automation could replace as high a proportion as 38% of US jobs within 20 years (the equivalent figure for the UK was 30%, Germany 35% and for Japan 21%).

For the middle office, smart performance measurement systems have the capacity to deal with a host of complex scenarios that in the past would have caused serious headaches: for example, intelligent software can identify abnormal returns and deal with them in a way that can be set out in advance by the analyst, and adjusted from portfolio to portfolio.

Read the full article

Focus on the value, not the software

An asset management company's tools and technology should provide opportunities to create additional value.

The standard viewpoint of the middle office has been as a cost center. As a result, middle offices have often been overlooked and investment in technology has been woefully lacking. But as the industry evolves, asset managers are recognizing that a middle office that is technology-enabled can add real value.

In fact, in a technology-dependent world, success will depend on the extent to which asset managers can derive insight and business value from their data. That is not going to happen without investing in state-of-the-art data analytics tools and services where the technology is managed elsewhere, leaving the middle office free to harness that technology's capabilities to:

- Serve the front office
- Manage risk and performance analysis
- Satisfy investors and regulators
- Boost operational efficiencies
- Create a competitive edge

Performing maintenance and upgrade tasks on legacy software and hardware environments doesn't provide competitive advantage for an asset manager. These tasks are only necessary in outdated IT models. If old legacy systems and data silos can be replaced with tech-smart platforms that are managed externally, then time is created to free up the middle office and IT departments to add value. And it's that value that could give you the competitive edge you need.

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Using the middle office's data management capability in the most optimized way possible provides competitive advantage to the front office.

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Workarounds and the cost of delay for asset managers

The quicker a mistake is spotted, the sooner it can be fixed. But if a middle office error goes unnoticed until it reaches the front office, there could be serious repercussions. When reputations and performance are at risk, what's the best way to minimize the impact of data anomalies?

FIRING LINE

In an asset manager's middle office, the goal is to produce performance reports and analytics that are:

Clear

Accurate

On time

But there are a number of potential obstacles that can prevent performance analysts from meeting these targets.

The most common of these are:

Errors in the original data.

Incompatible data.

Specific one-off conditions or events, such as large cashflows into a particular security.

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FIRE! FIRE!

In this instance:

The middle office risks loss of reputation.

The business itself faces loss of reputation if the report has been shown to their institutional or retail investor clients.

The business may risk being fined by regulators if the report is inaccurate or non-compliant.

ALL FIRED UP

Smart systems can be fully configurable by users so that:

The conditions for identifying and correcting abnormal returns can be altered from one calculation to the next.

They can be applied to some portfolios but not to others.

Track the change and log it as an auditable event.

View the slideshare

As the amount of data being crunched by the middle office becomes more complex and increases in volume, there are serious advantages to smart automated systems.

Read the full report

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How can we automate and scale the middle office?

As the amount of data being crunched by the middle office becomes more complex and increases in volume, there are serious advantages to smart automated systems.

As various forms of digitalization were launched, the asset management industry began migrating from paper-based processes to spreadsheets such as Lotus and Excel. This evolution saw dedicated software applications eventually taking over many processes – although in some concerning instances, spreadsheets are still being used to manage data and processes.

The subsequent spurt of systems to help calculate performance, attribution, and risk means that asset managers have ended up with multiple systems that require ongoing management. It's not uncommon to see 10 or more systems for portfolio performance and analytics in mid-sized asset management firms. And this problem is exacerbated as you move into the giants of the industry.

The result?

- Data is held and calculated within distinct silos
- Software is often unable to talk and share data with other systems
- There are too many sources of data
- Data errors exist all the way through to reporting
- It is time-consuming and expensive to keep legacy systems operational
- Resources are wasted on manual workarounds

This means that the capacity to utilize data, both on its own and with other data, is limited. This disjoint means downstream users cannot make best use of the data, and the ability to create value and efficiency is limited.

The task for asset managers is now to look at their existing technologies and investigate how automation and scaling can be best used to promote efficiency in both the workflow and the organization itself.

Getting ruthless with the costs

Asset management firms are experts at handling other people's money. But how good are they at managing their own overheads?

For asset management firms with outdated platforms, IT are so bogged down with keeping the lights on that it's difficult to add value elsewhere. Legacy maintenance tasks don't contribute to any competitive advantage; they are simply necessary tasks from an outdated technology model. Legacy systems also carry building costs, with physical servers required on site. Fighting to keep these systems going when they are actually obsolete and no longer fit for purpose does not make sense.

And it's no secret that the vast majority of systems were not designed to cope with the complexity, volume of data, or indeed the speed at which the industry now needs this data to be processed. This is all the more so when it comes to complex investments and asset classes and further complicated by risk and reporting requirements.

If spending can be focused not on maintaining legacy systems but instead on investing in tech-smart systems that are managed remotely, then time is created to free up the middle office to add more value. Managed software is taken care of by a third party and the middle office is unshackled to analyze data in new ways and drive better performance.

Read the full article

The more efficiently data can be shared, the better an asset manager's performance will be.

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Modern data extractions that mean Excel is ex-hell

Discover modern ways to share the data produced by a middle office that are fast, fit for purpose, and maintain the integrity of the information.

Consider the data dinosaurs, the old methods of data extraction and their potential for errors or latency:

- Gigantic and impenetrable Excel sheets
- Cumbersome FTP access
- Inefficient file dumps

But in today's world, where unstructured data that doesn't fit into columns and rows is growing at twice the rate of structured information, Excel is simply out of its depth. Top-performing managers know this and are working towards bringing data sophistication to multiple aspects of competitiveness, and not just portfolio management. The solution for such managers – not for the first time – lies in the cloud.

Cloud-based services give an ideal response to the problem, with:

- Better response times
- Quicker roll-out of global portfolio management services
- Real-time analytics
- The ability to scale resources when needed
- A lower cost of ownership within a secure environment

The more efficiently data can be shared, the better an asset manager's performance will be. APIs allow data to be seamlessly shared with the right people, and be kept secure from those who don't need access. It's an automated process and a more efficient way of sharing data.

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