

THOSE DAYS ARE OVER

FUND ADMINISTRATORS ARE ADAPTING TO NEW MODELS TO CAPITALISE ON DATA SERVICES FOR FUND MANAGERS AND DEAL WITH THE PRICKLY ISSUE OF DATA OWNERSHIP. GEOFF HODGE, CHAIRMAN OF MILESTONE GROUP, EXPLAINS.

A LOT HAS BEEN MADE of the value of data for investment decisions and it is fund administrators who are often the primary record-keeper for most investment managers. Administrators have not always had a great relationship with data. Firstly the rise of automation exposed the problems administrators have had with the accuracy and consistency of data and, subsequently, this led to a lot of investment to improve data integrity.

There have also been issues over the ownership of data. Geoff Hodge, chairman of technology firm Milestone Group, says some administrators have seen data as a source of power and have tried to charge for access.

“But data sovereignty belongs with the asset owner or end client,” says Hodge.

“It may be a different story if you can draw insights from the data when combined with other clients or taken in a market-wide context but you still have to be careful about putting any commercial wrappers around that data. Some administrators have got it wrong in the past.”

Rather than charging managers for access to their own data, administrators can charge fees for the quality of the data service they provide – its accuracy, timeliness, availability and frictionless delivery, says Hodge.

The production of net asset values (NAVs) is a prime example. Asset managers are demanding a more timely and value-added data access.

The demands of asset managers are changing, as is the relationship with their fund administrators, says Hodge. “Asset managers want NAVs that they have reviewed and fully validated at the time they are given to the market, rather than the current practice where the oversight validation comes at the end of the day or next day.

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“By providing a real-time validation, it gives managers a chance to address any issues that come up before they hit the market. This is something that does not radically change the investor experience but breeds an increased confidence in the oversight process. On a day when a NAV is not right, it will be identified early and no longer cause hugely disruptive issues for the investors.”

Difficulties for administrators

Funds are looking for these enhanced services across the board and fund administrators are looking to meet this demand, says Hodge. “Administrators have traditionally done the fund accounting and now they are looking to get more involved in other processes: oversight, product design, performance

reporting, and distribution insight. They are looking to capitalise on their role as primary record-keeper.”

However, administrators are also under the same operational pressures as their fund management clients. Regulatory reporting and resolving data inconsistency is a cost they also have to bear for their own operations. And they also have more demanding clients – asset managers and hedge funds who are pushing back on prices and fees but also asking for an enhanced service with real-time processes, added insights and evidence of more technological innovation.

Fund administrators are applying new technology to their efforts to improve the quality of data. After all, it is one thing to improve the integrity of data but it is another thing to manage the cost of doing so, says Hodge.

Numerous commercial services will manage the process of normalising data on behalf of their clients, but that cost gets passed down the line. For fund administrators, it is about improving data quality at source and using machine learning and intelligent process automation to identify false positives and applying rules-based intelligence to exceptions management as well as basic processing.

Fund administrators have also turned to application programme interfaces (APIs) to help make data more transparent and accessible to clients. “It is a more advanced approach than

the online portals of the past that uses more advanced tools and technology,” says Hodge.

Ownership challenge

Fund administrators are giving more thought to their operating models and the use of technology like APIs that enable them to offer their asset manager clients access to services other than their own, even data provided by other fund administrators. This is a marked change from the traditional service model where customer ownership is at the core of it all.

“Ownership is the word that is being challenged,” says Hodge. “Clients no longer want to be bound. They want to take services without being tied to a single provider. And for fund administrators it is about ensuring a client sticks with them when they could go elsewhere.”

The days when fund administrators could rely on ‘sticky’ client relationships are over, says Hodge. Instead there is more competition than ever, more transparency, more providers and more freely available services. Fund administrators will have to adapt to a new model where they can be comfortable offering core services that are reducing in price while finding additional ways to add value and generate more profitable activity.

They will also have to adapt their infrastructure. The days of successfully



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serving clients with disparate platforms are over, says Hodge. “You need standard, enterprise, common platforms. You have to rationalise architecture and the people needed to operate it.”

There are some guard rails and regulatory constraints that mean those technology innovations and changes in business models don’t happen overnight, says Hodge. “But thematically we are seeing those

changes take place in the asset management value chain.”

It is more fragmented in terms of product areas and increasingly light in terms of in-house operations – from third-party dealing desks to outsourced CIOs for asset allocation and towards a model where, one day, asset managers will just be stock-pickers, says Hodge.

Consequently, fund administrators must look for a service offering to match. For example, can they provide a network or marketplace of services, platforms and technology, all employed in the cloud and accessible via APIs? “It is a federated model of services and technology will be at the core of it,” says Hodge.

It is a work in progress, he adds. Legacy issues for some administrators have to be resolved but the bigger challenge is not the technology – it’s the development of a model and strategy that uses that technology to deliver a better outcome for both administrators and their clients.

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