



The Tipping Points: Current Trends Along The Software Outsourcing Continuum

As investment managers consider outsourcing, what are the trends and tipping points driving the discussion?

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Pressure is on investment managers to deliver better technology performance more than ever before. Many investment firms have embraced the cloud and are increasingly outsourcing their investment management technology for greater flexibility and efficiency. Still, in-house management of aging technology—particularly in the middle office—remains entrenched in some investment management firms despite significant drawbacks. Fortunately, there are a number of flexible, nuanced solutions for firms to consider when upgrading and looking to create operational efficiencies through the utilization of more nimble and advanced technology. But how do investment managers identify the tipping points that lead to informed and appropriate decisions on middle-office technology?

Eagle recently held a webinar entitled Key Decision Points Along the Outsourcing Continuum, which included commentary from Bob Leaper, Eagle's Head of Sales and Marketing, Ben Keeler, Director of Practice Development for Citisoft, Paul Gately, Head

of Global Outsourcing for Global Financial Institutions at BNY Mellon Asset Servicing and myself. Our discussion centered on the evolving investment management outsourcing continuum and the key decision factors along the way. Based on that discussion, the following article addresses the three tipping points to consider and the combination of solutions that allow firms to address strategic and tactical business requirements through better use of technology.

During the webinar, Ben Keeler from Citisoft shared some excellent insight to help frame the discussion. According to Ben, "To place current tipping points in context, it's valuable to look at where we've been and why the game has changed. The investment management industry is still very much about people, but we believe that there has been a significant shift from solely a "people business" to a focus on what can be done with technology. This belief is corroborated by headlines we see on a day-to-day basis that reflect macro trends in investment management, from the rise of ETFs to black box or machine-driven investment to manufacturing and trading, and certainly, big data. These trends are indicative of how people are looking to harness technology as a larger part of their business—one that goes part and parcel with operations."

Given these trends and the recent economic environment, the buy side has increasingly looked to align with Eagle Investment Systems and other solution providers to keep pace and create operational efficiencies through the use of enhanced, largely outsourced technology systems.

This is a recent shift: five or six years ago, the great majority of assets were managed on internally-installed systems. The line between internally and externally managed investment systems might as well have been a brick wall and the ability to make decisions along the outsourcing continuum was prohibitively difficult and costly. In the past, once a decision was made as to which side of the wall your business strategy fit, it was a long-term commitment for companies.

Now the game has changed. Ben Keeler offered the opinion that the wall between internal and external systems is more porous, allowing for alliances along a technology continuum. There are now tools available, like those created by Citisoft, to diagnose where a firm resides along the continuum, to determine what a firm's log-term business goals are, and then to chart a path for engagement along the continuum.

TIPPING POINT #1 – INSTALLED VERSUS PRIVATE CLOUD SYSTEM

Five years ago, 20% of Eagle's new clients opted for Eagle ACCESSSM secure private cloud solutions instead of a traditional on-site installation. In 2012, the numbers have flipped: now 90% of new client accounts prefer our private cloud services, and many other existing clients have transitioned from installed to take advantage of Eagle ACCESS' services. Why is this the case? The return on investment (ROI), always strong, has become even more so with the evolution of cloud-based solutions. In years past, the strongest argument in favor of a hosted system was a lower cost of ownership and predictable budget expenses, and this remains true today. Technology moves quickly and many firms prefer not to be burdened with management of, and upgrades to, aging installed infrastructures. A private cloud solution hedges against less visible costs such as investment in data centers, the training of internal staff and IT, and the cost of business downtime during repairs and upgrades. Further, a hosted solution has more flexibility in terms of capacity. A system will often be running at only 15-20% of its capacity for much of the day and only max out during peak processing times at the end of the day or month. Installed systems are often under utilized or overburdened. Private cloud services offer more resource elasticity at variable price points correlated with their usage.

Interestingly, pure cost-savings is now only part of a wider benefit. Eagle ACCESS is designed to provide a total service offering including 24x7 support. Eagle has made significant investment to our hosting platform to help clients to make their operational and workflow processes more efficient. For example, our Data Integration Services (DIS) offering bundles data feeds from industry standard vendors needed to implement accounting and performance, to help improve time to value for clients. Data feeds produced by DIS and delivered through Eagle ACCESS are maintained and supported by Eagle, which alleviates the burden of development and support from the client to Eagle to help clients focus on their core business.

Finally, utilizing a hosting service also means transferring the responsibility to securely manage the data. For example, Eagle ACCESS provides a secure private cloud used to globally supply and support Eagle's suite of applications. Controls and processes are constantly evolving and tightening, and outsourced services manage compliance so firms can focus on portfolio management. Eagle readies data for SSAE16 audits while staying ahead of regulations. Standards are consistently updated, and soon we will offer additional security support in accordance with the National Institute of Standards and Technology (NIST) and the

Federal Information Security & Management Act (FISMA). What follows are drastic reductions in the time required by firms to manage data security and compliance.

TIPPING POINT #2 – ALL OR NOTHING?

As discussed above, what was once a black or white choice between internal or external systems has blurred to grey. Today, there are more systems organization options available than ever before and providers like Eagle and BNY Mellon have broken down the previous barriers between software and outsourcing. More importantly, there are many intermediate steps along the technology continuum, such as co-sourcing, that implement a mix of services suited to a particular firm.

More options means more decisions, and fortunately we now see more portability along the technology continuum, with firms utilizing vendor offerings in line with their current needs. An additional trend, and a crucial one for firms working with Eagle, is a change in the cost of such services. Ben Keeler echoed this sentiment, "Balanced business benefit is required for today's firms, and it's essential to reduce or contain costs in the middle office, regardless of which emphasis we're looking at when it comes to the continuum. In response, variable cost models dominate the use of technology services: firms pay for what they use. This has led to more relationships promoting a more focused and nimble organization that has developed new capabilities and speed to market, while remaining flexible in the face of regulatory change and other uncertainties."

At Eagle we're investing heavily to provide a portfolio of these services around integration of data feeds, upgrades and testing services, and opportunities around information delivery. These are all available only to clients choosing Eagle ACCESS since we can control the infrastructure more effectively and consistently across multiple clients. Of course, our strong technical and operational support, offered globally 24/7, further demonstrates Eagle's role as a flexible, comprehensive business partner.

TIPPING POINT #3 – MIDDLE OFFICE OUTSOURCING

The decision to outsource an entire middle office is significant. It is critical to find business process providers that understand the business and are accessible. In this regard, Eagle and BNY Mellon's support is unmatched. We are able to work with our clients to help them decide at what pace they wish to move through the continuum and at which point to consider the move to full outsourcing - leveraging both firms' offerings from accounting and custody activities to data management. Essentially, by completing the outsourcing continuum, we can address the complete business cycle for clients—from trade management all the way through to end client reporting and billing and collection of client fees—allowing our clients to focus on growing and managing their investments and leaving the burden of managing the technology to us.

Across BNY Mellon, Eagle and Citisoft we found a shared experience in the trends we are seeing when we meet with potential new clients and others considering the move to full outsourcing. First, service differentiation and customized offerings are major selling points. A smoother path from installed software to outsourcing allows firms to emphasize particular technologies and shift resources to ones that suit them. Upwards of three quarters of our new deals for major investment management firms are being assigned on a hosted basis, and it seems this trend is accelerating. Middle-office outsourcing is currently 15-20% of new deals from the same group and, while it may grow in the future, the client-specific nature of outsourcing may keep that level steady in the short term.

What are the tipping points for firms considering middle-office outsourcing? Comfort and trust in their business partner is key. Firms that outsource to BNY Mellon often have had the chance to become comfortable with the partnership and the cultural change that's associated with outsourcing as they've worked together at other points along the continuum. It's up to the client to decide at what pace they wish to progress through that continuum and consider the move to full outsourcing when it's culturally appropriate. Our clients also recognize that, having already entrusted their accounting and custody activities to us - and we have worked with significant amounts of their data - it's very natural to complete the continuum and consider the outsourcing of the middle office.

An outsourcing partner's awareness of a client's culture is crucial. Often, firms wish to provide continued employment for all existing operational staff as well as a strategic alliance that allows flexibility for business expansion. They also want to mitigate business and operational risks, yet often have legacy technology that needs significant re-investment or conversion onto a new operating environment. In an outsourcing relationship, BNY Mellon provides data management, trade processing, investment book of records, reconciliation, custody and firm services. Further,

Eagle can deliver significant operational efficiencies by providing one operating environment to a firm that gives one view of all investment vehicles from a single accounting infrastructure.

A differentiating feature of BNY Mellon and Eagle's offerings is the ability for clients to have complete access to their data through a separate Eagle data management instance delivered by Eagle ACCESS and being fed from the same Eagle technology used at BNY Mellon outsourcing. This is a huge benefit that provides a low cost alternative to building and managing other integrated data solutions, and allows the client to still have control of their data. In summation, outsourcing middle-office operations to a business provider demands trusting the support and infrastructure as if they were part of your firm, but benefiting from the flexibility and accountability of a business relationship.

EAGLE'S OFFERING

We've seen from our work that the tipping points described above tend to drive and influence investment managers' decisions along the solutions continuum. We're in a business landscape where firms wish to balance flexibility and delegation of day-to-day responsibility while being able to engage at a granular level. Financial predictability that is sensitive to actual use is also a major benefit.

Eagle Investment Systems has provided technology solutions to financial firms for over two decades and has developed a wide range of services no matter which tipping point a firm encounters. Eagle's solution continuum offers a spectrum of investment management solutions from traditional software installation through hosted services; from co-sourcing to full data outsourcing or a lift-out. Eagle's offerings are fluid and services respond to the client's evolving needs. As a firm's business evolves they may move in either direction along the continuum: either toward an installed system demanding more operational responsibility, or toward a fully outsourced solution, or a customized balance of both.

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ABOUT EAGLE INVESTMENT SYSTEMS

Eagle Investment Systems LLC enables financial Institutions to grow their assets by creating operational efficiencies and delivering award-winning solutions for data management, investment accounting, and performance measurement and attribution, supported by an unparalleled level of service. Eagle deploys its solutions via a secure private cloud, Eagle ACCESSSM, which hosts and provides on-going support of the applications and systems infrastructure, reducing complexity and risk. Eagle Investment Systems LLC is a subsidiary of BNY Mellon. Additional information is available at www.eagleinvsys.com.

