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PRACTICAL TIPS TO HELP NAVIGATE THE MIDDLE-OFFICE OUTSOURCING TRANSITION

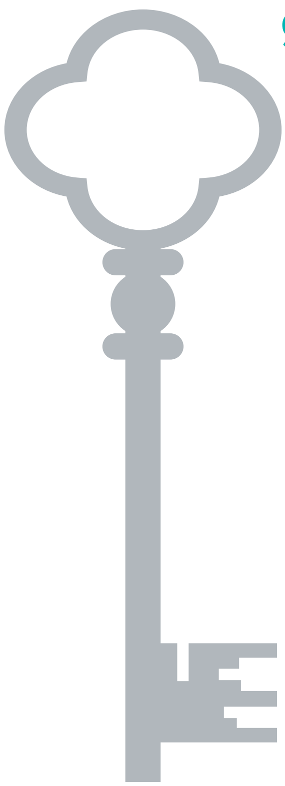
The evolving investment management landscape

From portfolio performance to the firm's performance

Asset management firms have traditionally equated competitiveness with the performance of their investment portfolios. While this remains mostly true, a rapidly changing competitive landscape means that evolution, adaptation and flexibility play increasingly critical roles in success. Acquiring new clients, gathering new assets, keeping investors and employees satisfied, shoring up profit margins, as well as investing successfully, all depend more than ever on squeezing competitive advantage out of every part of the organization.

Today, asset managers operate in an entirely different business environment than the one that existed prior to the financial crisis. Growth strategies have to be balanced with cost control measures and adhere to a more restrictive regulatory environment. This conundrum has provoked many firms to re-examine their business strategies, causing some to focus on new investment solutions, adopt new operational models, and/or resort to new marketing and sales tactics.

Our research found that asset managers now face nine serious challenges that are causing many of them to take a renewed look at their operational capabilities to identify new sources of competitive advantage.[1]



9 key operational challenges facing asset managers

1. A more competitive business climate
2. Increasingly complex investment strategies
3. Prolifieration of vehicles and distribution channels
4. Growing compliance burden
5. Less favorable economics
6. Amplified risks
7. Heightened investor demands
8. Leveraging big data
9. Managing technology

While keeping up operationally is a big part of the challenge facing investment organizations, it can also be the source of far-reaching solutions. Instead of being overwhelmed by the torrent of data streams and information demands, forward-looking managers can harness it to gain economic leverage, meet the demands of investors and regulators, gain new insight into business dynamics, and fuel product development—in essence, turning operations into a source of competitive advantage.

The surprising entry of middle-office outsourcing operations

While we have seen pockets of innovation in the fintech world, the financial services industry on the whole has been slow to evolve. Despite the industry's rich lode of financial and technological expertise, the industry has yet to prove to itself that it can be a hotbed of innovation.[2] So, given the overall pace of innovation, few would have predicted that the middle-office outsourcing market would advance as much as it has over the last decade. As managers have increasingly come to realize that there is value throughout their organizations, not just in portfolio management and the front office, focusing on improving middle-office functions has become conventional thinking. Seeking to capitalize middle office as a source of untapped value, some firms are adding to headcount and upgrading processes and procedures.[3] Others are turning to one or more outsourcing providers to help unlock the potential benefits.

While there are several competent third-party providers involved in middle-office outsourcing, deciding what functions to outsource and which provider is the most appropriate for an asset management firm's specific circumstances is increasingly difficult.

Coming to consensus on the objective of outsourcing is the first hurdle in setting the stage for a service provider selection. However, the inclination to jump into a selection headfirst without considering firm-specific goals or a future state operating model may result in a lengthy or even suboptimal selection process. Plus, once a selection has been made, many asset managers are not prepared for the level of effort required to support a transition program, making these programs extend their timelines for months—and sometimes years.

Simplifying the complex

To provide asset managers with unbiased transparency into the key considerations in selecting a service provider as well as advice on preparing for a transition, SEI has enlisted the help of a specialized consultancy, Citisoft. With a long history of assisting clients with service provider evaluation and selection engagements, and successful completion of nearly 40 middle-office outsourcing transitions, Citisoft offers invaluable perspective on the complexities of this process.

The middle-office service provider evolution

Although it isn't clear which service provider can lay legitimate claim to winning the first middle-office outsourcing deal, at some point in the years following the dot.com bubble, the middle-office outsourcing market sprung forth. This market originated as back-office providers recognized the demand from their clients for help in unlocking the potential in their middle offices and expanded their services accordingly. The early providers typically built their middle-office solutions through asset manager lift outs (agreeing to take on a client's middle-office platform and operations as is) or by leveraging their existing back-office infrastructure and investing selectively in their platforms to create a middle-office offering. As the market evolved, new entrants appeared—some through additional lift outs, while others built from the ground up, creating an abundance of viable choices in the middle office.

Over the years, service providers invested significant time and resources in upgrading their offerings, adding technology and building their teams with experienced staff to support the evolving more complex requirements and better integrate the various applications making up the middle-office platform. Some providers achieved this through technology investments by partnering with clients, others through acquisition of specialist providers, consisting of both specialized expertise and technology infrastructure. As most of the providers leveraged both proprietary and third-party vendor systems, a great deal of work was needed to achieve a seamless integration. Moreover, providers and their asset management clients increasingly recognized the need for a holistic middle-office data strategy to ensure data standards, ownership and processes. Indeed, whether done in-house or externally, middle-office functions should all be working in concert to produce the desired results.[4]

In addition to these investments, service providers have expended significant time in streamlining their client onboarding processes. Ten years ago, a typical large-scale transition was measured in years as opposed to months (with some taking two to four years to complete). Today, the onboarding process is typically half that time, with some now measured in a handful of months. These deals can be quicker or slower based on client size, product complexity, and functional scope/services, in addition to client readiness for the transition. Through better use of conversion tools, onboarding templates, Centers of Excellence (CoEs), and more skilled project resources, middle-office service providers have significantly improved the client's transition process and timeline.

Is there such a thing as too many choices?

We'd argue no, not if you **know your goals.** The playing field in the middle-office outsourcing market has leveled somewhat in the past five years; with relatively no new entrants, choosing which service provider to partner with can be a complex decision. Despite this challenge, we'd suggest that the organization's stakeholders agree on the drivers and goals before initiating the evaluation and selection process. It's less daunting this way and you'll get to your short-list much faster.

> "There is no best middle-office service provider. There is simply the right middle-office service provider for your situation."
>
> **—David Quirk, director at Citisoft**

There are countless considerations when choosing a service provider, and the list will vary by firm, facts and circumstances. The more thorough evaluation and selection engagements have lengthy RFPs with potentially hundreds of questions and categories. While this might seem excessive to some, it is important to get concrete "yes" or "no" answers, as well as details on a provider's capabilities, as many asset managers have nuanced or customized operational processes that may not be easily supported by all service providers.

Citisoft director David Quirk provides a list of some of the questions a firm should ask to help determine their provider short-list in his blog, **"Who's the Best Middle Office Outsourcing Provider?"**[5]

Here is a sample of those questions:

- What are our fund/portfolio structures?
- What asset classes and markets do we trade in?
- What are our unique data and reporting requirements?
- Do we need daily or monthly performance and attribution?
- Do we have unique performance and attribution needs?
- What level of service do we require (timing, customization)?
- What is our preferred method of engaging with business partners/service providers?
- What changes do we envision in our business over the next few years (markets, products, asset classes, etc.)?

Business/organizational drivers for outsourcing the middle office

Arguably before an asset manager even starts to answer the questions above, it's important to garner consensus within the firm on the fundamental drivers and goals for why they are considering outsourcing in the first place. Asset managers choose to outsource for a variety of different reasons. The following are some of their motivations.

Efficiency is probably the most common (and generic) reason we hear from asset managers in considering outsourcing. Yet we will almost always certainly hear the word "cost" also mentioned somewhere in the conversation. However, cost savings should not be the main driver for choosing to outsource middle-office functions. In our experience, asset managers are often surprised to see that the cost savings are insignificant, remain the same, or in some cases, are even more costly than their existing in-house, middle-office operations. As outsourcing typically includes an enhanced technology platform and access to additional expertise that often results in improved quality, risk mitigation, quicker processing, better investor and front-office reporting, etc., asset managers in the latter scenario often find that the added benefits outweigh the lack of previously expected cost savings.

Where firms do typically achieve cost savings is in technology investment. At some point, an asset manager on a **legacy technology platform** will come to a crossroads where it's no longer sustainable to continue operating on their current platform. Often, this is when outsourcing is considered allowing the asset manager to leverage the service provider's platform for breadth and scalability. Most service providers continue to invest in their platform, whether it's through upgrades of their vendor technology, acquisition of best of breed, or through enhancements to their legacy platform. While the year-over-year costs of outsourcing may be close to, or even more, than the current in-house run budget, don't forget that a portion of the overall operating budget must account for investment in the platform to support and scale the business over time. When outsourcing, unless a firm is adding additional services, these platform investments made by the provider are generally covered under the yearly service provider fees.

Access to expertise is another common driver for outsourcing. Frequently we hear of asset managers first considering outsourcing because they want to enter a new market (e.g., they are domestic and may want to start an international fund) or they are interested in trading more complex asset types. They don't currently have the subject matter expertise or the technology in place to support these new markets or assets so they turn to partners or service providers for support. Because service providers support many different client types, asset classes and investment vehicles and strategies, their teams typically hold more varied and deeper expertise than an asset management firm would normally house.

It would be challenging to find any asset manager who does not aim to grow their assets, so **scalability** in the middle office is vital. Outsourcing offers firms the ability to scale up and down (hopefully more of the former than the latter) without any disruption to their middle-office operations. From an expense perspective, this is typically achieved using a variable cost model, driven primarily by the firm's AUM; in the event of a downturn in assets, the firm pays a lower fee.

Key man risk is another driver for firms that have chosen to outsource. Many firms have long-term internal staff nearing retirement, who have unmatched institutional operations and technology knowledge. Often, there is no succession plan even though management knows that specialized knowledge will walk out the door with the employee. The complexities associated with the ever-changing regulatory landscape are also a reason some firms choose to outsource. Keeping up with regulatory changes can be a burden from both a resource and financial perspective. Many firms don't have the expertise, time or infrastructure to implement and support these changes in-house within the stated deadlines.

While many firms share these goals, there is a multitude of other potential drivers and motivators. Gathering consensus on what those specific drivers are can help set the firm up for a successful partnership with a service provider.

Citisoft client case study

A rapidly growing asset owner opted to shift from externally to internally managed assets, resulting in the need to reassess their current in-house operations and technology. After engaging Citisoft to perform a strategic assessment, the client determined the best option would be to outsource their middle-office operations to a third-party service provider, based on the following key drivers:

- Reduced time/cost to implement the solution (vs. upgrading in-house technology)
- Enhanced technology platform by moving to a current industry-leading solution rather than attempting to upgrade existing legacy systems
- Leverage of third-party expertise and capabilities (e.g., BC/DR, cybersecurity)
- Staff can focus on key competencies
- Increased flexibility for growth in new assets, distribution channels and markets

Through a detailed RFP process, Citisoft assisted the asset owner with evaluation and selection of their future middle-office service provider, and subsequently provided project management and business analysis for the transition, which was completed on time. As a result, the asset owner is currently benefitting from an enhanced and scalable platform that will allow them to grow while decreasing the need for further investment in technology or increasing headcount.

Considerations in moving toward a new operating model

The most successful service provider/asset manager relationships are those that view the dynamic as an ongoing partnership and not just a transactional business arrangement. For that reason, when evaluating service providers, an asset manager should consider a firm's cultural match in tandem with their functional capabilities. Making a short-sighted decision, or one based on cost alone, can result in inadequate long-term consequences given some contracts can be nearly a decade long, or major rework in moving to another provider once the contract has expired. Conversely, if a well-thought-out decision is made, a firm may stay with their provider for the long haul saving themselves significant time and expense on further evaluation or transition efforts. Firms should not look to their service providers as just firms they're paying for specific services, but rather as extensions of their in-house team.

SEI's recent paper **"Investment Management Operations 2.0"** discussed the blurring lines between the functions housed in the front, middle and back office.[6] Processes that were historically in the front and back office are making their way into the middle-office service provider catalogue of offerings. Value-added services, such as data management, and risk and analytics services, have become a key differentiator in the service provider market in recent years.

A recent *Ignites* article weighs in on this shift, stating in part that "Major service providers are switching their pitches from telling asset managers how much money they can save fund shops by taking on the mundane operational tasks to promoting the value they can bring through better data management and analytics."[7] We concur, recommending that firms should look at their entire operating model (not just what may be considered as traditional middle-office functions) and determine what their ideal future state operating model looks like. For example, a firm may benefit from an improved enterprise data management solution as well as outsourcing its middle-office functionality. Knowing this up front will enable the asset manager to arrive at a suitable short-list of those providers that can provide the relevant breadth of services they may be interested in outsourcing.

In addition to value-added services, it's important to consider an asset manager's overall operational service needs. Some questions to consider if moving from an in-house to outsourced middle office: Do you already have your back office outsourced to a provider? If yes, do you want the option of having your back and middle office serviced by the same firm in the long term? Or alternatively, do you want to spread your vendor concentration risk by engaging with different firms for middle- and back-office outsourcing?

Navigating the transition waters: Focus areas

Rolling straight from the selection process into transition is a critical mistake. As there will inevitably be strains on resources, asset managers must prepare their organizations and instill adequate procedures prior to commencing the transition activities in earnest. If these are unchartered waters for an asset manager, focusing on two key areas will enable a smoother transition: **Data** and **Operating Model.**

What can asset managers do to "get their data in order?"

As a first step, asset managers **need a clear data integration strategy.** As the middle office will be moving to an external service provider, the transition will require integrating the internally held front-office data with the new provider. The scale of effort cannot be overstated as data-related tasks are regularly the most complicated given the multiple stakeholders, touchpoints and systems involved. This includes data being sent to and received from the service provider.

A well-defined data integration strategy must be created and agreed upon by all relevant stakeholders. We recommend this includes a data governance model with clear ownership to oversee the strategy and ensure it is executed as designed. In some cases, additional tools, software and data platforms need to be implemented as a precursor to an outsourcing implementation. Fewer point-to-point interfaces between the client and service provider will lead to a more efficient operating model.

As an example, an asset manager using multiple trading systems will want to consolidate their executed trades before sending them to the service provider. When the service provider sends back the End of Day (EOD) and Start of Day (SOD) position and cash files, it's optimal to send to one place, where the asset manager can then distribute the data to other internal front-office systems. Often, this may require the asset manager to invest in a new enterprise data management platform. In an ideal situation, we would recommend that this type of project be completed (or well on its way to completion) before beginning a transition effort; however, practically speaking, this is not always possible. In the case where a large-scale implementation effort and a transition must run in parallel, it's paramount to have dedicated program management that oversees the parallel streams, and manages dependencies across the internal implementation and the service provider transition.

Other considerations involve data governance, mastering of data (e.g., where these "masters" will reside), unifying data standards between the client and service provider, and rationalizing market data feeds. Asset managers who implement "data-enabled" architectures and services before and alongside an outsourcing transition will see the benefits of a more efficient data integration model.

What can an asset manager do to "get their operating model in order?"

The **service provider and asset manager should undertake a detailed analysis of the future state joint operating model before commencing the transition.** This analysis will provide the asset manager with a better understanding of the requirements and nature of these service provider interactions. The operating model analysis can also help flesh out any further functional gaps (on either side) needing to be addressed prior to or during the transition. The asset manager can then assess any changes required to existing business processes. Upfront and detailed operating model analysis will surface any potential gaps or process changes earlier in the transition process.

A few examples Citisoft has seen with its clients include:

- The service provider has more robust corporate action processes that can replace manually intensive validation processes currently in place at the client; however, in addition, the front office may need to access a new system for voluntary elections.
- The service provider may require more timely notification of new security master data, necessitating the client to implement upstream process changes.
- Reconciliation breaks between the service provider and front office at the start of the day required manual updates to front-office systems.
- Previously hand- or email-delivered reports were replaced with self-service dashboards and reporting.

There is not a one-size-fits-all operating model for every asset manager. Knowing the key considerations will help to ensure success post-transition. It's also important to identify early in the process the type of expertise an asset manager will need to retain to support the front-office post-transition. Unfortunately, the calculation for how many middle-office operations and technology staff a firm will need to retain is not standard, and neither is the required skill set for those resources. Having a clear understanding of the future-state operating model and the internal processes that will need to be supported before starting the transition will help iron out roles and responsibilities. Generally, strong subject matter experts who can see the macro picture are good resources to consider retaining. In addition, good communication skills are essential as you move to a model that is less focused on operations and more focused on relationship management.

Often, we see the resources that will be retained removed from their current business-as-usual (BAU) roles to work full-time supporting the transition in a subject matter expert (SME), business analysis or testing role. This can facilitate a smoother transition as those resources begin to build relationships with the service provider and familiarize themselves with the change in processes.

Expect the unexpected: Success is in the definition

Some middle-office outsourcing transitions are deemed “successful” if success is defined solely as moving the firm’s middle office to a third-party service provider. However, if the transition does not meet a firm’s business goals, then it’s a success in name only and neither party will be satisfied. Raising the bar on what “success” means for a transition calls upon firms to evaluate whether the outsourcing solution has met the requirements of their business drivers as well as being completed by the target date set out at the start.

To ensure their goals are met and their transition program has limited delays, asset managers should understand the following:

An asset manager will need to make some concessions

An understanding that compromises and concessions must be made during a transition will ultimately ensure a smoother transition process. As an example, we have seen often at the beginning of the transition, an asset manager may have made a list of functions that need to be in place for “day one” (i.e., the first day live on the service provider’s middle-office platform), but some of these functions need to be deferred to a “day two” list in order to get onto the platform quicker. These “day two” deferred items could be as simple as an individual operational report or as complex as a full module, like client reporting, that can be decoupled from other functions.

Another common example of a concession we have seen with our clients is in the case of reporting when multiple reports may be consolidated into one, a field name may change, or the timing might not be identical to the current in-house timing. Asset managers need to make it clear to their internal stakeholders and their service provider which functions are truly critical and which ones can be deferred.

Reinventing the wheel is rarely necessary

A qualified service provider draws upon years of industry best practice and experience with clients of all sizes, strategies and structures; they have created their processes based on a varied and diverse track record and internal expertise. Despite the desired output being comparable, it’s not uncommon for asset managers to struggle to accept a service provider’s standard process because it’s unfamiliar to how they previous did it, or they are unconvinced it would best suit the unique characteristics or challenges of their business. As the due diligence selection process involves a detailed understanding of the provider’s pros and cons, we recommend making every effort to align with the service provider’s standard processes. When the service provider’s standard is not totally acceptable to an asset manager because of a nuance or particular complexity in their model, customized services can typically be negotiated and should be addressed prior to beginning the transition, where possible. In order to keep the transition on pace and within the allocated budget, these requests should be limited to only the most critical activities.

Gaps in initial due diligence or requirements gathering are common

The asset manager may have allocated significant subject matter expertise in the early stages of a transition, but it's inevitable that something will not make it into the initial due diligence or requirements gathering phase. It's important to ensure representation from all business units to review requirements and ensure that everything has been captured accurately, especially the front office and any other areas that are consumers of middle-office services. In the interest of time, documentation of current workflows and hand-offs may be overlooked, but as these documents can help draw out potential requirements that may have been missed in initial requirements gathering efforts, we recommend that sufficient resources are allocated to complete these documents. As a fail-safe, these typically get flushed out during testing; however, given testing is often compressed, investing in the additional documentation at the outset will be worthwhile to minimize omissions.

An asset manager will need dedicated resources to support the transition

Even with the best planned transitions, assuming that the transition effort can be supported by a manager's BAU resources and/or by service provider resources will derail a project before it ever hits the tracks. An asset manager may have deep expertise in making investment decisions and performing middle-office functions, but this expertise won't always translate to managing the nuances of a complex transition effort. Likewise, a transition will almost certainly detract resource time and focus from their "day jobs." An asset manager must also not underestimate the need for dedicated program resources. In Citisoft's experience, resource contention on the asset manager side, resulting in task deadlines being missed, is the top reason firms miss their target dates.

Blueprint for success—best practices to consider

Once an asset manager has made the decision to outsource their middle office to a service provider, they are beginning the journey to transition their in-house operational functions to an external party. The transition is complex—with many moving parts crossing both organizations. A few considerations are critical to achieving a relatively smooth and successful transition:

The first consideration is resourcing. **Both sides need to allocate skilled and dedicated resources to the transition.** The service provider, being more familiar with the transition and client onboarding process, typically has a good grasp on the resources required on their end. However, asset managers often assume that as they are offloading the work to another party, with the bulk of the transition efforts falling on the service provider. While the service provider bears the bulk of responsibility for deliverable creation, the asset manager must allocate sufficient resources to ensure a proper integration between the outsourced middle office and the client's retained operations. Additionally, they must ensure that the data passing externally to the new middle office has been cleansed, normalized and structured in such a way that the service provider can deliver the desired analytics, reports and ongoing support to the manager's front office and management. Inconsistently formatted, insufficient and/or incorrect data will inevitably result in suboptimal, if not substandard, outputs.

The process to define and implement a newly formed integration model (consisting of systems, data, business process and people integration) will require that the asset manager dedicate staff with a variety of skill sets to the transition, such as:

- Program/project managers to provide oversight and management of their resources and work efforts
- Business analysts to define and implement new system interfaces and process hand-offs
- Developers to code new interfaces, build data warehouses, reports, etc.
- Testing analysts to plan and execute testing of new functions noted above
- Data analysts to define standards, mappings, new data fields, etc.
- Business SMEs to provide the service provider with a complete understanding of current and future-state requirements/needs

In addition to these resourcing considerations, **the asset manager must engage and involve their front office throughout the transition process.** Ideally, this engagement will start early in the process. With a middle-office transition, there is a common tendency to leave the front office out of the picture.

However, this thinking can be dangerous for a couple of reasons:

1. Gaps may exist between the service provider's standard offering and the often-customized services of the client's current middle office. These gaps must be addressed sooner rather than later.
2. The front office may uncover other variations in service as the transition progresses (i.e., timing of data availability, data definitions, level of detail, standard reports, etc.) as they are best equipped to notice these subtle details.

Asset managers must recognize there will likely be changes to how the service provider's services are provided to the front office; so engaging those employees early helps to lessen any issues further down in the transition process.

The client needs to adopt a new mindset—one from middle-office *doer* to middle-office *overseer*. This can be a difficult change, as the asset manager needs to focus less on how the actual process is undertaken, and focus more on the agreed outcomes. While the asset manager will want to ensure there are proper controls in place throughout the process, the firm should focus less on how the service provider performs every step of the work and rather emphasize what key performance indicators (KPIs) and/or service level agreements (SLAs) should be installed prior to or during the transition, and then holding the service provider accountable once in production. Once this new mindset is established, the client can better leverage the transition period to work out specifics of ensuring an effective joint operating model with a proper level of oversight.

Once the transition is over, it's incumbent that the asset manager thinks of the third-party middle office as a part of its own firm. While legally the outsourcing transaction may be arm's length and independent, the manager should treat the provider more like a partner whose judgment and skills are to be valued, and whose activities are core to the success of the firm. For example, if an asset manager is looking at a new mandate, launching a new fund, or thinking about adding a new custodian, it's prudent, if not necessary, to include their service provider in the initial conversations.

Service providers are typically amenable to accommodate these requests, but it should be expected that they may need to make changes on their end. Asset managers should not make the mistake of assuming the service provider can handle anything with little notice and at no cost, particularly where customization is involved.

Best practices suggest that a joint communication plan and cadence should be discussed and agreed to before beginning the transition. During the transition, **there should be full and equal transparency across both organizations**, as an unclear road map will inevitably add unnecessary distractions, delay the process and add to errors. A middle-office transition is a joint exercise where both sides need to understand the true status of key milestones along the way. For example, there is a large amount of joint testing that must occur between the client and service provider. Prior to starting the joint testing, each side must understand their own milestones and the progress made against them; if both sides are not fully transparent as to their individual testing readiness, the joint testing may be less productive and require reworking of efforts. There are numerous joint milestones in a typical middle-office outsourcing transition and a high level of transparency will lead to a better planned and more productive transition. Once the transition is complete, the communication doesn't end. A BAU communication plan and cadence should be agreed and adhered to so the transparency continues.

The transition is over—now what?

The post-transition operating model varies from asset manager to asset manager based on a number of factors, including size, complexity and internal technology. There is no crystal ball to show what each asset manager will look like after outsourcing its middle office; however, based on Citisoft's experience, we can lay out a directional understanding of the composition of an ideal post-transition staffing model.

While the size and skill set of each asset manager's post-transition team will vary from firm to firm, it's critical that the asset manager's post-transition team retain the mindset shift from doer to overseer that was needed during the transition. As such, an asset manager should look to retain staff with strong communication and relationship management skills. This **relationship management** function should be the first line to the service provider and are typically responsible for service provider oversight, managing all communications with the service provider (inbound and outbound), inquiry management, overseeing SLAs and KPIs, and general issue escalation. Depending on the firm, the resources on this team are typically strong middle-office generalists, or a team consisting of strong SMEs from each functional area.

In some instances, asset managers retain more of their former trade processing resources compared to other functions. These resources are typically retained to focus on **supporting the front office** in the new operating model (such as new security setups, corporate actions oversight, reporting, reconciliation breaks with service provider) and liaising with the service provider on behalf of the front office, as needed.

An asset manager will most certainly experience a reduced technology footprint but will still require some resources to manage its **technology** functionality. An outsourced middle office requires a number of new inbound and outbound interfaces that will need to be monitored and maintained to ensure accurate data flows to and from the service provider.

Once the middle-office outsourcing transition has been completed, the work is certainly not over. A crucial and difficult part may be completed, and while the service provider will perform most of the work operationally, both the asset manager and service provider will have shared responsibility for ensuring success in the relationship longer term.

Preparation, collaboration, flexibility and support are keys to transition success

In the years since the financial crisis, the middle office has emerged as a critically important operational component of investment firms ranging from traditional asset management firms to those managing a diversified mix of traditional and alternative strategies. Even as consensus builds that middle offices are largely untapped sources of value, they are also being placed under considerable stress from a variety of sources, including heightened regulation, growing investor demands, stronger competition, and rapidly growing complexity and globalization of products and strategies.[8]

Making the transition to a middle-office outsourcing relationship offers the promise of streamlined operations, scalability, expertise, and potentially, cost savings. However, the complexity of this process is often underestimated by asset managers looking to make a quick switch to wring out costs. Preparation, collaboration and program support is necessary to achieve operational efficiency and enable future investment strategy through enhanced services, allowing the asset manager to focus on their core competency.

With an understanding of the level of effort required on the part of the asset manager, there are a number of considerations that can be addressed to make the process run smoother. Clearly defining business goals is the first step in charting the path to success. Uncovering requirements for the transition shouldn't be limited to the middle office—this due diligence should include the service provider, an experienced project team (consisting of resources from an internal program management office/business analysis team or through an experienced consulting partner if internal resources do not have the expertise or bandwidth), and front-office stakeholders. Once success has been defined, the onus is on the asset manager to ensure they have the right internal and external resources in place to meet deliverables and target dates.

Throughout the process, managing expectations is a key factor in ensuring a smooth transition. An acknowledgement that some compromises must be made is characteristic of even the most successful transitions. Ultimately, asset managers will only achieve long-term value when they shift their perspective to view their outsourcing arrangement as a two-way relationship—and every successful relationship requires a meaningful investment of time, effort and resources from both parties as its foundation. Proper preparation for, and ongoing oversight of, a middle-office transition will better enable an asset manager to truly differentiate itself from its competitors and capitalize on an opportunity to lay the foundation for substantial future growth.

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Citisoft is a global consulting firm dedicated to servicing the investment management industry. Our staff and management bring credibility and hands-on knowledge to every facet of our client relationships, backed by a history of successful partnerships with leading investment management firms and industry service providers. With our deep understanding of all aspects of the investment management process, our clients benefit from our ability to identify industry trends and accurately assess their effects. Through our Advisory and Delivery services, we offer a full complement of consulting capabilities ranging from strategy formation through guiding and implementing successful business change. For more information, visit www.citisoft.com.

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179a49-IMS 52296 (10/17)