

STRAIGHT-THROUGH PROCESSING

KPMG Survey Exposes Operational Gaps on the Buy Side

BY CRAIG MCGUIRE

Systems integration speedbumps, lingering Y2k, EMU issues and ever-evolving global industry standards are just a few of many problems swarming over buy side IT departments these days. So says a recently released survey in which New York-based KPMG Financial Services Consulting Group tapped into a pool of senior IT talent at 12 mid- to large-size firms — averaging \$79 billion in assets under management — to gauge their operational needs and review the status of straight-through processing.

The scope of the survey, entitled, "Industry Survey: Investment Manager Operational Needs — Focus on Straight-Through-Processing," includes all functions of the investment manager value chain, including pre-trade through post-trade processes. According to the results, integration among investment management processes was identified by most firms as a key area calling for attention. Furthermore, trade capture, trade confirmation and reconciliation were all mentioned as functions that would benefit the most from increased integration.

When it comes to spending, most respondents are earmarking their IT dollars for front-end performance analysis and reporting — focusing less on integrating back-office functions. Enhancing other front-office tools for portfolio management and customer servicing are also being placed higher on the IT totem pole than developing long-term, back-office capabilities.

Traditionally, if they couldn't build this functionality, and were reluctant to buy it, the only other recourse has been to outsource it. While the report indicates most asset managers depend upon some level of outside assistance,

they remain extremely wary of the services. According to the report, many respondents would not consider outsourcing fund accounting and performance reporting for institutional clients, citing "the importance of customer interaction and the perceived high risk affecting reputation in the event of error."

Not surprisingly, reducing expenditures is the most likely reason most IT

managers opt for outsourcing. The report, though, also reflects many participants' dissatisfaction with some vendor's inability to lower costs. In fact, according to the survey, "Outsourcing may not lower costs, particularly in cases where the investment manager is more internally automated than the custodian/fund accountant."

Slow reporting and performance measurement turnaround, lack of customization features, concerns over fiduciary responsibility to clients and the perception of less control over the processes are all daily worries for IT managers that deal with outsourcing providers.

Compounding the lack of confidence participants had in their vendors, most said "there appears to be relatively few reliable potential outsourcing providers that asset managers would feel comfortable with, i.e., the provider universe is considered to be thin."

Meanwhile, as managers heaved armfuls of dollars and manpower at shoring up Y2k and EMU holes in their IT infrastructure last year, long-term strategic planning was often snubbed. Not surprisingly, U.S. firms tend to pour more money and resources to Y2k compliance, while U.K.-based firms were spending more time preparing for the launch of the euro.

Responses to the survey also yielded a host of daunting roadblocks that still lay in the path of straight-through processing. Many respondents call for less-complex products and customer bases to facilitate internal and external integration and therefore STP.

The lack of global standards for securities descriptions, corporate actions databases, settlement instructions and communications formats, including confirmation, was also frequently cited an obstacle to STP.

In the end, the survey predicts that companies that develop straight-through processing capabilities are more likely to be industry leaders. ●

Senior IT staff at the following firms were interviewed for KPMG's "Industry Survey: Investment Manager Operational Needs — Focus on Straight-Through-Processing"

- Aeltus Investment Management
- Brinson Partners/SBC Brinson
- Grantham, Mayo and Van Otterloo/GMO Woolley
- Lazard Freres Asset Management
- MLC
- Montgomery Asset Management
- Prudential Portfolio managers
- Rothschild Asset Management
- Schroder Capital Management International
- Scudder Kemper Investments
- USAA Investment Management
- Warburg Pincus Asset Management