Eight Points to Consider When Selecting Financial Reporting Software

Executive Summary

The trend toward data consolidation and automation is pervasive in fund administration today. Realizing that status quo is no longer an option, forward-thinking fund administrators are embracing technology innovation to gain unprecedented risk control, reduce costs, increase scalability and elevate service levels.

Because selecting a technology partner is a major strategic economic buying decision, this paper offers practical advice to fund administrators as they conduct their search for a financial reporting solution. Choosing the right partner will position your organization for long-term opportunity and growth – but the wrong decision can have the opposite impact, jeopardizing your business, client relationships and employee morale. Some key points to consider when making a decision include:

Point #1: Set Goals and Objectives
Point #2: Define Your Strategic Selection Criteria Before You Begin Your Search
Point #3: Expect a Win/Win Partnership with Your Vendor
Point #4: Make Control Your Primary Functional Driver
Point #5: Conduct a “Gap” Analysis
Point #6: Create a Short List of Vendors
Point #7: Understand What Is Automated – And What Is Not
Point #8: Consider the Total Cost of Ownership

Point #1: Set Goals and Objectives

The first step in selecting a financial reporting software vendor is the most critical. Before you do anything else, you need to thoroughly understand and capture your organization’s goals and objectives.

With multiple stakeholders involved in the process, setting goals and objectives is a complex task. Fortunately, the energy you invest up front to complete this endeavor will pay off in the long run by expediting the search process and helping to ensure that you select a technology partner who is well aligned with the strategic goals of your company.

Successful setting of goals and objectives involves the following.

- Identifying the right stakeholders, including current internal providers of data, fund administration staff and any internal and external clients in your organization that rely on financial reporting information.
- Prioritizing the business goals that are driving the decision – for example, data control, risk mitigation, cost reduction or elevating service levels.
- Aligning financial reporting goals and objectives with your company’s strategic business goals and objectives, including plans for acquisitions or expansion into other global or industry markets.
- Assessing future data management needs beyond financial reporting.
• Identifying the strengths and weaknesses of your current process with an eye toward fixing or replacing “broken” processes. For example, replacing error-prone spreadsheets with a centralized data hub to repurpose data.

• Making sure that senior leadership is aligned with the department level team. Too often technology assessment projects break down late because of this type of misalignment. An example of this would be a situation where the team doing the work thinks the initiative is about increasing efficiency while the senior management only wants to invest if they can reduce costs.

Point #2: Define Your Strategic Selection Criteria Before You Begin Your Search

This next step involves defining your strategic selection criteria before beginning your search. It is an important part of any enterprise technology implementation for three key reasons:

1. Internal alignment – The process of drafting strategic selection criteria forces your fund administration team to identify and agree upon your needs before beginning discussion with vendors. In the end, this alignment will save time and expedite the evaluation and procurement process.

2. More accurate proposals – A strategic selection criteria document allows vendors to clearly understand your needs so that they can put forth a more accurate proposal, including costs and timeframes.

3. Comparability of solutions – By creating a strategic selection criteria document you ensure that each vendor receives the same set of criteria, which yields a similar and comparable set of proposed solutions to help ease your evaluation process.

As you determine your criteria, think strategically about how your company’s business plans, regulatory dynamics and customer expectations will create increased demand for financial reporting flexibility. And take a look beyond financial reporting to anticipate future data consolidation and automation needs across other aspects of your back-office operations.

Consider how:

• information-driven internal and external consumers will place even greater demands for more timely, flexible and accurate reporting;

• the need to quickly and efficiently adapt to new regulations will impact reporting demands, staff resources and ability to scale;

• the need to automate other back-office functions will be impacted by the financial reporting automation decision you are making today;

• workforce issues will impact your back office, including the prevailing talent drought and the expectations of Gen X and Gen Y workers;

• evolving technology will provide added opportunities for streamlining and efficiency;

• the proliferation of new and more complex instrument types will create challenges for greater reporting flexibility; and

• globalization challenges will place new demands on fund administrators and exploit existing inefficiencies.

Once you have identified your financial reporting goals and objectives and aligned them with your company’s strategic goals, you are prepared to define your strategic selection criteria.
Point #3: Expect a Win/Win Partnership with Your Vendor

Always remember that you are buying a total solution, not simply a software product. While you need to make sure the product is a fit with your goals and objectives and meets your feature and functionality requirements, the most critical selection criteria is ensuring that the vendor’s strategic business goals and objectives are aligned with those of your company.

A strategic partner is motivated to establish a long-term relationship with its clients. For the client, the value of a partnership is that it ensures the vendor is prioritizing your current and future needs. For the vendor, a partnership means repeat business in the form of additional products and services.

Factors to consider when determining if a vendor’s business goals are aligned with those of your company include the following.

1. How deeply do they understand fund administration?
2. Do they stay abreast of regulatory trends to ensure that the product will support an evolving market?
3. Is their core business fund administration technology automation?
4. Do they have other fund administration automation products to meet your future needs, e.g. performance reporting, expense management and post-trade compliance products?
5. What percentage of their budget is invested in future enhancements and development?
6. How do they involve customers in market research when determining product development priorities?
7. How do they manage ongoing client relationships?
8. How do they facilitate ongoing client communications, e.g. newsletters, dedicated client Web sites and client conferences?

Get to know your potential partner before committing to a business relationship. Ask for references. And it’s always invaluable to visit their home offices. There is no better way to understand their corporate culture, meet the team that will be supporting your relationship and experience first hand how their business operates.

Point #4: Make Control Your Primary Functional Driver

When it comes to financial reporting automation your primary functional criteria should focus on control – over the collection of data, the creation of reports, the confirmation of data and the delivery of your reports.

A recent fund administration survey cited controlling risk by eliminating manual processes and improving data integrity as top concerns among the 115 fund administration leaders surveyed.
When asked to rate the importance of automating fund administration data as it relates to specific benefits, minimizing reporting errors received the most "very/extremely important" ratings (84.1%) among respondents.¹

With these survey results in mind, you can gain control, mitigate risk and improve data integrity by selecting financial reporting software that lets you do the following.

- Centralize your fund data, so that you can validate it once, store it in a central database and reuse it for multiple fund administration purposes.
- Eliminate error-prone manual efforts and spreadsheets wherever possible.
- Achieve independence from outside vendors or IT support. When it comes to ongoing report maintenance, choose a partner whose software puts your business users in control – rather than IT personnel or third-party vendors – since your users know your data and the required results best.
- Invest in the ability to create archives. Some systems overwrite historical artifacts each reporting period while others keep archived copies of old reports.

With this in mind as you develop your strategic selection criteria give priority to the features and functions that provide the greatest control over data integrity and internal processes.

**Point #5: Conduct a “Gap” Analysis**

A gap analysis is a business resource assessment tool that enables a company to compare its current state with its potential desired state. At its core are two questions: Where are we? Where do we want to be?

In your search for financial reporting software, a gap analysis is an important tool to help you map your current processes and overall cost to what your processes and costs will look like in the desired state post-implementation of your new solution. Processes and associated costs to consider in your gap analysis include data collection, report creation (including typesetting costs), data confirmation and report delivery.

A thorough gap analysis will enable you to identify all manual processes in your current state and where they can be eliminated in your desired state. With a well-executed gap analysis you will be able to quantify the variances between your current state and potential desired state, thereby providing valuable ROI data to justify your investment in financial reporting software.
Most importantly, before attempting to conduct the gap analysis yourself, ask your potential vendors for help. Some may provide free consultations that include this analysis as part of their business development process.

**Point #6: Create a Short List of Vendors**

As you begin your search for a financial reporting software vendor you will quickly discover that there are numerous vendors who claim to have the product you need – from printing companies that offer software solutions to augment their core business to pure technology companies whose primary focus is technology innovation. You will also discover that the world of financial reporting software is still largely fragmented, with many vendors offering point solutions that address highly targeted niches within fund administration.

To qualify or eliminate prospective vendors, it is important to clarify the most important strategic selection criteria. You may eliminate certain vendors because their product does not support certain “critical” features, or you may decide that a large number of “important” features are not supported.

Beyond feature and functionality requirements, here are some factors to consider when evaluating qualified candidates.

- Are you looking for a financial reporting product or a fund administration platform? Think long-term. While the immediate need may be to automate financial reporting consider your future needs and whether the vendor can support those needs as well.

- How well does the vendor understand fund administration? Fund administration is increasingly complex, with evolving regulatory and global challenges. You ultimately want a partner that understands today’s issues and anticipates solutions to tomorrow’s challenges.

- Is the vendor’s corporate vision aligned with yours? Consider their commitment to fund administration and ongoing investment in product enhancements and development.

By developing and defining your strategic selection criteria you save yourself and the vendors’ time and energy. Why research and analyze proposals from vendors that you have disqualified due to some overriding qualification?

**Point #7: Understand What Is Automated – And What Is Not**

With financial reporting software, there are different degrees of automation. If your goal is to mitigate risk in the back office by eliminating manual processes, it’s critical that you understand what aspects of the financial reporting process any particular solution does and does not automate.

Consider the entire financial reporting process – from the collection of raw data to the delivery of a published document or electronic report – and which steps of the process are automated or not.
## Sample Checklist: Automated vs. Manual

<table>
<thead>
<tr>
<th></th>
<th>Automated</th>
<th>Manual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COLLECT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collection of holdings data from fund accounting system files.</td>
<td>❑</td>
<td>❑</td>
</tr>
<tr>
<td>Collection of trial balance account data from fund accounting system files.</td>
<td>❑</td>
<td>❑</td>
</tr>
<tr>
<td>Collection of securities lending information from portfolio managers.</td>
<td>❑</td>
<td>☐</td>
</tr>
<tr>
<td>Collection of market data from a third-party provider.</td>
<td>❑</td>
<td>☐</td>
</tr>
<tr>
<td>Collection of other contributing information from upstream systems and spreadsheets, including performance and fund profiles.</td>
<td>❑</td>
<td>☐</td>
</tr>
<tr>
<td><strong>CREATE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flagging, footnoting, sorting, grouping, aggregating and rounding of holdings data.</td>
<td>❑</td>
<td>❑</td>
</tr>
<tr>
<td>Creation of holding reports, such as Schedules of Investments and related sub-schedules.</td>
<td>❑</td>
<td>❑</td>
</tr>
<tr>
<td>Creation of financial statements and the notes to the financial statements.</td>
<td>❑</td>
<td>☐</td>
</tr>
<tr>
<td>Creation of charts and graphics for the manager’s discussion of fund performance, including dynamic updates to content.</td>
<td>❑</td>
<td>❑</td>
</tr>
<tr>
<td>Creation of richly formatted reports, without typesetting.</td>
<td>❑</td>
<td>☐</td>
</tr>
<tr>
<td><strong>CONFIRM</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identification of data discrepancies and alerts to prompt resolution.</td>
<td>❑</td>
<td>❑</td>
</tr>
<tr>
<td>Automatic validation of statement checks to facilitate resolution.</td>
<td>❑</td>
<td>❑</td>
</tr>
<tr>
<td>Automated audit trails when users modify holdings and security data or make adjustments to the trial balance.</td>
<td>❑</td>
<td>☐</td>
</tr>
<tr>
<td>Automatic creation of supplemental reports to facilitate audit review.</td>
<td>❑</td>
<td>☐</td>
</tr>
<tr>
<td>Permission controls and user rights to access data.</td>
<td>❑</td>
<td>☐</td>
</tr>
<tr>
<td><strong>DELIVER</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivery of holding reports, financial statements and other reports, such as sub-schedules and fund fact sheets, in a richly formatted document ready for publishing.</td>
<td>❑</td>
<td>☐</td>
</tr>
</tbody>
</table>

### Point #8: Consider the Total Cost of Ownership

Licensing software is a complex economic buying decision that involves factoring in more than the price of the software itself. That’s why it is important to look at the total cost of ownership (TCO) of the investment. TCO is a financial estimate designed to help managers assess direct and indirect costs commonly related to software or hardware.
**Total Cost of Ownership (TCO) Defined**

Here is how Gartner, which introduced the concept in 1987, describes TCO.

Gartner TCO identifies costs as being made up of two major components - direct and indirect. Direct costs traditionally forms the area that organizations find easiest to measure and as a result direct costs can often receive undue or excessive focus. Typically, direct costs are made up of labor and capital costs.

The other component in Gartner TCO is indirect costs. Indirect costs are more elusive and difficult to measure and rationalize. The 'soft' nature of indirect costs means that their impact on owning an IT infrastructure is often underestimated. Indeed, some organizations dismiss the impact of indirect costs completely. Gartner surveys, however, consistently show that despite the difficulty of measuring them, indirect costs can typically represent a substantial component - as much as 60% - of the total cost of managing and owning an IT infrastructure. Indirect costs typically reflect the factors that drive and are driven by, direct cost decisions; for example downtime or quality of service. Most importantly, indirect costs are often a result of misdirected funding in direct costs like technical support, training and help desk; therefore, making those costs look artificially low, and further, shift these costs to business units reducing available resources to perform business tasks.

For example, it might seem like a sensible “direct costs” decision to reduce costs by spending less on contract negotiations, or hardware purchases or staff development and retention programs. However, if the result of such action is to deliver services with inappropriate service level agreements, or less reliable hardware that fails more often or longer waits for less effective support, the ultimate outcome might be to shift the comparatively meager savings from the direct side into comparatively significant increased costs in the indirect side.

Source:  [http://amt.gartner.com/TCO/MoreAboutTCO.htm](http://amt.gartner.com/TCO/MoreAboutTCO.htm)

While the direct costs of ownership are relatively straightforward, the indirect costs for your organization will require additional thought and insight to ensure that they are aligned with the dynamics of your organization. For financial reporting software, TCO might include the following.

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software license fees</td>
<td>Costs associated with adding new funds, i.e. scalability</td>
</tr>
<tr>
<td>Maintenance fees</td>
<td>Costs associated with manual errors and rework</td>
</tr>
<tr>
<td>Implementation costs</td>
<td>Costs associated with regulatory non-compliance</td>
</tr>
<tr>
<td>Training costs</td>
<td>Internal or external customer dissatisfaction, including the impact of negative public relations, loss of clients and/or prospects, disgruntled employees</td>
</tr>
<tr>
<td>Typesetting costs</td>
<td>Costs associated with service level agreements</td>
</tr>
<tr>
<td>Staffing costs</td>
<td>Costs of employee turnover</td>
</tr>
<tr>
<td>Third-party vendor costs</td>
<td></td>
</tr>
</tbody>
</table>

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Conclusion

Back-office fund administration is evolving – fast. Just five years ago, the concept of automated financial reporting was embraced by just a few early adopters who stepped forward to take a leadership role in shaping the future of fund administration. Back then, the innovators, unconstrained by conventional thinking, were envisioning what the world of fund administration could be today. Their insight has resulted in new ways to gain control, reduce costs and master efficiency in fund administration by automating the data collection, creation, confirmation and delivery process. A prime example is the development of software solutions that let business users create print-ready financial reports using standard business software, thereby eliminating the inherent risks and cost of traditional typesetting.

What will the future of fund administration look like? As you embark on your search for a financial reporting solution, remember that you are making a long-term strategic decision. Your challenge is to find a technology partner who can help you anticipate the future, help you envision what the world will look like five, ten or 15 years from now, and provide a solution that meets your immediate financial reporting needs and your future needs for whatever comes next.

About Confluence

Founded in 1991, Confluence is a global leader in fund administration automation. Confluence helps investment management companies gain unprecedented control by automating every step of the fund administration process—including the collection, creation, confirmation and delivery of investment product data—while maintaining control of the process. Results are lower costs, reduced risk, decreased reporting turnaround times and the scalability to automate more processes without additional resources. Confluence solutions are used by 40 percent of the leading global investment managers, and more than 60 percent of U.S. mutual funds.

The Unity™ platform from Confluence addresses a wide range of problems from performance measurement to customized reporting for a full array of domestic and international managed investment products, including mutual funds, funds of funds, collective funds, separate accounts and variable products, as well as hedge funds and other alternative investments. Major fund companies such as T. Rowe Price and Russell Investments, and service providers such as The Bank of New York rely on Confluence. Headquartered in Pittsburgh, PA, Confluence serves the international fund industry with key locations in London and Luxembourg. For more information, visit www.confluence.com or e-mail info@confluence.com.

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1 Source: Survey conducted by Campos Research Inc. for Confluence, June, 2008.

2 The Unity™ platform print-ready output through Word files provides reasonably similar, but not exact, replication of third-party typeset materials.