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The Build, Buy or Outsource Decision: Considering the Cloud

ExpertView

By Skip Smith

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Fund sponsors have long debated the relative merits of building, buying or outsourcing fund administration technology. As sponsors face more and more data-driven demands from regulators and investors, there is increased pressure to adopt new efficient technologies for fund administration process such as expense payments and budgeting, regulatory reporting and financial reporting. While there is no one-size-fits-all answer to the "build, buy or outsource" question a mix of cost pressures, resources, reporting requirements and technological advances have tipped the balance in favor of "buy" and "outsource."

While Software-as-a-Service (SaaS) is a model that has long been adopted for enterprise solutions, it promises to become the new norm in financial services technology and I believe that the impact for fund administrators will be game changing. SaaS will give fund sponsors flexible, scalable access to technology applications that automate routine, often manual back-office processes. This means that fund sponsors who contract directly with cloud-based technology providers will have a competitive edge and be best positioned for improved data integrity and control.

No matter how fund sponsors decide to source their back-office technology, the key success factor is automation. It is hard to believe that in an age of smart phones and tablets with 4G, many fund administrators still process data manually with Excel spreadsheets leaving room for error.

According to our recent 2013 Fund Administrator Trends Study, **Confluence** found that 29% of fund sponsors and service providers are concerned with lack of automation for back-office operations. An additional 24% are worried about data integrity issues, 12% with reporting errors and 10% with administrative costs.

The pace at which fund sponsors adopt back-office technologies will determine how successful they are at controlling risks, reducing costs and scaling operations. In the current global and regulatory environment, fund sponsors must provide instant, customized data to multiple stakeholder groups. To keep pace and respond with speed and agility, the industry needs to adopt proven technology solutions that assist in meeting the business needs for scalable responses to on boarding new business, releasing new products and meeting escalating reporting demands. Fund administrators who embrace the emergence of cloud-based technologies will meet this challenge cost effectively and position themselves for global growth.

With the proliferation and improvement of cloud technologies fund sponsors will have global access to a new generation of automated fund administration products that are easy-to-use, flexible, scalable and up-to-date.

SaaS is a widely recognized core component of the future fund administration landscape, and market share in enterprise applications and adoptions is rising sharply. According to a study by independent research firm **Forrester Research**, the overall SaaS market will increase three-fold to $92.8 billion by 2016.

For fund sponsors, the availability of cloud-based applications will provide global scalability, access and flexibility. With cloud-based applications, the job of deploying and managing technology becomes simpler. For most fund promoters and fund administrators information technology (IT) is not a core competency but it is still an integral part of their business. In short, cloud-based applications allow fund sponsors to maintain a steadfast focus on their core business of managing investments.

Whether you decide to adopt cloud technology directly or through a third-party fund administrator, the focus, first and foremost, is on technology infrastructure and data security. A few key questions:

• Can the technology scale to meet the growth demands of your business?

• How global are the provider's capabilities? Are their data centers global?

• Will you still have easy access to your own data?

• What measures are taken to ensure data security?

• Do systems offer centralized control as well as the flexibility to support localized needs?

In the end, the most important question is this: Are the systems in place to ensure that data are validated and controlled?

The sheer size and scope of the mutual fund industry, $26 trillion in assets under management in 2012, coupled with heightened regulatory demands has increased the importance of strong and reliable technology infrastructure. While you can choose to outsource day-to-day processes, you can't outsource accountability. Fund sponsors remain accountable for proper management of all data processed by third parties acting on their behalf.

The real choice, then, for fund sponsors is less about what to outsource than to whom. Finding the right service provider, therefore, is key. In my opinion, the most important selection criterion is the reliability and flexibility of technology. The right service provider will have automated, scalable systems that are proven to work.

So, when it comes to "buy" or "outsource" fund sponsors have a choice. But, whether they decide to outsource their entire back-office operation, adopt technology internally, or simply contract with a cloud-based technology provider, the key outputs to test for are automation, data integrity, scalability and transparency. Fund sponsors that choose wisely will position their companies for growth and build strong reputations as trusted stewards of investment data. MME

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