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Foreword

The investment management industry has come under serious pressure in the wake of the credit crisis. Investors and regulators have become more demanding in terms of risk and reward, product suitability and transparency regarding the financial, operational and legal risks of investment products. As a result, clients have demanded lower fees or, in many cases, flocked to low fee and low margin products where risks are thought to be more transparent.

At the same time as clients have become more demanding, fund managers are finding the costs to comply with regulatory requirements are steadily rising. The result is that profitability of investment management activities is squeezed and managers are having to examine how they might rebuild their margins and enhance battered returns.

This document contains the results of our survey of asset managers that was performed between September and November 2010. To ensure the quality of the results, we polled online and through face to face interviews senior managers of over 80 companies from the global fund management industry in the United States, Europe, Australia and the Middle East. Our interviews were wide ranging, covering their expectations on generating revenues, accessing the latest technology and lessons they could share on why services were outsourced and what the key success factors in achieving top performance were.

Although no single solution exists which solves all problems for all companies, our survey clearly suggests that costs can be reduced by up to 20% in the short term, and more in the longer term, through outsourcing. However, achieving these savings requires careful planning and a thorough understanding of what services are most effectively kept in-house and which can be better performed by other service providers. To discover why and how outsourcing can help you improve your performance, we invite you to read the accompanying report.

We hope you find this survey insightful and we would be pleased to discuss the findings in more detail.

Rob Wright
Global Head, Product & Client Segments
RBC Dexia Investor Services

Pascal Denis
Wealth and Asset Management Services
Accenture
Recent turmoil in global financial markets has deeply affected both the reputation and the profitability of the investment management industry. Falling market prices and a general move away from high margin products to highly liquid, low fee products have driven down revenues.

Target returns on equities are generally falling with 50% of fund manager respondents saying that targets had been revised and 59% targeting a figure below 15%.

As a result, one of the fund managers’ top priorities remains performance. Outsourcing and offshoring allow them to concentrate on their core competencies and to access the latest technology in pursuing performance.

When managed appropriately, outsourcing non-core activities allows fund managers to structurally improve their profitability by aligning cost and revenue structures, and also to limit the operational risk and financial impact of future investments in people, processes and systems in non-core areas.

While cost is a crucial element in choosing an outsourcing provider, a host of other criteria also come into play, including expertise, flexibility and reputation.

Fund managers are increasingly deciding to outsource process-driven services to low-cost locations, while more sophisticated services such as fund accounting and custody are better suited for higher-cost locations closer to home.

Participants indicated cost reductions up to 25% could be achieved through outsourcing programmes, however, the full scale of savings in such cases has often taken longer to achieve than initially anticipated.

To gain the full benefits of outsourcing requires a long term co-operative approach between fund manager and service provider, including a strong governance structure, understanding of prices and costs, a clear strategy as to what can and should be achieved and a realistic assessment of any potential risks.
1. Introduction: profile of participants and key definitions

Our survey was designed to identify key trends, opportunities and challenges facing fund managers in the global outsourcing market. The survey populace reflected the dominance of global financial centres, although many of our fund manager respondents had global, as well as regional client bases.

In terms of the size of companies responding, the survey was evenly distributed across the spectrum. A significant number of fund manager respondents managed very large funds, reflecting the general structure of the industry.

Our online survey asked a range of questions designed to pinpoint key trends and issues and covered over 80 companies from across the global fund management industry. In addition to this a number of face to face interviews were conducted to elicit more detailed views on a variety of the key points covered in our main online survey. All responses have been anonymised.

Approximately 100 face to face and online surveys were conducted in the United States, Europe, Australia and the Middle East between September and November 2010.

Key definitions

**Outsourcing** - shifting the processing or servicing of a product or process to a third party. While the location of the third party is the outsourcing provider’s choice, they typically favour very low cost countries. The people performing the work are employees of the outsourcing company, and can be permanently employed or work for a single contracting company.

**Offshoring** - shifting the processing or servicing of a product or process to a lower cost location, typically India or China. The people performing the work are employees of the company for whom the work is being performed. The group performing the work is at times referred to in this survey as “captive”.

**Nearshoring** - work which has been moved away from a high-cost location but which remains in the same geographic region. This is most appropriate where common language or complex processes and customer care are at a premium. Nearshored work can be either performed by a captive, or a third party outsource service provider.

### Size of companies responding to survey (by 2009 revenue)

- **< $250M**: 16%
- **$250M-$1B**: 51%
- **$1B+**: 33%

*Source: RBC Dexia, Accenture Research*
2. Industry overview

Economies of scale are an increasingly important factor in determining operational efficiency, driving mandates to larger dedicated fund managers.

**Fund management universe**

As an industry, fund management has been gradually consolidating for some time, with the top 10 managers now accounting for 35% of funds of the top 100 global fund managers.

Four key trends continued to drive forward this industry concentration in 2010:

1. **The rising demand for low cost products such as index tracking funds** which require economies of scale to be profitable.

2. **Outsourcing by institutional investors** (e.g. insurance companies and pension funds) and private banks of investment mandates to external fund managers.

3. **Continued decline in internal company run pension schemes** in favour of having funds run by separate fund managers.

4. **Mergers and acquisitions** activity as investment management operations were divested and smaller boutiques acquired by bigger players.

**Business priorities for asset managers are to remain competitive and look towards a more realistic return on equity**

Regulatory requirements and market pressure are pushing large financial institutions (banks, insurance companies, large pension funds etc.) to reconsider the need for in-house investment management operations. As a result, asset managers are forced to look more closely at their proper risk-adjusted performance and how that contributes either to their overall performance or how it relates to demands from their own shareholders.

There are a number of options at the investment manager’s disposal to increase financial performance:

- taking more risk on their balance sheet;
- growing the existing business (by attracting new clients and maximising investment returns) or;
- improving profit margins, (through cost reduction and cost restructuring on the one hand and selling high margin products on the other).

**Top 100 companies ranked by assets under management ($bn)**

Source: Watson Wyatt, Accenture Research
Fund managers are naturally looking to the latter two methods with some interest; equally they are also looking to make more realistic assessments about what can be achieved in future.

The credit crunch and the dwindling of risk indifferent capital have led to a more realistic assessment of what constitutes achievable Returns on Equity (RoE) throughout the financial services industry. Those fund managers targeting the very highest returns tended to be those which aimed to deliver exceptional returns to their clients and were subsequently able to charge substantial fees for this.

In our survey, half of the asset managers surveyed said that they had not changed their target RoE since the credit crisis:

- This means, therefore, that the other half had changed their RoE target, and we can be fairly certain that it was lowered.
- A 15% target RoE, or less, is the expectation of the majority of fund managers surveyed.

### Key drivers identified to outperform

The direct relationship between revenues and the investment performance of products forces asset managers to focus on two main performance figures:

- **Investment performance:** outperforming versus indices/benchmarks, and to a lesser extent absolute returns, as asset managers are remunerated in relation to the total Assets under Management (AuM) and to a lesser extent on the outperformance versus the benchmark.
- **Product performance:** the difference between the total profitability of products offered which depends heavily on investment performance and the total costs of producing, administering and marketing the products to intermediaries and final investors.

### Fund manager targeted equity returns

<table>
<thead>
<tr>
<th>Target RoE</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10%</td>
<td>14%</td>
</tr>
<tr>
<td>10% - 15%</td>
<td>45%</td>
</tr>
<tr>
<td>16% - 20%</td>
<td>14%</td>
</tr>
<tr>
<td>&gt;20%</td>
<td>17%</td>
</tr>
<tr>
<td>Not sure, No answer</td>
<td>10%</td>
</tr>
</tbody>
</table>

*Source: RBC Dexia, Accenture Research*

### Key drivers identified to outperform

<table>
<thead>
<tr>
<th>Driver</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>81%</td>
</tr>
<tr>
<td>New products</td>
<td>47%</td>
</tr>
<tr>
<td>New geographies</td>
<td>34%</td>
</tr>
<tr>
<td>Research</td>
<td>15%</td>
</tr>
<tr>
<td>Ultra low cost tracker funds (e.g., ETFs)</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>12%</td>
</tr>
</tbody>
</table>

*Source: RBC Dexia, Accenture Research*
Tension exists between demands for low cost services and meeting requirements of ever more complex products.

Our survey reveals that:

- **Performance was cited by 81%** of survey respondents as being the key criterion for success.
- **New product and new geographic offerings were cited by 47% and 34%** of respondents respectively as being reasonably important.
- **Research and ultra-low cost funds** were seen as being far less important, only cited as a route to outperformance by 15% and 10% of respondents respectively.

From our face to face interviews, there was an expectation that some new financial products could well become more sophisticated in future, with this trend driven largely by active fund managers expanding their investment mandates in ways which would allow them to take short positions for the first time. This change was predicted despite the aftermath of a global credit crisis, which saw investors rejecting a number of complex products, such as Credit Default Swaps and Collateralised Debt Obligations, in favour of more mainstream investment products.

It was anticipated that the potential increase in complexity would largely be driven by greater use of derivatives, although the increased capability of technology in assisting with risk analysis was also a factor. This complexity has a direct impact upon service providers as they are expected to be capable of servicing both customised and more mainstream savings products.

In discussing challenges with fund managers, it became clear that they often felt service providers had, at times, failed to meet rising expectations in this area. In particular, it was pointed out that service providers’ understanding of the more complex instruments sold by fund managers was a significant differentiator, giving those with a good understanding of these products a potential business advantage over those with less understanding.

**Handling complex instruments**

In terms of the ways outsourcing service providers could help fund managers meet the requirement to handle more complex instruments, our interviews revealed that fund managers think this most likely to be achieved through:

- **Deployment and use of advanced systems** – it is often not cost effective for fund managers to invest heavily in back office systems, so they look to service providers with the internal economies of scale necessary to purchase and maintain state of the art information technology (IT).
- **Tailoring** – there is a potential ongoing conflict here with service providers seeking to run generic systems for all of their clients to keep costs low, but fund managers are also demanding a degree of systems tailoring to meet local needs or product specifications.
Scalability – fund managers wish to grow, and, in seeking new funds, they do not want to be concerned with building new back office infrastructure. This is seen as the job of their service providers.

Compliance and regulations – outsourcing service providers have a role to play in helping fund managers meet the demands of regulators. These demands range from risk management to compliance, to valuation methodologies and operational risk.

Outsourcing and offshoring product support

Our online survey revealed that 86% of fund managers had launched a new product in the last three years, with the majority launching more than six during that time. The reason behind such emphasis on new products was revealed in face to face interviews.

Fund managers interviewed revealed that new products were seen as a key business differentiator between their offerings and were necessary to excite client interest and retain marketplace competitiveness.

How service levels are determined varies, but relationship managers rarely have a firm idea of the cost of fund management services they offer.

Fund customisation

Not only are fund managers launching new products, but many of these products require a degree of customisation.

- Only 8% of those surveyed said that customisation was unimportant while;
- 54% said it was important and;
- 38% said it was critical.

The ability for service providers to quickly meet the demands placed upon them to service bespoke products being sold by fund managers appears to be a differentiator when managers are looking to choose an

![Number of products launched in the last three years](source: RBC Dexia, Accenture Research)
outsource provider. The costs of providing these outsourced services is also important, which led a number of fund managers in our face to face interviews to express the wish that service providers could undertake a greater degree of offshoring in this area.

Our online survey also asked how fund management organisations currently customised service levels by client segment.

- For 20% of fund manager respondents, service levels were entirely determined by the nature of the financial products clients bought;
- 27% of fund manager respondents said their relationship managers had limited or no discretion in determining the levels of service offered;
- However, a majority of 53% said that the level of service offered was determined at least in some degree by their individual relationship manager.

Qualification of product customisation

Product customisation is emerging as one of the key challenges to the industry, pitting the desire to attract and retain customers against the need to make products as standardised and, from a processing point of view, as cost efficient as possible. Our survey revealed that what fund managers mean by product customisation, and how products can be customised, is open to some interpretation.

- 38% of fund managers surveyed said that product attributes were fixed;
- 34% said the basic products had fixed attributes, but that elements of their construction could be customised;
- 28% of respondents said that most of their products could be customised by their relationship manager.

This raises an important question: do fund managers have a clear idea of the cost of services, as well as the cost of customising those services? Moreover, are there incentives in place to limit the scope of service offerings to clients where returns can be justified?

The servicing of multitudes of products is a challenge to service providers. To keep costs low, they seek to standardise and streamline product ranges. Yet the demand for differentiated products mitigates against this. Developing tools and systems robust enough to support a wide range of products is a clear challenge to service providers. Fund managers would also be well advised to bear in mind where customisation will add disproportionately to the cost of servicing when designing products with variable specifications.

Achieving outperformance through outsourcing and offshoring

Fund managers are increasingly taking the view that outsourcing should be optimal, for a cost location as well as from a “resource core competences” perspective. By this they mean cost is an important consideration, but it is by no means their only one. For operations where there was likely to be client contact and systems were viewed as being complex or regulations no longer met client expectations, nearshoring was seen as a far better option.

Two examples of nearshoring:

- Firstly, some fund managers who had funds registered in some (Caribbean) offshore centres felt that the minimal regulations in these jurisdictions no longer met clients’ heightened expectations. In a number of cases these funds were being shifted to centres perceived to have more robust regulation.
- Secondly, many of the fund managers interviewed said their fund administration was performed in Luxembourg and Dublin, and that Irish legislation, in particular, was making it easier to repatriate funds to this centre from other locations.
Fund manager efficiency and productivity

Tracking operational performance is a crucial management task for any fund manager.

Our survey asked how fund managers felt they performed against the basic metrics of efficiency (cost to income) and productivity (revenue and cost per head).

Traditionally fund managers have had a far greater range of outcomes for their key performance indicators than have been seen in investment banking operations.

Moving from the actual benchmark performance of fund managers to their perception of how they were performing, as indicated in our survey, revealed the following:

- While 24% of fund managers clearly saw that they had some way to go to improve their efficiency, 42% believed they were within the industry average of 76%.

- The situation was more balanced when looking at the revenue per head figures, where the industry average is $700,000. In total, 39% of respondents believed they were within $30,000 of this figure, with roughly equal numbers of respondents believing they were above or below average.

- Finally, looking at cost per head, it seems that many fund managers believed their costs were higher than the industry average of $530,000. Indeed, only 24% of respondents said they were confident that their costs were below $500,000 per head.

There is a wide degree of variance in key performance indicator ratios across the fund management industry with many fund managers overrating their performance.

### Performance indicators - comparative ranking

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Industry average</th>
<th>24%</th>
<th>42%</th>
<th>34%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost to income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD 530,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue per head</td>
<td>Industry average</td>
<td>39%</td>
<td>30%</td>
<td>31%</td>
</tr>
<tr>
<td>USD 700,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost per head</td>
<td>Industry average</td>
<td>24%</td>
<td>40%</td>
<td>36%</td>
</tr>
</tbody>
</table>

- Performing at a lower level
- Performing at the same level (within 3% or $30,000)
- Performing at a higher level

Source: RBC Dexia, Accenture Research
3. General trends observed in outsourcing

The pace of technological change is such that service providers are increasingly being employed so that fund managers can access the best new technology.

Increase of outsourcing activities

Seventy seven per cent of fund managers said they believed that the industry would continue to see an increase in outsourcing. This view was particularly prevalent amongst respondents from smaller fund management companies. Face to face interviews revealed that this is being driven by two trends:

- Increasing customer pressure for funds to focus more on their core business functions to achieve outperformance. In this way fund managers will continue to seek ways to streamline and increase the cost effectiveness of new product developments.
- The pace and scale of ongoing technological improvements means it makes more sense for fund managers to select service providers which can benefit from economies of scale and keep pace with the latest systems developments.

The range of service providers and functions they can service is also expected to increase over the next three years. Fund managers expect service providers to bring new skills and offerings, but those functions will be focused on those judged “non differentiating” by fund managers i.e. internal processes, while “differentiating functions” (investment decisions, risk assessment or any activity related to or dealing with clients) will not be outsourced, either because of competitive positioning, perceived risks or regulatory requirements.

Some fund managers we interviewed reported that they were increasingly outsourcing to multiple providers, rather than to a single service provider. In this way they felt they received the best service or specialist for every function. A number of fund manager respondents also said they expected the service providers themselves to grow in size, largely so that they could benefit from the economies of scale necessary to offer best service at best price.

Outsourcing trends over the next three years

- The number of asset managers leveraging outsourcing will increase significantly in the next three years: 22% somewhat agree, 57% agree, 20% disagree.
- The diversity of functions outsourced will increase in the next three years: 18% somewhat disagree, 53% agree, 28% disagree.
- The number of asset managers outsourcing functions in low cost locations will increase in the next three years: 20% somewhat disagree, 51% agree, 26% disagree.

Source: RBC Dexia, Accenture Research
Low cost offshoring may be more limited

- Many of those surveyed and interviewed noted that a fund manager has to have considerable scale and servicing needs to justify setting up a captive offshore operation, otherwise it makes more sense to outsource.
- Several fund manager respondents also felt that the number of asset managers’ offshoring functions in low cost locations was unlikely to increase as the total number of players that could consider and justify doing so was limited.
- Of those that did have offshore operations, both cost and capacity were issues. One fund manager commented that its Indian operation had not met expectations and that it was now shifting operations to a nearshore location. The failure of this offshoring was attributed to an inability to find the right calibre of people, as well as time zone issues.

In general, offshoring operations tended to be focused on middle office (back office services were outsourced) and based in both low-cost locations, as well as nearshore locations. Several respondents indicated that they were considering offshoring for marketing activities and product presentation teams that supported portfolio management.
4. Drivers and concerns on outsourcing

Low cost is crucial, but providing low cost is only the first step to being considered as a service provider. Flexibility, scalability, a proven track record and access to the latest technologies all drive ultimate choice.

A very large array of benefits identified

Questions surrounding the benefits of outsourcing gave some of the most contradictory answers in our survey.

When asked to rate the importance of a variety of factors driving outsourcing decisions, the clear and unambiguous main factor cited was to reduce costs, noted as important or very important by 95% of respondents.

Yet when executives were interviewed face to face, they gave a more nuanced answer. To them, outsourcing might deliver cost savings, but respondents also all stressed that it was undertaken to deliver operational effectiveness. This was achieved by allowing management to simplify operations, rationalise funds, make more of their costs variable and concentrate on their core competence/priority of improving functionality of asset management.

It is interesting to note that those interviewed face to face said that many of the service providers they were familiar with charged very similar prices, so choosing between them was based upon a differing set of criteria. The conclusion we drew was that if a service provider was not competitive on cost, it was not even considered, but that having met the relevant cost criteria, skills and flexibility became the determining factors in choosing an outsourcing provider.

Other benefits of outsourcing were:

- the ability to rapidly and cost effectively gain access to new technology, cited by just under 60% of respondents;
- the ability to rapidly raise or reduce the scale of operations, cited by 84% of respondents, which meant that outsourced operations could be viewed as a variable cost.

Motivations to outsource services

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Not very important/Not important at all</th>
<th>Important/Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce cost</td>
<td>5%</td>
<td>95%</td>
</tr>
<tr>
<td>Increase flexibility</td>
<td>36%</td>
<td>84%</td>
</tr>
<tr>
<td>Improve quality of service</td>
<td>22%</td>
<td>78%</td>
</tr>
<tr>
<td>Focus on core business</td>
<td>24%</td>
<td>76%</td>
</tr>
<tr>
<td>Avoid capital expenditures</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>Upgrade IT infrastructure and applications</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Access to skills and expertise not available internally</td>
<td>32%</td>
<td>68%</td>
</tr>
<tr>
<td>Build capacity in new market</td>
<td>34%</td>
<td>66%</td>
</tr>
<tr>
<td>Access to technologies not available internally</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>Fill in the gap of human resources</td>
<td>45%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: RBC Dexia, Accenture Research
The main client benefit of outsourcing identified by our respondents was that it allowed fund managers to become more focused on their core competencies.

In addition, clients benefit from the fact that funds are able to utilise the very latest technologies and from a level of technology upgrades that would not be possible to deliver if they were funded in-house for various reasons including cost. Ultimately it was felt clients would see a better level of service and more robust platforms for the services provided achieved via outsourcing.

Concerns over loss of control and increased complexity

For at least a portion of those interviewed face to face, service suppliers were seen as delivering, at best, average performance. The best service was delivered in fund accounting, but service suppliers often had trouble keeping pace with the growing complexity of derivatives and other sophisticated products. All too often service providers sought to use standardised models and processes to keep costs down and consequently struggled with bespoke requests.

There is a tension between those service providers that do not have a so-called low touch (or completely automated) “straight through processing” offering and, therefore, must price their more inefficient offerings accordingly and larger more efficient providers, which offer lower costs, but will not tailor their offerings.

Since outsourcing involves a loss of control, this was seen as both a positive and a negative:

- The positive was the ability to have lots of experienced and highly qualified staff working on fund manager operations;
- The negative was that loss of control remains a challenge. If the service provider does not perform, then this could damage the fund managers’ brand. This risk to a fund manager’s reputation was mentioned as an area of concern. In cases where errors had been made, even where compensation had also been made, it was felt some damage to the brand image and retail base had been caused. In one case cited, errors were due to staffing issues which had translated into a lack of control of processes.

Two approaches are being undertaken to protect against potential brand damage:

- Restricting the selection of service providers to only the largest players and undertaking extensive background checks on service providers’ capabilities.
- Alternatively, other fund managers had embarked upon a number of strategies including placing an internal team with highly knowledgeable staff to monitor the outsourcing provider. Some fund managers have also worked with external consultants to access benchmarking data and make sure that their outsourcing provider delivers at the required market standard.

Outsourcing involves a loss of control and with it a degree of reputational risk, a concern which can favour large service providers.
Initial cost reduction and business improvement targets have often not been met, but they are usually achieved in the medium term.

**Expectations and achievements**

Fund managers in our survey generally demonstrated a degree of realism in assessing the benefits of outsourcing. But outsourcing has been a learning process. Several fund managers interviewed face to face felt initial expectations were not always realised as rapidly as they had hoped and difficulties in implementation meant that a period of disillusionment following the launch of outsourcing projects and before eventual success was achieved was common.

Consequently, our survey asked: from an assumed cost base of 100 from implementation of an outsourcing project, what percentage of cost reductions or improvements in quality were planned, actually achieved and subsequently targeted to be achieved in the next three years?

While initial targets had not been met, two interesting conclusions can be drawn:

- **Cost savings were smaller than anticipated, but were still considerable, averaging 20%.**
- **Secondly, it may well be that the problem was not that expectations of cost savings were too high, but that the time line to achieve those savings was too aggressive.**

Our survey points to this particularly with regard to respondents that said their future target for cost savings was near, or higher, than their initial target. The conclusion was further supported by face to face interviews, where there was discussion of a “J-Curve” effect, with initial frustration eventually developing into long term satisfaction.

**Planned and realised gains from outsourcing**

<table>
<thead>
<tr>
<th></th>
<th>Planned</th>
<th>Achieved</th>
<th>Future Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction of business operations costs</td>
<td>32%</td>
<td>22%</td>
<td>27%</td>
</tr>
<tr>
<td>Reduction of IT applications and infrastructure costs</td>
<td>31%</td>
<td>18%</td>
<td>30%</td>
</tr>
<tr>
<td>Improvement of quality</td>
<td>22%</td>
<td>14%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: RBC Dexia, Accenture Research
This trend was also supported by comments from our face to face interviews stating that:

- Systems functionality was initially poor under outsourcing and, even after a year there were gaps in terms of quality. However, three years later the quality of outsourced services was judged to be higher than could be produced in-house.
- Fund managers were generally very positive about outsourcing. They saw the benefits of moving to a large scale provider and managing costs more effectively. They were able to implement stronger risk processes as well as solve staffing problems.

It should be noted that it was also seen as important to take into account the ways in which the actual cost of outsourcing impacted on any planned, realised and achieved gains.

Remaining open questions and concerns

- For areas where there was client contact, there was a good deal of concern expressed about who performed the service and where that service was performed. Furthermore, it was noted in our face to face interviews that service providers operating a geographically distributed operational model faced problems in that they had multiple points of failure and service stress points.
- In circumstances where there was no client contact, fund managers appeared to be ambivalent as to where the work was undertaken, although it was noted that several jurisdictions (such as Russia and some Asian countries) did insist that work be performed within that country (leaving nearshoring as the only option for external outsourcing).

Several fund managers reported in our face to face interviews that they had moved operations back from low-cost countries to nearshore locations where they could enjoy a degree of cost savings, but be assured of high levels of service and meet client expectations, particularly language expectations. Opinions were divided on the benefits of a geographically dispersed services provision, with a widely distributed operating model seen as having multiple points of potential failure, set against the advantages a widely distributed network naturally has in meeting the needs of global fund managers.

It is interesting to note that the ability to meet desired cost saving targets within a year of outsourcing was not seen as crucial, a finding which further supports our earlier comments on outsourcing achievements.

### Concerns with Outsourcing

<table>
<thead>
<tr>
<th>Concern</th>
<th>Not very important/Not important at all</th>
<th>Important/Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputational risk</td>
<td>11%</td>
<td>89%</td>
</tr>
<tr>
<td>Negative impact on quality</td>
<td>14%</td>
<td>86%</td>
</tr>
<tr>
<td>Complexity of the outsourcing process</td>
<td>18%</td>
<td>82%</td>
</tr>
<tr>
<td>Loss of control</td>
<td>19%</td>
<td>81%</td>
</tr>
<tr>
<td>Confidentiality/privacy risk</td>
<td>19%</td>
<td>81%</td>
</tr>
<tr>
<td>Insufficient preparation prior to outsourcing</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Cultural/language issues</td>
<td>34%</td>
<td>66%</td>
</tr>
<tr>
<td>Loss of operational capabilities</td>
<td>34%</td>
<td>66%</td>
</tr>
<tr>
<td>Resistance to change</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>Lack of internal skills to launch and manage the project</td>
<td>36%</td>
<td>64%</td>
</tr>
<tr>
<td>Inability to achieve ROI/savings within one year</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>Labour regulations</td>
<td>46%</td>
<td>54%</td>
</tr>
</tbody>
</table>

Source: RBC Dexia, Accenture Research
5. Implementing relevant outsourcing strategies

Fund managers are increasingly seeking an optimal sourcing strategy, placing client facing operations in nearshore locations, with more process driven tasks moving to low cost offshore centre locations.

Our interviews revealed a clear set of priorities for successfully selecting an outsourcing provider and the key success factors that should be sought in guaranteeing, in as far as is possible, that the outsourcing is a success.

Perhaps unsurprisingly, our survey shows that if a service provider was not competitive on price, it was not considered. That said, once a competitive price offering was made, the choice between service provider offerings depended on a number of other criteria, to which we now turn.

Top client requirements of outsourcing providers

- Track record; outsourcing providers need to meet their promises. There needs to be a good cultural fit and a commitment to build a long term relationship between the client and its provider. Fund managers generally wished to view service providers as an extension of their own business.
- Access to technologies and scale. Most fund managers reported that they were not looking to reduce their costs as much as they were looking to guarantee that they could more effectively manage costs. To do this they were looking to service providers to invest in the latest technologies, which could then be offered to fund manager clients at a competitive cost.
- Capabilities. Many fund managers said cost was not as important as capabilities, providing superior service for the same price that work could be done in-house.

Those interviewed stressed it was critical to have processes in place to check that the capabilities and experience were real. The approach taken was generally to select two or three providers and then make in-depth analysis of their proposals and interview them. Global reach was an important capability for some fund managers.

Key criteria for choosing an outsourcing provider

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive tendering/cost</td>
<td>70%</td>
</tr>
<tr>
<td>Expertise in particular product area</td>
<td>67%</td>
</tr>
<tr>
<td>Operations in particular geographic area</td>
<td>37%</td>
</tr>
<tr>
<td>Existing outsourcing relationship</td>
<td>30%</td>
</tr>
<tr>
<td>Desire to have multiple vendors</td>
<td>16%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
<tr>
<td>None-outsourcing is not an option</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: RBC Dexia, Accenture Research
Key success factors for an outsourcing project

Fund managers have found that when they issue requests for proposals the service providers all come back with similar rates, promising similar deliverables. Success was therefore due, in large part, to the contract. Key success factors cited were:

- **Clearly defined deliverables and associated metrics**, such as processing timings, reporting standards, error rates, etc.
- **Honesty in what functions** could be outsourced and could be delivered and what should be expected.
- **Regularly monitoring performance**.
- **Costs and a standard level of service** were less important than flexibility and a partner that would support and grow with its client’s business.
- **Flexibility** to add new products being brought to the market.
- **Coping with regulatory change** - providers need to be able to cope with changes in regulatory demands, and the growing complexity of new product requirements.
- **People** - ensure individuals who are already familiar with the business assist in the transition. Ideally, when activities were outsourced, the personnel who performed the activities were also transferred to the new service provider. This works for both parties as transferred employees have knowledge of the business they are servicing, thus ensuring continuity and the maintenance of an experienced skills base.

- **A genuine partnership.** The fund managers interviewed all accepted that their outsourcing providers needed to be profitable. It was widely felt that outsourcing provider executives should seek to build a long term relationship with their fund manager clients.

Preferences for offshoring and outsourcing projects

There is a clear hierarchy of what can be effectively outsourced or offshored. Our survey results and the supporting face to face discussions and interviews we conducted, showed that outsourcing and offshoring are concentrated in areas where services are not seen as differentiating factors to potential clients.

Our face to face survey interviews also gave more detail on key areas to out/nearsource:

- **Investment administration**, including fund accounting, unit pricing, striking net asset values (NAVs) and securities operations.
- **Custody** - driven by local regulations which often require custody to be conducted by a third party.
- **The client billing function**.
- **Billing and call centres** could be near/outsourced.
- **Anti money laundering (AML) requirements and passive foreign exchange (FX) hedging**.

Success in a contract is down to a host of reasonably definable processes. The key is to enter into a partnership based on a clear understanding of the roles each player will manage.
While many fund managers continued to conduct operations such as performance measurement and valuation in-house, these were two areas that a number of fund managers felt could be outsourced.

Conversely areas such as risk management, marketing and research were seen as being central to what differentiates a fund manager to clients. Even in areas such as research, where 21% of respondents indicated some level of outsourcing, face to face interviews revealed that it was research processes, such as data management, rather than the higher value adding and differentiating analysis that were outsourced.

A clear pattern emerged amongst the fund managers we interviewed: the pursuit of an “optimal sourcing” strategy. Fund managers determined which services were best suited for low-cost outsourcing and which were better suited for nearshore operations:

- For services such as fund accounting and custody, the determining factors were either regulations demanding local administration, or nearshore servicing in countries such as Ireland for European fund managers, or the midnight of the United States for New York and Boston centred fund managers.
- Some fund managers reported that they were in current negotiations with providers regarding the outsourcing of administration to Luxembourg and Dublin and also various back and middle office functions for some over the counter (OTC) derivative products.

Far fewer of the fund managers interviewed had offshore operations as opposed to those who undertook outsourcing. Those fund managers with offshore operations felt there was a clear need to build a sense that their offshore teams were a part of the organisation as a whole. In particular, the need to ensure offshore locations were brought into the decision making process and were committed to supporting this on an ongoing basis were identified.

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**Value chain of fund management versus outsourcing and offshoring**

![Diagram showing the value chain of fund management versus outsourcing and offshoring](image-url)
Geographic spread of outsourcing

When respondents were asked in geographic terms where outsourcing takes place:

- **India was the clear leader in the provision of outsourcing**, with nearshoring in North America or Western Europe the next most commonly used options.

- **Less costly nearshore locations such as Latin America and Eastern Europe did not fare as well as favoured outsourcing destinations.** This can possibly be explained by nearshore locations being chosen for their language skills and to place operations in the same legal jurisdictions, rather than simply for time zone driven reasons.

Looking in more detail at our survey results, India dominated process driven services, while nearshore operations were seen as being capable of adding more value and also having the capability to support more sophisticated services such as fund accounting and custody.

India remains the top destination for outsourced operations, while nearshoring is concentrated in close-at-hand higher cost locations.
Conclusion

While the investment industry as a whole can reasonably expect to grow, supported by demographic trends pointing towards greater savings and the realisation that current pensions savings provision in developed countries looks increasingly inadequate, there are challenges to capturing this growth. Customers are demanding new, more sophisticated financial products and they are not expecting to pay any more for them.

Meeting this customer demand, while continuing to seek to control and, ideally, lower costs, are priorities for all top performing fund managers. Fund managers have long sought service providers that can access the latest technology. As that technology rises in price and complexity, this advantage becomes all the more pertinent.

Which services are best suited to outsource or offshore, where to outsource or offshore, what expectations a fund manager can reasonably have of such operations and how to manage them to achieve best performance, continue to be of key interest to top performing funds and their managers in the current market.
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