



Building an Effective Business Case for Asset Services Change

Corporate Actions and Income event processing (Asset Services) is widely recognised as the riskiest area within post trading Operations. Despite this, many Financial Services institutions have inefficient and risk heavy, manually intensive processes and significant financial losses due to Operational errors are alarmingly commonplace.

Historically, the main issues creating this state of affairs have related to the lack of a globally standardised event announcement process, complex position keeping validation (often from multiple in-house sources), high levels of manual intervention required throughout the event lifecycle, an overuse of Excel spreadsheets and manually crafted notifications / communications / accounting entries and payments.

Through on-going discussions with our client base and industry network, Ibacas believe that the “Asset Services problem” is becoming even more challenging - particularly for those institutions that have not been able to execute the significant change required to address the historic issues in their current processes.

In addition to these historic issues, there are some newer drivers for change.

Many of the legacy platforms used to process Asset Services events are run on old mainframe systems that are coming to their “end of life”. They run on a batch cycle and do not have the ability to consume or generate data in real time. Technical support resources with the knowledge to maintain and change the systems are scarce. This limits the scope of possible change, whilst also increasing the time and cost to deliver any type of change.

The issue of maintaining legacy platforms is exacerbated by the constant change to market standards and new regulatory demands. Compliance with initiatives such as SDR II, ECMS SCoRE and DTCC VRI rollout require significant investment to support, particularly when the processing is executed on legacy mainframe platforms. In many cases the only viable option is to introduce additional manual processes, creating further inefficiencies and introducing additional risk.

Over the last 20 years, the Financial Services industry has been an aggressive adopter of using near and far-shore resources in less expensive locations to drive down costs. Whilst there have been wage increases across the board in all location types (on-shore, near shore and far shore), the biggest rises have been in the far-shore locations, with rates in India increasing by up to 50% in the last few years.

This significant base cost increase suggests that improving system automation rates may now be a better option than simply moving processes to far-shore locations and increasing the headcount to support those processes.

Clients are becoming more knowledgeable and demanding in relation to the administration and processing of Asset Services events. Many clients spread their portfolios across multiple service providers and actively compare the quality of service. Clients now see formatted, electronic communications, very short deadlines on elective events and guaranteed payment offerings as standard, rather than as a “nice to have”. Asset Services is becoming a bigger factor in the choice of service provider and clients can be won or lost due to the Asset Services offering of potential service providers.

We are also seeing clients diversifying their portfolios, resulting in an increase in the number of securities across a growing range of markets being held for most clients. At the market level, there has been a significant increase in the global number of Asset Services events of about 50% over the last 7 years. These two factors combined have resulted in a significant increase in the workload for Asset Services groups, increasing the need for scalable processing platforms with higher levels of automation, flexibility and risk management capabilities.

In addition to the increased number of securities being held by clients, we have also seen a move towards increased investment in synthetic products to provide opportunities for larger returns. Processing events on synthetic product holdings adds additional challenges to the overall Asset Services function. Complex processes and system functionality are required to support this diversification in client portfolios.

In the last 5 years, the software vendor market supporting this function have made great improvements in their processing platform capabilities. The solutions now allow for high levels of “real time” automation, good visibility across the entire process through well designed user interfaces / dashboards and formatted automation of the communication processes, as well as having the ability to cope with the complex position keeping and accounting models employed throughout the industry.

This has largely been facilitated by the excellent work being done by the Asset Services Securities Market Practice Group (SMPG), supported by the National Market Practice Groups

(NMPGs)). These groups have published and continue to refine the market best practice for Asset Services processing, providing informed and consistent processing guidelines.

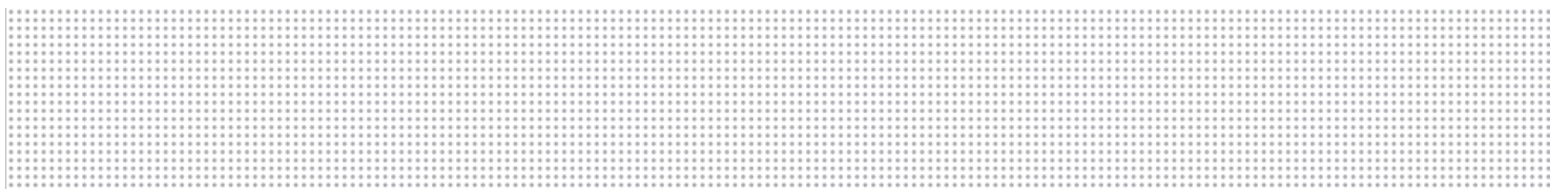
The SMPG process has been invaluable in defining the ISO15022 and ISO20022 data dictionaries that have been incorporated into SWIFT messaging, as well as data vendor feed formats and the vendor processing platforms.

There is a clear and obvious need for more sophisticated Asset Services process to be implemented across the Global marketplace, to improve Operational and Technology efficiency, identify / manage the associated risk and deliver better levels of customer service.

However, despite there being a clear demand for improvement combined with the availability of suitable processing platforms and formatted data standards / messaging to deliver that improvement, the number of Asset Services change projects obtaining the right level of funding is still relatively low.

Ibacas believe the main reason for this scenario is the difficulty in developing a comprehensive Business Case that demonstrates a viable return on investment.

This paper will provide a helpful guide to the challenging process of building a Business Case for Asset Services change. It will identify many of the issues that are faced during this process and provide useful tips for navigating through those issues.



What is a Business Case?

A business case is essentially the documentation of a “value proposition”. It is a comparison of the costs of delivering change vs the benefits that will be realised from implementing the change.

The cost of delivery is usually the easier part of the equation to quantify. The challenges tend to arise on the benefits side of the Business Case with Asset Services change projects. This is because many of the key benefits that will be realised are unquantifiable.

For example, if the change delivery will lead to a reduction in the headcount required to complete the process, the benefit gained can be stated in monetary terms (no. of heads saved multiplied by the cost per head). However, if the benefit realised is a reduction in risk, there is no recognised methodology available to calculate the monetary value of the overall risk exposure, or the level of risk reduction for inclusion in the business case.

The topic of unquantifiable benefits and the associated issues this brings to developing a business case will be covered in more detail later in this paper. Ibacas believe this issue to be the biggest barrier to developing a viable business case and the main reason why investment levels in Asset Services change initiatives are lower than warranted.

Based on Ibacas extensive experience in this area, each financial institution will have their own priorities and preferences for presenting and judging the merits of a business case. It is critical that you understand the process / methodology that is required within your own organisation. Speak to your colleagues who have already been through a similar process to understand what is required by those who will be reviewing your proposal. Get guidance on what works and what doesn't work at your organisation when presenting your business case.



Starting An Asset Services Change Initiative

Defining Scope

The first critical part of developing a business case is defining the underlying drivers and proposed scope of the change.

The proposed scope of change for an Asset Services initiative can vary greatly. It could cover anything from adding a new data vendor to replacing the entire Asset Services processing platform, along with an overhaul of the associated Operating Model. A clear definition of the scope is required to produce a meaningful and relevant business case.

In some instances, there may only be a high level directive, such as reduce headcount / fixed costs, reduce risk or improve the Client Service offering. In such cases, it may be necessary to execute the High Level Analysis tasks (detailed later in this paper) before defining the scope of the deliverable and commencing the more detailed analysis.

Some of the variables that need to be considered when defining the scope of your proposed change include the following:

What parts of the events lifecycle will be impacted?

Is it only part of the event lifecycle, such as Announcement Validation, or the Claims process? Or will your change impact the full event lifecycle from receipt of event information through to file closure?

Which Event Types / Regions / Countries of Issue will be impacted?

Income events vs Corporate Actions events, Mandatory vs Elective events, EMEA vs APAC vs Americas.

Which Business Units will be impacted?

All Business Units that are currently supported, or will only a sub-set of them be affected? Will new Business Units require support in the future state model?

Which other groups will be impacted?

Asset Services sits at the end of a chain of upstream processes, as well as providing output data to multiple areas of the organisation. Accordingly, your scope should not be restricted to Asset Services processing groups. Analysis of the impact on upstream and downstream groups (such as Reference Data, Finance, Treasury, Legal and Compliance, Tax, Settlements, Reconciliations etc) is also required in order to understand the full impact (cost and benefit) of your proposed change.

Which Product Types will be impacted?

Does the proposed change apply to equity and / or debt and / or synthetic products?

Which position/ trade types will be impacted?

Does the proposed change impact all trade / position types or only a sub-set such as Stock Lending, open / failed trades?

A clear definition of the scope will allow you to limit your analysis to the relevant current processes and associated costs. It will also help when defining what the Future State model will look like, as well as identifying the relevant future costs incurred and the benefits that will be realised.

Governance model

Defining the scope of the change as described above will identify all the different areas of your organisation that may be directly, or indirectly, impacted by the proposed Asset Services change initiative.

In addition to capturing functional processes and their owners (inside and outside of Asset Services functions), it is also important to identify Technology Systems and owners, Business Unit contacts, Product owners, Client Service representatives etc.

The identified parties should be included in your analysis exercise and invited to participate in regular update meetings and Steering Group activities. Employing this approach means that impacted parties can contribute to the analysis and documentation of the “big picture” Current State model, as well as being able to identify additional benefits that could be gained outside of the Asset Services processing function for inclusion in the business case.

Including all impacted areas at the earliest stage possible means your analysis and business case will be more accurate. This type of early collaboration also allows a wider audience to understand and assist in developing the goals and benefits of your change initiative. In turn, this increases the likelihood that your business case will be comprehensive, received in a better light and will be more likely to be approved.



Business Case Development Process

Once the scoping phase has been completed, the process of developing a business case can be split into four phases:



The next instalments of this paper will cover each of these phases. They will leverage the extensive experience that Ibacas have in this area, providing useful guidance and tips for navigating your way through each phase.

About Ibacas

Ibacas Consultancy Limited is the leading, independent Corporate Actions specialist consultancy firm that engages with the major Financial Institutions in the market on a range of Asset Services related projects.

Since being formed in 2002 we have worked with our clients to help optimise their Asset Services processes. These engagements have ranged from data vendor rationalisation engagements, right the way through to front to back process re-engineering of existing systems, as well as full implementation of third party processing platforms.

We have worked closely with our clients to help develop the business cases that have secured the funding to deliver the required improvements.

This broad experience has enabled us to successfully build a tried and tested flexible model and supporting tools to drive the business case development process. The core model can be adapted to suit the individual needs of each client, regardless of the client type / size, or scope of the required change.

