

Investing in technology key to meeting investors' expectations

Universal concern over operational transparency, increasing regulations and cost pressures mean that asset servicers can provide valuable assistance to Nordic institutions, writes Northern Trust's **Mireille Andersson**

The Nordic region is experiencing continuing growth in international investment, complex investment strategies and instruments, in conjunction with notable cost pressures. As a result, Nordic institutions have higher expectations and are demanding more from their asset servicing providers. They are asking for additional services, not just confined to the core back-office functions such as settlement and safe-keeping, but covering middle and front-office capabilities, including some elements of outsourcing, traditional and alternative fund administration, accounting and performance analytics.

To meet these demands and to compete successfully in the market, significant and sustained technology investment is required from a custodian as well as the right level and quality of resources. Even with smaller clients that may have the majority of their assets held locally, the remaining exposure to over-the-counter (OTC) derivatives or hedge funds requires a substantial technology investment. The growing influence of the global players centres around their ability to offer better, broader and more sophisticated technology (and therefore reporting capabilities) as well as global scalability and volume insensitivity. They make substantial investment into technology and are nimble around changing investment needs and strategies.

The changing financial environment has led to numerous partnerships between local banks and the largest asset servicers – and to some of the global players establishing a local presence. Following the events of September 2008, everything has changed. Clients

want asset servicers to be geographically closer, to be a solutions-driven partner providing them with direct access to expertise, and helping them decide how best to face new challenges. They also want asset servicers to speak to them in their own language and time zone, befitting their culture, while still drawing on their global experience and network of professionals as a global asset servicer. Over the last year, the collaborative interaction between global and local custody providers has also continued to be a very important trend. For instance, Northern Trust's partnership with Handelsbanken and close co-operation with local regulators has enabled clients to benefit from one pan-Nordic partner for automated trustee and subcustodial services with a model approved by regulators across the Nordics.

Asset servicers also play a role in the broader industry. They actively promote clients' key interests through representation on key global industry bodies and participation in initiatives that help foster change in the Nordic region and worldwide. On a local level they play an active role in regional associations and initiatives and have strong connections through relationships with local industry bodies. Globally they proactively participate as members of industry associations, working groups and committees, for example playing a leadership role in initiatives with the Depository Trust Company, Industry Standardisation for Institutional Trade Communications, International Securities Lending Association, Continuous Linked Set-

tlement and Omgeo.

Increasingly, the role of an asset servicer has developed into that of a strategic partner providing direct access to expertise and tailored technology. For example, in the areas of derivatives and alternatives, clients need access to a asset servicing platform that is dynamic, far-reaching and

has the breadth and depth to cover the diversity of investment strategies in the future. They reap the full benefits of sophisticated technology without having had to spend considerable budget on developing and maintaining it themselves. Working closely with clients, asset servicers are able to design unique local technology solutions, ranging from direct links into vendors such as SimCorp Dimension and Wall Street Systems to white label reporting in some local languages.

As clients recognise the data warehousing capability of an asset servicer, there are an increasing number of outsource selective post-execution services.

Beta outsourcing is also on the rise. For example, Northern Trust's investment arm (NTGI), with close to \$600bn (€400bn) under management, is increasingly being approached by Nordic fund managers looking to outsource their passive index asset management. In addition, as clients seek to minimise the cost and risk of asset reallocation strategies, they are able to take advantage of an asset servicer's transition management services.

Nordic investors seeking solutions for the implementation, management and servicing of socially responsible investing policies that incorporate environmental, social and corporate governance factors are also turning to asset servicers for assistance with post-trade monitoring.

Sweden's EU presidency has strengthened the sense that Nordic investors are leading the move towards transparency and independent valuations – particularly within alternative investments. An asset servicer can provide valuable assistance in this arena.

First of all, high quality, daily audited data requires substantial investment in technology. A fully integrated single operating platform and central data repository is necessary to allow for seamless interaction between products, and most importantly, to drive the accuracy, consistency and timeliness of data. For example, functions such as securities movements, cash movements and portfolio accounting can be performed simultaneously, removing the need for manual audit and reconciliation, thereby

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promoting data integrity. Conversely, using disparate systems increases the potential for breakdown in communication and is a risk to data integrity. For example, a single integrated platform enables clients to gain instant web access to information, including risk analysis and compliance monitoring, regulatory reporting, transaction cost analysis and corporate governance.

To address concerns over operational transparency and risk management, alternatives managers are increasingly outsourcing their core custody and fund administration services to third-party providers. Institutional investors want independent valuations based on transparent pricing models. They also want to receive valuation reports directly from the administrator and all the regulatory and risk controls to be in place. Investment managers are also turning to asset servicers in order to counter rising operational risk by partially or fully outsourcing their derivatives processing – particularly in the areas of collateral management, independent valuation, risk management and performance reporting.

The Nordic region is one of the most sophisticated financial centres in the world where clients are looking for an established provider that understands their needs. It is important for clients to know that you are stable, focused and here for the long term. ■

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