Standardisation and technology: a catalyst for operational efficiency

Hamish Rowan-Hamilton, Director, Institutional accounts, Cofunds, UK's largest independent investment platform, outlines the value of technology and operational efficiency in Cofunds service to its clients through Swift and Calastone

FE: What were the main drivers of your ISO automation business case?

HRH: Cofunds handle high and increasing volumes of fund trades. Automation removes the inherent cost and risk of manual trading and without automation we certainly would not be in the market-leading position we are today. Historically, we have used an insurance-based message standard on our client side in the absence of a funds industry standard. We have always supported open market standards and we required the standards to be robust, comprehensive and clearly accepted by the industry, so ISO was the obvious choice.

FE: What were the main drivers for selecting Calastone as transaction network?

HRH: Faced with the choice of joining SWIFT ourselves and carrying the cost up front or getting a quick start with a bureau, we choose the latter. We were Calastone's first major distributor client and have complimentary business models. Calastone can turn on a sixpence and that suits our responsive approach to our clients and the evolution of the market. The relationship has flourished on both the client facing and the transfer agent/fund company side.

FE: What is your average number of orders per day sent to transfer agents - manual, on SWIFT, through any other channel ?

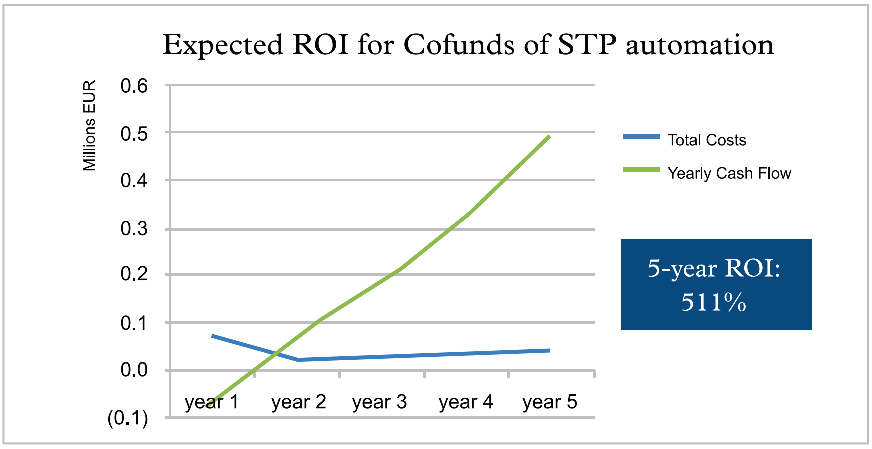
HRH: We bulk up our orders in up to five types per instrument (buy for cash or units, redeem G1 or G2 units or raise cash). We can deal across the 3000 instruments but the market tends to focus on a tight core of funds. We normally do about 2200 aggregated deals per day to the fund companies of which the majority are autofax but the fastest rising category is SWIFT messages via Calastone. On a daily basis there are one or two exceptions that are traded manually by fax.

FE: As a fund supermarket, with how many asset management companies and transfer agents do you work with today?

HRH: Around 146 fund companies and all the majority of the TPAs. There is a long tail of funds out there which we are constantly adding as demand arises.

Common standards are unquestionably the most important prerequisite for driving efficiencies in to this industry. SWIFT's involvement shows a pathway out of the dark ages of manual processing to a place where operational costs and risks are similar to those in other assets classes.

Hamish Rowan-Hamilton, Director, Institutional accounts, Cofunds



FE: What is the average number of orders per day that one FTE in your operations can handle when manual?

HRH: In the old days we were doing up to 900 trades per day with seven FTE; today, volumes have increased to about 2200 trades per day on average with seven FTE, plus two in India. The poor ratio is partly due to a forced break in our aggregation process for risk management purposes. This team also covers the price input and will be cut by two when an automation project goes live. With this and other automation, we are looking to double volumes supported by the same size of team.

On the occasion where we do manual trades. it takes a total of five to ten minutes to create the order, amend the order for exceptions, and reconcile and pull payments. As you can see, it is not something we like to get involved in.

FE: When manual are you using a fax server or is it fully manual? Do you use OCR (optical character recognition) for confirmations?

HRH: Yes, we do have a fax server but we don't use OCR; we receive price information via non standard file format, fax and SWIFT. Confirmations are relied upon where there is doubt about the prices and for simple trade reconciliations. We have developed tools using data transformation technology that will deliver similar benefits to OCR for the non-SWIFT confirms but life would be easier if it were common standards.

FE: What is your average ticket size?

HRH: The average deal size is, since the beginning of the year, just over £30,000 (€32,906) but there is a massive deviation in deal sizes from £0.01 adjustments to several millions.

FE: How much was your project cost (cost range) to implement automation via ISO messaging?

HRH: The overall one-off cost was around £40,000 to £45,000 although this covered some client side work too. It took about ten days and that includes the initial testing. The ongoing costs are minimal and the process of fund company take on is now so mature that that it takes about three hours to go from set up, through testing to live. That then allows us to trade in a single format through Calastone.

FE: How much operations FTE cost do you expect to save or have you already saved since becoming fully automated? How many automated orders can be handled by one FTE/day (we estimated 1,000 for checks still required for high-value deals)

HRH: Your figure of one FTE to 1000 deals seems achievable for us if all deals were SWIFT, our price update automation was in place and we changed some other aspects of our aggregation process – the latter of which is unlikely to happen in the short term. Another way of looking at this is that if we had to revert to manual dealing today, we would at least have to double our FTE. This equates to a factor of four to six times the FTE between manual and fully automated dealing.

FE: How much extra IT FTE cost have you projected in order to support the SWIFT/EAI infrastructure for funds? Is the IT fully loaded FTE cost similar to the ops one?

HRH: This is where using Calastone yields great benefit. There is very little cost other than testing upgrades or new messages that we incur and it frees out development team to do other things.

Key Figures:

- Project one-off cost: only 45 - 50k GBP
- Project maintenance cost: negligible
- 3 hours testing per counterparty
- ROI > 500%
- Break-even period already after 1 year

An Industry Perspective: The future of corporate pensions

FE: How do you see corporate pensions evolving into the wider wealth management arena over the near future?

HRH: Pensions, generally, are certainly at the top of our agenda. I believe we will see the continued fragmentation of pension provision with the removal of the benefit security. The drift has been from DB schemes to occupational DC, through to contract based PP and group SIPPs and of course now Personal Accounts. This is making the funding and management of corporate sponsored pensions of far greater importance to the individual and therefore their advisers. This should be at the top of the wealth manager's agenda.

FE: The market has seen tremendous changes over the last few years and new technologies and market practices have emerged. As a result, what pressures/opportunities are faced by those involved in platform based product distribution over the coming 18 months?

HRH: I see the platform split by those that are reactive and those that are proactive. Those on the front foot will find opportunity in the next 18 months, whether in regulatory change like RDR or market change. Competition will stiffen and maintaining margin through efficiency will be important in determining a platforms success. The real impact of these pressures will be much clearer over a four- year period.

FE: As initiatives in support of STP for corporate pensions gain critical mass, what values do technology and operational efficiency bring to the client offering?

HRH: On the basis that corporate pensions will have more personal/employee involvement, directly or through their adviser, accessibility to information is key and should be delivered without any additional cost to the employee. This can only really be achieved by greater efficiency through standardised industry processes and interfaces, supported by the appropriate technology.