THE GROWING DEMANDS OF FUND ADMINISTRATION

SRIKUMAR T.E., OF APEX, REFLECTS ON THE REASONS WHY THE FUND ADMINISTRATION NEEDS OF MANAGERS HAVE BECOME MORE DEMANDING

Srikumar T.E. is the deputy chief executive officer of the Apex Group and has over 16 years of experience in the global financial services industry. He joined Apex in 2008 with the task of setting up and growing Apex's offices in the Asia Pacific region and his previous responsibilities within the group have included overseeing Apex offices in APAC, the Middle East, Canada and South America.

HFMWeek (HFM): Why is breadth of service important for fund admins in the current landscape?
Srikumar T.E. (ST): The funds management industry, globally, has been through a substantial amount of changes, in terms of investor expectations requiring increased levels of transparency in reporting. Regulatory involvement has also changed at a local jurisdiction level for fund managers, and there are nowadays extraterritorial jurisdictional compliance requirements. All of this is occurring while there is an increasing demand for greater flexibility and customisation. The entire fund administration industry has to step up to cater to the changing dynamics that affect fund managers.

Given the increasing global impact on funds – that is, the impacts on funds from jurisdictions beyond where they are domiciled or where the fund manager operates – a fund needs to have the right service providers available with a broad range of expertise. Fund administrators are now often tasked with bringing the required subject matter expertise to the table so that the evolving obligations of the fund or the fund managers can be met. To keep operations efficient, it has become increasingly common for managers to desire an extensive range of expertise through one service provider – especially in aspects of investor AML/KYC screening and related compliance requirements of Fatca and CRS.

HFM: Why are technologies becoming increasingly important for fund admins?
ST: Technology has become important through a combination of the growing complexity of information required by managers and regulators, which was previously less onerous, and the fact that institutional investors require more data beyond the basic accounting information once provided by a fund administrator. Information is now required in areas such as portfolio level transparency, compliance reporting and risk analysis. Certain institutional investors insist that these services are outsourced to administrators and therefore administrators need to be equipped to provide them as a precondition for a fund to be investable. Essentially, this means the selection of a fund administrator and their capabilities are tied with the fund's ongoing success and credibility with institutional investors, so it is crucial they are able to deliver the solutions required.

Given the speed and frequency at which this information needs to be processed and reported, the only way to efficiently organise the service is to have a technology infrastructure to support the gathering, processing and reporting of the relevant data.

Technology and platforms also need to have architecture open enough to compile information to meet compliance requirements, but at the same time be flexible and cutting-edge enough to meet the evolving needs of the managers and their investors. Because of the dual play of regulatory requirements and evolving manager/investor needs, enhanced technological capabilities in the fund administration space are more important than ever before.

HFM: What are the key reasons for managers changing fund admins?
ST: I can see two trends. First, managers may initially have chosen to utilise the service of a local fund administrator which does not have a global presence or service offering. Given this, as these fund managers grow their assets under management and attract institutional investors, it has become necessary to use the services of administrators who can provide broader service seamlessly from a local service centre, while also delivering the required expertise from their global office network and catering to the industry's evolving demands.

And then there are cases where managers who had previously chosen the banking/brokerage one-stop shop solution, and had fund administration services provided as a value-add service in addition to prime brokerage or custody, are now moving to specialist independent global fund administrators. The banking industry has seen a great deal of operative M&A activity in their administration service business line given the increased investment required in technology, compliance and service architecture. Over the last few years, we have observed the growing trend of banks exiting the fund administration business and independent fund administrators growing through acquisition of these banking spin-offs.

Often, banks are slower to react to the practical compliance decisions required to provide a seamless service, and decisions tend to be hampered by a drawn-out process, which causes managers to move to a global independent firm that can provide a dedicated compliance infrastructure to react faster to regulators', investors' and managers' requirements.

One of the other prominent reasons why a manager would move away from a banking admin is as a result of the decoupling of service requirements.

Ever since the crisis of 2008, there has been an increased move towards separating prime brokerage from other aspects, and some of the larger managers are choosing multiple custodians to give them the flexibility to react more quickly to the developing landscape.

A combination of all these different factors has given managers a good reason to change fund administrator.

> "THE ENTIRE FUND ADMINISTRATION INDUSTRY HAS TO STEP-UP TO CATER TO THE CHANGING DYNAMICS THAT AFFECT FUND MANAGERS"

HFM: Admin M&A activity continues at pace – will the evaluation of fund admins change because of this?

ST: Fund administration can no longer be viewed as an add-on or value-added service bundled with other services in a traditional one-stop shop offering including banking, custody, brokerage and cash management.

The developments in the funds operating environment, the investors and regulators reporting requirements and the technological advancements in the space has clearly positioned the fund administration service as a speciality service industry requiring specialist skills and large investments in the compliance and technology infrastructure.

This is a major driving force behind the M&A activity where banking institutions who were pioneers in this space decades ago are exiting this service line and specialists dedicated to fund administration are consolidating their positions while enhancing their global footprint. ■