Time To Shine

Managed services aren’t new, but they’ve been a source of trepidation for many small banks. However as they become more of a necessity, firms will have to embrace them — or risk falling behind

Lucy Carter reports

Managed services have been a mainstay of global banks for decades, providing outsourced support to overstretched departments. There has been an uptick in their adoption over recent years, but many, particularly smaller firms, are not yet convinced. From initially unfeasible costs and fears of disruption of business as usual (BaU), some smaller banks have maintained their misgivings about managed services despite considerable accessibility developments and a growing pressure to adopt the services in recent years.

In a recent whitepaper from S&P Global, "Demystifying Managed Services'', the company, as the title implies, explains managed services, the false assumptions held about them and the challenges that mean that they are becoming increasingly needed.

There are two categories of managed services; capacity creation and managed process. As "capacity" suggests, the former provides more people to the company, who are focused on specific tasks and goals. The client does not have to change the way they operate and maintains control over resource allocation.

Managed process, on the other hand, combines human resources, process improvement, and technology enablements. The vendor is encouraged to maximise their efficiency, and change their operations. Although this may be a more drastic overhaul to BaU, pricing models are fixed and based on outputs rather than the equivalent people-hours the company is using. If companies are willing to hand over the reins to a vendor — giving them control over resource sourcing, allocation, and deliverables — and are open to changing their operating systems, then this can be an appealing option.

Misgivings and misunderstandings

Commenting on what may be holding smaller firms back from managed services' implementation, Satu Kiiski, consulting director for global banking at CGI, suggests that they feel they are not a priority for vendors, and that "they will not be provided with the best resources and that their requests will not be answered quickly." She also suggests that the widespread use of cloud-based solutions may also seem like a risk, in terms of security.

Pardeep Cassells, head of securities and claims products at AccessFintech, concurs, citing perception as a major obstacle: "Small financial institutions can feel closed off from what is often seen as an expensive solution space that is dominated by Tier 1 banks and large asset managers. On top of that, smaller firms

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cannot necessarily afford to take the risk of paying for something that ultimately does not work for them."

Many firms believe that the cost of managed services makes them unfeasible, something only enhanced by the fact that early managed services gave companies an uncustomisable set of services that left their needs unmet and their coffers empty. However, since becoming a prominent industry feature in the early 2000s, managed services have come along in leaps and bounds.

Vendors have moved on from a one-size-fits-all approach, whereby firms have to adopt the entirety of a vendor's solution — now, "it is widespread to see an option for firms to build out their own managed services bundle from a menu of services," says Al Castillo, vice president of solutions management at SS&C Advent.

He adds: "This co-sourcing arrangement, where each party can share ownership in managing data and processes, builds rapport and trust over time." As such, companies now no longer have to invest entirely in a system that they may not need to use the full capacity of.

Giving up control of their operations can be difficult for small firms, who are accustomed to their way of working and want to maintain their independence. "They are giving up ownership and control of an activity," says Pino Vallejo, managing partner at Sionic.

Vicky Dean, managing director for EMEA at Goal Group, proposes that pride may also be an issue for companies: "Taking up these services is an admission that they need to improve certain areas of the business," she says.

Why now?

To reassure smaller companies that managed services are a help, not a hindrance, providers need to reinforce the fact that managed services are not what they once were. "We need to be flexible in delivery and approach to help smaller or regional firms to see the many benefits of managed services," says Stuart Hartley, director of Qomply.

Vendors must demonstrate the benefits that their services will bring to firms, stressing the fact that they will be working with their clients, rather than remaking their systems in their own image. As Samuel Meddick, European head of managed services, network, and regulatory solutions at S&P Global Market Intelligence, says: "There has been a shift in recent years to a more customer-centric approach. The availability of more technological capabilities has meant that consumers' expectations, in terms of look, feel and speed of solutions has changed."

Discussing the most significant impacts on financial investors in recent years, the S&P Global report cites the inevitable changes that ensued as a result of the COVID-19 pandemic, disrupting BaU and forcing companies to change the way they operate. Remote work, labour shortages (namely, The Great Resignation), and market volatility have all contributed to this, alongside market developments such as regulatory pressure and resulting workload variability.

There are several more positive factors driving recent adoption of managed services, beyond the need to face the aforementioned challenges. Managed services are now far faster, allowing for reduced disruption to BaU, quicker wins, and a greater long-term value than earlier models. Embracing cloud-based technology, data centres can be located worldwide whilst still ceding to local regulatory laws. This reduces the cost of physical data storage and expansion is far more feasible. Rather than the bulky, clunky, and disruptive systems that many remember managed services to be, the field now provides a far more accessible, streamlined option for clients. As Castillo asserts "over time, the cloud has significantly improved the ability to deploy, monitor, maintain, and upgrade core investment systems and, most importantly, to do so cost-effectively".

Kiiski additionally emphasises the competitive nature of the industry as a driver of change: "Financial institutions must ensure the competitiveness of digital services, the efficiency of operations and the ability to serve ever-increasing customer numbers and volumes, ever faster."

To stay in the game, managed services can be used to maintain compliance with regulations, deal with security issues, and provide expert insight.

Remote work — ally or antagonist?

Vallejo states that remote working has been the catalyst for increased managed services adoption. The necessity of improved safety for remote work during COVID-19 has eased management concerns regarding the practice, with BaU less adversely affected than many predicted. Although managed services and outsourcing were already on the rise before the pandemic, lockdowns accelerated their adoption.

A 2021 Chartered Financial Analyst Institute report, entitled 'The Future of Work in Investment Management', found that more than 81 per cent of global respondents would prefer to work remotely for at least part of the working week. Remote and hybrid work is not going away anytime soon, something that companies need to acknowledge and adapt to.

"The remote work environment has quickly become an expectation for workers in many industries, and financial services is no exception. I would argue that the adoption or expansion of managed services relationships does not introduce the risk of increased remote work; it makes it possible," Castillo says.

If companies outsource their work, particularly in a capacity creation structure, then it is inevitable that the number of remote workers will remain high. As a result, there may be concern that issues that have already emerged throughout COVID-19 may remain challenges — communications and connectivity, safeguarding, and data protection, for example. The industry agrees that the importance of due diligence and the request for proposal process cannot be overstated, ensuring that clients' data is handled securely.

Vallejo however outlines that things are managable. "The remote work environment is here to stay, and we believe this is the new normal," he says. "We do not see managed services as a risk but as a solution to staffing issues, rising employee costs, and operational risk mitigation."

Nick Smith, global head of managed services at SmartStream, sees remote and hybrid working as a benefit, stating that it gives firms "an increased level of resiliency against future challenges that they may face".

Therefore, managed services, and the remote working that comes with them, will not be a major barrier. However, industry opinion on the geographical complications that they will bring are mixed.

"It is no longer realistic to strive to build a team of top talent that is always on-site. It is more important to get top talent than to make sure the team stays in the same physical space," says Kiiskii, in consideration of 'The Great Resignation' and the current nature of the employment market.

Rob Johnson, chief technology officer at Coremont, suggests that the geographical spread could be both beneficial and detrimental — the biases associated with certain regions will be diminished, but the benefits will likewise be reduced.

However, although vendors will gain access to a wider pool of experts, they will not solely be within their regions. Communicating across different cultures, time zones, and regulations is already difficult, and may only be enhanced by an increase in remote working.

Nevertheless, Cassells believes that this can be overcome — if only because the language of business and specific companies transcends any globally recognised tongue. "This is where having a shared system becomes an added strength. It allows these differences to be diluted as everyone is working toward the same goal using the same system," she says.

Under pressure

Technology has not only developed in the world of asset servicing. Customers now expect far more from their banks, with reduced payment timings, responsiveness, transparency, and efficiency being deciding factors as to which institutions clients decide to put their trust and capital into. Firms are undoubtedly under more pressure to increase the speed of their solutions, with T+1 looming. Managed services could be an effective solution to this, providing a way for smaller companies to survive in a more fast-paced environment.

"It is important to recognise this challenge in advance," says Cassells. "If smaller firms are looking to onboard a new solution or outsource to an external provider, they should begin this process very soon – the time it can take to review providers, go through request for proposals, and actually onboard can be surprisingly lengthy. If you leave it too long, you risk having to do the onboarding process while also adapting to T+1."

"There is no point in trying to change an engine mid-flight when you have the opportunity to do it from the safety of a hangar," she adds.

Leaving legacies

Managed services are also likely to prompt further abandonment of legacy systems, which are often expensive to maintain and quickly become outdated.

These old systems are no longer feasible in a competitive and rapidly evolving market, and the growth of managed services means that banks no longer have to be reliant on them.

Many companies have already been overhauling their systems and are looking at new ways of operating, particularly after the harsh pandemic years.

This will also work vice-versa; as legacy systems are dropped, due to technical debt and lack of expertise, "the value proposition of scalable, technology-enabled managed services platforms will continue to increase," predicts Vijay Mayadas, president of capital markets at Broadridge.

By moving away from keeping all services in house, firms will be able to focus their efforts on the areas that are most beneficial to them and their clients. Beyond companies' existing systems, managed services allow for a far simpler and more cost-effective adoption of higher-quality expertise and technology than if banks choose to develop new services themselves.

However, not all in the industry are so sure that legacy systems have had their last hurrah, suggesting that a balance will be struck between new and existing systems. "We are looking at evolution, not revolution," says Cassell, arguing that firms "will integrate and update their processes with the help of new services".

S&P's Meddick holds a similar perspective, stating that "some functions, risk management and analytics, should remain in house. You can buy data, technology, or people, but unless you design and own the mechanism for querying this process you will not get the optimal use out of it."

The need for centralised regulation is also a focus. Meddick suggests that standardisation of regulation "streamlines execution, increases consumer transparency, and complies with global legislation," benefiting all parties involved.

The future of managed services

Managed services are projected to reach more than 200 per cent of their current market value by 2028, according to S&P Global. SmartStream is even more optimistic, claiming that this figure is "very conservative".

The question remains as to what asset servicing will look like by that time, a mere six years from now.

At this year's Association of the Luxembourg Fund Industry (ALFI) Global Distribution Conference, Broadridge's Liam Martin made the claim that the "golden age" of asset servicing was over, exploring the many difficulties that the field will face over the coming years. He concluded his panel by assuring the audience that the market will adapt — and it seems that managed services are one such way that this is already taking place.

Cassells believes that the future looks bright: "The widespread adoption of managed services could transform and streamline asset servicing in several ways.

For example, asset managers could reduce how much of their resources and operational teams are dedicated to pure data management. They could then focus on higher value tasks such as improving the quality of their service even further."

Goal Group's Dean agrees that managed services "will certainly enhance the industry, and provide an elevated service offering across all different areas."

She also emphasises the importance of safety going forwards, stating that: "The security and processes involved with these types of services mean that they are more trusted, and in some cases often sought after to ensure the asset servicing industry remains modern and in line with client expectations.

"With the addition of increased scrutiny, and awareness and education, clients will be challenging their providers to ensure the best service is always being offered."

In an increasingly unstable yet constantly accelerating world, managed services seem to be an essential tool for the path ahead. In order to adapt to increasing regulatory requirements, evolving client demands, and rapidly changing technology, firms will have to find an alternative to their current ways of working. Managed services are nothing new — but it might finally be their time to shine. ■