

Asset managers: a solution to challenges

Asset managers facing challenges and in response, they are increasingly turning to third-party providers, as Amundi Services, for dealing activities, middle office services and Portfolio Management System.

Today's asset management CEOs have to fight on two fronts. On one side they face declining revenue margins, as passive funds grow more popular, pressure on prices increase, active fund fees shrink, and the emergence of new boutiques sharpens competition. On the other side costs are rising, as clients demand more complex, bespoke solutions, digital tools that require investment in people and technology.

Asset managers must also shoulder the burden of far more onerous regulations. This is particularly the case in Europe, where rules such as Mifid II have increased both the human resource that needs to be devoted to compliance, and the need to make Portfolio Management Systems (PMS) more sophisticated and transparent. Brexit, and EU initiatives such as the Alternative Investment Fund Managers Directive, have also made asset managers' lives more complicated, by forcing them to look afresh at suites of fund structures that meet the regulatory requirements of different jurisdictions.

McKinsey, the consultancy, summarised the problem in a recent article on digital excellence in asset management: "Despite sustained asset growth, revenue pressures driven by increased competition, the shift to lower-fee passive investments, and the need to comply with new regulations have forced asset



managers to focus on cost management."

Confronted with this squeeze from both sides, asset managers must trim fat from their organisations to remain profitable. But at the same time, to stay competitive they must continue to innovate – at a time when budgets available for innovation are limited.

***"We are convinced
our systems & operations
can benefit to other
asset managers"***

■ **Guillaume Lesage**

Turning to a trusted partner

In response, asset managers are increasingly turning to third-party providers, as Amundi

Services, for dealing activities, middle office services and PMS. Good service providers benefit from economies of scale. They can afford teams that explore the subtleties of existing regulations, and anticipate new ones; they have the capital to invest in artificial intelligence that reduces errors and unlocks efficiencies in their clients' operations – using AI to generate suggestions for trade reconciliations, for example. Good service providers are also investing millions in creating portfolio management systems that show, in real time, everything from order placements to trading positions.

"Why the development of Amundi Services? Because we are convinced our systems & operations which are a cornerstone of our success, can benefit to other asset managers

and institutions which, in turn, will help us improve the platform”, says Guillaume Lesage, COO of Amundi, Europe’s largest asset manager¹. Amundi Services is one of the firm’s strategic Business line.

But there are also outsourcing traps for the unwary. Apportioning different bits of the middle office to different specialist service providers prevents a seamless service, and creates inconsistencies in data that sow confusion. Another trap lies in outsourcing a large chunk of one’s operations to another continent: different time zones foster delays, and a lack of local knowledge opens gaps in expertise. For example, the European Commission is looking at how to boost the importance of ESG in asset management, but local jurisdictions are taking the initiative too. Austria’s national regulator has recently decided that all pension funds must report on the ESG and carbon footprint of their portfolio, using an external partner. “Asset managers need service providers

that know the asset management industry inside out, in every market the asset manager is in”, says Joseph El Gharib, Director of Amundi Services.

It is also important for an asset manager to pick a service provider with the widest possible offering. For this reason, Amundi decided to launch in 2016 a new strategic business line, Amundi Services in charge of offering Amundi’s solutions and services to external asset managers and institutional investors mainly for dealing activities, Portfolio Management System and Fund Hosting. The service provider should be able to supply the full gamut of services from alpha to omega.

“Asset managers need service providers that know the asset management industry”

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Alpha is the *mot juste*, because high-quality back, middle and front office support enables the

manager to maximise its chance of outperforming the market. Outsourcing these functions frees management time to concentrate on alpha; moreover, high-quality support services give managers faster and better information, and information (when combined with wisdom) is what ultimately achieves alpha.

Pressures will intensify

The pressures on asset managers will not diminish in the coming years; to the contrary, they will only intensify as further fintech rivals emerge. These competitors can offer low-cost products enabled by digital services with much lighter operating costs. This strengthens the imperative for long-established asset managers to team up with service providers that have millions to spend on exploring the new vistas of asset management fintech. If an experienced asset manager partners with a provider with broad and deep expertise, the two can make an unbeatable team. ■

1. Source IPE “Top 400 asset managers” published in June 2019 and based on AUM as of end December 2018.



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<https://www.amundi.com/int/Services/Amundi-Services>

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