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Challenges and trends in reporting for asset managers

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Asset management firms, including wealth managers, face ever growing challenges in terms of data management and reporting related to their investment exposure, risk management and performance attribution and benchmarking. One driver is that investors and regulators have become substantially more demanding in terms of the quantity and quality of information that is reported to them. Many asset managers find their ability to respond to these challenges hampered by their continued reliance on piecemeal and non-integrated processes carried out by existing middle and back-office staff, who lack the appropriate expertise and who already have 'day jobs'.

When costs are properly and fully tallied, manual processes simply do not make sense for the majority of asset managers. Despite being inadequate for the current reporting demands most asset managers face, these approaches have persisted because of institutional momentum and, until recently, a lack of better alternatives. However, with recent developments, there is light at the end of the tunnel. The growth of new SaaS-based solutions or managed services can offer asset managers a significantly better path to more completely and cost effectively address the major operational challenges associated with reporting for regulatory, investor and portfolio

BY

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**Global Risk Management
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Managing risk

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Why asset managers continue to struggle

Whether they are traditional 'long only' funds or 'alternative' funds (such as hedge funds and private equity funds), most asset managers are only able to allocate a few employees to data management and reporting. Moreover, these employees typically have as their primary responsibilities other middle and back office work, and lack the necessary subject matter expertise and experience in risk management and performance attribution or benchmarking that is now required for most types of reporting. As a result, data management and reporting in these key areas often gets 'short shrift' and is carried out inefficiently and poorly.

A common challenge for firms is that their existing processes are fragmented rather than effectively integrated. We have found that a typical system and process environment involves a risk system here, a bunch of spreadsheets there, an investor portal on the web, some performance metrics calculations somewhere else, and at least one, and possibly several, accounting systems in the other room. These systems were not originally designed to 'talk' reliably to each other. Consequently, getting information for a manager's investments and investors to flow appropriately through all the systems becomes an expensive and error-prone chore. Even when that is done, the asset manager's work is far from finished, as the various pieces of information output by all the systems – in areas such as exposure, risk and performance analysis and reporting – must now be laboriously assembled into a final, coherent and accurate suite of reporting.

In the past, each asset manager would separately put together its own tools and processes to address what is, in the end, a set of needs they all share. Managers recognised it would make no sense to build their own systems from scratch, so they made use of third-party tools and services in their processes. But they ran into two major problems: the individual tools were rarely designed specifically for asset managers and integration across the various tools used was lacking. Therefore, each manager had to carry out upfront customisation and integration – and supplement that with ongoing manual processes to transfer data, carry out analysis, identify and fix errors and finalise reporting.

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A better way forward

A growing trend that we have observed is that many asset management firms have begun to recognise the aforementioned issues. As a result, many asset managers are now seeking to improve and streamline their internal and external reporting wherever possible. In recent years, escalating expectations from investors and regulators combined with heightened pressure on fees have made the need for change even more acute. Most asset managers understand that their comparative advantage lies in their client relationships and investment management abilities, for example to deliver robust risk-adjusted returns at risk levels aligned with investor expectations. Therefore, managers are moving away from a 'not invented here' mentality, and instead routinely source from optimal third-party providers goods and services to support the investment process.

Recommendations

In this context, a major step forward for asset managers is that the FinTech revolution has begun to make available new tools and methods to better handle data management, analysis and reporting needs with respect to portfolio exposure, risk and performance. What, then, should an asset manager look for in terms of considering service offerings that reflect this FinTech trend?

In the first place, a manager should check for high-quality 'curation' of information provided by the process. Whereas in the past a few simplistic measures of exposure, risk or performance may have satisfied most investors and regulators, expectations for more sophisticated metrics are rising. A new process should provide a full range, simple to more developed, of metrics and analysis selected specifically for a manager. And the process should present the data and analysis in a well-designed report that effectively communicates key salient information.

Secondly, a manager should understand to what extent the process to produce and report the enhanced suite of exposure, risk and performance will require the use of manager resources in addition to the billed cost of the service. Software providers, in particular, must be assessed with a jaundiced eye. Many readers will no doubt be aware already of instances when the implementation and operation of a third-party software package, such as an accounting or risk system, turned out to be far more costly, in time and money, for an asset manager than they had been led to expect.

Thirdly, a third-party provider of investment-related data, analysis and reporting should of course be able and willing to provide the resulting information in a manner that integrates smoothly and cleanly with a manager's existing reporting systems and processes.

Finally, we have found that for most asset managers, the best way to achieve a comprehensive, unified and cost-effective process may be to secure a 'turn-key' solution by leveraging the knowledge and experience of a third-party provider that specialises in the production and reporting of investment holdings, risk management and performance data and metrics, including customising reporting for various key constituencies such as the investment team, regulators and investors.

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