SPECIAL EDITION 2020

OUTSOURCING MAGAZINE

SGSS2020 OUTSOURCING

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THE FUTURE IS YOU

SOCIETE GENERALE
Securities Services

WELCOME TO THIS NEW SGSS MAGAZINE

which puts the spotlight on a topic that lies at the heart of financial players' concerns: outsourcing. In this issue, we will use the opinions of experts to look at the challenges associated with outsourcing, as well as the constraints, misgivings and hesitations, the opportunities it provides and the new types of cooperation that are emerging within this industry.

Outsourcing has today become a natural trend or even a necessity that can be observed in all industries at a certain level of maturity. Firstly, for obvious cost-control reasons: in our activities that are subject to regulatory changes, the risk of fraud and cyberattacks, substantial and continual investments are necessary. The notion of critical size is therefore a constraint imposed on all players, and notably on banking service providers who will have to transform their offers, digitise them, comply with regulatory requirements, secure their IT Systems and enable their clients to benefit from these pooled investments. Outsourcing makes it possible to focus on, and allocate efforts and scarce resources to, one's core activity, and thus to create more and distinctive added value to win greater market share. Despite this trend and the market's infatuation with it, some players are opting not to outsource. For what reasons? If we want to comprehensively address this outsourcing topic, we need to look at the issue of control, and in particular data control, and not ignore the difficulties that go hand in hand with these organisational developments, such as the loss of oversight, flexibility and responsiveness. Furthermore, it should not be forgotten that outsourcing also means learning to forego and accepting to standardise in order to fully benefit from the scale effect. So how should these challenges be addressed? By developing essential control processes, but also thanks to numerous innovative responses, sometimes by new players, by new outsourcing methods combined with new offer models. Beyond traditional forms of outsourcing by delegating, other cooperation initiatives are emerging: collaboration or partnerships between a number of players who combine their strengths to improve market practices providing examples of collective intelligence and development. The emergence of new technologies such as APIs are facilitating collaboration between players. Maintaining an open architecture approach makes it possible to retain the flexibility that is essential to these new combinations: connection with a number of subcontractors, internal developments versus the use of software packages, integration of external data within one's IT system. In this magazine, we wanted to give the floor to those who are contributing to innovation through the viewpoint of fintechs with their fresh and youthful eyes but also more established and experienced players like SGSS. Feedback on using CrossWise front-to-back offer is hence discussed at the end of this magazine and illustrates opportunities to integrate services within outsourcing offers. All in all, this magazine provides a vast overview of opinions and possibilities for making the most of outsourcing solutions and partnerships. I am sure it will bring to readers' minds an experience, an opportunity to rationalise their organisation, or simply provide a window into these outsourcing trends. In these difficult times, I would like to wholeheartedly thank everyone who has contributed to this magazine, accepted to share their expertise and worked hard to produce it. Its content has been created before the Covid-19 crisis and therefore doesn't deal with its potential consequences both on outsourcing and, more generally, on the investment industry. We are well aware this event will have a significant impact on the financial world and this is a topic we will definitely address in our future publications. I hope you enjoy reading this magazine as much as we have enjoyed putting it together.

MATHILDE GUERIN
Head of Transformation & Technology Delivery
SGSS

Mathilde Guérin began her career at Societe Generale in 1991 and held various positions within the investment bank and the Custody Services Department. She participated in the analysis of all IT and operational aspects of the SGSS acquisition of UniCredit's securities services in 2005. She was then appointed programme manager for the migration of Pioneer Asset Management's Luxembourg funds. In 2008, Mathilde Guérin became Global Relationship Manager of Pioneer AM, before being appointed Global Head of Sub-custody Network Management in 2011, followed by her appointment as Head of Product Engineering in 2016, in charge of developing SGSS products and solutions. Mathilde is a graduate of the Ecole des Mines in Saint-Etienne, France.

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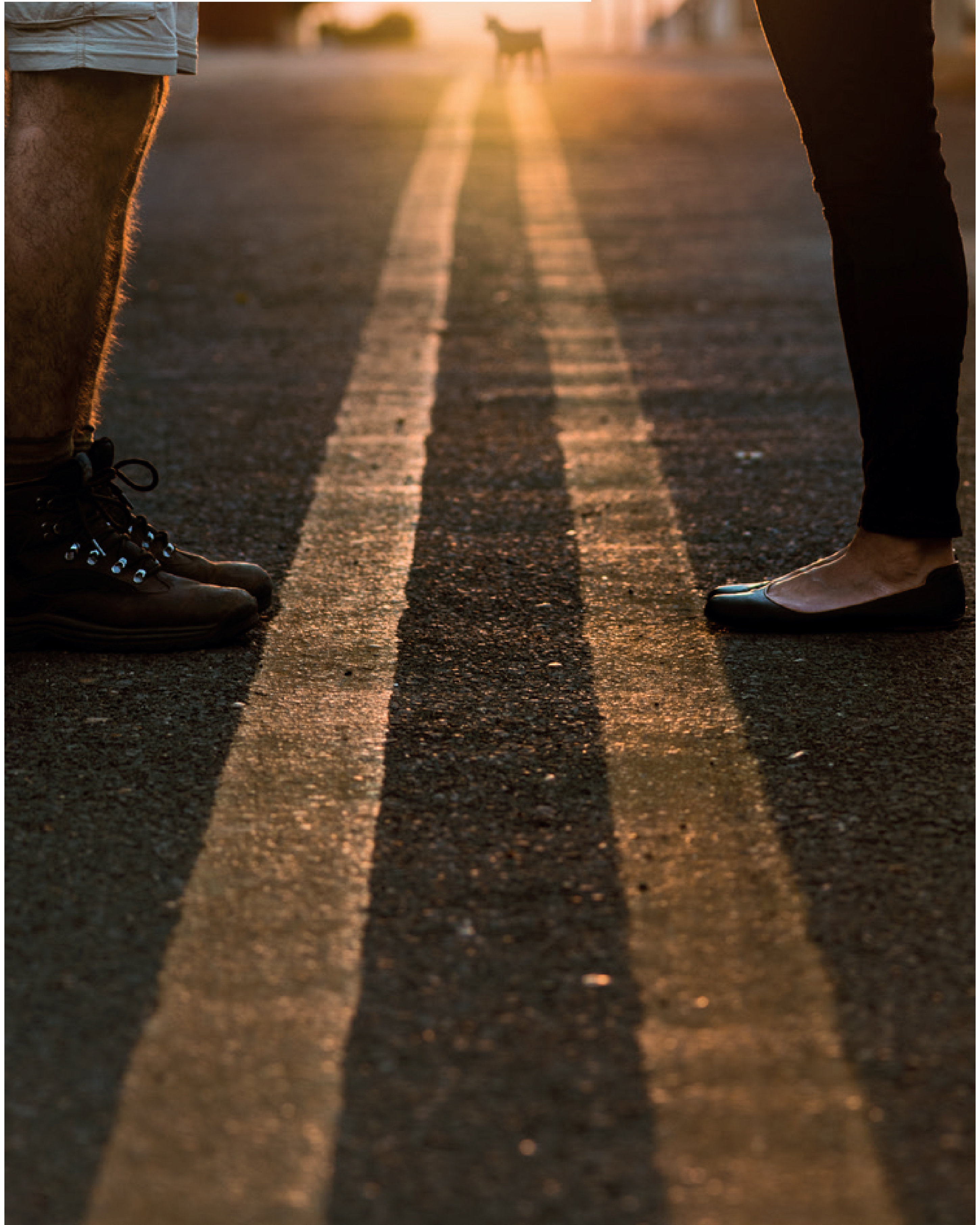
INSOURCING
CAN WE GO AGAINST THE TIDE?

INSOURCING/OUTSOURCING IS TECHNOLOGY CHANGING THE PARADIGM?



In a fast-changing business world, the terms "agility" and "flexibility" are somehow absolutely necessary for organisations to compete, especially large-scale organisations operating across the world.

Agile is not only a methodology or a philosophy, but concretely also means a thorough rethinking of the operating model, making operations processes smarter and leaner, optimising the organisational structure through the allocation of resources to core activities and outsourcing lower value-adding ones.

Until a few years ago, the imperative for organisations was outsourcing on various levels: near-shoring, off-shoring, etc. depending on the geography.

Among the possible strategies, outsourcing of some activities was an option assessed taking into consideration the following drivers:

- **Costs** - primary aim is cost reduction;
- **Setup** - setup time and ease of knowledge/skills transfer and scaled according to overall difficulty (geography, etc.);
- **Flexibility** - intended as flexibility of the local labour market and local works council activities;
- **Monitoring capability** - the organisation's ease and capacity of monitoring the possible outsourcer.

A particular emphasis was obviously put on the cost component, especially on a company's personnel costs, with the rise of certain areas such as Central and Eastern Europe (Poland, Czech Republic, etc.), India and the Far East (Thailand, etc.).

The benefits of outsourcing are, however, now less obvious than in the past for three main reasons:

- the operating model can be adjusted, reducing costs, also through smart process automation and artificial intelligence;
- the capacity to effectively monitor the outsourcer defining a robust set of KPIs, along with the solidity of the partner, has shown some signs of impracticability;
- the real and concrete possibility provided by the outsourcer of activating business continuity plans and disaster recovery programmes in case of unpredictable incidents, as also required by EU regulations, is limited.

In this context, some organisations, to mitigate operational risk and drive efficiency gains, are also adopting a lighter form of **outsourcing that is outcome based** and foresees the delivery of services on **the same platform in use by the client (called Managed Business Services or Business Process Outsourcing)**.

All these things are now leading organisations to undertake a comprehensive review of the paradigm, breaking with the natural correlation between flexibility and outsourcing. Outsourcing is now seen as a possible component of a larger jigsaw that might also include the possibility of insourcing part of the business, taking into consideration the risks and the possibility of reducing the marginal impact of costs through the adoption of smart process automation.

Something that in the past would have never been said on any Boards or by any C-suite executives is now a concrete option to improve the operating model, but it requires strict collaboration between the business and two key areas: HR and IT. Indeed, these last two functions represent the key enablers for rolling out the model in a mid-term perspective.

This new approach to transforming the operating model requires:

- a solid IT team as a business strategic partner on initiatives where technology acts as enabler, able to find a way to structurally transform IT legacy and core systems, while injecting differentiating digital solutions and being able to deploy a modular application landscape, based on architectures able to exploit data gathered from both internal and external sources;
- a fully on-board HR team to assess actual expertise vs. future needs and to roll-out a disciplined programme to continuously acquire and develop new skills to boost execution.

New technologies are undoubtedly changing what was absolutely unpredictable and taboo over the last two decades: re-insource part of the production chain. A new route that can only be pursued by investing in the IT platform and continuously acquiring and developing new skills.

DIEGO BIASINI

Head of Middle & Back Office & Funds Services
Generali Investments

Diego Biasini is at Generali Investments Holding since 2019, the Service Company part of the Investments, Asset & Wealth Management Business Unit of Generali Group and pivotal to the multi-boutique strategy. Previously he has been the Head of Business Transformation in Generali Investments after a decade primarily spent in the asset management industry as Project Manager in a variety of projects with a clear focus on the review of the target operating model of the Operations and Front Office areas.

THE EVOLUTION OF OUTSOURCING FOR WEALTH MANAGERS: MICRO BPO* SERVICES

THIS NEW APPROACH HELPS OVERCOME THE STANDARD LIMITATIONS IN BPO* DELIVERY SERVICES FOR THE WEALTH MANAGEMENT SEGMENT

From full outsourcing to a platform of services: leveraging technology, the new approach to assisting Wealth Managers has to be based on a **Business Process As A Service (BPAAS)** approach that envisages offering specific and consistent support services (automated and human tasks) for specific microprocesses within the wealth management process chain: microBPO. Following the BPAAS methods, Adepa specifically developed a range of services (each to be considered as a "microBPO" service) able to cover specific needs in a very efficient way incorporating human intervention and application functions. This means having a platform ready to cover all the processes for supporting wealth management services with independent modules (microBPOs) that can be activated following the Client's needs.

The underlying technology (infrastructure based on a cloud service, application/web API) makes it possible to work in open architecture in which the wealth managers/private banks and all the other potential providers can work together in a safe environment and with comprehensive governance of data and task monitoring. This approach helps remove any limitations in terms of volumes and synergy leveraging the technology to use the appropriate level of efficiency and effectiveness, even on relatively low levels of transaction volumes. The historical limitation for wealth managers (too few transactions to achieve the minimum level of efficiency) is at last no longer valid.

* BPO: Business Process Outsourcing

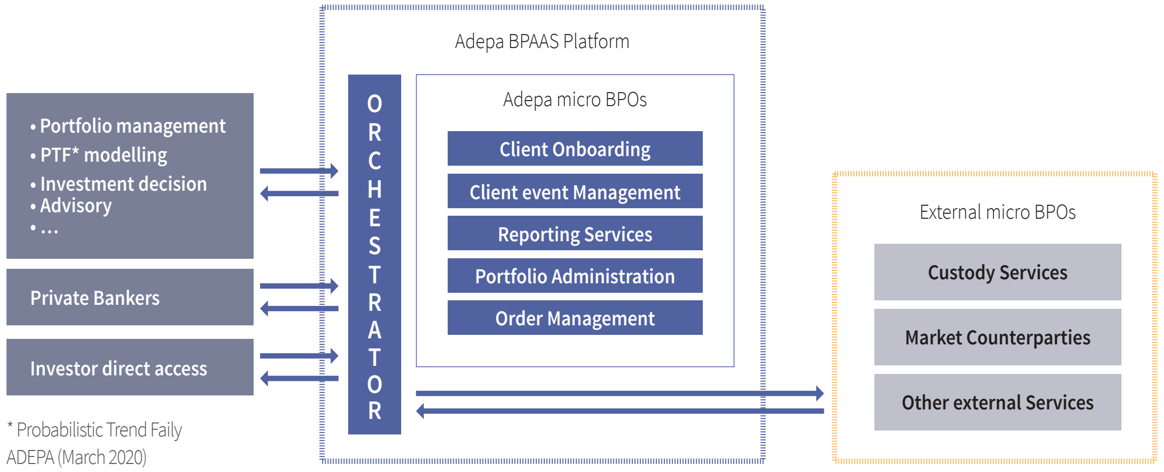
BPAAS primarily allows wealth managers to tailor the service model to their own model, "switching on" only the required microBPOs and implementing the integration needed with other external service providers.

ITALIAN PRIVATE BANKS: FITTING THE NEW MODEL

The Adepa experience on how this approach can drive excellent performance in a very efficient way is related to Private Banking institutions in Italy: these financial institutions are generally half way between asset managers and banks. Private Banking institutions in Italy: these financial institutions are generally half way between asset managers and banks. Private banks do core banking functions (cash account, cheques, pledges, etc.) but with low volumes, high average tickets and a need to customise the relationship.

Furthermore, they manage customised investment services (segregated accounts, managed accounts, financial advisory, art advisory, etc.) to their high net worth individual clients. Up until now, these clients faced a difficult decision whether to outsource their operations to traditional banking providers (core banking services, high volumes, standardised services, huge costs) or classical asset management providers (focused on products such as mutual funds, ETFs, specialised only for some investment services segments, etc.). In addition, some new players have joined the wealth management arena, increasing the complexity of service: the so called **"Digital Private Banks" started to work within a full digital process** in terms of both the relationship with their clients and investment services offering robo-advisory and AI-based investment strategies.

The approach based on BPAAS, as deployed by Adepa, makes it possible to overcome the limitations of a standard outsourcer in the banking and financial sector, defining a new outsourcer model. The microBPO approach followed by Adepa with its BPAAS Platform allows Private and Digital Private Banks to switch on the services selecting the providers (Adepa itself or another leading company) that precisely matches their requirements, leaving Adepa to orchestrate and integrate the task. In this case, Adepa ensures the right governance of this environment through the use of technology and specifically-selected partnerships. The image below shows how the Adepa model works to support a Private Bank/Wealth Manager with regard to performing their administrative task orchestrated with Adepa's BPAAS Platform involving partners.



Any task is independent and enables each sub process to be followed in an end-to-end manner. Data are of course shared by all interested microBPOs in order to avoid duplication and maintain full consistency with external partners that can be responsible for specific services/microBPOs not provided by Adepa such as:

- Core banking functions
- Securities Market access
- UCITS and AIF Fund dealing platform
- Derivatives support and collateral management

COORDINATING FOR SUCCESS

Each microBPO is a combination of application functions and human tasks, and we can provide one or more microBPOs together with a coordination layer ("Orchestrator") able to call on each service or to invoke external services in an integrated manner with suitable governance. Each service has been configured to be provided independently, and the platform is natively engineered to allow the optimal level of integration with other platforms/services.

The Adepa approach aims to support Private Banks and Digital Private Banks that are committed to increasing their level of service to end investors and focused on better intercepting clients' needs and opportunities in accordance with the offering side (new products, new markets, etc.)

To overcome the traditional monolithic approach to outsourcing that can be an obstacle to Wealth Managers/Private Banks using external service providers to obtain not only efficiency but also a high quality of service and focus on customisation – a critical factor of success for this business –, **the current approach based on "Business Process as a Service" is the best way to converge technology, administrative skills and a propensity for high net worth clients**.

DANILO A. POGLIAGHI
Head of Services
Adepa Global Services

Danilo began his career at IBM Italy as Banking analyst and in 1994 participated in the launch of the first European company focused on outsourcing (ISSC – IBM Group). At ISSC he followed the banking service line of business. After an experience as operation manager at Europlus Asset Management (now part of Pioneer- Amundi), Danilo launched a startup active in operation consultancy services for asset management. From 2017, he joined with all the team coming from the entrepreneur initiative, Adepa Global Services.

THE SUBJECT OF DATA FRUGALITY: AN ESG* COMMITMENT

THANK GOD IT'S 5G!

Hopefully 2021 will see a global event that will bring together the world of sport and, more broadly, a substantial portion of the world's population. That event is the Tokyo Olympic Games. It will provide us with an opportunity to discover 5G in the stadia, which will for example enable everyone to put themselves anywhere in a stadium to view a broadcast. The number of possible ways this technology can be used is constantly growing, today enabling us to have video on demand, real-time access to multimedia information, wherever we are, via our smartphone, television or PC.

All these possible uses have a substantial impact on the phenomenal quantity of data we can use, store and exchange every day.

In our professions, you only have to look at the considerable volume of reports generated by regulations such as MiFID2 with years of records having to be preserved, or the substantial amount of data needed to control risks or know our customers, to understand that this volume is constantly growing, even though regulations such as General Data Protection Regulation (GDPR) require us to archive more or to destroy data after a certain period of time.

* ESG: Environmental, Social & Governance.

ESG* & IT CONSUMPTION, A REALITY

We are all concerned by the need to protect our planet and our scarce resources, and all responsible companies like Societe Generale group are massively committed to "green" finance, promoting sustainable development and fighting climate change.

Yet today we know that IT accounts for 3.8% of global CO_2 emissions (up to 10% according to the highest estimates)[1], that manufacturing smartphones and batteries uses scarce resources and that every email we send increases our carbon footprint.

DATA FRUGALITY IS THE WAY FORWARD

So what solutions could be envisaged to reduce the information overload and our carbon footprint?

One interesting innovation already consists in better knowing our own energy consumption, I could for example mention the CarbonMail project[2] that has led to the creation of a Plug-In in Outlook that allows you to measure the environmental impact of every email you send, given that an executive spends an average of 5 hours a day on their emails.

Regarding data and Big Data, data frugality (Datensparsamkeit in German) is a principle that, for the last decade, has been shared by scientists like Martin Fowler[3] and Erik Dörnenburg[4]. The principle is simple: it suggests that you don't record and save everything, you don't create multiple copies of identical objects but, on the contrary, you identify the minimum data capacity you genuinely need to carry out your activity and meets the requirements of your clients and commercial partners.

We all need to ask ourselves whether we need to keep specific data, but also where the most appropriate place to keep it is.

This transition cannot be brutal and requires an in-depth thought process regarding our current and future practices, as well as the identification of useful sources of data for our activity (market data, production data). It also consists in seeking to make comprehensive use of every bit of information recorded, as a single item of data can have a number of uses.

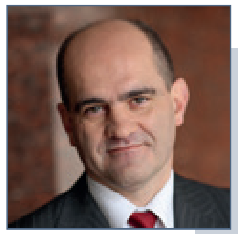
Beyond the environmental appeal of such an approach (less data means less storage, and therefore less energy to create and archive this data), there are also economic benefits, as most Cloud server and software licence models (for example) are based on Pay-per-Use[5]. This means reducing your data's software or hosting costs, or accessing useful information via a link or an Application Programming Interface (API), and entrusting a trusted third party with protecting it.

Within the SG group, we have thus cut our IT infrastructures' carbon footprint by 20% between 2014 and 2020 by pooling our data via a shared catalogue (liquidity management, third-party management, finance, credit risk) and the widespread use of APIs (approximately 5,000 APIs in wholesale banking). Our Cloud strategy is to migrate 80% of our data production to the Cloud.

Thanks to our outsourcing solutions and the extensive catalogue of APIs available, SGSS is taking the necessary steps towards the frugal management of data we collect on behalf of our clients and are entrusted to us. This therefore naturally also involves seeking to optimise energy consumption, for example the memory space needed to use and archive these data. In compliance with the GDPR principles (such as "privacy by design"), we have informed our clientele of the nature of data we keep and, more recently, of their hosting on the Cloud and their accessibility via APIs (Open Architecture).

So let's immediately begin **preparing frugal solutions, optimising the use of our resources. It is also the Group's purpose, its raison d'être[6]**.

(1) ADEME (January 2020) **(2)** The CarbonMail project by JC Bories (Group Finance Division) was awarded the SG group's 2019 Environmental Efficiency Award. **(3)** See www.martinFowler.com and ThoughtWorkers network. **(4)** Visit https://erik.doernenburg.com/ **(5)** Visit Steve Beards on the FLEXERA blog www.flexera.com. **(6)** "Building together, with our clients, a better and sustainable future through responsible and innovative financial solutions".



YVAN MIROCHNIKOFF

Head of Digital transformation and Technology
Societe Generale Securities Services

After the development of a start-up and European research programs related to e-Learning, Yvan Mirochnikoff joined Societe Generale as a senior consultant, then coordinated the internet development and supervised SwiftNet and other projects for international retail banks. He holds many positions (senior auditor, COO, IT head of Architecture, Infrastructures & Security) for the retail banking and financial services worldwide. Yvan currently supervises digital transformation of Securities Services (reshaping customer experience and transforming operating models, through various innovative initiatives). Yvan Mirochnikoff, is Aeronautics engineer, holds a Master in Business Administration from the University Paris I – Sorbonne (IAE), and a Master in Multimedia and Telecommunications. Since 2000, he is associated Professor at Paris-East University, where he manages the Master in Digital Economy, after having created its E-Commerce filiere.

OUTSOURCING
A CONCEPT THAT IS RENEWING ITSELF

BEING A SUCCESSFUL INDEPENDENT ACTIVE ASSET MANAGER REQUIRES AGILITY AND A STRONG FOCUS

At Carmignac, our mission is to offer European investors the best of active and alternative investment strategies to help them achieve their long-term projects. Early on, this ambition led us to assess our organisation and focus on our core capabilities where we differentiate ourselves and where we can bring the greatest added value to our clients. Rather than size, we have always favoured a boutique approach and the search for excellence in a limited number of investment strategies. To achieve these objectives, we have been selective with regards to the development of new investment strategies or additional performance engines. We are constantly looking for the best talent. Our value-added lies in skills such as global-macro analysis, stock and bond-picking, portfolio construction and risk management.

Obviously, this focus on activities where we can bring the most to the value chain cannot be done at the expense of the other areas of our operations. A chain is only as strong as its weakest link. That is why the management of delegation and outsourcing is also a strategic element.

The asset management industry has professionalised a lot in recent years under the combined effects of the growth in assets under management, regulations and technological disruptions. These developments have an inflationary impact on the capital intensity required for our day-to-day operations. Because the quest for excellence is a set in stone at Carmignac, it became clear to us that we had to make choices.

In light of these observations, **as the company was created, the decision was made to outsource our back-office operations** and partner with key financial services suppliers for the management of our range of Mutual Funds and our Private Client business. It turned out to be an efficient and scalable solution allowing agility as our operations were picking up. From 2008, our assets under management grew significantly from different European countries in which we established our own distribution network. We obviously had to find solutions in most areas of our daily operations to deal with this growth and its implications.

At a time when the regulatory framework was continually reinforced, this led to heavy investments in technology infrastructures to adapt our processes. Encouraged by the successful outsourcing of our back-office operations, we considered the possible **outsourcing of most of our middle-office operations, including trade management, position keeping, OTC and collateral management**, leaving us to focus on our real added-value and leverage large external providers. These providers have the scale to meet all markets' evolutions, including regulatory ones, and allow us to benefit from the market's best practices while managing our cost base efficiently. As an independent asset manager, we are not constrained by group policies. We select and appoint whoever we believe is the best service provider.

We obviously set imperative rules that we should never arbitrate against the quality of the service while always keeping in mind the efficiency of our organisation and our business model. We also had to avoid the pitfall of requiring, from our suppliers, the handling of all the specific processes that had been implemented for reasons most have forgotten. If you really want to leverage the outsourcing of operations to best-in-class partners, you must accept to leave the past behind and trust that the chosen supplier is the one offering best-in-class operational processes.

That is why **outsourcing is never a default choice**. It requires the total involvement of the teams in charge of selecting the best-in-class partners. From the formulation of the current need and the anticipation of its evolution, through the support of the partner in understanding the specificities of each organisation, to the creation of the necessary conditions for successful collaboration. **The partner must become both a natural extension of the asset manager in a seamless fashion and a source of improvements**.

That being said, let me tweak a Russian proverb, "Trust is good, control is better". For our middle-office staff, whose number has remained stably low over time, the outsourcing of their operational tasks meant redirecting their daily activity towards two main tasks: the supervision and control of our outsourcing partners and support for our fund management teams. **All controlling activities have thus remained in-house**, as we are committed to retaining responsibility for the quality of service we deliver to our clients. At Carmignac, we believe that maintaining a direct relationship with our clients is a permanent requirement when dealing with our partners.

This organisation has proven its relevance and its scalability allowing for the successful implementation of our product roadmap through the expansion of our fund range and scope of investments, as we now manage 21 investment strategies across asset classes. For example, this organisation made it possible to launch, in 2019, a focused range of UK-domiciled funds (Open Ended Investment Company, OEIC) dedicated to UK investors with the required level of flexibility and resources.

With the benefit of hindsight, **selecting the right providers, considering them to be true business partners for the outsourcing of our back and operational middle-office, has proven to be a winning and differentiating strategy**.

CHRISTOPHE PERONIN

Deputy General Manager
Carmignac

Graduated in 2001 with an engineering degree from Telecom Paris and a master degree in maths and finance from the Jussieu University in Paris, Christophe Peronin started his career at Sophis. In 2004, he joined the Structured and Alternative Investment Management department at AXA IM, where he was later promoted to Global Head of IT solutions for Fixed-Income. In 2010, he joined Carmignac to create the Change Management team. In 2014, he was appointed Chief Operating Officer before being appointed as Deputy General Manager in 2018.

OUTSOURCING 3.0 IN THE ASSET MANAGEMENT INDUSTRY: CROSSING THE BOUNDARIES FOR DIGITAL TRANSFORMATION

Asset managers have been facing a challenging environment, and this is not expected to end soon. Enhanced regulatory requirements and, more recently (but potentially for a while), low interest rates have put the historically high-margin investment management business under pressure. The latter has also been accentuated by the overly frequent difficulties generating alpha for investing clients that has led to the overwhelming move towards passive management.

THE OUTSOURCING CULTURE OF THE ASSET MANAGEMENT INDUSTRY

For years, asset managers have developed target operating model considerations, which have already resulted in two outsourcing phases. The first one regarded trade settlement and asset administration, commonly called back-office activities that include for instance, beyond core custody, transfer agency, fund accounting, or tax withholding/ reclaims.

Almost 8 years ago some were already writing about "Second generation outsourcing in the asset management industry"[1]. This phase has broadly covered middle-office activities through advanced business process outsourcing arrangements regarding, mainly, transaction processing and related data and reporting management.

Asset managers should henceforth consider third-party partner(s) beyond transactional back- and middle-office activities, to investigate potentialities in the front-office area. The commoditisation trend spinning so many business activities is also at stake for some of the portfolio managers' traditional tasks. So, pre-trade compliance, trade execution (except for some complex instruments), and cash and currency management are no longer systematically considered as part of an asset manager's core strategic focus.

Opinions regarding outsourcing models have always been passionate, no doubt because they try to identify the very scope of what makes a difference, and hence the value, in the complicated alchemy of a successful asset manager. By investigating commoditised tasks to be outsourced up among the front-office operational infrastructure, asset managers should be able to focus on their core business of investing.

Outsourcing having been such a common setup in the asset management landscape, the benefits to be expected do not necessarily require further underlining. There is, however, **a mindset change to operate, to accept switching from a best-of-breed approach**, which has been dominant in the investment management industry for two decades, **to a strategic partnership approach**.

Several evolutions henceforth advocate for pushing the limits of a relevant outsourceable scope for an asset manager, and the technology available and required to generate performance at a limited cost is one of the fundamental elements.

OUTSOURCING 3.0: OUTSOURCING THE DIGITAL TRANSFORMATION

Outsourcing 3.0 in the investment management industry means focusing on the asset manager's truly core activities in which lies its specific competitive advantage. It suggests developing strategic partnerships with providers, which effectively enables the modular outsourcing of business processes on the entire investment management value chain, from front-office to middle-office and back-office, i.e. from investment management to asset administration.

The modularity of the chosen integrated solution will enable the asset manager to retain inhouse what is at the heart of its value proposition and to rely on outsourced processes and/or tools for other activities. In such an entrepreneurial and evolving market, one size cannot fit all, and flexibility is a must.

The openness of the chosen integrated solution is critical. Developing a strategic partnership should not be exclusive. Reactivity and time-to-market being key factors for success, the investment manager should retain full autonomy to develop any new business opportunities. Factually, the costs necessary to maintain and upgrade IT systems in the asset management industry are tremendous. This stems from the continuously more stringent regulation that require substantial investments for, among others, preparing new or more detailed reporting. It also results from various fascinating technological innovations that portfolio managers need to integrate in their investment processes to cope with their competitors, from the ability to analyse huge amounts of data (which the increase in ESG investments further calls for) to automation and artificial intelligence. The technological challenge additionally originates from the rise in the number of counterparts with whom asset managers need to connect, quickly and trustfully. At the end of the day, all those evolutions point to an increase in the volume of data and the need for an extended capacity for handling them.

Few players have developed end-to-end business process outsourcing platforms packaged in fully integrated offers; not surprisingly considering the investments at stake, mainly the largest ones. Except for asset managers who would consider, in their strategic analysis, a specific competitive advantage in developing/ purchasing their own platform, **most of the players, especially mid-sized ones, might rightly consider it appropriate to develop strategic partnerships with integrated business process outsourcing providers**, in strict compliance with modularity and openness conditions. Obviously, intense scrutiny of information segregation and security is also part of the long list of factors that need to be considered when preparing the decision for such a leap.

CONCLUSION

New technologies, evolving market conditions, and pressure from clients have paved the way for crossing the boundaries of traditional business process outsourcing in the asset management industry. While the bigger incumbents may choose to develop digital capabilities internally, this is not an option for smaller players. Their **best alternative is to outsource their digital transformation, and** successful ones will **team up with strategic partners to build an integrated network of expertise**.

Due to strategical considerations in outsourcing digital transformation, the decision should be taken in a save-to-transform approach. The move should be considered as an investment on which return is expected: the additional revenue generated from the asset manager focusing on nurturing their specific competitive advantage and bringing real value to their clients.

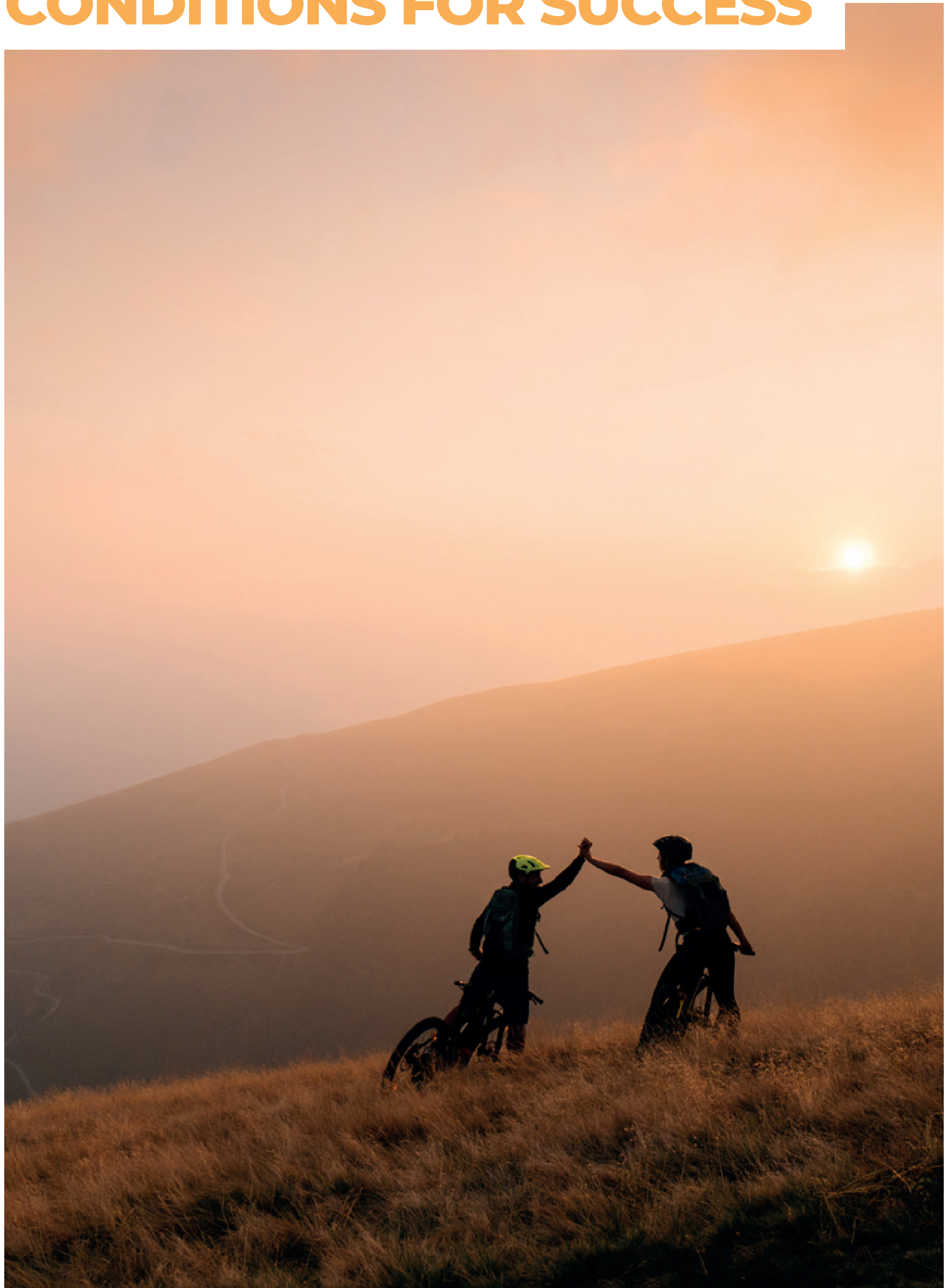
(1) https://www.ey.com/Publication/vwLUAssets/Viewpoint_Second_generation_outsourcing_in_the_asset_management_industry/$FILE/EY-Viewpoint-Second-Generation-outsourcing-in-the-asset-management-industry.pdf

YOAN CHAZAL

Investment Management Leader France & Monaco
Deloitte

Yoan Chazal is the Investment Management Leader for Deloitte in France and Monaco, covering the Asset Management, Asset Servicing, Private Banking, and Private Equity activities, responsible for the growth and innovation strategy in this business area. He has 20 years of experience in the financial services sector, gained in the coordination of key projects and proven track record, including in international and multicultural environments. Yoan has an operational knowledge of Investment Management Services issues, notably as Deputy Chief Executive Officer, running the activities of UBS La Maison de Gestion, a joint venture between UBS France and La Maison, after having restructured and turned around the asset management activities of UBS in France as Chief Operating Officer of UBS Asset Management France. His main clients are financial institutions that are most often, but not exclusively, multinational, such as management companies, private banks, investment funds and depository institutions.

OUTSOURCING: CONDITIONS FOR SUCCESS



HOW IS THE ASSET SERVICING SPACE EVOLVING TODAY?

The asset servicing space is undergoing much the same changes and challenges as the buy-side in general, with **cost pressure** being the main one. To stay competitive, asset servicers are looking at simplifying and consolidating their operations and services by moving away from legacy and fragmented IT architecture.

At the same time, asset servicers are also facing **rising levels of expectations from their clients in terms of data quality, reporting, transparency and flexibility**. To address this evolving demand, timely and agile access to consistent data is essential.

Being the first to market with a truly integrated front-to-back solution, SimCorp supports asset servicers and custodians in this endeavour by streamlining operations and creating a scalable and flexible platform to ultimately improve their clients' experience.

WHAT ARE THE OPPORTUNITIES AVAILABLE TO ASSET SERVICERS IN THIS CONTEXT?

In this area, we have identified two major trends. The first one is **combining back-office fund accounting and the custody business to create economies of scale and increase operational efficiency**. For these players, SimCorp Dimension is unique because the platform can cover both the custody component and the fund accounting component within a single integrated system.

The second trend is the need for asset servicers to **provide their clients with new value-added services**, with the front-office being a natural extension of services, from the provision of risk management solutions all the way up to asset management and portfolio management solutions. This is the value proposition captured by SGSS' CrossWise solution which includes SimCorp Dimension.

WHY PARTNERING WITH SIMCORP PROVIDES SGSS WITH THE BEST FOUNDATION?

SimCorp has partnered with SGSS for more than 15 years, and the success of CrossWise is a testimonial to our trusted journey together, as well as the relevance of our value proposition. The partnership has focused and continues to focus on solving key challenges, not only for SGSS but also those of its clients. This means delivering cutting-edge tools and technology as well as access to SimCorp's expertise to improve day-to-day operations. It also goes beyond this, to provide desired business outcomes, whether it is being faster to market, capturing new market opportunities or improving competitiveness. As we transform our delivery model to "SimCorp as-a-Service", we make it easier, more flexible and more cost effective to consume solutions, ultimately benefiting SGSS and its clients. Several buy-side organisations in Europe now rely on CrossWise, and we see this trend growing fast, supported by smaller and medium-sized insurance and asset management companies as well as hedge funds. At the same time, **this strategy also enables SimCorp to expand its reach into small to medium-size organisations** that would otherwise not be direct SimCorp Dimension clients, thereby growing our global client base.

WHAT A PARTNERSHIP BETWEEN SIMCORP DIMENSION AND SGSS BRINGS TO THE BUY SIDE?

We are confident that our asset servicing partnerships serve the buy side's interests and needs by covering the broadest footprint of the investment management lifecycle; we aim to build a more beneficial and value-added investment ecosystem. **The relationship with SGSS combines a 'best in class' investment management solution together with SGSS' industry best practices** to deliver tangible, value-added business outcomes. By doing so, we enable the buy side to scale for growth by focusing on its core business and clients in an increasingly competitive market.

EMMANUEL COLSON
Senior Vice President, Managing Director
SimCorp Southern Europe

Emmanuel Colson began his career at Arthur Andersen. He then joined Thomson Reuters where he headed the Business Solutions division for France, and later served as Sales Director for France, Benelux, Iberia and then as Head of Global Accounts and Global Head of Solutions Business Development. In 2013 Emmanuel joined SimCorp as Head of the French market unit. Having successfully established SimCorp in the French market, in 2017, he became Managing Director of the SimCorp Southern Europe region, including the expansion into Italy and Spain.

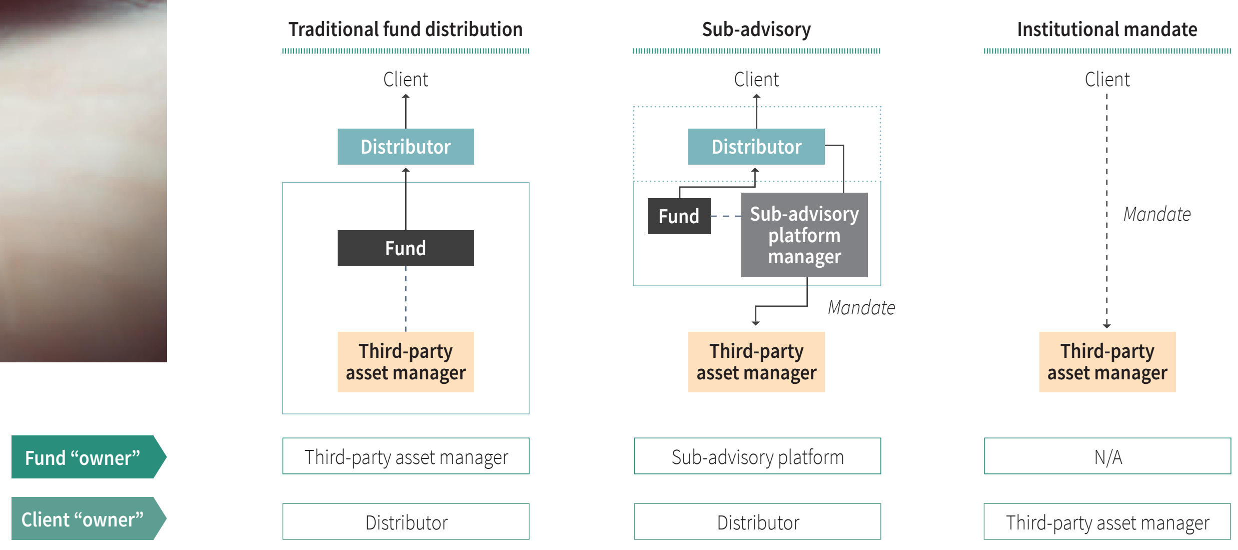
COLLABORATION BETWEEN ASSET MANAGERS

BOLDNESS OR NECESSITY?

SUB-ADVISORY, THE NEW ELDORADO?

Barely a week goes by without another third-party fund management agreement being announced. English-speaking countries call it "sub-advisory". Their popularity is such that this issue has been a part of the Brexit negotiations. Indeed, the FCA (the UK's Financial Conduct Authority), ESMA (the EU's European Securities and Markets Authority) and all national authorities have reached an agreement should there be a Hard Brexit. Europeans will be able to continue delegating some of their fund management activities to the UK. **It is therefore a clear trend that is not expected to end any time soon**.

A sub-advised fund is an investment fund, managed by a third-party asset manager. The model is illustrated by the graph on the opposite page. A sub-advised fund is essentially used by distributors in Europe to give access to open architecture. The sub-advisory model is a mix of historical fund distribution and institutional mandates. This requires a strong ability to select managers with a proven track-record and monitor them on an ongoing basis, combined with an efficient operational model for the distributor to set up the delegation.



Indefi, 2019.

The sub-advisory market is in full expansion and is the fastest-growing open architecture segment in Europe[1] according to INDEFI, with an AUM compound annual growth rate of 18%. This represents 10 to15% of the open architecture market share in Europe, according to the same source.

(1) INDEFI: the sub-advisory market in Europe: key features and trends, 2019.

BUT WHO BENEFITS?

INVESTORS?

In a world where inhouse asset management offers tend to dominate, sub-advisory is a way for clients to access open architecture at a competitive price. Indeed, they can thus benefit from the operational expertise of their distributor and enhanced risk management thanks, in particular, to an access to the transparency of sub-advised portfolios.

The next generation of clients are waiting for something different. They want to give sense to their money, investing in new asset classes for example, with ESG and impact prerogatives. Some of these strategies can be complicated to achieve internally, and sub-advisory can definitely help with that.

All this allows the end client to obtain a better and broader product offer controlled by intermediaries, thus ultimately enabling better advice to be provided.

ASSET MANAGERS?

Control of the value chain is definitely shifting from manufacturers to intermediaries. Indeed, sub-advisory mandates drive asset management prices down, with headline fees that can be discounted by 50% on average climbing to more than 70% for the biggest distributors, according to our estimates. **Ultimately, asset management is one of the few industries in which ready-made is more expensive than made-to-measure.**

There is such an appetite for sub-advisory that asset managers, despite the squeeze on prices they are the victim of, have had no choice but to step into the breach and ensure they are able to provide their sub-advisory expertise, incorporating the constraints these intermediaries want.

The sub-advisory model does have some major advantages for asset managers, such as **holding a product for a much longer period of time** (you can't just join or leave a sub-advisory in the blink of an eye). If we add to that the **substantially higher volumes** – as they are distributed on a broader scale – and the **brand projection within distribution networks** (co-branding), the deal becomes much more balanced despite the price squeeze policy.

This squeeze on prices combined with greater monitoring requirements benefit asset managers of a significant size to the detriment of smaller ones, enabling distributors to leverage a potentially recognised asset management brand.

DISTRIBUTORS?

Fund distributors are facing new challenges in terms of investment, regulation and competition.

In a negative interest rate context, low investment returns make fees proportionally larger. Cheaper products such as passive investments are one solution, high alpha products or investments in non-traditional strategies (via sub-advisory for example) are others.

Sub-advisory enables a customisation of the product for a distributor with its own constraints (Risk guidelines or specific exclusions on stocks or sectors to meet ESG requirements). This drives strong commercial interests and greater purchasing power.

MiFID II, which bans the possibility of receiving third party inducements in case of portfolio management and independent advice, was also a game changer for the asset management and distribution industry. **Management delegation is definitely a way for distributors to neutralise, or at least offset, the disappearance of these trailer fees**, because it allows intermediaries to keep a distribution margin that is roughly the difference between the management fees of the product and the price paid to the third-party asset manager.

Management delegation allows value creation compared to competitors, in open architecture, for end clients (which is also under scrutiny by regulators), one of the key differentiators in the distribution offer.

A TRIPLE-WIN DEAL DESPITE CHALLENGES

The sub-advisory model seems to be a win-win-win deal for clients, third-party asset managers and clients, despite some challenges for distributors and third-party asset managers.

Indeed, the sub-advisory model requires scale and operational lead time. Even if replicating some existing processes may appear simple, customised strategies involve more costs and operations (portfolio and risk management, communication and marketing, etc.) Furthermore, when the distributor is not satisfied with the sub-advisory, it can take a long time to modify or change it.

Scalability, dedicated reporting or performance attribution are elements that make the relationship very demanding for the asset manager, which must find the resources.

As a consequence, the success of this model depends in large part on the manager's selection, of course, but also on each sides' operational capabilities.

The sub-advisory model looks set to continue growing for some time to come. Even if bargaining power is largely with distributors, we can talk about a real partnership being established between the manufacturer and the distributor. In addition, **this form of outsourcing makes it possible to incorporate expertise in new asset classes, as well as extended geographical coverage**.

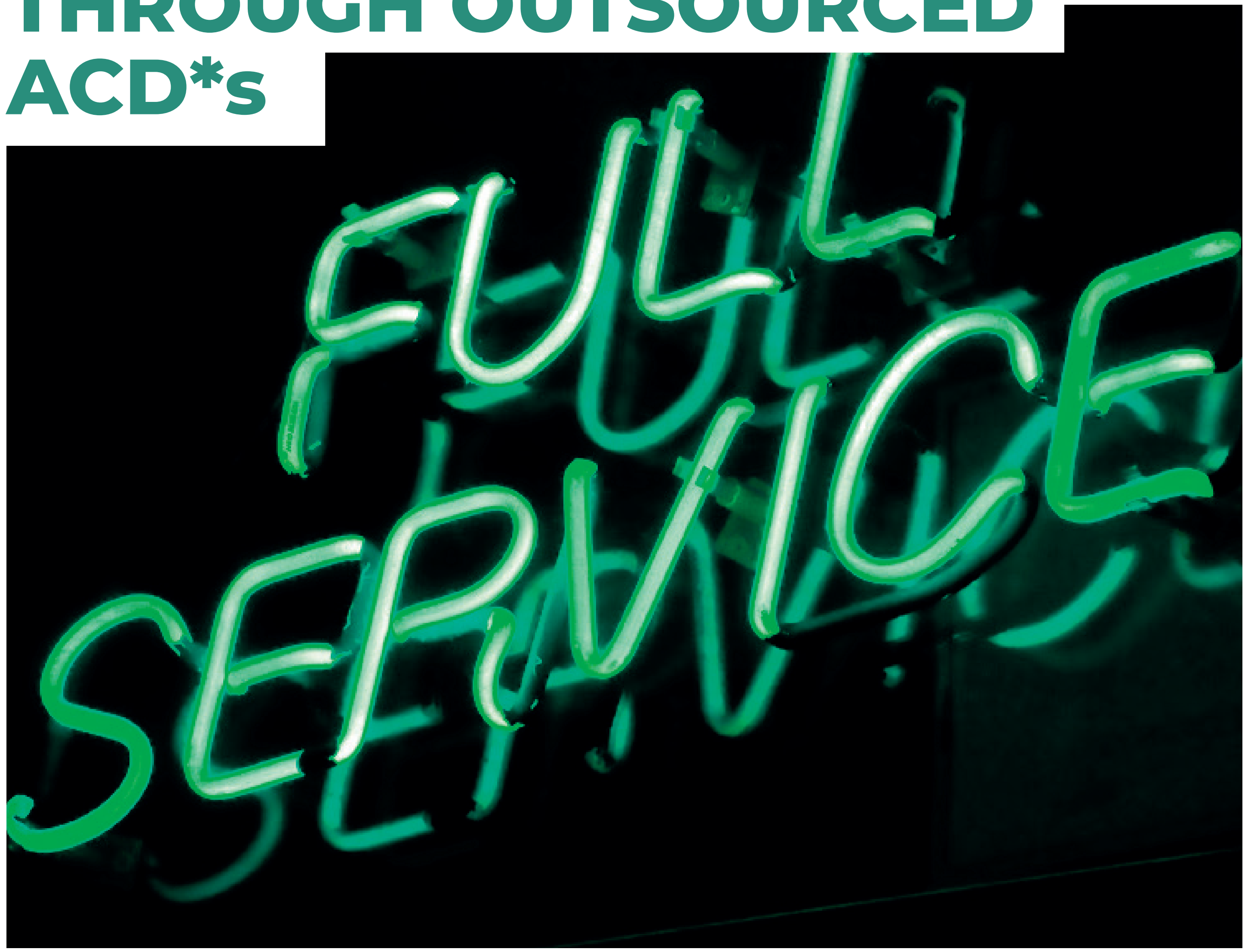
The quality of the end product definitely matters. And it's not only a question of business relationship, but also of trust.

NICOLAS MOUSSAVI

Head of Mutual Fund Selection
Lyxor Asset Management

Nicolas Moussavi has 15 years of experience in the financial industry. Since September 2009, Nicolas has been working as portfolio manager of mandates and dedicated funds advised by external investment advisors, on all asset classes in the Multi-management Team. In 2014, Nicolas has been appointed Head of Fund research (Mutual funds and Alt Ucits) at Lyxor Asset Management, where he is responsible for fund selection for various entities of SG Group. Before that, he worked for SGAM Alternative Investments in the Structured Asset Management Department where he was in charge of selecting and analysing underlying funds for structured products. Prior to joining SGAM AI, Nicolas was assistant portfolio manager at Montpensier Finance. Prior to that, he began his career at Societe Generale Corporate & Investment Banking as an assistant of the Long/Short Equity Desk in the Hedge Funds Relations & Risk Analysis Team at Lyxor Asset Management. Nicolas holds a Master degree in Econometrics & Mathematics from Aix-Marseille School of Economics. Nicolas holds also an Advanced Master in Financial Techniques from ESSEC Business School & is a CAIA charterholder.

MAXIMISING POTENTIAL THROUGH OUTSOURCED ACD*s



In today's heavily regulated environment, institutional investors want full assurances that their fund managers are adhering to industry best practices. A failure to demonstrate this could result in managers missing out on lucrative mandates or worse – divestment. In response, **a growing number of asset managers are working with fiduciary and regulatory specialists such as independent authorised corporate directors (ACDs)** in the UK, **or management companies** (ManCos), as they are known as in the European Union (EU). By doing this, they are ensuring that important fund decisions are made in the best interests of the end investors.

ACDs AS AN ENABLER FOR BEST PRACTICES

The ACD performs a critical fiduciary role, with one of their key responsibilities being to carry out initial and ongoing oversight assessments of the fund, which typically involves monitoring investment management, operational processes, regulatory compliance and service provider performance. "Independent ACDs/ManCos perform a key fiduciary role and ideally they should be entirely independent of the asset manager and the fund distributors to enable them to conduct their oversight role without bias and avoiding conflicts of interest. The sole focus of ACDs is to look after the interests of the investors in the fund," says Kevin Lavery, CEO for Ireland and COO for Equity Trustees European and UK Fund operations. **That the ACD is independent from the manager is very appealing to risk-conscious investors, but so too is their extensive industry-wide expertise.**

*ACD: Authorised Corporate Directors

Historically, the oversight and governance role performed by the ACD was an activity normally carried out by asset managers themselves. Although a number of UK managers have since moved these functions to Independent third party ACDs, some investment firms continue to internalise the process. **"A lot of in-house ACDs/ManCos simply do not have the correct level of experience while others may not realise the full extent of their responsibilities**. In some instances, individuals entrusted with overseeing their fund administrators, auditors, custodians or depositaries may not have the correct qualifications to do so. **In contrast, independent specialist third party ACDs/ManCos can have a lot of experience and industry knowledge,"** says Lavery.

INCURRING SAVINGS AT ASSET MANAGERS

In addition, the case for outsourcing non-revenue generating activities has never been stronger for asset managers. While total industry assets under management (AuM) grew to $71.8 trillion in 2018, fees have declined by almost 20% over the last five years, whereas spending on regulation, back office and technology now accounts for more than 30% of all costs, according to Casey Quirk and McLagan[1]. "ACDs/ManCos such as Equity Trustees have strong balance sheets, which can help managers from a capital adequacy perspective. Due to our strong infrastructure and ability to achieve scalability, we can allow asset managers to invest more in the profit-generating parts of their business or redeploy staff traditionally involved in operations into investment management or distribution support roles," continues Mr Lavery. The heightened costs of running an institutional asset management business have been disproportionately felt by smaller firms and start-ups. Regulations such as the EU's Alternative Investment Fund Managers Directive (AIFMD), UCITS V, the Markets in Financial Instruments Directive II (MiFID II) and the Packaged Retail Investment and Insurance-based Products rules (PRIIPs) are all making it prohibitively difficult for firms to operate a sustainable business. The costs of meeting some of these governance and oversight requirements is proving incredibly challenging for smaller firms, which is prompting more of them to outsource the oversight duties to Independent specialist ACDs/ManCos. However, Mr Lavery adds a number of the larger asset management houses are also increasingly leveraging independent ACDs/ManCos. One of the principle benefits of EU ManCos is that they can allow **non-EU asset managers to obtain a presence inside the Single Market enabling them to distribute their products across all 27 member states without having to invest in bricks and mortar. The same will be true for investment firms looking to distribute in the UK post-Brexit**. Lavery says Equity Trustees is especially well-positioned to deal with any Brexit eventuality. "We have a UK ACD company and a Central Bank of Ireland (CBI) approved entity so we – as a group – are well prepared for Brexit. However, when we meet a new client, we do not initially discuss domicile choices. We want to know firstly what the client's distribution model is and who their target audience is and only once we understand those do we recommend a domicile."

FACING SCRUTINY

Recent liquidity events, however, at a high-profile UK UCITS equity fund, have resulted in the Independent ACD model coming under investor and regulatory scrutiny. In essence, the UK's Financial Conduct Authority (FCA) has begun a formal review of Independent ACDs and is currently assessing whether or not these providers are at risk of conflict of interest, especially if they are being remunerated by the manager whom they are meant to be overseeing. Critics of the Independent ACD structure have implied some providers may be hesitant about interrogating managers in case it jeopardises the commercial relationship[2]. Lavery says **it is crucial that Independent ACDs/ManCos have robust oversight processes in place at all times**. "We have strict controls in place. For example, we have been performing liquidity oversight on our managers for a significant number of years now. As a result, we spend a lot of time on product governance matters. If a manager says to us that they want to launch a global long-only large cap equity fund, we will ensure the mandate is restricted accordingly when it is being sold to investors. Moreover, we will also challenge the managers on an ongoing basis to ensure and validate that there has been no style drift," comments Lavery.

While Independent ACDs are facing regulatory pressure, nearly all industry experts accept the model is best practice and far less vulnerable to conflict of interest risk than, say, an in-house ACD. "As an independent ACD/ManCo provider, I fully welcome the FCA's thematic review of Independent ACDs. That being said, I do believe the FCA should consider reviewing the ACD market in its entirety, including the in-house ACDs at asset managers," says Lavery.

(1) Casey Quirk/McLagan (June 25, 2019) Rising non-compensation costs contribute to margin erosion for asset managers. (2) Financial Times (January 11, 2020) FCA begins probe of asset management's crucial ACD market.

KEVIN LAVERY

CEO (Ireland) & COO (UK & Europe)
Equity Trustees

Kevin has been working in the financial sector since 2003 when he joined GAM Fund Management in Dublin as a Fund Accountant. He subsequently worked with Bank of New York in London before moving to BDO Stoy Hayward Investment Management as a Senior Hedge Fund Accountant. Whilst at BDO, Kevin progressed to become Director of Operations and Head of Operational Due Diligence. Kevin then joined Fund Partners in 2013 and In February 2015 was promoted to Co-CEO sharing overall responsibility for the strategic and operational development of the business with James Gardner. Kevin established Equity Trustees (UK & Europe) in January 2017 and has overall responsibility for the groups Operational and Compliance strategy as well as direct responsibility for Supplier Oversight, Third Party IM Oversight, Portfolio Risk Management, Audit and Corporate Services functions for the Regulated subsidiary businesses.

BLOCKCHAIN IS ENCOURAGING "COOPETITION" BETWEEN ASSET MANAGERS

A lot of operating hurdles facing asset managers in the distribution of their funds could be removed. The initiative of Iznes, co-founded by six asset management companies, has already been favourably received by 25 contributing international players.

A few decades ago, American airline companies (subsequently followed by their European peers), all competitors, made the most of the computerisation phenomenon to take a joint initiative and create a global distribution system (Sabre travel network), doing away with their technical intermediaries: travellers no longer had to obtain their plane tickets from a travel agency.

The objective for these airlines was to take back control of the relationship with their customers and do without this purely technical service undertaken by distributors, the latter subsequently refocusing on higher value-added services such as providing advice and organising travel. Technological disruptions provide a sector's players with an opportunity to review their business model and often look into **coopetition (cooperation between players who are competitors). In the financial industry, and more specifically the asset management universe, blockchain is no doubt a technological disruption capable of leading to such considerations**.

Traditionally, post-market activities are not a sector that has benefitted from substantial investments within major financial groups, and the asset management post-market segment is no exception to this. As a consequence, players suffer from operational difficulties, particularly regarding distribution, and especially cross-border distribution. Capital and goods move freely and easily within the European Union, but this is much less the case for UCITS despite Europe being an immense savings reservoir (Europeans have substantially less debt than Americans and a much higher savings rate). **Why is the purchasing act so complicated when it is a paperless product standardised by common rules (at least for the UCITS market)?** The single fund market, wanted by the European Commission, encouraged by successive UCITS directives, is making a few asset managers very successful, but it is incomplete: currently, of the 20,000 existing UCITS, only just over a third are registered in at least 3 countries and the figure is just 3% for alternative fund (AIFs)[1]. **Fund consumption is therefore still mostly local.**

A COMPLICATED SUBSCRIPTION MECHANISM

The difficulties are fiscal, regulatory and technical in nature – some countries still have protectionist barriers in place. The subscription mechanism is thus complicated for many investors and differs from country to country. To subscribe to a French fund, a German or Italian investor must open an account with a Euroclear affiliate. Similarly, for an investor, having to send each individual asset management company a KYC form wastes a lot of time. Likewise, for asset managers, having to regularly send each specialised data provider an updated fund database and then reconciliating items to ensure the quality of the data transmitted to end investors is a very cumbersome task requiring resources that they would prefer to allocate to other things.

Improving your knowledge of your clients is another challenge. To return to the airline company example, when passengers were issued with paper tickets, the airlines didn't know passengers' identities and were thus unable to put customer loyalty programmes in place. **Regarding mutual funds, unit holders are difficult to identify because orders are often aggregated by intermediaries before they are transmitted to asset management companies**. Trying to identify subscribers by marking orders does not provide a comprehensive view. But not knowing the identity of some bearers of a fund's liabilities makes matching asset /liability liquidity difficult. It is therefore sometimes still difficult to comply with the regulators' injunctions in this respect, as they require drawing up repurchasing risk scenarios, given the profile of the subscribers.

CO-CONSTRUCTING A NEW INFRASTRUCTURE

Therefore, **enabling asset managers and investors to access this information via blockchain was a crucial breakthrough for asset management companies**. The possibility of working together to co-construct a robust new infrastructure liable to make their fund distribution processes smoother persuaded six of them to join forces to develop the Iznes project, which now has 25 international asset management companies onboard. French lawmakers have helped by rapidly adapting the law to this new context thanks to the decree of 24 December 2018 authorising the registration of non-listed securities on a blockchain: henceforth you do not need to open a bank account to acquire, hold or divest units of funds, as registration in a DEEP (Dispositif Electronique d'Enregistrement Partagé, or shared electronic registration system) is proof of ownership.

In the longer term, the issue of a central bank digital currency as a means of payment will arise. Today, given the counterparty risk on the issuer of tokens, Iznes uses the traditional banking system. **But central bank digital currency projects are opening up new prospects**. The security that it will offer will no doubt be an incentive to use it.

(1) European Commission press release (February 2019).

CHRISTOPHE LEPITRE

CEO

Iznes

Christophe has been CEO of IZNES since March 2019. From 2009 to 2019, he was Deputy CEO and COO of OFI Asset Management responsible for supervising risk management, information technologies and operations. He also oversaw the digital transformation programme. Before that, Christophe was COO and Deputy CEO of ADI from 2004 to 2009. Christophe has 14 years of experience as a trader in stock options on indexes and OTC and listed interest rates and 13 in supervising operations, IT and risk management. He is a graduate of the prestigious Ecole Polytechnique engineering school and Ecole Nationale des Ponts et Chaussées science, technology and engineering school (majoring in management & finance).

BANKS AND FINTECHS: RIVALS OR BEST FRIENDS?

Fintechs, these finance sector startups, appeared barely two decades ago, in the face of a banking sector that was already centuries old.

Relations between banks, insurance and asset management groups and finance startups have, to a certain extent, followed the cycles of human passions. Initially indifferent to these "pipsqueaks", traditional financial institutions soon began to show a certain irritation at their audacity, followed by a genuine interest in their technological and usage innovations. In some respects, the current situation is sometimes like a loving feeling, given the fintech theme's apparent potential, notably amongst younger generations.

The first fintech wave actually concerned innovative uses (new means of payment, crowdfunding for example) and user experience **more than technology**. **Banks showed real interest in these innovations**, particularly as this first wave in large part concerned B2B2C offers. **This led to a substantial number of diverse types of partnerships:** distribution agreements (white label or own brand), process delegation, etc. **We also saw a high number of stakes acquired** in fintechs, as well as some acquisitions that, it should be emphasised, generally went well.

However, one shouldn't paint too idyllic a picture of all this cooperation, which also sometimes led to misunderstanding and frustration. In summary, let's say that fintechs occasionally underestimated large organisations' complexity and, it has to be said, their slowness of response that is in stark contrast with startups' extreme responsiveness. Bankers, meanwhile, were often surprised by their new partners' low level of formality. A sort of culture shock.

Today, a kind of maturity in the relationship has been achieved. This manifests itself in various ways.

Firstly, in the many modes of interaction: development of shared pilot schemes, tripartite partnerships, acceleration programmes, incubation, etc.

Secondly, in the expansion of the fields of cooperation: RegTech, KYC, risk management, productivity, as well as the new professions and client segments concerned: CIB, Wealth Management, SMEs, etc.

It should be noted that Asset Management was not particularly concerned by the first wave, which was primarily devoted to Retail Banking. This is no longer the case, with the development of various services: fund manager universe, regulatory and risk management tools, investment advice, etc.

Lastly, traditional financial establishments have learnt to accept that **fintechs can be both their partners and their competitors**.

Indeed, the first fintech wave primarily related to specific 'vertical' services (payment, financing, investment advice, etc.) exclusively devoted to individual customers, often in B2B mode. Models are now increasingly moving towards B2C, platforms offering more services, or even neobanks, tackling new segments such as wealth management clients, SMEs, etc.

From this perspective, fintechs are irritants once more whose clout is increasing: the valuation of the world's largest fintech (ANT Financial) is two and a half times that of Europe's largest bank[1]…

We are entering a new phase characterised by:

- **an in-depth change in demand**, notably from younger clients. In simple terms, millennials consume financial services the way they consume other services (culture, transport, social media, etc.),
- **the massive and growing contribution of technology**, particularly Artificial Intelligence and Blockchain. Data technology will notably revolutionise consulting, risk management and operational efficiency, issues at the very heart of banking,
- **regulatory changes that are now structuring and accelerating innovation (GDPR-PSD2, MiFID, etc.),**
- **new entrants coming onboard:** telecom operators, the mass retail sector and especially Big Tech companies (America's GAFAM and China's BATX).

This situation has two immediate consequences:

- **fintech entrepreneurs are no longer one-on-one with traditional institutions** and are developing exchanges and cooperation with new entrants,
- **pressure on incumbent players is rapidly growing and requires a swift response.**

Fintechs still only represent relatively little market share on most segments, but they are **growing rapidly**.

Within this context, relations between traditional financial establishments and fintechs are showing their value.

Indeed, fintechs make it possible to adapt the offer to new requirements in terms of practices and technology. They represent a kind of R&D outsourcing and a valuable testing option.

Ultimately, they allow two major advantages within the current context: **save time** in the story's acceleration phase and **alter** what is by far – much more than technology – the most difficult thing to change: **the culture, and notably the culture of innovation**.

Regarding this point, the two models are very different:

- a bank can rely on its solidity, extensive expertise and trusted third party status. **There is constant and substantial innovation in the bank, but sometimes at a rate that is much too slow and with insufficient amplitude**. Limited risks are taken, and mistakes are forbidden or even punished,
- a fintech is often young and fragile, **but it is extremely reactive and has close technological ties**. It develops a less proprietary approach and doesn't hesitate to incorporate external bricks. It experiments, feels its way, learns from its mistakes, adapts. It often better meets millennials' expectations and history's acceleration.

Both therefore have a lot to learn from each other.

This means exploring new areas of cooperation (risk, operational efficiency, interstitial business line areas, etc.), **the development of new common models, and first and foremost good mutual understanding and appropriate management of their relationship**. A single entry point, familiarity with these innovation topics and good relations with startups are a guarantee of success. It is an immense field and the joint development potential is limitless.

It is essential to fully grasp how urgent it is to adapt to changing demands and Big Tech's massive arrival in the financial services sector. **For incumbent players, banks, insurers and asset managers, fintechs are not a problem but rather the solution – or at least a major part of the solution**.

So we need to talk to each other!

(1) Les Echos (February 2018).

ALAIN CLOT
President
France Fintech

Alain Clot has over 30 years of experience in the international financial sector, mainly at Societe Generale Group, where he notably held functions of Head of Treasury & Capital Markets in London, Head of Group Strategy, CEO of Societe Generale Asset Management and Managing Director of Credit du Nord. He has been involved in digital finance for over 15 years, first as a Bank Strategist, as a Business Angel and, since June 2015, as the founding Chairman of France FinTech (association federating the french Fintech ecosystem). He is also a Senior Advisor at EY.

ASSET MANAGERS ARE FOCUSING THEIR ATTENTION ON THEIR ENTIRE VALUE CHAIN

Buy-side companies with strong growth ambitions face many challenges. Ever-changing regulations, digitisation, cost pressure as well as a challenging and competitive market environment are just a few examples.

These growing constraints use precious corporate resources, be they time-related, human or financial. In order to streamline and strategically (re)allocate them, investment professionals have to rethink their operating model if they want to focus on what really matters: investing and generating financial performance. To achieve this, **outsourcing non-core activities to expert service providers may be a winning strategy**.

OPENNING UP THE SCOPE OF POSSIBILITIES

The need for asset managers to focus on investment and optimise their operational processes has resulted in a **deconstruction of the value chain, each link representing a potential outsourcing opportunity**. As mentioned by Yoan Chazal in his article (see p. 16), **back- and middle-office activities have been successfully outsourced by many asset managers for several years and new possibilities are emerging**, especially when it comes to front-office and some of the portfolio managers' traditional tasks. These new outsourcing capabilities, and those that are likely to emerge, give asset managers extra opportunities to focus on their core business by delegating lesser value-added tasks to outside service providers. After all, efficient investment strategies generating alpha remain key differentiation factors in a highly competitive environment. However, calling on specific "outsourcees" for each identified link of the operational chain can be a hurdle to the outsourcing decision, as **the expanding scope of activities may make steering operations more complicated**. With a diversity of representatives and the need to monitor each relationship, daily management can easily become a burden. **Concentrating outsourced services around a single provider could therefore be the solution**, with a single point of entry regardless of the request.

https://www.securities-services.societegenerale.com/uploads/tx_bisgvideo/SGSS_CrossWise_LYD_StFR_HD_720p.mp4

OPEN ARCHITECTURE: A KEY TO SUCCESSFUL OUTSOURCING

Asset managers often have to establish specific processes for their key clients who are notably liable to impose their custodians and fund administrators. They consequently need to remain flexible if they want to seize business opportunities as they come up. As a result, if they choose to outsource all or parts of their front-to-back operating chain, **they must make sure their service provider is as flexible as they ought to be**. In the financial world, **open architecture defines a financial institution's ability to offer clients both proprietary and external products and services**. Open architecture therefore ensures that a client can satisfy all their needs and that the institution can act in each client's best interests. Considering front-to-back outsourcing and asset managers' most-needed flexibility, **open architecture is thus an obvious must-have for an investment professional when selecting a potential outsourcee**; especially when clients have specific requirements such as their custodian or fund administrator of choice.

CROSSWISE: TRANSFORMING THE COMPLEX TO THE SIMPLE

As a major international bank and asset servicer, the Societe Generale group is well aware of professional investors' concerns. With these in mind, synergies have been established across its various business units to help buy-side companies overcome their challenges. **CrossWise** is the result of this process. **It is a modular one-stop-shop front-to-back outsourcing solution** combining a cutting-edge portfolio management system (SimCorp Dimension) with the full support of SGSS' middle- and back-office teams. SGSS operates in open architecture and has formed ties with all the investment industry's major players to ensure flexibility. As a service provider, SGSS thus has the ability to intervene along the entire value chain in order to provide a single point of entry and to **allow the implementation of a modulable outsourcing plan**, insofar as CrossWise add-on modules (front office, dealing & execution, middle and back office) can be subscribed to separately or together. **CrossWise's outsourced dealing desk** (I-DEAL) is a good example. It **gives asset managers access to 90+ brokers and counterparties**[1], they are free to choose from and to which they can delegate execution or not, depending on the asset class. In addition, SGSS' **partnership with SimCorp** guarantees access to front- and middle-office integrated digital tools whose technical and regulatory features are continuously updated. **Assisted by SGSS, asset managers of all sizes can now leverage these powerful tools**.

(1) https://www.securities-services.societegenerale.com/fr/solutions/services-executionnegociation-Ideal/.

LÉONARD OLLIER

Head of Business Development
for Asset Managers
Societe Generale Securities Services

Léonard began his professional career at a Parisian GCM (Global Clearing Member) as Operations and Steering Client Relations Manager. After 10 years of experience in consultancy at SBT Human(s) Matter, Leonard Ollier joined SGSS in 2015. He is now in charge of developing business solutions for Asset Managers. Léonard is a graduate of the ESCEM school of business and management.

AMOS PONCINI

CIO & Deputy General Manager
CBH Compagnie Bancaire Helvétique SA
a CrossWise client via the 1618 Investment Funds investment company

OUTSOURCING: TESTIMONY FROM AN ASSET MANAGER

What considerations incited you to outsource your trading desk?

We feel that everyone should focus on his field of expertise, ours being to manage the assets entrusted to us and our partner's being to ensure the execution and settlement-delivery of transactions. So the asset management team needs to entirely devote itself to fund management, the search for investment opportunities and the analysis of the portfolio risk.

This is why we decided to resort to an outsourced dealing desk for all the asset classes we deal with (shares, bonds, listed derivatives, currencies). We could work directly with our brokers, but the administrative tasks associated with processing orders have become too cumbersome, particularly in the management of Luxembourg funds subject to increasingly restrictive European UCITS regulations. As asset managers, we do not have any added value to bring to execution, settlement, cash management, etc.

What's the advantage of delegating the dealing desk and securities custody to a single institution?

Regarding our funds, we feel that it is very important to have the same bank for these two services. Previously, we worked with a multi-partner open system, but we wasted a lot of time due, for example, to erroneous instructions or security delivery delays: we then had to coordinate relations between various counterparties, which wasn't always easy. Even though they're not the same teams, having the trading desk housed within our custodian bank has made processes smoother and our daily lives easier.

Is transferring your funds from one institution to another a difficult phase to manage?

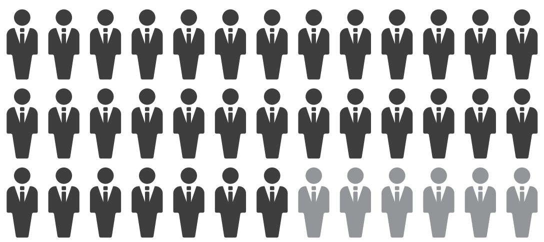
I would say no. We didn't have any specific concerns because we had organised ourselves properly upstream. We had anticipated a two-week phase, and this timeframe was met. To ensure that the transfer would have no impact on our unitholders and hold no surprises, the funds' NAVs were calculated at the same time before the day of the transfer itself. The work having been carried out by the two custodian banks, we were simple spectators rather than players, and so it didn't represent an additional workload for us.

SOCIETE GENERALE
SECURITIES SERVICES

Societe Generale's diversified bank model is based on complementary businesses around the world. The Group's expertise in securities services offers clients with core banking services and the security of a global custodian.

SGSS provides a toolbox of solutions and innovative, value-added securities services that allow clients to meet the burden of regulatory change and concentrate on their core mission. The SGSS client portal provides a variety of online tools to manage, control and pilot their operations.

4,000
EMPLOYEES



SGSS internal report. Data as of 30.09.2019

4,213 BN EUR
ASSETS UNDER CUSTODY

647 BN EUR
ASSETS UNDER ADMINISTRATION

SGSS internal report. Data as of 31.12.2019

Our ambition is to be the reference partner in our main markets, recognised for our service quality and competitiveness, agile solutions and international network coverage.

We build long-lasting, collaborative relationships with our clients to help them go further in their development. In today's constantly evolving and complex world, we strive to provide our clients with increasingly efficient and reliable securities services on a daily basis to ensure they get ahead.

CERTIFICATIONS

- SGSS holds the **annually renewed ISAE 3402 type I and II certifications** for the following services (since 2005):
  - Custody in France, Luxembourg and Italy
  - Depositary in France, Luxembourg and Italy
  - Trustee in France, Ireland and Italy
  - Fund Administration services in France, Luxembourg, Ireland and Germany
  - Transfer Agency services in Luxembourg and Ireland
  - Transaction/Fund processing in Germany and Italy
  - Clearing and settlement in Italy
  - Fund valuation in Italy
  - Securities data management in Italy
- SGSS holds the annually renewed **ISAE 3402 and SSAE16** certification for its agency securities lending services (since 2014).

AWARDS

- **Leaders in Custody 2018 MENA Awards**
  Global Custodian
- **Transfer Agent of the year**
  Clearing broker of the year
  Global Investor Awards 2018
- **Best local custodian in Ivory Coast, Romania, Russia, Morocco and Tunisia**
  World's Best Sub-Custodian Banks 2018
- **Custodian of the year in Italy**
  Custody Risk Global Awards 2018
- **Transfert Agent of the Year 2017**
  Custody Risk Global Awards 2017
- **European Transfert Agent of the Year 2017**
  Funds Europe Awards 2017
- **SGSS Russia delivers the best value for the customers according**
  to Global Custodian 2017 survey
- **Client clearing Broker of the year**
  Global Investor Awards 2017
- **Winner in France, Luxembourg, Romania, Russia, Morocco and Tunisia**
  The World's Best Securities Services Providers 2017 – Global Finance

As of 31.12.2019

CONTACT US

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SGSS AT THE HEART OF AWARENESS

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Securities Services