



Confessions of an IT Manager

An insider speaks on technology
challenges and opportunities for
asset managers

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They say that information is power, and this is particularly true in asset management. The very core of the business is about gathering and analysing information to then turn it into market-beating performance. Many investment houses refer to their investment functions as 'manufacturing', but there is no factory, no stock: information is both the raw material and the output. This really is the peak of the 'information economy', so do we pay enough attention to the way we handle information?

Until recently, I led a major technology function for a leading UK asset manager, giving me a broad view of the firm and that of my peers. In this article I will discuss some of the issues that drive and challenge the IT functions in asset management houses. I will also look at how firms can get more from their IT than they otherwise might.

Two teams divided by a common department

Broadly, IT functions are divided into two parts: the 'run' and 'change' teams. This division is usually more marked in IT than in other operations functions, often due to the way the change function does its accounting (it creates assets that need a capital value assigned to them, whereas the run function just spends money). This creates a variety of challenges, as the two areas require different skills and different ways of working, and yet it is essential that they work together. This difficulty is compounded (and perhaps caused) by the fact that the two fields attract different sorts of people; the demographics, education and skills required are quite different. Social interaction between the teams is rare, and it is even rarer for individuals to move between the two. This challenge isn't unique to asset managers, but it does have implications that we need to be particularly aware of, which come out in several areas.

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The amateur vendor manager

In the same way that the industry as a whole has turned to an increasingly outsourced model, IT has become much more about integrating disparate external service providers into a coherent and effective package for use by the manufacturing and distribution functions. The rise of 'cloud computing' is the latest incarnation of this trend, but we have been doing this for a long time. Twenty years ago it was considered risky to have a third party collect and store backup tapes in a 'safe' offsite location. Now it is still risky, but commonplace. Chief Technology Officers (CTOs) are looking to outsource activities that were once thought of as being absolutely core, including 'high-touch' services like the people who sit next to fund managers to ensure their trading screens have exactly the right layout, and the business specialists who live in workshops, thrashing out the detail of exactly how a middle-manager in the investment risk team wants to present VaR on a daily report.

Critical individual roles and entire functions like system testing, datacentre support and network management are now provided by organisations that are better at those technical competencies than an asset manager can ever be. This creates a new challenge, as those providers have to manage discrete pools of people who are technical specialists while retaining a breadth-of-view and holistic 'client outcomes' view. Many struggle to do this, however, which only makes life harder for the amateur vendor manager.

The challenge here is that vendor management is a genuine discipline in its own right. It is like driving a car: everyone thinks they're better than average at it, but it's also easy to do badly, which has increasingly significant consequences. Most asset managers aren't large enough to have a dedicated vendor management function, and if they do, it's typically focused on the key business outsourcing providers like transfer agency and investment operations.

Even these functions are often staffed by the best subject-matter expert, not the best vendor manager. Introducing a third party plays into the run/change challenge by allowing an external body to become the focal point of disagreement between the way an outsourcing project was designed to work and the way it actually works.

Vendor management is not featured in any IT training catalogue, or in HR career planning worksheets. It might now be time to reconsider this position.

Asset managers often find themselves gathering research on some of the larger service providers from their investment management and IT teams. Firms should ensure that – as far as is appropriate – customer due diligence and investment research are merged.



Blue-sky thinking

Almost all businesses have now heard of – and likely buy – cloud computing in some form. Cloud is simply the current buzzword for IT services purchased and delivered from outside the consuming organisation (although in one variant called ‘private cloud’ a firm may still use servers in its own datacentre, albeit managed by a third party).

Asset managers are keen on this trend, as medium-size organisations are particularly drawn to the opportunity to reduce fixed costs and improve predictability. However, being a buzzword, it is much misused and misunderstood. The fact is that most houses have been using ‘cloud computing’ ever since they installed their first Bloomberg terminal, and internet email has always depended on ‘the cloud’. So a lot of the froth is just that, even if it emphasises the same ‘old’ vendor management challenge outlined above.

So what is new here and why do asset managers care? I have noticed some trends:

1. Tablet computers—Board members are increasingly having their board papers delivered and used on iPads and the like. This is wonderful news for trees, but exposes very sensitive material to new risks, including ‘hidden’ cloud services which store and deliver documents over the internet to these tablets and of course the risk of the device being lost or stolen. Distribution teams are also finding that their customer relationship management systems—that contain sensitive client information and strategies – are now accessible ‘on the road’ via tablet and the cloud. Few appreciate the new confidentiality risks this creates.

2. Commodity systems such as email and word processors that used to require a large up-front purchase are now available ‘to rent’. These services are much more cost efficient and have started to become ‘industrial strength’, with large organisations starting to make the switch. Medium-sized firms are particularly attracted to the switch from fixed ‘buy and upgrade every three years’ costs to variable ‘hire per user’ costs. Although it might sound trivial, it also reduces the electricity bill, as firms are finding the cost of running their own servers to be increasingly uneconomical and environmentally unfriendly. The cloud can provide servers at a much lower financial and green cost.

3. Core activities like risk analytics and hosting of the Security Reference Master are increasingly moving into the cloud. Risk analytics is a popular candidate for cloud-hosting as it requires heavy processing power—which is expensive—and usually sits idle for much of the day once opening positions have been run. Providing this in the cloud also makes interactive decision support using risk analytics viable, as the computing horsepower is on tap 24/7. For medium-sized firms, this has allowed risk to move from a disabler focused on rules and limits imposed on an investment function to an enabler allowing fund managers to exploit their full risk budget in pursuit of alpha.

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Speed is everything...

Aside from spending vast sums on attracting and retaining 'star' investment talent and hoping the alchemy works, there are few ways for firms to build a sustainable competitive advantage. The underlying capability to consistently deploy new products to the market quickly and to trade new financial instruments is one of the ways they can do this. It has driven a rapid take-up among asset managers of so-called 'agile development' techniques in preference to the old style 'Waterfall' method.

Much of this is driven by the apparent consistent failure of any IT organisation (asset management or otherwise) to deliver IT projects on time. Often, firms complain of monolithic change programmes with lofty goals and potential benefits which quickly drop off the radar, lose their way and have to be gracefully shut down or trimmed back to deliver something – anything – in a meaningful timeframe.

Agile techniques are intended to get around the 'big project' mindset in a number of ways, but the most visible is that the IT teams are now encouraged to embrace gradual or 'late-breaking' requirements for a system. It values useful systems over documentation, and is summed up by the objective of 'continually delivering useful software'. This is a big paradigm shift for IT departments and the people who engage with them on large scale change, creating new skill requirements, performance management approaches and results. For very small firms, these techniques legitimise many of the 'hidden' old practices that weren't exposed to auditors, and for large firms it creates a new level of responsiveness. Medium-sized firms struggle to make the switch as it can be hard to run both systems at the same time in an IT department of less than around 100 people, and a 'big bang' move is highly risky. However, there are some agile techniques that can be used selectively in a waterfall environment with dramatic results.

...so take a moment to plan

As mentioned earlier, IT projects often create an asset, so their costs can be capitalised and depreciated in P&L accounts. This encourages IT functions to assign an internal cost to their employees' time, and charge it to a budget. This neatly forces the project prioritisation debate, because a certain cash budget is available for all projects and only some will make the cut. It also exposes poor management as budgets overrun and the numbers are hard to hide. Often, IT departments hire and retain a dedicated project management capability at significant expense (good project managers will typically be some of the highest-paid staff in the department). They may also be subject to oversight from a Project Management Office (PMO).

Most significant asset managers have mature IT project management capabilities, but relatively few have a corresponding business change management function. This is odd, because many of the same firms struggle to make transparent and long-lasting prioritisation decisions on anything other than the really 'big ticket' projects like business model transformation, outsourcing, etc. They also struggle to coordinate projects which often require attention from the same few people at the same time and may cause problems for each other or the daily operation of the business. Furthermore, much of the IT planning effort can be wasted if it is not carried out in the context of an overall business plan, which can effortlessly derail months of IT work with an apparently minor change to the target operating model.

Perhaps most concerning, a lack of a firm-wide change management function leaves management unsure as to whether the firm is operating at its optimal change capacity, reducing judgement to anecdotes with no reliable metrics for progress (simple project milestones are often too blunt and insufficiently granular, and easily 'gamed' by a savvy project leader).

Some firms are establishing firm-wide PMO functions which at minimum expose the firm-wide change agenda on a regular basis and at most will provide a 'hands dirty' challenge and support to project managers. This has a number of immediate and significant benefits:

- Management have a clear view of all changes, impacted areas and likely outcomes
- Lines of accountability are clarified by describing interdependencies and risks in public, in a common and readily-understood format
- Cross functional activities share a single plan. Each team's efforts can be easily aligned with each other, and the impact of apparently small issues can quickly be escalated and understood in the context of the firm's overall change agenda

One of the other few remaining sources of sustainable competitive advantage for asset managers is the ability to change quickly. One source of that agility is this simple firm-wide project prioritisation and planning capability, allowing leaders to plan and execute change with confidence.

To the point:

- Vendor management is a discipline in its own right, treat it as such
- The cloud isn't new – it has old risks – but it can transform costs and benefits
- Projects don't have to be slow. IT people may want to try new techniques like 'agile development'
- Technology projects are usually just one part of a business project, why do we plan and manage the detail but not the big picture?