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Struggling with the asset management compliance puzzle?

Regulatory and Compliance Managed
Services may be the missing piece

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Asset management firms have long faced formidable challenges, including intense competition, rapid technological change, rising costs, and pressure on profits.

These challenges predated the current crisis of the coronavirus pandemic and the economic uncertainty left in its wake, and they will likely continue once current conditions subside. Indeed, the current crisis has exacerbated these challenges and made the need to address them all the more urgent.

Addressing these challenges and positioning the firm to thrive in the postcrisis environment calls for assessing the firm's performance across all activities; investing in people, processes, and technology related to those activities; and then measuring the return on those investments. As executive teams engage in this assessment, compliance activities clearly need to be part of the conversation.

Deloitte research¹ conducted before the crisis found about half of asset managers faced the following challenges regarding their compliance programs:

- **51%** cited enhancing systems and processes to meet new or revised regulatory requirements
- **49%** cited enhancing infrastructure and increasing resources—people, processes, and technologies—related to compliance

Current conditions have heightened the need to address compliance challenges so as to enable firm leaders to focus on issues related to growth and profitability. One potential solution can be found in applying a managed services model to asset management compliance.



1. Deloitte Insights, Global risk management survey, 11th edition: Reimagining risk management to mitigate looming economic dangers and nonfinancial risks, 2018, https://www2.deloitte.com/content/dam/insights/us/articles/4222_Global-risk-management-survey/DI_global-risk-management-survey.pdf.

Why a managed services model?



In general, a managed services model is used to perform a set of activities that management deems more effectively and economically accomplished by a dedicated external provider. Deloitte has designed our managed services model to deliver strategic, experience-driven, and outcomes-based services. Our services also provide high levels of operational integration and significant scalability. This approach to managed services enables an asset management firm to match needed resources to constantly evolving and often rising compliance demands.

In a well-crafted managed services model, the asset manager offloads to the provider an activity that does not generate revenue. This allows the firm to reallocate resources to revenue-generating activities such as innovation, new product initiatives, improved customer experiences, and activities core to the mission of delivering superior investment performance to customers. Meanwhile, the managed services provider focuses the best of its talent, technology, and other resources on the offloaded activity and delivers superior results.

By design, Deloitte Regulatory and Compliance Managed Services can help a firm manage its complexities, costs, and risks of compliance. In our outcomes-based model, the asset management firm obtains specific outputs, with the quality of the outputs determined by mutually agreed-upon levels of service and performance indicators.

This ensures that the provider has “skin in the game” and truly collaborates with the firm in helping it reach its objectives.

Asset management compliance challenges

A number of persistent challenges that asset management firms face might prompt consideration of a shift of compliance activities to a managed services model. Some of the more significant challenges include:

- **Evolving regulatory expectations:** Constantly evolving compliance demands create an ongoing need to track requirements and update controls and reports. Evolving demands also create the need to repeatedly scale compliance operations up or down to keep pace with regulatory change. In addition to being onerous and costly, these scaling efforts often create redundancies and gaps in compliance processes.

– *In a managed services model, specialists with regulatory experience and relationships closely monitor regulatory changes as they occur and address regulatory expectations accordingly.*

- **Rapidly changing technology:** As a data-intensive business, asset management requires ongoing investment in technology and innovation. From a strategic perspective, it may be preferable for those investments to support revenue-generating activities rather than compliance activities.

– *The provider of managed compliance services invests in the technology needed to support compliance as part of its core business, and does so as technologies evolve. This leaves the client firm to invest in technology that supports its own core business.*

- **Intense competition for talent:** Compliance operations specialists for the asset management industry are in short supply. This is particularly so for specialists with direct experience working with and for regulatory agencies, who are particularly well-positioned to understand and interact with regulators. It is also true of the data scientists and technology specialists increasingly required to meet the needs of today's compliance function.

– *A managed services model assembles and maintains a team of regulatory compliance, data science, and technology specialists dedicated to understanding and fulfilling regulatory expectations on behalf of the client firm.*

- **Increasing need for resilience:** Business processes and supporting systems must not only address cybersecurity, privacy, and other data-related regulations; they must also be operationally resilient—able to prevent, respond to, and recover and learn from operational disruptions so that customers and financial markets are not affected. For many firms, the current pandemic and its economic impacts have driven this point home.

– *A sound managed services provider builds operational resilience into its own business and can remain operational during a crisis and rapidly return to normal operations as the crisis recedes. This enables the client firm to focus on maintaining resilience in its core business operations.*

- **Rising cost of compliance:** Evolving regulatory expectations and technologies, competition for talent, and the need to build in resiliency—together with legacy IT infrastructure and overlapping processes, systems, and activities—conspire to continually increase the cost of compliance. The ongoing need to invest in compliance can divert resources from profit-generating activities while actually delivering lower levels of comfort to management, the board, third parties, and the regulator that risks are being managed.

– *A proper managed services model can readily be scaled upward or downward as regulatory demands increase, decrease, or simply change—with services priced accordingly. This ability vastly improves the predictability of, and control over, the costs of compliance.*

Deloitte Regulatory and Compliance Managed Services fulfills regulatory and compliance requirements economically by investing in and scaling both talent and technology to meet evolving requirements. Our specialists, many with deep experience working with and for regulatory agencies and in asset management, provide subject-matter knowledge, familiarity with regulatory expectations, and experience in designing and implementing effective compliance solutions. Deloitte Regulatory and Compliance Managed Services enables asset managers to control compliance costs through outcomes-based arrangements that efficiently deliver compliance tailored to meet the organization's specific regulatory and internal compliance needs.

For an asset management firm, our managed services model is designed to free up valuable resources, enhance operations, and meet compliance requirements—all at a predictable cost. In addition, Deloitte Regulatory and Compliance Managed Services provides insights regarding potential compliance issues and operational enhancements (for example, in the client assessment and onboarding process) derived from sophisticated analysis of data from the client firm.

Where can managed compliance services be applied?

A managed services model can be usefully applied to a range of asset management compliance activities, including:

- **Investment compliance monitoring (ICM):** Given their traditionally labor-intensive and risk-laden nature, ICM processes can be performed at lower total operating costs, enabling more efficient fulfillment of organizational and resource needs. This occurs through use of our cloud-hosted platform, which bridges the gap between documentation and monitoring technology; centralizes restrictions; and enhances coding, testing, and governance of monitoring.
- **Financial and nonfinancial reporting:** A managed services solution can assist in preparing and submitting Forms N-PORT, N-CEN, and N-MFP; international large position reporting; and other regulatory filings. It can also execute fund and portfolio performance tracking and compliance, perform alternative or illiquid asset valuation, implement data aggregation, and maintain a data repository for internal risk management and investor reporting.
- **Surveillance:** Asset management firms face increasing regulatory pressure to provide continuous monitoring, but face the limitations of manual, siloed, fragmented processes. Managed services can help address these challenges while providing surveillance across portfolio management and trading activities, including capabilities residing in the cloud.

- **Testing:** Increasing transparency and controls while reducing costs and enhancing returns remains challenging. A scalable, efficient managed services solution can enhance and automate testing of processes and controls around internal and external compliance policies, as well as testing of complex fee calculations.
- **Third-party risk management:** Virtually all asset management firms rely upon third-party vendors for various capabilities, and regulators are increasingly focused on the role of those vendors and the risks they might pose. A managed services model can combine data integration, advanced analytics, and dynamic reporting to provide greater visibility into vendor operations and risk, as well as actionable reporting on potential issues for remediation.
- **Marketing materials review:** Manually reviewing marketing materials or customer correspondence is costly and may fail to reduce risks to the firm. A managed services solution can harness intelligent automation to scan for adherence to compliance requirements and internal policies, flag documents for changes, create an audit trail, and enhance reporting.

Given the financial, regulatory, and reputational risks, including potential enforcement actions, these activities must be performed efficiently. Yet for many, if not most, asset management firms, the incremental benefit to conducting them in-house is marginal.

That is why asset management firms would do well to consider turning to a managed services provider who can perform these activities more effectively at a more economical cost.



CASE IN POINT

Transforming nonfinancial regulatory reporting for a global asset manager



The asset management division of a US-based global bank required a nonfinancial regulatory reporting (NFRR) capability to prepare and deliver some 4,000 reports annually.

The challenge

The global nature of the requirements, which involved more than 1,500 regulations, exposed the bank to a wide range of regulatory reporting risks. Senior executives at the bank needed to address two recurring questions regarding regulatory interactions around NFRR:

- How can we be confident the information in a report is accurate?
- If an issue arises, how do we know what other reports may be affected?

The approach

Deloitte provided the asset management division with a team of hundreds of specialists to:

- Build a data-driven operating model with process flows and functional playbooks responsive to organizational roles and report types
- Analyze regulations to define report metadata, including applicable regulations and business and data requirements
- Compress requirements to identify opportunities for common use of data and systems
- Analyze data sourcing, identify gaps in data sources, and develop a data and technology architecture using existing enterprise tools
- Implement standardized controls across report types to address data risks

The outcome

As a result, the asset management division was able to:

- Move from roughly 150 processes to about 10, achieved by standardizing processes and controls and applying consistent quality assurance practices and ongoing monitoring
- Reduce some 350 data sources to about 15, achieved by aligning enterprise data-sourcing strategies and rationalizing use of data and systems across reports and jurisdictions
- Reduce the number of report preparers from more than 450 to about 50, freeing people in the businesses to focus on implementing strategies rather than producing reports

CASE IN POINT

Enhancing surveillance for a major asset management firm



A major asset management firm sought to enhance monitoring processes and generate more insights through surveillance technology.

At the time, the firm was implementing a new end-to-end trade order management (TOM) platform. The original engagement scope was to prove value delivered while providing scalable front-office reporting processes and surveillance automation.

The challenge

The firm was under regulatory pressure to provide true continuous monitoring, but suffered from siloed, fragmented surveillance processes across its businesses. Other challenges included:

- Manual, data-heavy monitoring processes
- Legacy technology, lack of scalable technology across functions, and stress on internal resources
- Numerous issues regarding the quality and accessibility of trade data
- Lack of insight-driven, dynamic analytics for the first and second lines of defense

The approach

Deloitte was engaged by the firm to:

- Build an interface to the TOM platform to provide the initial downstream system on which to run outputs and analytics
- Employ advanced data and cognitive analytics to enhance market-abuse monitoring
- Develop applications to implement investment and compliance monitoring
- Reduce false positives while increasing both accuracy and performance automation

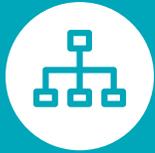
The outcome

As a result, the firm achieved the following benefits:

- Reduced time for investigation and report generation from more than 200 hours per month to minutes per month
- Reduced time for general testing and case generation from eight hours to minutes
- Reduced time for quarterly compliance reviews by 50%
- Reduced the number of false positives by 65%
- Fully automated more than 40 activities
- Released more than five FTEs from manual processes (to date)

CASE IN POINT

Enhancing and aligning compliance rules for a global investment manager



A global investment manager sought to enhance its investment compliance rules and align them within its order management system (OMS).

The rule-creation process had become disjointed and, as a result, had generated rule duplication and numerous false positive alerts.

The challenge

The organization needed to:

- Streamline its investment compliance rule inventory within its OMS on a global basis
- Confirm the completeness and accuracy of its investment rules

The approach

Operating on a managed services basis, Deloitte was engaged by the investment manager to:

- Design the TOM and initiate its implementation while streamlining rules and confirming their completeness and accuracy
- Employ our cloud-hosted software-as-a-service (SaaS) technology to extract investment restrictions from source documents, enrich the restrictions with interpretive insights, and memorialize account-restriction-rule associations
- Provide reporting to rule coding and testing teams to establish standardized, streamlined rules in the OMS

The outcome

As a result, the investment manager:

- Streamlined its rules globally and established well-governed, auditable mapping from source document to rule
- Developed a robust process for delivering standardized investment-restriction requirements to accelerate rule coding, thus mitigating a high residual risk
- Reduced the rule inventory for all EMEA products and accounts—and a significant portion of North American products and accounts—by 50%

Next steps

In considering the role that managed services might play in your firm's compliance program, you might:

- Envision the desired outcomes across your compliance program, consistent with fulfilling regulatory and internal mandates while executing the business strategy
- Assess the feasibility of attaining your desired outcomes with your current compliance capabilities, including your underlying talent model and supporting technologies
- Prioritize areas of compliance that need to be enhanced based on assessment results, past performance, levels of risk, and return on investment
- Identify revenue-generating areas to which you might reallocate resources if the goals of your target compliance program could be met more economically
- Define a more strategic value proposition for your compliance program and identify ways to move your firm toward that target state

As you reimagine the role of compliance in your firm, also consider the potential benefits—in terms of flexibility and scalability, talent and technology, and efficiency and effectiveness—that Deloitte Regulatory and Compliance Managed Services can provide.

Deloitte has committed significant human and technological resources to assisting organizations with their most persistent and costly compliance challenges. This commitment is evidenced by our having:

- Served more than 400 managed services clients
- Assisted more than 90 clients with their regulatory and compliance needs
- Established 14 dedicated Delivery Centers in the United States and India, with more than 67,000 dedicated professionals
- Developed and implemented robust business resiliency plans across each of our Delivery Centers
- Demonstrated our ability to support 24/7/365 operations

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The Deloitte difference

Deloitte offers a long record of demonstrated performance in risk-related disciplines and a deep commitment to excellence in risk management, talent, and technology. Deloitte's global member firms tracks compliance requirements in jurisdictions around the world. That network has enabled us to remain fully operative during the coronavirus pandemic through activation of our global response and recovery capabilities and rapid transition to remote modes of operating.

In contrast to fund administrators and vendors of point-specific software solutions, Deloitte carries a tradition rooted in the accounting and audit professions. That tradition of professional objectivity, integrity, and quality informs everything we do. It also provides levels of rigor in design and execution of compliance solutions.

Finally, Deloitte works equally well with IT, business, and compliance and risk managers to integrate and balance their organizational interests, needs, and operational considerations. Striking this balance fuels efficiency, as well as effective implementation of processes, systems, and capabilities to enhance both compliance performance and return on investment.

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