

# The value add: Transforming fund costs to savings opportunity

## Why fund managers need technology solutions

By John Bosley, COO  
Bonaire Software Solutions, LLC

John Bosley, chief operating officer of Bonaire Software Solutions explains why fund managers need to step up to the technological plate.

Across Europe, regulatory change has spawned several new legislative initiatives designed to bring transparency to the industry. As part of this evolution, fund managers, fund administrators and asset management firms face new requirements to demonstrate fee transparency

should be. Many fund managers still rely on manual processes to track distributor relationships and calculate associated expenses, rebates and retrocessions. Fund managers are often not completely confident that fees supplied by intermediaries and third parties are wholly accurate. New regulations require funds and asset managers to demonstrate valid fee calculations and payments which means firms must examine and overhaul their processes or else risk leakage, non-compliance fines or damaging client /

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across the supply chain because of mandates such as Retail Distribution Review (RDR), Packaged Retail Investment Products (PRIP) and Key Investor Information Document (KIID). As a result, companies must calculate fees, fund rebates, and retrocessions in an accurate, timely and transparent fashion. The ability to correctly calculate and manage fee rebates is a much more complicated and error-prone process than it

supplier relationships. Typically, any major fund management firm will have several groups focused on implementing automated solutions and processes to support the enterprise – from order management solutions to trade processing platforms. IT groups remain laser focused on mitigating risks associated with manual processes or operational inefficiencies. With fee management, however, there is still a remark-

able lack of automation and as a result, decreased efficiency and higher costs.

Much of the fee rebate and retrocession management process is also heavily reliant on spreadsheets and manual processes despite the numerous distributor relationships a fund manager must maintain, often upwards of 300-500 simultaneously. A fund manager will usually receive a periodic invoice from a distributor outlining the various distributed funds and associated payouts, or, particularly in the alternative investment space where data quality is more of an issue, high-level details of share holdings.

The challenge fund managers face is being able to reconcile the claimed fees and commissions with their own internal books and be able to accurately validate those claims. Without a centralised, automated process, fund managers are often unsure as to validity and as a result, can end up paying the distributors' bills without being completely sure of their accuracy. Fund managers can be inclined to “look the other way” and are willing to pay distributors' rebates without question because they are so heavily reliant on these channels to grow their assets and businesses.

Investors need to be aware that a manual fee management process could lead to

increased fund expense. If a fund manager erroneously pays out a rebate, these additional costs are passed through to the investor – which means investors may be covering higher than necessary fund expenses.

Despite the current environment, things will have to change as strict regulation around fee transparency in Europe is acting as the catalyst for change. As a part of RDR, for example, fund managers will need to abide by the rebate contract in place and ensure that all payouts accurately reflect the existing agreement. Transparency in distribution costs is now a key requirement as regulators seek to remove the pressure to link advice to commission rewards. Managers now have a fiduciary responsibility to demonstrate how distribution expenses are calculated and paid.

Post-2008, investors are scrutinising fees more closely than ever and fund managers cannot afford to be in a position where an errant rebate payout, resulting in higher costs for the investor, is revealed to the public. Fund managers have an even greater responsibility today to safeguard their clients' assets and even a small misstep may result in heavy fines and forced increases in capital requirements.

### Changing the status quo

How can firms address these challenges? By finding a solution by which the calculation and reconciliation of distributor rebates is easily and quickly performed, companies can remain compliant with strict regulation and provide the assurances that investors seek.

With improvements in technology for fund managers over the last decade, firms are in an opportune position to leverage the tools at their disposal to implement a central solution for managing distributor relationships and accurately calculating fee rebates/retrocessions. An automated, central solution allows a fund manager to accurately and quickly calculate fee struc-

tures and rebates so that firms can manage and optimize third party distribution. In addition, a central solution would allow for straight through processing of commissions, accrual calculations, gains/losses postings and reversals.

The investment in a solution for managing rebates and retrocessions can deliver valuable returns. Fund managers will benefit from improved efficiency around operations and reduce organisational costs. In addition, firms will have a complete audit trail which will enable them to

analyse what products are selling best and where, they would be better able to re-position themselves for growth. In an increasingly competitive environment, this kind of business intelligence may prove to be a key differentiator.

Fund managers need to examine and reform their processes. By doing so, companies can better comply with strict regulations and deliver a higher level of cost-effective service to their investors. The tools are available now and the speed at which firms are able to implement an

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demonstrate full compliance with regulatory and compliance requirements.

The automation of the fund rebates process can be more than just a move towards efficiency – many firms are turning compliance into opportunity by leveraging automated fund rebate solutions to deliver invaluable business intelligence regarding distributor relationships. By being able to quickly and easily analyze distributor data, firms can ascertain which distributors are most successful and with which products. This intelligence allows fund managers to optimise distributor agreements and focus on those relationships that bring most value.

If fund management firms could quickly

automated infrastructure for the rebate and retrocession process may deliver competitive advantage to those willing to invest now.

As we embark on a road to recovery, the fund management industry must embrace the benefits of automation – not only to ensure compliance with new regulations, but to turn the cost of compliance into opportunity.

By automating the fee rebates process, firms can benefit from accuracy, efficiency, reduced costs, and ultimately, delivering top-quality service to their clients.