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Conference Special

To automate or not to automate?

Jenny Nilsson of triResolve explains why technology should not force firms to choose between manual or automated processes

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The Euromoney Awards for Excellence honoured Commerzbank as Germany's Best Bank for its strategic approach that is creating a 'stable, efficient and more profitable lender' amidst challenging times for the German banking sector. Euromoney, 07/2017 issue

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The Asia attraction

Frank Carr of Financial Risk Solutions discusses the firm's Asia Pacific expansion and how it will affect the market

Becky Butcher reports

What motivations were behind FRS's decision to open offices Hong Kong and Malaysia? What are the market's main advantages?

In Europe, we often think we are very au fait with long-term savings in every sphere, including making provision for old age, but that's relatively new in parts of Asia where retirement provision is less established. Our attraction to the Asian market really lies in three areas:

- Asian economic growth has made pension saving commonplace. Asia's rapidly changing demographics will drive long-term savings growth into the life and pensions industry and onwards to the asset management sector
- Many of the legacy investment administration systems in the region are ill-prepared for the growth now being experienced
- Strategically many of our global clients have ambitious growth plans in Asia

Changes in the region include rapid population aging, population growth and the emergence of large affluent middle classes all point to increased long-term saving.

Citizens must make private pension provision and increasingly the global default structure for long term savings is buying unit-linked funds.

These are typically offered by life and pension companies. Providing the core infrastructure for administering long-term savings is precisely what our core software Invest|Pro does.

In terms of retirement savings, some countries have made it mandatory, people will be familiar with the UK where auto-enrolment has come in. Contributions will be 8 percent of salary from February 2019.

However, in Australia it's 9.5 percent, but will be 12 percent by 2025.

When you think about 12 percent of people's income, it's a big amount of new money flowing into the industry annually so modern technology systems are required—that's certainly one of the drivers for us moving into these markets.

For example, on a recent trip to Indonesia, I marvelled at reported growth of almost 14 percent in their insurance market. This is staggering growth compared to European growth rates of 2 percent or 3 percent, but further Asian growth is being held back by the prevalence of manual administration processes.

If the investment administration systems were more automated in the region, which is where we think FRS can make a difference, that would



solve the scalability problem and operational risks would reduce and profitability would flourish. We are currently in detailed discussions with some companies on how changes to current operating models underpinned by modern technology could resolve scalability issues.

How are technological innovations transforming financial services firms? Are they creating opportunities or causing unnecessary challenges?

Technology innovations are transforming most industries and creating opportunities for providers to serve policyholders, regulators and the boards and risk committees like never before.

Over the last five or 10 years some of the metrics that we're seeing in terms of the headcount needed to administer hundreds of funds or hundreds of billions in assets under management have drastically changed. In the past, just to put some context on that, you may have had one person manage five or 10 funds. Now, however, some of our multi-asset funds, mirror funds, and funds of funds clients are reaching efficiency ratios such as these:

- We have a client where 219 funds are being managed by each individual
- We've another one where 356 funds are being managed by each person and another with 581 funds per person

Part of our DNA at Financial Risk Solutions is about exploring emerging technologies. With artificial intelligence (AI) we are discovering patterns in investment data based on fund activities and market data, which we've seen before. Our software has such wide usage across over 60 life companies and administrators that the system can predict whether this fits into behaviors seen before. The actual technology mimics a very experienced practitioner, which are difficult to source these days. It's these AI models that can assist efficiency and risk mitigation in the industry. So, having locked down automated robotic process automation (RPA) in the investments and fund administration departments allows you to achieve such metrics. It's a good thing, but it's all about getting the project sponsored and in initially, and there lies some of the challenges which relate to general change management.

Are firms relying too much on technologies such as AI and machine learning?

Right now we are in the first stage of AI and technology is starting to bring remarkable benefits; it may take the second and third phase to perfect this. Human management skills in collaboration with technology are very much the target operating model.

From FRS's point of view, we offer software which has a configurable validations framework. By this I mean that a validation can be based on calculations using any database field or combination of fields that

the user chooses. This framework also allows the user to associate a validation with a process, say the valuation/unit pricing process, and say whether the validation should be run before or after the process runs. If a validation fails then this triggers a message to a user group. You can grade such checks so that if a severe check fails, the process stops. This combined set of validations is the internal audit framework. The framework records every time a validation is run and whether it passed or failed. If it failed it also records what action was taken to remedy the failure and by whom.

New validations can be added at any time so you have an embedded validation framework and culture of continuous improvements and raising of standards.

The real point is that the culture framework must be based on having good rules in the first place; and then managing and reacting to them—that is where I would be hesitant to say there is too much reliance on AI and machine learning rather than human intervention. It's about getting the optimum operating model working, and that requires change process in terms of training and integrating teams who wouldn't be familiar with operating these emerging technologies until recently, because it's all quite new.

How have FRS's recent endeavours affected the Asia Pacific region?

As the unit-linked funds market has grown in Asia, products have become more complex and numerous, so FRS bring proven software which assists firms growth in a controlled environment. Also, regulations have increased as assets under management have grown. European Solvency II and Packaged Retail and Insurance-based Investment Products (PRIIPs) initiatives have placed greater emphasis on the need to be able to store and access investment related data for both risk management and customer and regulatory reporting purposes. The logical place to store these additional data points is in the fund admin system database. We like to think that we are assisting in the raising in standards of investment administration systems, controls and practices.

Working with regulators

I was at a recent collaborative event with the Bank of England, the European Central Bank and the Central Bank of Ireland, where they discussed a vision of a world where some new regulations could be introduced alongside new systems code to deliver the regulation. The idea was to come up with a new regulation and give some source code that was system agnostic and could at least be run in a test environment.

This regulatory cultural vision takes into account that regulators recognise the challenges firms have on the systems side to embrace new regulatory requirements. This positive industry and regulatory collaboration is a positive dynamic and it is assisted with modern technology.

Data-focused

Separately, I was at a regulation technology event in New York last November, and again a lot of the collaboration related to unstructured data and how problematic that is, and conversely if data is structured then you can get great power and controls into your operating model.

Aside from Hong Kong and Malaysia, what other Asian markets do you see as critical to the region's development? Any plans of expanding to these markets?

The Philippines and Indonesia are very promising, and we have met with a number of life companies there. We attended a Chinese life assurance conference in Beijing last November, it's a very large and different market with a vast middle class and huge assets that weren't there 10 or 15 years ago. They have all of the right metrics for an even bigger industry and participating in that takes time—you've got to meet the right people there and clearly this is something we have been very interested in doing.

We also sponsored a unit pricing conference in Sydney recently and are investigating the Australian market, which is one of the largest pensions markets in the world. The Asia Pacific market is diverse, and we are exploring local partnerships to assist our growth.

It's an exciting time for us, there is a large opportunity because our software is extremely relevant for many of these markets where insurance providers are struggling with scale in an environment where their current operating model has inherent operational risk but this also comes with formulating the best market distribution strategy for the software. It is an exciting time as technology takes its place in offering things that were previously very challenging whereas now this is not the case. With the correct technology operating model in place the insurer can dedicate its energy to scaling their distribution and getting that part right.

When you have very good value products widely distributed and operating in a very controlled manner, it's a win-win for all parties. **AST**

Frank Carr
Chief marketing officer
Financial Risk Solutions

