OUTSOURCING MIDDLE- AND BACK-OFFICE FUNCTIONS:

The Asia perspective

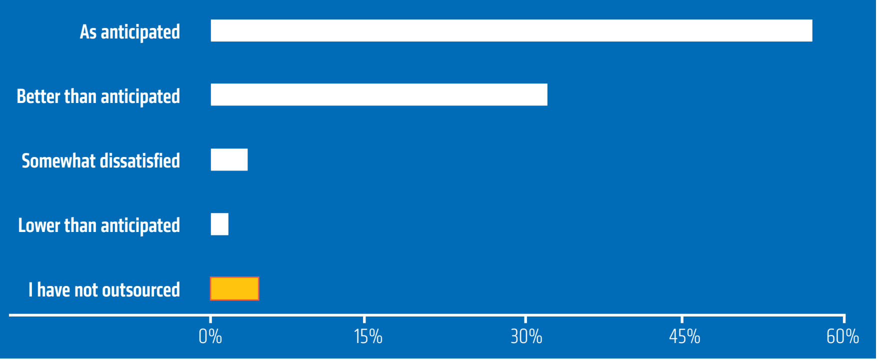
This report, compiled by SS&C Technologies and Global Custodian, explores the evolving attitudes to outsourcing strategies in Asia, as organisations look increasingly at solutions to improve efficiency, reduce costs and boost their longevity in a competitive field.

Following the recent report conducted by SS&C Technologies and Global Custodian on evolving attitudes to middle- and back-office outsourcing in the US and Europe, this report looks East to gather the viewpoints of Asia-based organisations on the drivers and impact of outsourcing strategies.

The report draws data from over 100 responses spanning the Asia-Pacific region, with respondents spread throughout Australia, China, Hong Kong, India, Japan, Malaysia, Singapore, Thailand and Vietnam. The majority (85%) of those surveyed are asset managers, while the rest are made up of hedge funds.

In line with the findings in the US and Europe, the vast majority of survey participants reveal that outsourcing has either delivered or exceeded their expected results. Some 57% said the results were as expected, while a third of total respondents said their experience with outsourcing has been better than expected. (See Fig 1.) The overwhelmingly positive feedback for outsourcing highlights the tangible benefits that an outsourcing strategy can offer. Despite some inhibitors, explored later in the report, the use of third-party providers to handle some middle- and back-office functions

Fig. 1: Experience of outsourcing to date



enables organisations within the industry to maximise their focus on core activities and value-added services for end-clients.

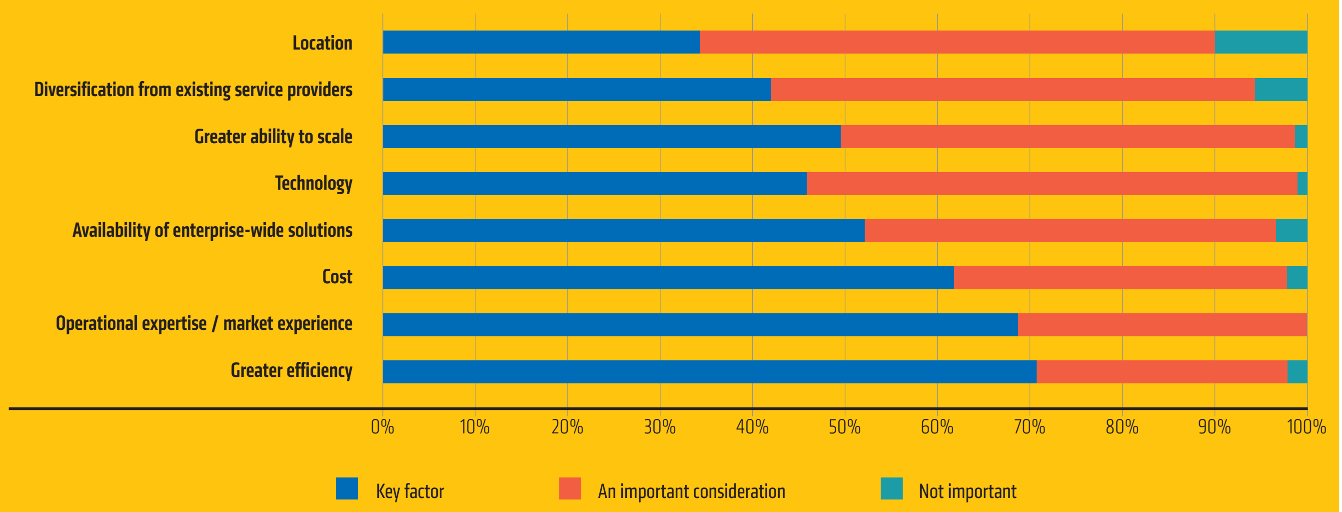
Drivers for outsourcing decisions

When analysing the reasons behind outsourcing strategies, organisations were asked to rate a specific list of factors as 'key', 'important' or 'not important'. Greater efficiency ranked as the leading factor for both asset managers and hedge funds when considering their outsourcing strategies, with 70% of total respondents citing it as a key driver. Operational expertise (68.5%) and cost (61.9%) were the second and third most cited key drivers of outsourcing decisions.

Other contributing factors, highlighted in Fig. 2, include the availability of enterprise-wide solutions (cited as a key factor in outsourcing decisions by 53.3% of respondents), technology (52.3%), and the greater ability to scale (49.5%).

Increasingly, the industry is looking to service providers for support in achieving its strategic goals. External providers often have specialised expertise within certain fields, providing the opportunity for clients to utilise state-of-the-

Fig 2: Key drivers in outsourcing decisions



art technologies and services without having to invest huge sums of money.

Sitting at the other end of the scale, location was cited as a key factor by only 34.3% of survey respondents – which possibly points to the development of global centres of outsourcing expertise and the relatively low-touch processes that are often some of the first functions to be considered for outsourcing. Interestingly, almost 10% of respondents said they regard location as not important at all.

When assessing the issues which could potentially inhibit organisations from outsourcing internal functions, three key reasons come to the fore. From the response pool, over a third of organisations (34.3%) cited the initial cost of outsourcing as a primary concern; 30% said they experienced internal resistance to outsourcing plans; while an additional 21.5% of respondents had concerns over a loss of control through outsourcing activity.

Follow-up investment

One area where there is an apparent difference between Asia-based organisations and their counterparts in Europe and the US is the speed in which further processes are outsourced following an initial experience.

In Europe and US, 44.5% of respondents had increased the number of outsourced functions since their first outsourcing experience, while in Asia that number jumps to 61.9%. Additionally, a further 22.8% of respondents maintained the original relationship after the first outsourcing arrangement was agreed.

Couple this with the earlier findings that outsourcing has delivered or exceeded expectations for the majority of respondents, it is reasonable to assume that those organisations have experienced notable success in their outsourcing strategies. Fig. 4 further solidifies this view, with data showing that almost three quarters of surveyed asset managers and hedge funds found that outsourcing certain functions has benefitted the resource allocation within their business.

"Outsourcing has significantly benefitted resource allocation in our business," says one respondent. "It has allowed us to focus internal resources on core competences and enhance efficiency – ultimately contributing to improved overall productivity and cost-effectiveness."

Across all regions, a similar number of respondents (around one in 10) brought certain functions back in-house after

Fig 3: Actions since first outsourcing

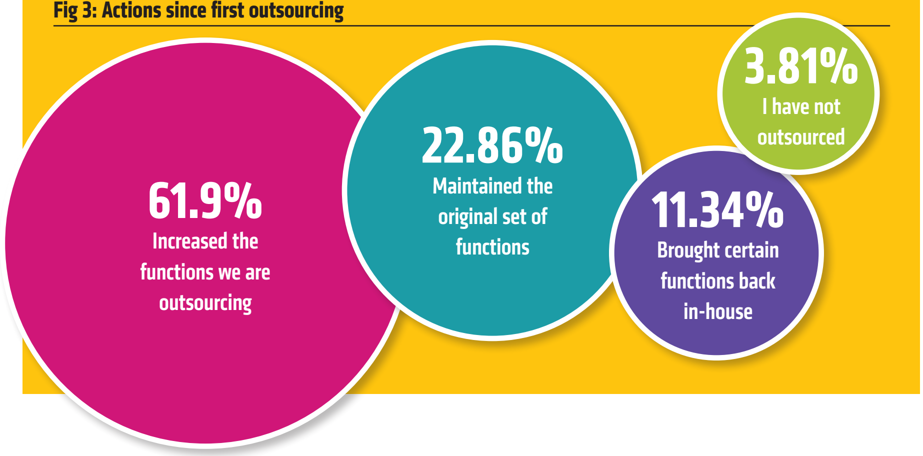
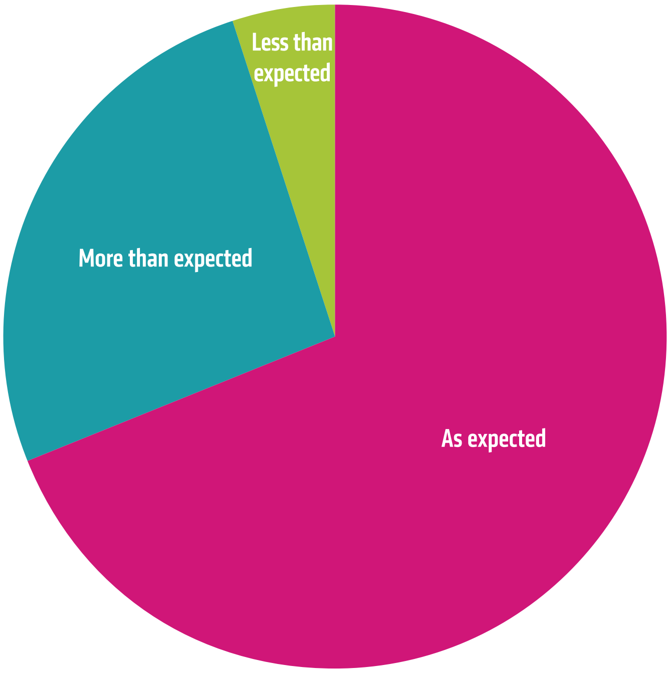


Fig. 4: Implications of outsourcing for internal resource allocations



initially outsourcing to market providers. While specific reasons for this are not disclosed, it could be due to a host of factors including changes in business strategies or priorities, or new advancements in technology or shifts in market dynamics that may necessitate bringing certain functions back in-house to leverage new tools, systems or capabilities.

Future opportunities

Findings from this report, alongside the equivalent research for Europe and the US, point to an investment industry that is receptive to progressive outsourcing strategies.

Understandably, organisations will generally begin their outsourcing journey with one project, selecting one specific internal function or process with which to entrust with a third-party service provider. Following a positive outcome with that provider and an increased comfortability with the use of strategic partnerships, the data shows that firms will then look to progress that outsourcing strategy – expanding their use of third-party providers to position themselves for long-term success in a competitive field.

Expert comment

Marcela Crossman, global head of middle office outsourcing, SS&C Technologies, offers her view on the changing attitudes to outsourcing, and why trends may vary in different regions.

Are you seeing the same desire for outsourcing throughout the world?

The global trend indicates a growing acceptance of outsourcing, sparked by discussions in open forums where industry leaders recognise its vital role. Currently, 63% of firms contemplate outsourcing, marking a significant evolution from five years prior. Active investment firms are taking note of their peers' outsourcing success stories abroad, appreciating the cost and efficiency advantages.

This realisation propels them toward adopting outsourcing strategies more proactively. Simultaneously, the asset servicing sector is transforming, with technological progress and knowledge transfer from investment firms to service providers fueling the rise in outsourcing. This trend is accompanied by a move away from traditional big-bank and institutional partnerships towards specialized providers like SS&C, which deliver targeted expertise, higher client satisfaction and value.

What factors have contributed to the significant growth of outsourcing in the past five years?

Over the past five years, the surge in outsourcing has been primarily driven by two major factors: the global impact of Covid-19 and the Great Resignation. These events compelled companies, including C-level executives, to rethink and adapt their strategies to mitigate operational, regulatory and reputational risks.

This shift forced businesses to reconsider their in-house processes, as exemplified by a case where a company had to outsource previously internal, manual tasks due to operational disruptions caused by the pandemic. Additionally, the Great Resignation highlighted the benefits of having a global partner like SS&C, capable of managing these challenges and quickly addressing client needs amidst workforce fluctuations.

Would you say there are any regulatory considerations for firms that may impact their outsourcing strategy?

Certainly, regulatory considerations play a dual role in influencing a firm's outsourcing strategy. Outsourcing to a globally positioned organisation like SS&C can be advantageous, as it provides extensive coverage across various jurisdictions and ensures compliance with international regulations.

However, there's a potential downside for firms, especially those concentrated in the APAC region, where unique local regulations might make them hesitant to outsource. They might not realize a company like SS&C can meet these specific regulatory requirements, thus impacting their decision to consider outsourcing.

Looking at the findings of the report, a greater number of respondents in Asia have been quicker to increase their outsourcing activity following initial projects. Why do you think that might be the case?

Firms are witnessing swift and positive outcomes from outsourcing, with onshore partners delivering immediate benefits. This outcome has led to a quicker adoption and expansion of outsourcing in the APAC region, where the trend is to increase outsourcing activities. Additionally, the APAC market is characterised by numerous startups and younger investment firms, which facilitates the outsourcing process.

These firms, being relatively new to investment management and operations, lack the burden of outdated systems, making outsourcing less about transformation and more about straightforward conversion.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