

Front-to-Middle Consolidation

3 Key Considerations for Operating Model
Enhancement in Investment Management



The role of the middle office has become increasingly intertwined with the activities of front and back office. Due to prolonged underinvestment in scalable solutions alongside inefficient data management frameworks, the asset management industry has identified operating model enhancement initiatives as key to unlocking significant value across the investment lifecycle.

Accordingly, front-to-middle office consolidation – the alignment of investment professionals and the various operational elements of the investment life cycle – has emerged as a prominent path to capture latent process efficiencies, reduce reliance on manual processes and data views, and develop a unified data platform that enables data availability, consistency, scalability and transparency.

Front-to-Middle Consolidation

Front-to-middle consolidation covers a range of middle office functions, including position management, performance and attribution, order management, trade confirmation and settlement, collateral and risk management and various reconciliations that intertwine with the activities of front office. **It is critical for the middle office to match the pace at which the front office is progressing and evolving.**

The focus of consolidation is to streamline operational processes through an enterprise-wide solution, integrate disparate systems and data views to develop a **unified “golden source”**, and by extension a robust Investment Book of Record (IBOR), as well as to better define roles and responsibilities across front, middle and back-office functions.

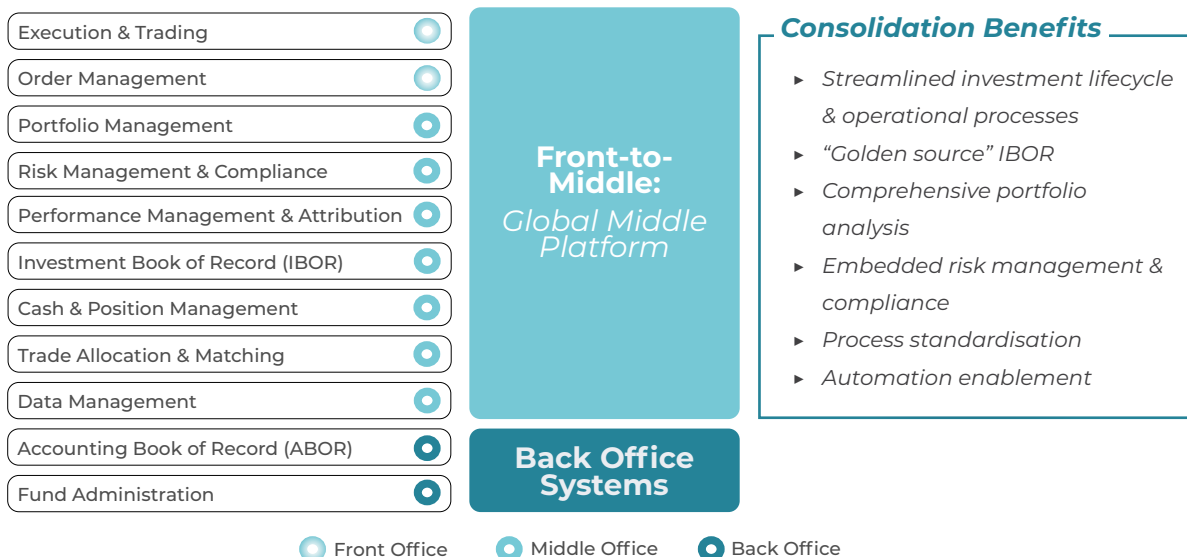
General underinvestment and limited focus for middle-office operations has left many asset managers reliant on manual workarounds and poor data environments that introduce risk and inefficiencies stemming from deficient controls and governance systems.

100% of asset managers who had completed an operating model change confirmed the initiatives has achieved its intended results.

Reinventing Operations in 1
Asset Management Survey

This leads to an internal environment where consolidation, particularly through the implementation of a system, such as BlackRock’s Aladdin, Bloomberg AIM or Charles River IMS to name a few, stands out as a compelling but highly complex venture.

Operations to Consolidate



Three Key Considerations for Operating Model Enhancement

Consolidation offers asset managers a route to increase their competitive edge; providing the means to scale efficiently in their capacity to onboard and manage additional funds and asset classes – without driving up costs or introducing tactical, manual processes. It also provides firms the means to offer specialised investment services and strategies while maintaining alignment across the investment cycle.

Monocle has therefore highlighted several major considerations that must be addressed when implementing front-to-middle consolidation.

1 | The Importance of “As-Is” Analysis

While evaluating and fully understanding existing systems, processes, and sources may sound trivial, developing a comprehensive and accurate current state view cannot be understated. This is particularly true for **system implementations**, which are notorious for running behind schedule and overbudget due to misalignments between expectations and reality.

Detailed analyses of the current trade lifecycle and operational landscape should be conducted to identify pain-points and other factors influencing operational risk early on. One of the aims of this should be to build an understanding of the coverage and volumes of traded asset classes, current trading practices, data and process touchpoints, compliance frameworks, the use of specialised datasets, as well as embedded systems and data sources.

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This will ultimately define the scope of work as well as implementation plan and should be conducted well in advance of actual implementation to ensure **complexity, edge cases and specific business user requirements** are determined before, rather than during, implementation.

2 | The Complexity of System Integration

Consolidating front- and middle-office functions through a global middle layer achieves process and data optimisation that empowers departments to work on a unified platform. Technologically, this enables the development of an Investment Book of Record – a complete and structured view of an investment firm’s positions and transactions across all asset classes. This provides easily accessible oversight and analytic capabilities for investment and senior stakeholders.

Implementation of vendor systems are not straightforward, however, and often require a serious effort to build and improve existing data stores to align with the data structure requirements of vendor systems. In many cases, upstream data management, governance and control must be enhanced to meet the requirements to properly feed data into the system and, in some cases, may even require a complete overhaul of a firm's data architecture, business processes, workday schedules and team structures.

These data requirements and conditions must be identified and understood during the "as-is" assessment in consultation with key business and data stakeholders before system implementation begins in earnest. Firms that have previously relied on **customised solutions** for their various operations should be particularly aware of these issues and ensure a potential vendor system is capable of customisation.

3 | Don't Underestimate Resistance to Change

It goes without saying that firm-wide alignment and acceptance of a robust, well-defined target operating model is the backbone of a successful consolidation initiative.

Changes associated with a system implementation that affects so many aspects of front and middle office can often bring to the fore a profound resistance to change within the organisation and its staff. **Naturally, users develop operational comfort with established legacy systems.** The reason and motivation for change therefore needs to be well understood and communicated.

Change managers and change champions can be key in tipping the scale of change, assisting stakeholders to embrace the changes and understand their long-term benefits. Additionally, hands-on training can ensure affected teams familiarise themselves with the new system. Ongoing support is essential to addressing any issues that may arise post-implementation.

How Monocle Can Assist

With over twenty years of experience in financial services, Monocle has built a reputation as a key implementation and change management partner. With deep expertise as business analysts, data analysts and engineers, and program managers, we work closely with our asset management clients to fully assess and understand their current operational solutions and nuances end-to-end, develop robust target operating models, and drive consolidation initiatives with the ambition of developing "golden source" data architectures. These are used by the business to better inform performance management and the investment decision process.

As operational redesign and the centralisation of data through front-to-middle consolidation has emerged as a significant initiative, Monocle has been deeply involved in the implementation and onboarding of new technology partners to overhaul and streamline front- and middle-office operations. These capabilities include building out new order management systems, performance and attribution systems, and NAV oversight solutions, as well as designing and developing required operational integrations.

¹ *Investment Company Institute & Accenture, 2019*

About Monocle

Monocle is a management consulting firm specialising in banking and insurance. Since 2002, we have assisted industry-leading banks, asset managers and insurance companies around the world, including institutions in the United Kingdom, Europe, Scandinavia, Asia, South Africa, and throughout sub-Saharan Africa.

We design and execute bespoke change projects from start to finish, bridging the divide between business stakeholders' needs and the complex systems, processes and data that sit under the hood. We offer several unique capabilities to our clients, which have been forged over time through the combination of a highly specialised skill set and extensive experience working with the systems, processes and people that are at the heart of the financial services industry.

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