



a Constellation Software Inc. Company



## Cash and Asset Allocation, Navigating the challenges

How to succeed in overcoming the complexities of investment operations demands from a strategic, risk and regulatory perspective.

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This discussion is best suited to: Finance, Investment Operations, Technology and Risk Professionals.

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## INTRO

Investment Operations face a myriad of challenges, including but not restricted to, data management, risk mitigation and cybersecurity. In our dynamic and data-driven industry, the ability to navigate these challenges effectively is crucial for achieving financial success and maintaining member and client trust.

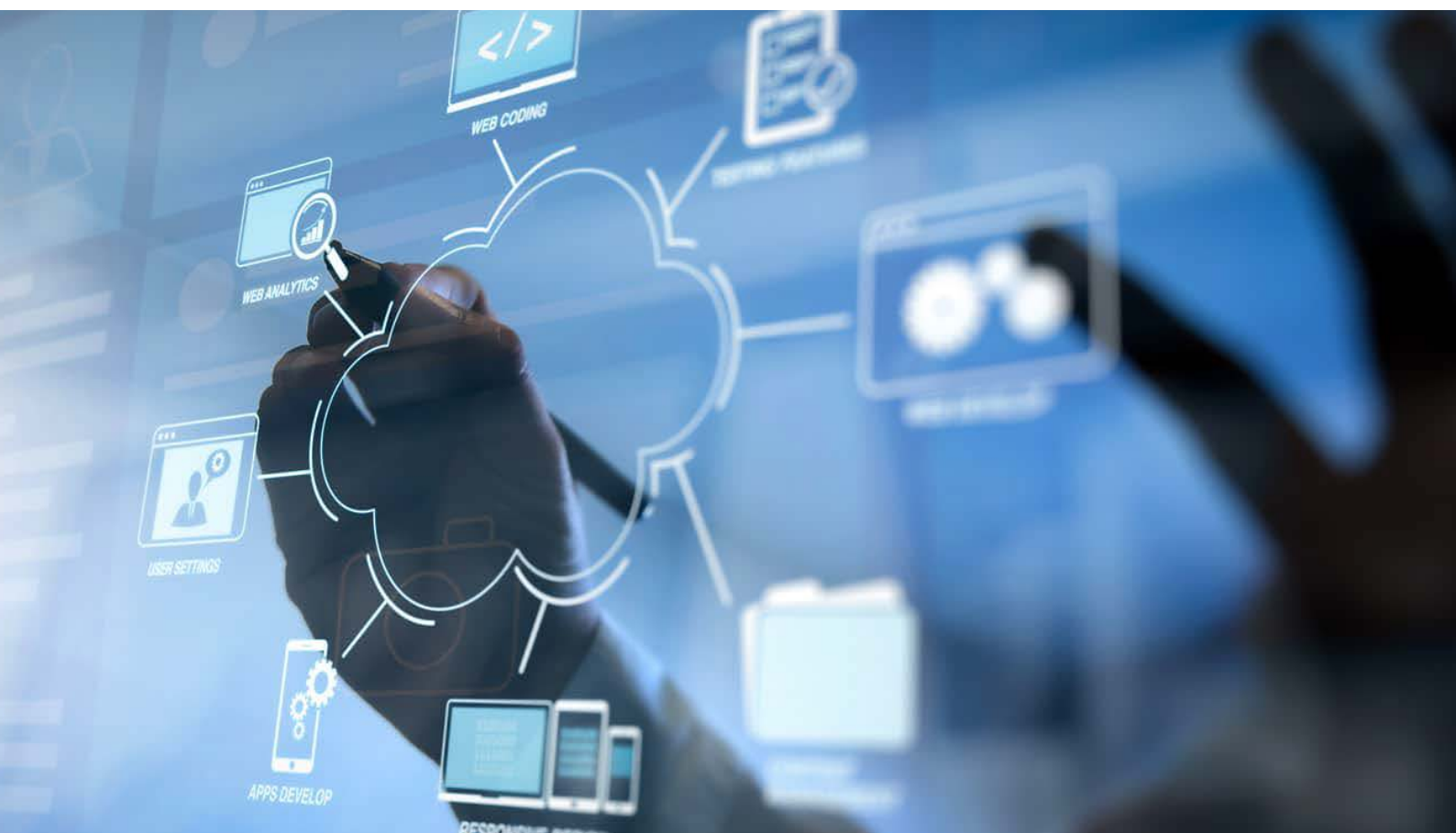
Firms that invest in advanced technology, robust risk management frameworks and compliance measures will be better positioned to overcome these challenges and grow market share.

This whitepaper looks at three key areas that will ensure your organisation will not only answer higher regulatory standards but emerge stronger and more resilient on the road to sustained success.



## THE THREE AREAS





## 1. Operational Risk Management

Firstly, to address the Operational Risk Management challenge and how best your organisation can effectively reduce your investment and operational risk.

Operational disruptions, data breaches or technology failures can have significant consequences for investment operations. Whether your company perform functions in-house, or outsource Investment Operations to a service provider, you remain responsible for the performance of those functions. Your company is the responsible entity and having robust operational risk management protocols in place is imperative.

You are 'Responsible, and ultimately accountable, for your operational resilience, regardless of whether or not you rely upon third parties to support the delivery of important business services.'

Failure to build robust procedures and plans can have disastrous effects for you and your business.

## Observations

- ✓ Make sure that your project or transformation plans are based on realistic assumptions and are achievable
- ✓ Enshrine a culture that mitigates risk, where challenges can be voiced appropriately, and assumptions can be questioned and verified
- ✓ Follow escalation paths when challenged – we can't challenge what we don't see
- ✓ Scrutinise your business continuity plans and make sure they work in the real world
- ✓ Consider cascading and second-order effects into your business continuity scenarios
- ✓ A program level risk assessment intended to cover all suppliers is generally not enough. You need to assess vendors based on the risk they represent individually and conduct due diligence accordingly – before proceeding
- ✓ Understanding who your fourth parties (and the rest of your supply chain) is becoming increasingly important. Always assess how your third parties are managing their own third parties
- ✓ While attestations can be useful, they are not a substitute for assessing the controls or capabilities of your supply chain

**UK's TSB Bank was fined £47mn (AU€86mn) in December 2022 for operational resilience failings related to failures of a major digital transformation project in 2018.**

## Incident

In April 2018, TSB Bank underwent a complex migration of its customer data from a legacy IT system hosted by its former parent company, to a new IT platform provided by its new parent company, Banco Sabadell. The migration was intended to separate TSB Bank's systems from older systems and enable TSB to operate independently.

However, the migration did not go as planned. Customers experienced widespread disruptions to their banking services, including difficulties accessing their accounts, making payments, and receiving accurate balances. The issues persisted for several weeks, causing significant financial and reputational harm to the Bank.

## Issues caused

- ✗ Customers could view data that did not belong to them
- ✗ Incorrect account information and missing transactions
- ✗ A huge influx of customer calls caused telephone systems to overload, with no technology or human capacity to serve them
- ✗ TSB did not return to a 'business as usual' state until December 2018, following over 225,000 complaints
- ✗ AUD\$63mn was paid out in redress to customers
- ✗ The failure prompted the UK Parliament's Treasury Select Committee to ask the FCA questions about the adequacy of the regulatory regime's oversight

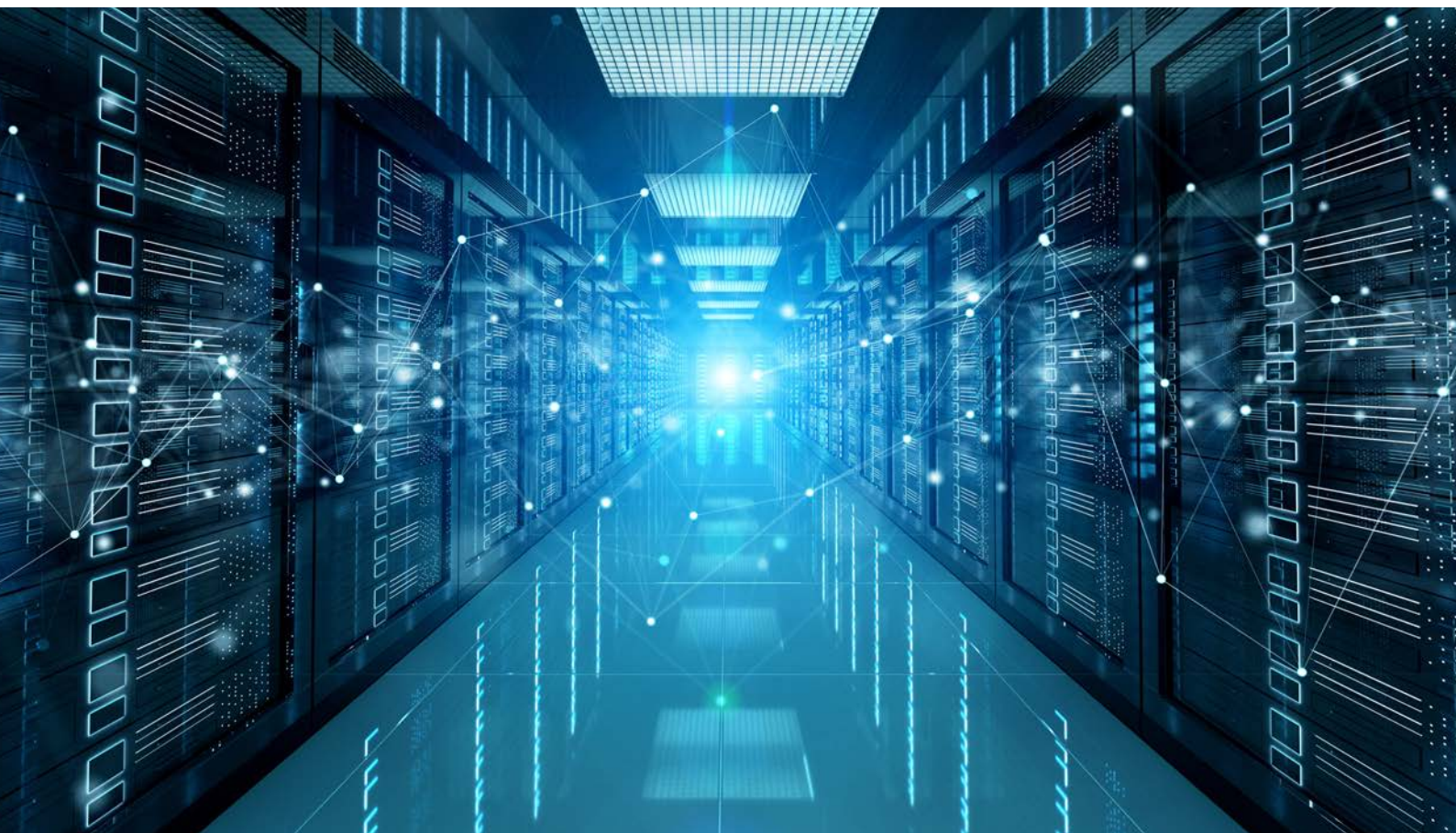
## Summary of failures

- 1** Program planning and timeline issues. The planned project was extremely ambitious with project delivery target completion within two years. When the project was replanned, the board did not push back on another aggressive timeline. And the project instead continued to be problematic.
- 2** Failures outsourcing. TSB did not properly assess the IT services company that led its migration to the new core banking platform. There was no assessment of the risk of non-performance or inadequate performance.
- 3** Failures in business continuity

## Outcome

The failed migration cost TSB a total of AUD\$650m, which included compensating customers, additional resources, fraud and foregone income in addition to significant reputational damage.





## 2. Data Governance and Quality Control

One of the foremost challenges within Investment operations is the management of vast volumes of financial data. Companies deal with an array of data, including market data, client information, trading records, and regulatory reports. Ensuring data accuracy, maintaining data integrity, and protecting sensitive information from cyber threats pose significant challenges. A data-driven industry relies on reliable and accessible information to make informed decisions, making data management a critical aspect of investment operations.

Within the back office often multiple operations are performed by different teams in-house or outsourced to third party providers. Marrying data across systems and teams creates complexities and introduces significant risk into our daily operations.

Poor data governance can have disastrous, or even fatal consequences.

Adopting advanced analytics and automation technologies can aid in streamlining data processes and enhancing data quality, thus enabling more accurate and timely decision-making.

The industry has been slowly shifting from moving data between Excel spreadsheets and email, to replacing these manual processes with more secure, dedicated software solutions. But we continue to see areas where investment is needed and in particular, we sometimes still see unit pricing operations being performed on spreadsheets.

As the complexity of investment operations increases, dedicated software solutions offer more advanced features, automation capabilities, scalability and hardened security controls.

Excel does not have a built-in backup and recovery mechanism. If a user accidentally deletes an Excel file or the file becomes corrupted, it may not be possible to recover the lost data. Databases, on the other hand, have built-in backup and recovery mechanisms to ensure that data can be restored in the event of a problem


If you are subject to a ransomware attack, then you may not be able to access your data or a backup of this data easily.

## There are multiple examples of data breach issues across companies and government bodies.

### Incident

In early August 2023 the names of police officers and staff in Northern Ireland, where they were based, and their roles were published on the internet.

A continuing threat against officers from dissident republicans means authorities must be extremely vigilant about their personal security. The data was made public, in error, by police as they responded to a routine freedom of information (Fol) request.

-  Personal information about 10,000 police officers was shared in error. The information included the surname and initials of every employee, their rank or grade, where they are based and the unit they work in, including sensitive areas such as surveillance and intelligence. This data breach put lives at risk.

### Outcome

This was a simple human error, but it cast a light on some poor data governance practices.

## Actions that ensure Data Governance and Quality control.

### Technology: the key to operational resilience

While there is in general good adoption of technology and automation for reducing cost and eliminating the time and errors that result from manual operations, technology and automation are increasingly required so that enterprises can become more resilient and compliant. Achieving automation goals requires a holistic approach, with clearly defined governance, accountability, cyber security, and common data standards.

One area that is not mentioned enough is legacy software is either unsupported or has third-party components which are no longer supported.

### Solution

#### Remove legacy software to avoid:



Costly maintenance and upgrades



Avoid the risk exposure of unsupported software systems



Security Gaps due to ransomware attacks



Regulatory concerns for unsupported legacy software





## 3. Adaptability & Agility

In the animal kingdom, survival of the fittest isn't necessarily about being the best in the game, it's about being the quickest to acclimatise.

Change can sometimes be scary.

It can signal uncertainty. It can be challenging and even fail. Firms are sometimes comfortable in their bubbles, move slowly, or in some cases, stand still, despite knowing deep down that it could create larger problems for them. We've seen it happen. Large-scale, heritage brands have fizzled out because they simply did not change with the tech tide.

Adaptability and agility are essential qualities for success in today's rapidly changing and dynamic business and investment landscape. As companies face ever-increasing cyber, technology and outage threats being adaptable and agile is paramount.

**"It is not the strongest  
of the species that  
survives, nor the most  
intelligent, it is the one  
that is most adaptable  
to change".**

**– Charles Darwin**

# Cash and Asset Allocation, Navigating the challenges

Adaptability encompasses the capacity to pivot in the face of change, recalibrating strategies to align with evolving market trends. It demands a keen awareness of macroeconomic factors, an openness to new perspectives, and a willingness to challenge established norms. Similarly, agility encapsulates the speed at which investment operations can respond to emerging scenarios, whether they are market disruptions or sudden shifts in investor sentiment. An agile approach empowers investment teams to make informed decisions swiftly, capitalizing on fleeting opportunities and sidestepping potential pitfalls.

Adaptability and Agility don't just happen, it is not an organic or innate practice but, comes from having empowered people.

- ✓ Steve Jobs spoke at Stanford University in 2005, where shared about being fired from Apple, the company he had started, at the age of 30. He said, 'Getting fired from Apple was the best thing that ever happened to me'. He went on to say that being fired from Apple, freed him to enter one of the most creative periods of his life.
- ✓ We know technology plays a significant role in allowing companies to seize opportunities and respond to changes in market conditions. Selecting a good technology partner ensures that your company is keeping pace with competitors. Software which is continually evolving and improving will ensure that you can continue to operate in a lean and effective manner.
- ✓ And finally flexible procedures and processes.



## Who we are

FRS is a valued and trusted partner with over 24 years of experience implementing fund administration software. FRS was founded in 1999 by actuaries and IT specialists. We specialise in fund administration and investment accounting, including Unit Pricing software.

## How can FRS help?

If you are planning an investment administration project then please reach out to Financial Risk Solutions (FRS). We are technology partners to life assurance, wealth, and asset management firms worldwide. Our clients license FRS software to help navigate the ever-changing challenges of growth, regulatory pressures, and competition in the industry. More than 150,000 funds are administered on our software Invest|Pro™, every day.





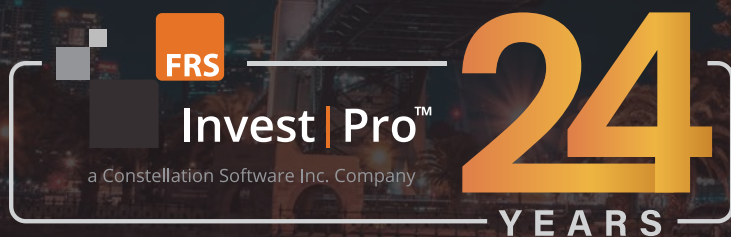
## About Financial Risk Solutions Ltd (FRS)

The award-winning\* InvestPro™ platform is relied on by blue-chip financial services and BPO clients to reduce operational costs, increase efficiencies and mitigate risk in the manufacture and management of investment products. More than 150,000 funds are managed on the InvestPro™ platform today.

Delivered cloud-hosted or on-premise, InvestPro™ securely automates multiple complex fund administration processes including unit-pricing, cash allocation and rebalancing; oversight and validation of operational activity performed by outsourced partners; and in Europe monitoring and reporting for PRIIPs, KID requirements, and Pillar III asset reporting for Solvency II.

FRS is part of the Constellation Software Inc. group and headquartered in Dublin, Ireland, with offices in London, Boston and Sydney.

For more information visit [frsltd.com](http://frsltd.com) or follow FRS on LinkedIn at [www.linkedin.com/company/frs-ltd](https://www.linkedin.com/company/frs-ltd)



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2023 – FS Awards Fund Admin Company of the Year • 2023 – Global WealthTech 100 List •  
2021 – Xcellent Technology Award 2021 • 2020 – GRC Product of the Year – Asia Risk.Net Awards •  
2020 – Pensions Technology Provider of the Year – Irish Pensions Awards • 2020 – Best Back Office Solution –  
FundTech Awards 2020 • 2019 – Best Solvency II Tech Solution – Insurance Asset Management Awards



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