Outsourcing demystified

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1. Busting the myth that outsourcing is about ceding control, instead it is about a fit-for-purpose partnership in which each party focuses on what they do best.

2. Explaining the many reasons why outsourcing is attractive – including on-tap access to a range of expertise and resources, as well as providing a knowledgeable guide across jurisdictions.

3. How practical, flexible outsourcing can deliver a range of support as it is needed, and how fulsome that support can be depending on client requirements.

Why are more fund managers outsourcing their operational and administration activities to a specialist service provider? Simon King, Jurisdictional Head – Jersey, explains.

It's a decision most fund managers will consider at some point: should they outsource their operational and administrative activities to a third-party fund administrator? While the need to outsource is a sign the firm is maturing and perhaps expanding into new jurisdictions, many feel apprehensive about outsourcing, with the name itself implying an element of relinquishing control. This is why I thought I would 'demystify' outsourcing.

Outsourcing in a nutshell

Here's a definition of outsourcing to start. It is a tailored arrangement between an investment manager and a specialist fund administrator, who takes care of specific operational and administration activities. Outsourcing should make life easier for the investment manager, allowing them to focus their attention on their core investment activities. Here are the four key benefits a fund manager can expect from an outsourcing arrangement:

1. Access to expert resources

Outsourcing can provide a ready-made solution to the day-to-day complexity that threatens to overwhelm many investment firms – particularly those looking to expand operations into new jurisdictions.

For example, for a UK fund manager launching an offshore fund this would not just involve significant product development, but also the establishment of a completely new internal operational environment. Suddenly, the fund manager is dealing with the burden of new regulation, reporting and accounting standards, compliance, IT security, and many other unplanned for processes and training. This could include investment in accounting software, as well as training and managing of finance and compliance employees.

However, outsourcing to a service provider with experience within that jurisdiction means the manager benefits from an operational and procedural infrastructure built using experienced people, tried-and-tested processes and up-to-date technology. Outsourcing means the fund manager eliminates the need to own the advanced platforms required to administer their funds, as well as the high upfront costs of set-up, configuration, and ongoing maintenance. Instead, they get all the advantages of plug-and-play, benefiting from the continued investment – in resources, technology and IT support – made by the third party, who will have teams of experienced professionals, specifically trained in these administrative tasks and controls.

2. On-demand specialist expertise

In a competitive marketplace where specialist resources come at a premium, outsourcing provides access to highly experienced individuals critical to the effective day-to-day operation of a fund. More importantly, the service provider assumes responsibility for the recruitment, training and development of these skilled people, whom the fund manager can simply call on as and when they are needed.

3. Cost savings and efficiencies

At a time when fund managers are acutely aware of the importance of keeping administrative costs to a minimum, outsourcing not only ensures a more stable cost base, but also makes it inherently easier to create a structure of independent, but co-ordinated, controls. This, in turn, delivers cost savings and efficiencies. Also, choosing an independent fund administrator means the fund manager can meet the best-practice standards imposed by its limited partner investors and share the costs of their third-party administrator through its funds and across its client base.

4. Entering new jurisdictions with reliable partners

Finally, outsourcing can dramatically extend a fund manager's scope and reach, helping it to enter core jurisdictions without relocating key personnel or switching operational resources from one region to another. A fund administrator working in multiple jurisdictions gives the fund manager a competitive advantage in terms of understanding relevant laws and regulations, as well as what constitutes best practice in financial reporting and structure administration. The fund administrator can also establish a local board of directors or a management team in the fund's country of domicile, ensuring decision-making and oversight of the fund are conducted locally, adding substance to the structure.

Outsourcing in action

One of the most important features of outsourcing is that there is not a one-size-fits-all approach. In my experience, our clients appreciate that we offer a menu of operational and administrative services (including company secretarial support, accounting, transfer agency middle office) which allows them to 'dial up' or 'dial down' based on their current priorities. Over the last few years, more of our larger corporate clients want us to provide a comprehensive middle and back-office service. This gives them the ability to focus their attention on launching new investments, without having to worry about resourcing implications and regulatory (and jurisdictional) requirements. They are confident we will take care of that aspect for them.

Another area where our clients value the support of a third-party provider is in terms of security. Since the pandemic forced more people to work from home, investment companies – and their clients – have faced near-constant attacks from fraudsters and hackers. Our clients feel reassured that our people are highly trained, and our systems are up-to-date to fight off these cyber-attacks on their behalf, preventing them from suffering financial or reputational losses.

Making outsourcing work for you

Outsourcing isn’t about relinquishing control, but rather about building the bespoke support a fund needs at each stage of its development, from a fit-for-purpose menu of expert functions. As investment management in different jurisdictions has become increasingly complex, more fund managers – and their intermediaries – recognise that outsourcing gives the fund manager far greater control than they might have had previously, as well as giving them the solid platform they need to make business expansionary decisions.

Also, fund administration comes with many hidden costs (in terms of recruitment, training, retention, technology considerations, to name a handful), so an outsourcing arrangement is the most cost-effective way of removing pain points and ensuring the fund manager can focus enough time and effort on its core investment management activities.

However, the real advantage of outsourcing is that it offers fund management companies clarity and certainty. It allows them to extend their operational resources seamlessly, while maintaining service continuity and stability, and demonstrates the belief that the business – and its investor base – deserves the very best people, controls and technology.

For more on outsourcing and what operational best practice looks like, visit Drive2Aztec »