Third-party fund processing can be a considerable drain on any company’s profitability. However, in the pre-RDR world, this was largely hidden from the wealth management community as their platform providers covered the cost of processing by taking a cut of their full trailer fee entitlement.

The historical benefits of using a platform are clear and very appealing: free order routing, settlement, custody and asset servicing along with access to a broad range of funds. Traditionally, the charging arrangements tended to be quite simple: a fund provider paid a sales commission to the platform arrangements tended to be quite simple: a fund provider paid a sales commission to the platform provider, who then may have received a share of the trailer fee paid to the platform. Wealth managers are happy to offer fund custody and asset servicing along with access to the investment value chain between retail investors and fund management companies.

Surely these automated platforms save time, and therefore money?

Although these platforms appear highly automated and efficient, a look below the surface reveals highly manual processing hauls. It is this lack of investment in the post-trade arena which is now coming to the fore.

Can and should wealth managers change their existing post-trade arrangements to find one that is more streamlined and cost-effective?

Downstream of the order routing, processing activities may rely on a huge manual paper flow. The post-trade component, including fund settlement and reporting, corporate action processing, the handling of tax vouchers as well as cash and securities reconciliation, may all be highly manual with large teams of staff in processing centres checking files, telephoning and email communication across the investment value chain between retail investors and fund management companies.

Order routing is a commoditised, plain-vanilla activity in the modern fund processing world and electronic order communication should be viewed as a basic requirement. But, when paying significant amounts for their fund processing (through the bundled fee retained by the fund platform), wealth managers should be pushing for high levels of automation across the fund processing cycle, including the post-trade component.

Efficient alternatives are available in the market that will offer high STP rates across these processing segments. For example, Clearstream’s Vestima solution delivers full automation across order placement, DvP settlement and asset servicing, supporting this activity from the same platform that we use to support customers’ fixed income, equities, warrants and a range of other instrument types.

What are the risk management benefits of automated processing?

When handling large order sizes and large investment portfolios, the risks presented by a failed settlement or a misprocessed corporate action may be extremely large – resulting in late delivery of funds, sizable claims or even a potential exclusion from the market should you face issues in the CSD.

Fixed with these risks, it is unadvisable for wealth managers to settle for sub-optimal levels of processing efficiency from their service provider.

The aim applies to fund custody. Few self-reporting private banks would dream of supporting clients’ fixed income and equity portfolios without issuing a Request for Proposal (RFP) and conducting rigorous due diligence tests to select the best possible provider. And yet, some private banks and wealth managers are happy to offer fund custody themselves – or to avoid of fund custody from their platform provider principally because this service is bundled with their wider service package.

How has the RDR sought to reshape the relationships between financial service providers, intermediaries and consumers in the UK market?

In the past, financial advisers, even those claiming to be independent, were paid largely through commissions when they sold a fund provider’s product. In theory, fee-based advice was available, but few members of the public were ready to pay for financial advice.

Over time, financial regulators became increasingly aware of the high levels of risk presented by a failed settlement or a misprocessed corporate action may be extremely large – resulting in late delivery of funds, sizable claims or even a potential exclusion from the market should you face issues in the CSD.

What are the pressures from the Financial Conduct Authority (FCA) to streamline this process?

With the FCA monitoring fund processing and asset servicing even more closely, wealth managers are coming under greater pressure to appoint best-in-class fund processing and fund custody to support their clients’ fund assets. For example with Clearstream being confirmed as a ‘Commercial Settlement System (CSS)’ by the FCA, inline with policy statement 14/5, there is really no excuse for any self-respecting wealth manager to use any provider who doesn’t match this new best status.

How has Clearstream managed and what alternatives are there?

Clearstream is a global leader in post-trade securities services with more than £6.6 trillion (€1.34 trillion) in assets under custody, of which over £1 trillion (€1.34 trillion) are fund assets. Over 2,500 banks, wealth managers and financial institutions around the world use Clearstream. As a specialised fund-custodian, Clearstream delivers state-of-the-art solutions to standardise investment fund processing and to increase efficiency and safety in the investment fund sector. With more than 200,000 investment funds of which 70,000 are hedge funds, Vestima is the world’s largest cross-border fund processing platform. Through its Vestima platform, Clearstream offers an integrated fund solution that can handle fund transactions and post-trade processing with a high level of automation.