


**Welcome to the Spring issue of MasterPiece.**  
from Tom Brady, CEO


Following the launch of the new e-format MasterPiece, we were encouraged to receive positive comments and feedback on both delivery and content of the 'ezine'. We're pleased to forward you this issue in the same format... page 2



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## Introduction

### Welcome to Investmaster's Spring issue of MasterPiece

Following the launch of the new e-format MasterPiece, we were encouraged to receive positive comments and feedback on both delivery and content of the 'ezine'. We're pleased to present this issue to you in the same format.

Our contributed articles this issue cover a range of topical issues under the broad theme of effective document production and management, both to limit risk and to enhance client service. David King of Tiger Consulting shares how significant operation risk reduction can be achieved through implementing simple measures such as KYC and document imaging solutions. Further articles have been contributed by Investmaster partners: Steve Taylor of MBA Systems Limited makes a compelling case for ensuring document and data security with focused business continuity planning, and Damian Bryan of Equipos Limited sees a new breed of intelligent reporting tools combining the best aspects institutional and private client reporting. Our own Product Strategy Director Neville Margison highlights the business benefits in achieving effective performance measurement reporting.

As the markets continue to gear up for the introduction of MiFID, we have introduced a special MifidWatch section to our newsletter to round up news and views. We include a thought piece by Gary Wright of City Compass Research, in which he takes a refreshingly positive view of the business benefits to be gained in a post-MiFID era. Gary is fast establishing himself as a MiFID expert and is chairing the "MiFID – Business Opportunities for Wealth Managers" seminar which Investmaster is pleased to be sponsoring on 29 June 2006 in the City of London. We also in this section outline some of our own responses to MiFID, including the launch of [www.mifidsolutions.com](http://www.mifidsolutions.com), a MiFID resource centre for market participants, and an update on how we are actively developing our own products in response to the challenges presented by MiFID.

We also include other items of news from Investmaster, including client developments and a review of some of our other activities.

I hope you enjoy MasterPiece and find the contents of interest. We look forward to receiving any comments and feedback you may have.

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## **Operational Risk – What does it really mean to a multi-branch wealth manager, stockbroker or private bank?**

“Operational Risk” is a much-abused term that can be used to cover a multitude of sins. After all, small to medium sized organisations have to conform to virtually the same regulatory and disclosure requirements as their larger counterparts, and there is always a wide range of client and internal demands relating to revenue, service and performance targets whilst reducing costs.

In the smaller organisation there are often shared roles; the compliance function for example can be split amongst a number of nominated representatives. Similarly for IT. This can discourage operational risk reduction as the responsibility falls between different stalls.

We had a very practical example recently when a newly appointed Chief Operating Officer of a small investment management firm invited us to perform a standard operational audit. He knew that their operational processes were “lean and mean”. However, it was equally clear to him that the company lacked understanding of their clients and the relationships they had with them. Their biggest clients had been with the firm for years and knew the partners personally. But newer customers were largely unknown by the partners and therefore suffered from second-rate service. The problem was exacerbated by the existence of multiple UK branches and the inability to share client records quickly and easily between these centres.

As part of the operational audit, I asked to see their client records and was led into a very large room with dozens of filing cabinets containing mountains of documentation on their 5,000 or so private clients. I was told that this sight was replicated across the UK.

For this firm, operational risk was very real. Their lack of information and strength of relationship with their newer clients was constraining their growth and making client retention far less secure. It also had potential compliance issues surrounding their “Client Suitability” process.

We provided a simple solution for reducing the risk and the business case was easy to justify. They are now investing in a simple KYC tool, and replacing their paper mountains with an easy to implement and cost effective document imaging system. Shortly client records will be seen online from any office and at any time, making long-lasting relationships far easier to form.

So operational risk is certainly an issue for multi-branch wealth managers, stockbrokers and private banks and they should question the level that exists: could they operate better, and is the cost of change justified by the long-term return? Quite often the answer is yes, it just requires a catalyst to make it happen.

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## Making Business Continuity Happen

In a 2005 survey by McKinsey\*, 46% of senior IT executives in the USA reported that they would be adding disaster recovery services to their next year's shopping list. Their explanation was twofold: firstly to comply with new regulations, and secondly to address a greater awareness of the risk posed to their business by security considerations.

It seems that security issues loom large in the minds of US CIOs, in particular the increasing threat of intrusions at firewalls and interruptions into company-wide networks. These issues are forcing an investment, albeit reluctantly, in the addition of monitoring and prevention systems to their annual IT budgets.

So will last year's worry in North America be translated into this year's issue for their European counterparts? Planning to prevent or deal with a disaster has about as much appeal to a company executive as organising their own funeral. For most executives, they expect it to be done properly, but certainly do not want to waste time thinking about it and definitely do not want to spend money planning it!

It has often been said that business continuity planning suffers from being too important to ignore, but is never really urgent enough. By the time however it becomes urgent, it is normally too late.

Fortunately, disasters are rare and mercifully spectacular ones even rarer. The 21<sup>st</sup> century executive however cannot avoid the mass media nor ignore entirely the publicity provided on 24-hour news channels to dramatic events on far away continents. As a consequence, often such stimulation merely evokes a feeling of helplessness. The rationale is often: "If a catastrophe befell, then no matter how much contingency we had in place, we couldn't survive it, so let's not bother". Or conversely it evokes apathy in the belief that: "It will never happen to me".

In reality however, it is many minor disruptions, occurring simultaneously, that pose a greater threat to a business. Disruption to power supplies, compromises to network security and hardware failures still make up the majority of incidents that cause business problems.

Few industries are now more dependent upon IT than financial services and with its new heightened importance to the UK economy, contributing 11% to GNP in 2005, the role that IT plays in modern economies is profound. Though some members of the broking profession may still recall the "good old days" before automation was introduced, it is unlikely that too many investment managers today would be keen to run their current operations without the aid of number crunching processors.

So what help, if any, can the IT industry bring to solving the important, but not too urgent problem of business continuity?

The real answer is probably quite a good deal, provided firms are prepared to make a modest investment in an "insurance policy".

Modern technology has provided at least part of the solution to the problems posed by minor or major disasters. The outsourcing of data centres has enabled firms to reduce the single points of failure that hitherto were unavoidable. Web server applications also include a degree of inherent protection and, when combined with the growth in plentiful and reasonably priced bandwidth, makes distributed processing affordable on a wide basis.

Within data centres themselves hardware backup techniques such as data mirroring prevent the loss of vital data. RAID technology allows each server to store data onto more than one disk with the advantage that in the event of failure another will carry on operating with little or no disruption to service.

With such a high dependency on IT and such simple steps to ensure its continuity, there can no longer be an excuse for management not to make the necessary plans to ensure business continuity in the event of an IT problem.

*MBA Systems Ltd in conjunction with Investmaster provides comprehensive business continuity services from a pair of secure and resilient data centres, including market prices, execution, clearing, settlement and document management services.*

\*Source: 2005 McKinsey survey of US senior IT executives

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## **The Convergence of Institutional and Private Client Reporting**

### **Are high volume Private Client reporting and low volume Institutional reporting really that different?**

Throughout my career I have been responsible for the planning, design and implementation of many Client Reporting systems. These reporting systems have been predominantly for Private Banking which requires high volume, high quality, standard template driven reports. At the time, from the Private Client viewpoint, the world of Institutional reporting required bespoke reports to individual clients, of very high quality, with multiple market data sources. The report design was very much 'graphic design' style literature with a small number of variants and a massive amount of manual collation.

Is this still the case?

#### **Private Client Reporting**

When I started with Private Clients, the reports were all from a single system and consisted of all the right financial information. The system was high volume capable but the visual quality was poor and the personal content non-existent.

Over the last decade, Private Client reporting has started to adopt more intricate and graphical reporting including the ability to 'customise' output for particular high net worth clients. The introduction of inexpensive colour production has also given rise to more charts and images being included especially around performance reporting.

Until fairly recently the idea of inserting a client specific Word document into the generation of tens of thousands of reports was not possible and reports with commentaries were lifeless, generic and terminal based narratives.

The vision of Private Client reporting is to include documents, charts and commentaries based on the specific requirements of individual or groups of clients, driven by portfolio content, as well as including personal letters that are very client specific. The production of reports should be fully automated, and include alternative methods of approval, delivery, and archiving.

Private Client reporting has accepted automation technology as essential, but the style and content of the reports is still evolving.

#### **Institutional Reporting**

Traditionally, Institutional reporting was 'hand cranked' at every stage of the process. At first, reports were printed by graphic designers. Over time Word Processors and PDF took over production. Even with these new tools, the process was still mostly manual.

Over the last decade, Institutional Reporting has started to use technology to streamline production and automate some of the manual tasks. Workflow, Data Warehousing and Document Management systems allow the data for Institutional Reports to be 'frozen' and ready for reporting.

Until recently the idea of a reporting system that could handle all the data parts, documents and workflows in real-time and create the 'hard to create' reports was not possible. Because no off-the-shelf system could do this, in house reporting systems were developed to fill this gap. The vision of Institutional reporting is to include a full production lifecycle under the control of a reporting system with the ability to regenerate a full document in seconds and alleviating the necessity of 'last minute' changes with all the concerns of quality control, which can become a compliance and management nightmare.

Institutional reporting understands the style and content of the report but the automation technology is still evolving.

...contd

## **The Best of Both Worlds**

From these observations, you could say that Institutional have the reports but lack the automation and Private Clients have the automation but lacks the reports.

Traditionally, Institutional and Private Client Reporting have required distinctly different software products.

However a new breed of intelligent reporting solutions integrate Document Workflow, Document Management, sophisticated report design, business intelligence and high volume production to give a full solution to both Private Client and Institutional reporting.

*Equipos in conjunction with Investmaster provides Coric Straight Through Reporting (STR), a product that has anticipated this convergence and provides all the tools necessary for both environments. Coric Straight Through Reporting is the latest generation of smart reporting software that takes the extra step to join both of these reporting styles into a single product giving Institutional report quality to Private Client and Private Client automation to Institutional.*

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## Proving Performance Wins Loyalty

Retaining existing customers before the dot com collapse was far easier than it has been in recent more benign market conditions. Discretionary clients were used to receiving their valuations and expecting to see that the portfolio's value had increased since the previous period. Sure, individual securities sometimes dropped in value but for most of the preceding thirty years, give or take the slight hiccup, the stock market had consistently outperformed almost every other investment vehicle. Interestingly though, whilst clients checked the portfolio to see the size of the gain, very few ever bothered to question whether their investment would have done even better with someone else looking after it.

The majority of a discretionary broker's clients had been with them for years and for younger investors, it seemed to make sense to use the same broker that had looked after their parents. Even during the bear market in the early 2000's, most clients retained their existing advisor even though the value of their portfolio was diminishing.

However, as the market slowly started to recover, clients started to ask themselves 'what do I really know about how my wealth is being administered?' or more worryingly for wealth managers, 'would my investments be better off somewhere else?' Of course, institutional clients have always needed to ensure their own customers investments were getting the best return, resulting in the Association for Investment Management and Research (AIMR) and latterly the Global Investment Performance standards (GIPS) initiatives. No fund managers operating in that space will last long unless they are able and prepared to publish the performance of the portfolios that they look after.

In spite of this, very few private client wealth managers have been prepared to offer the same reporting standards to their customers. This in part has been due to the lack of good quality investment support products that have this capability. The addition of this to Investmaster's Wealthmaster Front Office product now makes this a painless process for private client firms.

The earliest drafts of MiFID went as far as making this a mandatory requirement for discretionary clients although there has been a softening on this and when the directive goes live in November 2007, it will remain an optional service. However, given the EU's drive towards increased competition and choice, it is surely only a matter of time before it becomes a necessary requirement. Some private client firms have already realised that by offering greater transparency via performance measurement reporting it is a great tool in retaining client loyalty. Firms that prove they are happy to be open about how successful they are with their funds under management will inevitably engender greater customer confidence and trust. As we all know, happy, confident clients are far less likely to wonder whether 'the grass could be greener' somewhere else.

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## News

### **Cunningham Coates sign up to 4i-Core**

Cunningham Coates Stockbrokers, one of Belfast's leading financial institutions, has committed to Investmaster's flagship 4i-Core product, a highly scalable middle and back office system that automates the entire transaction, settlement and custody process. They will also use 4i-Connect for Crest connectivity and 4i-OMR, the functionally rich order management and routing system.

Cunningham Coates Stockbrokers are already established users of Wealthmaster Front Office (WMFO), our real-time, front office portfolio management product which integrates fully with 4i-Core, providing a front to back office solution. Cunningham Coates Stockbrokers joins a community of over twenty 4i-Core users, and will benefit from Investmaster's continuing high levels of investment and strategic commitment to the product.

### **Investmaster's Crest Special Interest Group**

As part of our proactive approach to monitoring and preparing for technical and regulatory change in the wealth management sector, Investmaster has initiated a series of Special Interest Groups (SIGs) to provide users with a regular forum for discussion and peer exchange on key industry issues.

In February, we hosted a Crest Single Platform SIG, with invited guests from Euroclear who shared the latest thinking on the proposed single platform, scheduled for implementation in 2008. With over twenty users of our flagship 4i settlement systems, and nearly 30 users of our Crest gateway system, Investmaster continues to invest significant resources to ensure our products are on track to support users in meeting these important changes. Clearly the move to the SWIFT protocol will be a challenge for all participants; thankfully the large user base of 4i will reduce individual costs.

### **New look for Investmaster website**

We have recently updated the Investmaster website at [www.investmaster.com](http://www.investmaster.com). With a fresh new look, and products grouped according to functionality, we hope you find the new site more informative and easier to navigate. Contact us for further information on any aspect of our products or services.

### **Coming soon... Performance Attribution**

As can be seen in this issue's article on performance measurement ('Proving Performance Wins Loyalty') this reporting tool can be of great value to customers. Investmaster is currently enhancing this feature so that it will be possible for investment managers to historically analyse the performance into its constituents. Look for the article in the next edition of MasterPiece to see how this can be used to monitor the success of the decision making process.

## MiFID Watch

### MiFID – An Era of Opportunity

MiFID continues to grab plenty of headlines in the press, with most focusing on the cost of implementation. However, there is another side to MiFID that has not attracted such prominence in the press, but which is beginning to come to the attention of wealth managers. It is the realisation that for those firms ready to embrace change, MiFID will present not only challenges, but also significant business opportunities.

There are considerable business benefits to be gained post-MiFID as new markets across Europe open up, with the massive increased liquidity and depth bringing the prospect of a bull market. The political objectives of MiFID will be met once the securities market and investors realize that greater competition between financial services suppliers brought about by MiFID will drive down costs and increase profit margins. For the investing world, MiFID has the potential to deliver enormous positive benefits, possibly narrowing the gap in pension shortfalls and creating a world class market that could usurp New York.

Wealth managers today should be answering some straight questions: Do you want to be a part of the new age? Do you want to take advantage of the opportunities that MiFID will offer? Or will you sit on the sidelines and watch your competitors overtake you?

Only by gaining a thorough understanding of MiFID and its likely effects, and by adapting your business strategy today will you gain entry into this race.

#### **Gary Wright**

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*Footnote: To promote a clearer understanding of the opportunities offered by MiFID, Investmaster will be sponsoring a morning MiFID Briefing session being held by CityCompass Research.*

*Under the banner 'MiFID: Business Opportunities and Issues for Wealth Managers', key industry speakers will discuss business impacts and share insights to help market participants prepare and position for the advent of MiFID.*

### Investmaster sponsors MiFID Briefing for Wealth Managers

We are pleased to announce that we will be sponsoring a key event in partnership with CityCompass Research, the independent research, facilitation and event management specialists.

The morning Briefing session will provide wealth managers with a unique opportunity to align the challenges presented by MiFID with the huge potential business rewards.

When: Thursday 29 June 2006, 9.00am – 12.30pm  
Where: Sun Microsystems Customer Briefing Centre  
Regis House  
45 King William Street  
London EC4

For full details and to enrol for the event, please visit [www.citycompass.org](http://www.citycompass.org)

## MiFID Watch contd

### Investmaster launches MiFID resource website

Scheduled to take effect in November 2007, MiFID will have an enormous impact on all participants in the European financial services industry. As one of the leading software vendors for UK wealth managers, Investmaster has been closely monitoring MiFID developments and committing resources to ensure that our products and services are ready to support our customers in the new regulatory framework.

To help our clients and the wealth management community as a whole to appreciate the broad implications of MiFID and to prepare for the coming opportunities and challenges, we have launched [www.mifidsolutions.com](http://www.mifidsolutions.com) a dedicated site that aims to provide a unique, one-stop MiFID resource centre for market participants. The site features useful links, commentary and thought pieces on a wide range of business, operational and regulatory issues relating to MiFID. The site will develop and expand as issues come into focus, and we welcome your comments and suggestions for additions to the site. Visit the site now at [www.mifidsolutions.com](http://www.mifidsolutions.com)

### OMR<sup>2</sup> to meet MiFID challenge

There can be no doubt that the new MiFID regulations will affect most areas within a Private Client Investment Managers (PCIM) business. Equally, it is now clear that the single most affected area will be that of order execution. For those of you waiting to see the final cut of the rule changes, here are the currently planned issues:

- 'Best Execution' is no longer solely based on price
- Greater transparency in how a firm executes orders
- Firms will have to monitor order flow via the multiple RSPs that they use
- Storage of all quotes gained during the execution process
- Firms will have to publish an 'execution policy' and then make clients aware if it changes
- Publish limit orders that are more than 22 hours old

It is clear that these new regulations will be difficult to adhere to solely by changes in business practice. In response to these new requirements, Investmaster has developed a major new version of its order management and routing product which it is calling OMR<sup>2</sup>. The new enhancements will provide the following features:

- Access to all three RSP gateways (LSE, Thomsons and Proquote)
- Access to the LSE's SETS order book
- Order quote auditing and review
- Order routing to dealing areas based on stock type (eg. Unit trusts or foreign securities)
- A browser based order input mechanism
- Publishing of limit orders (once a suitable vehicle is announced)

OMR<sup>2</sup> will greatly assist firms in meeting the MiFID challenge over the next year.

## Product Set

Investmaster Group Limited is committed to the provision of genuine straight through processing solutions to the wealth management and institutional broking sectors. Our product sets cover the full trade lifecycle from front office decision support through to settlement. Ensuring pre and post-trade compliance and underpinning the clients' business in an increasingly regulated market, our fully integrated suite of products has been purpose built for the wealth management marketplace.

Here's a quick overview:

- *4i-Core* : The market leading settlement system
- *4i-OMR* : A highly flexible order management and routing system
- *4i-CFD* : The specialist broking and settlement module for 'Contacts for Difference'
- *4i-Connect* : The most widely used CREST interface product on the market
- *Wealthmaster Front Office* : With over 800 users, the most widely used portfolio management and modelling product in the UK.

Our Wealth Relationship Management platform is complemented by partner products for which we act as distributors:

- *Coric* : Document Management and Client Reporting
- *Salentica* : Client Relationship Management
- *Revenue Manager* : Calculation and production of fees and invoices and calculation of trail commissions

Visit us at [www.investmaster.com](http://www.investmaster.com) for more details, or contact us at [info@investmaster.com](mailto:info@investmaster.com) for further information.