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Are fund administrators leaping too far forward in the ongoing in-house vs outsourcing debate by ignoring the issues around the perceived quality of their service provision within the PE industry?

PUTTING QUALITY FIRST – CHALLENGING PERCEPTIONS OF FUND ADMINISTRATION

It is perhaps unrealistic for administrators to assume that the argument around “why outsource” is worth its salt when, in reality, the perception of cost and quality of their services is often far from acceptable. After all, are fund administrators not seen as being too expensive and an unnecessary cost - particularly in offshore structures where GPs simply “need to have one”?

With the impact of the current economic climate being felt across the Private Equity industry organisations are taking a fresh look at their business models. This is happening not just for GPs and LPs but for the responsible service providers too.

There has been a lot of coverage of GPs working harder for their investors but what about Fund Administrators working harder for GPs? The challenges facing the GP community around demands for greater transparency, cutting costs and focussing on new markets and opportunities have fuelled the outsourcing debate but the debate for service providers should really be around how to best add value for clients. It is time to get smarter and, in a recession, we all have challenging decisions to make as to the best use of our time and resource.

Time to get smarter

Investing time and effort in reviewing costs and efficiency levels is the smart thing to do in the downturn. Investing time in your workforce and improving their all round industry knowledge via cross training is the smart thing to do. Investing time and money in client relationship management is the smart thing

to do. Seeking feedback from clients and acting on this feedback is where Ipses has focussed its senior managers’ time and effort and it’s a strategy that works.

Fund administrators must mirror the activity of review to ensure that they are highly competitive on cost and service quality – in short, they need to work harder at proving their worth. Those who align themselves with their clients and focus on great service provision rather than pursuing on a scatter gun approach to marketing in a (costly) bid to become a “Jack of all trades” will survive the downturn.

Great service speaks volumes

It’s not all doom and gloom though, indeed the growth in the fund administration industry over the last 10 years is testament to many fund administrators getting it right. However, the question remains - how do administrators shake off the historic negative perception and ensure that all the good work carried out is recognised?

The answer, as we see it, is great service provision - no fancy marketing or punchy lines can possibly compete with good old fashioned service delivery of the highest degree. The rest will follow as service excellence is hard to keep quiet.

Why outsource?

The role of a top performing fund administrator / outsourcer is to help private equity flourish - both in good and troubled times and this can only be achieved through investing time and effort in their client base. Only when quality is assured via a strong track record can conversations take place

over “why should I outsource?”.

Whether or not to outsource fund administration isn’t a new debate however it’s recently gained momentum as the arguments for outsourcing do stack up in a downturn. Assuming service delivery is where it needs to be, what are the benefits?

1. Focus on core competencies: Outsourcing part of the back office allows GPs and LPS alike to focus on their core competencies through reducing time spent on non-core work. By visiting the day to day workloads it will become apparent that a large percentage of the day is spent on the more administrative functions which could be easily outsourced to the administration experts. Outsourcing could free up the “keyman” (FD/CFO) to concentrate on higher value add activities including deals, restructuring, fundraising and new initiatives, leading the organisation to competitive advantage over other fund managers as the “keyman” is released from day-to-day distractions of “fund processing”

2. Improved investor relationships: All private equity houses recognise the importance of their relationships with their investors. Investor communication and relationships are not a simple process this point is fully understood by good fund administrators. It is important that the private equity houses have regular dialogue with their investors and, importantly, give their view on the marketplace and, where relevant, mitigate any concerns relating to rumours or trends that may affect performance or the team.

Outsourcing investor communica-

“Outsourcing could free up the ‘keyman’ to focus on higher value add activities.”



tion does not surrender the communication, instead it allows the GPs to retain contact with their investors, whilst the administrator streamlines the process. Developing systems to allow LPs to have self service access to all of their records is where the IT development budget for professional administrators should have been spent. The recent market trends have meant that LPs have needed more frequent / timely information. The other advantage to using an administrator is to make use of a “best practice” service offering in terms of content of reporting to LP’s. Whilst total confidentiality over their database is priority a strong firm of expert administrators will be able to share trends by adapting their internal design and reporting to meet the ever changing LP needs.

3. Flexibility in uncertain times: Outsourcing brings a high degree of flexibility both in terms of the level and nature of resource provided. This enables GPs to upscale / downsize as required and to bring in expertise for administration in a number of jurisdictions, structures etc. In this way outsourcing supports a nimble response to changes in the environment enabling the GPs to move quickly on opportunities where there is intense competition for investment

Additionally, carrying out a cost benefit analysis for in source versus outsource will give investors comfort of a GP’s commitment to cost control.

4. Systems: Good systems are both the backbone of successful outsourcing and one of the key benefits. Outsourcing gives GPs and LPs access to the

latest technology without the IT overheads. Fund administrators can leverage their investment in technology over multiple clients enabling them to develop purpose built systems. These are constantly reviewed and updated to allow for new needs of the LPs. Considering outsourcing presents a good opportunity to look at legacy systems and processes, a full analysis via a workshop of old to new systems is offered as part of the review process

5. Expertise: Outsourcing allows GPs access to a large pool of qualified or qualifying professionals without carrying the cost of recruitment internally. GPs gain their combined expertise, without carrying their full time cost. GPs can choose their team, who already have many years of proven relevant track record within the PE industry, these teams are already being exposed to new terms and conditions in the fund documentation and act as a safe pair of hands. By working with a professional administrator GPs gain access to their in depth market knowledge and best practice approach to fund administration therefore benefiting from many years of experience.

6. Cost: There is no doubt that costs are a salient point at a time when performance of the bottom line is high on the agenda. GPs may find that they have the same volume of day to day activity (if not more to do) however returns are lower and taking longer to achieve. There is also a downward pressure on fees and cash strapped investors will want to see that GPs are being financially prudent. Outsourcing, and the associated cost benefit analysis, can help address these challenges.

Taking the leap

Making the decision to outsource can be difficult. However, a reputable competent administrator should take the lead, offer you a plan for consideration and work with you in reviewing costs versus benefits. At Ipes, we consider this to be the start of a long term relationship and a quality administrator will prove their competency at the outset. We find that the decision to outsource fund administration cannot typically be based on the “traditional sales pitch”. Instead, the decision must be based on looking closely at the flexible service offering, hearing what is going on in the market place, and seeking feedback from those who have taken the decision to outsource already.

Whether you are a well established player, or a recent spin-out, whether your portfolio companies are flourishing or whether you, like many others, face times of difficulty, think about the possible advantages, and take time to hear from those administrators who are interested in a long term partnership with you.

“Ipes has a
total
commitment
to service
excellence
each and
every day.”

Conclusion

Fund administrators may well use this time to shift their marketing and business development focus from a sales-led approach to one where they concentrate on developing a partnership with well-established private equity houses. Good administrators will encourage potential clients to review their existing business model against what might be achieved by outsourcing to a third party and a solid track record is key to any decision.

Experienced administrators will invest as much time as possible into their own client base, and be creative in how they go about seeking feedback and sharing feedback. In this way, they ensure that they can provide the right service to the private equity industry. The image of a fund administrator being sub standard, and an unjustifiable cost needs to become a thing of the past, but the only way this will happen is through total commitment to service excellence each and every day.

Ipes aims to be the best at what they do, every day.

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