

One of the most manually intensive functions of a financial institution's back office is about to become a primary candidate for outsourcing, writes **Rekha Menon**

everything, one can expect to see the fee billing function being manually intensive," states Thomas Dackow, president of Interactive Technologies, the leading vendor in this space with over sixty customers.



Thomas Dackow

He says that in recent years the fee billing function or revenue management as it is often referred to these days, had become highly complex.

"It has gone much beyond mere debiting or producing invoices to include the analysis and control of revenues.

"Firms now require a revenue management system that handles the entire process from import of data to the analysis and forecasting of fees."

"In order to calculate client fees, the fee billing system needs to get data feeds from various systems, (such as portfolio management and performance management systems), keep in view the accounting structure and VAT regulations in different jurisdictions and manage multi-currency requirements", explains Dackow.

"Further, along with billing accurately and quickly, the billing system needs to bill and provide statements on any schedule a client prefers, for any number of related accounts".

Automation
Indeed, fee billing automation is a back-office function and will never be

a glamorous task, however without appropriate automation, settling an individual bill can sometimes turn into a full research project.

Catherine Doherty, principal at investment management consultancy, Investit, remarks that the most complex aspect of fee billing was the performance fee calculation. "There are several different methodologies to calculate performance fees that might be standard or customized according to client agreements.

To complicate matters, performance fees are becoming increasingly popular and need to be accurately computed," she

A Fair Price?

To outsource or not, is a question that has been the focus of much debate in the financial services world of late as fund managers and banks weigh the potential benefits and disadvantages of outsourcing their middle and back-office functions while retaining their bread and butter

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activity of making investment decisions on behalf of their clients. At the heart of this debate lies the crucial distinction between core and non-core activities, activities that generate revenues and therefore receive the maximum attention versus those that sustain a business, and do not. It is therefore not surprising that a critical function like fee-billing, the process of calculating client fees and managing invoices, is often relegated to the background.

"Fee billing is, more often than not, a neglected corner of the organisation. Even in companies that have automated



Catherine Doherty

says. "From the outside, fee billing appears a very simple task, but is in actuality a very complex process. There is a lot of workflow involved. Managing complicated fee structures and the timing of discount structures requires sophisticated automation."

Increase

Industry participants report an increase in interest among fund managers in recent years in fee billing and revenue administration.

Recently, Newton Investment Management, a

UK-based asset management subsidiary of Mellon Financial Corporation, decided to license California based fee billing vendor, Redi2 Technologies' solution to automate its revenue management processes.

In addition, Mellon's Investment Manager Solutions business has decided to integrate Redi2 Technologies' solution into its outsourcing platform to provide billing and revenue accounting services to its clients. Seth Johnson, CEO of Redi2 Technologies suggests that regulatory changes have been the key driver for revenue management becoming a priority at firms. "In the US especially, with SOX regulations, auditors are coming down strongly on finance departments and the realisation is dawning that Excel spreadsheets are just not good enough for calculating fees and getting good audit trails.

"Audit trails are also very much in demand in the UK due to the changes in VAT rules," he says.

However, Doherty of Investit believes that more than regulation, it is a focus on risk reduction that is driving attention on this arena.

Investit did a survey of the state of fee-billing at UK investment management firms at the beginning of the year.

The study, which found that nearly 60 percent of UK fund managers had automated their fee billing process, concluded

that rather than cost reduction, regulation or increasing volumes, the key drivers for firms beginning to focus on fee billing was the growing need to minimise errors, reduce cycle times and move personnel on to more value added tasks.

Dackow gives the example of an Interactive Technologies' client which drastically cut down the number of billing clerks from 90 to 12 after automating the fee-billing process.

"When faced with the increasing level of complexity of the billing process, often it is very tempting for firms to add another clerk. While that might work in the short term, it doesn't in the longer term because firms soon realise that they gain much more if they automate the process

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and their personnel get involved in a more value added task."

Along with improved cash flows and better reporting, Dackow says that they have found that by automating the fee billing process, their customers can often gain through an increase in revenue generation by 3 to 7 per cent per year.

This is a result of corrections made to billing practices, which over time, have failed to fully charge for services rendered.

SunTec, a fee billing solutions provider whose clients include HSBC, ING Bank, Lloyds TSB, SEI Investments and ICICI Bank, emphasises the importance of fee income to end user. CEO Nanda Kumar says: "The fee income diversifies a bank's revenue stream. In the long run, expansion for non interest activities has peaked and those intermediation based products and services will remain the central business activity of a bank. Moreover, today, banks are moving towards becoming financial supermarkets and therefore require more customer touch points. The earnings are more sensitive to sales and technological advancements are required to enable this change in the revenue streams. Therefore it is significant that financial institutions want to adopt the fee management approach."

Highlighting the key advantages of fee

billing solutions for banks, Kumar adds: "Financial services firms today are looking at improving overall operational efficiency through a centralised administration platform. This improves their cross-selling ability by offering cost-effective and customer-specific product bundles. Relationship-based pricing across the enterprise allows financial firms to introduce customer-specific product bundles, which forms an effective way of maintaining and retaining the customer base."

Niche Market

Despite the numerous benefits of fee billing automation and the interest from financial institutions, fee billing remains a very niche market and there are very few dedicated fee billing vendors.

Instead firms often go with fee-billing modules from portfolio management system vendors or even with ERP

vendors like Peoplesoft and Oracle Financials.

These solutions are not very comprehensive or if they are adequately customised, then the overall cost becomes too high. Giving the example of a New York based institutional investment manager which conducted a gap analysis between their installation of Redi2's solution and a PeopleSoft-built billing solution used by a company they had previously acquired, Johnson says that Redi2 won the comparison and the customer migrated its customer accounts from PeopleSoft to Redi2's solution.

"Firms realise that often, the customisation cost of general purpose solutions way exceeds the cost of the original product itself. In addition, in terms of cost and complexity, these solutions are much more difficult to sustain," comments Dackow.

The biggest competition for dedicated vendors such as Redi2 and Interactive still remains the in-house IT team.

However, Dackow suggests that the realisation is slowly dawning that the cost benefits offered by off-the-shelf solutions firms are much better. "Inhouse development can cost a firm up to a few million dollars, while off the shelf solutions such as ours with similar or much better functionality are available at a fraction of the cost."