

Misys Summit ASP

M&G Investments



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M&G is one of Europe's leading active asset managers with over £168.9 billion under management from more than 350,000 investors. With a growing use of complex derivatives from its pensions, annuities and life funds, the organisation undertook a full review of its systems for OTC derivatives processing in 2007. M&G chose the Misys Summit ASP in 2008 for OTC lifecycle management. Since adopting the solution the organisation has benefited from faster trade processing, improved operational risk and increased capacity.

The principle of the Misys Summit ASP service is to provide a well established derivatives processing solution hosted not by the client but by the provider. The fund manager is provided with access to the full functionality of its Summit solution for OTC and derivatives processing capability, but connects over the internet, thus avoiding the complex IT issues involved in its implementation and maintenance.

"The appeal to this route," explains David Dixon, Buy Side Solutions Manager for Misys, "is that our Summit ASP provides a rapid, hassle-free, pre-configured solution for a pre-defined cost, removing the need for considerable capital spend up-front on hardware and IT resourcing. All of this allowing fund managers and administrators to focus on their core business of managing assets".

Misys has offered this hosted solution for over ten years, initially to corporates wanting derivatives functionality quickly and with the minimum of fuss, then subsequently to asset managers. It draws on 19 years of sell side experience providing valuation,

operational processing, and risk management services within Misys. This combines with a considerable recent development, tailoring the solution for the very different needs of the buy side, to move the solution beyond the majority of existing systems, which typically squeeze derivatives processing into systems designed to handle equity and bonds.

The buy side solution focuses on the presentation of information in a format with which managers, rather than investment bankers, are familiar. Risk analytics have also been customised to buy side needs: for example keeping the risk profiles of individual funds separate rather than rolling up the risk profiles of individual desks as is common at investment banks.

M&G adopted the solution as part of a firm-wide initiative that began in 2007 to automate derivatives processing. As Alan Burgess explains, automating the lifecycle component was no mean feat at an organisation with a reputation for running funds with highly sophisticated derivatives requirements.

What was the context in which you went to Misys for a solution?

We launched a 'cradle to grave' review of OTC derivatives processing in June 2007 to better understand how we could design sustainable and scalable systems. This meant breaking processing up into its component front, middle and back office elements, with the latter including confirmation, trade processing, collateral management and lifecycle management. The next step involved selecting products or solutions to deal with each element. For lifecycle management our objective was quite specific: to select a lifecycle management solution that would increase the capacity of our derivative operations over the next 18 months.

What was lacking in your existing solution?

Our lifecycle management solution back then was an adapted version of a treasury management system. While it was comfortable handling the 500 or so positions we held, it wasn't fit to handle the sort of scale we were intending to reach through 2009 and 2010. On the contrary, we foresaw that increasing volumes would mean a rapid increase in headcount as well as an increased operational risk through the continuation of manual processing.

In addition, the existing system only effectively catered for a limited range of OTC derivatives; if we wanted to invest in a new instrument type this meant potential development in the system. So we wanted a system that allowed us to expand the range of instruments we traded, and accommodated the changing regulatory landscape in a rapidly developing derivatives industry. Our options were either to leave the current systems and increase the headcount when needed, enhance our existing product, or look at alternative systems.

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Alan Burgess,
Director of investment
administration at M&GI

How did your business constrain the type of solution and provider you were looking for?

Our use of complex derivatives is extensive across our pensions, annuities and life funds. This means that we make particularly complex demands around derivatives processing. We had a growing exposure to a range of trades including interest rate, equity and FX derivatives and inflation instruments.

Particularly demanding segments are the pension, life and annuity clients – especially those running Liability Driven Investment (LDI) strategies through segregated accounts. Handling these funds well is crucial, because typically we have been appointed for our expertise in managing the more complex instruments that lie at the heart of these strategies.

Take inflation swaps, for example. Where these are compounding they lack regular cash flows rolling up to maturity, meaning that our previous system was not able to handle them. We could hold them on the legacy system, but we then had to supplement this with calculations on spreadsheets. When the predicted increases in volume came, this route would again have increased the number of people needed as well as grown operational risk.

Can you talk us through your selection process?

We evaluated Misys Summit against its peers and our legacy system for functionality, connectivity, technical architecture, the company itself, and cost. It ticked most of the boxes. Functionally it was superior to the capability we had already, and was able to meet the basic reporting requirements for a number of parties within our organisation.

In terms of M&G, as part of our selection process we wanted a company with financial strength and good IT capabilities to service us now and in the future should we wish to add any further instruments. Misys is known for its market leading position in this area and ultimately it was a good fit for us.

Why did you go for the ASP solution rather than a conventional non-hosted route?

Importantly our needs were very specific: we required only the module responsible for managing the cash flow lifecycle. Misys offered us a partition of the Summit solution running on ASP, providing access to this module without having to buy the integrated solution, which would have been much more costly. Secondly we were looking for the fastest time to go live and set a target and plan for 4 months. We were satisfied that Misys would be able to configure ASP to our requirements within this relatively tight timescale and the team worked hard to make this happen, putting another consultant on site for us when they realised that the complexity of our business merited this. They also attended to the specific demands of our clients in configuring the solution: for insurance clients, for example, it was essential that we accommodate the client hierarchy for example holding and reporting data at a number of different levels.

Thirdly we didn't have to worry about whether it would work: it was already in use by a number of other clients. We weren't looking to use the system to provide us with a competitive advantage over our peers; rather the attraction was being a member of the biggest club. The time period for which we intend to use the system was also initially to be relatively short: we went live last October and planned to review the solution after

18 months. Again the ASP route made this strategy feasible. Equally Misys provided considerable flexibility should we decide down the line to go for full integration after the trial period is complete, since Misys have provided us with the option to move off ASP to purchase the module and run it in-house.

What benefits have you seen to the business as a result?

The first thing to say is that we are staying with the ASP solution for the foreseeable future as it has enabled us to achieve our objective, which was to increase our capacity for our derivative operations. Even though, because of how the financial climate has been recently, our volumes haven't increased as we projected, the amount of time that the team has spent on cash flow management has reduced markedly. Where before it took about 15 minutes to enter a trade onto our system, with the Summit ASP it now takes under a minute. This means that staff can be redeployed. In addition the new system will enable the business to handle volumes as the market recovers, without the need to increase headcount.

For more information on Misys Summit ASP, please visit: www.misys.com

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