

lakyara vol.271

# Latest BPO developments in Japan's asset management industry

Tomoko Koga

25.October.2017

## Executive Summary



**Tomoko Koga**

Group Manager

Asset Management Systems  
Business Department

*BPO is diversifying in Japan. Over the past five years, operations commonly outsourced in the fund industry have expanded from data entry to a variety of functions, including even judgmental tasks. Meanwhile, partial outsourcing has emerged as an alternative to turnkey outsourcing.*

---

### Growing scope of outsourced operations in fund industry

BPO (business process outsourcing) in the Japanese asset management industry dates back to 1997, when trust banks started offering NAV calculation services to fund managers in connection with their trustee businesses. The services have been used by many fund companies set up after fund management licensing requirements were relaxed in Japan.

#### NOTE

1) NRI Process Innovation, a BPO vendor founded by NRI in 2009, calculates NAVs for numerous asset management companies.

Since 2014, outsourcing of NAV calculation has become increasingly widespread<sup>1)</sup>. Even major asset management companies that had long calculated their funds' NAVs internally now outsource the task to affiliated trust banks. Currently, 63% of Japanese asset management companies outsource NAV calculation (Exhibit 1).

Over the past five years, asset management companies have also been increasingly outsourcing even tasks that require critical judgment (Exhibit 2). One such task is preparing legally required reports, historically considered somewhat of an art. Preparing semiannual fund performance reports for investors requires broad knowledge of the fund management business and wide-ranging judgment and scrutiny based on such knowledge. A high-level skill set was long regarded as a prerequisite for the job but is not easily acquired through training programs. Because asset management companies have zero tolerance for errors in fund performance reports, they have tended to heavily rely on a few elite employees to prepare them. In recent years, however, they have found that, given a vendor with the requisite expertise, they can safely outsource preparation of such reports by providing the vendor with detailed instructions, including step-by-step procedures and checklists. Freed from having to worry about constantly keeping experienced report writers on staff, asset management companies have sharply stepped up outsourcing of semiannual fund performance reporting over the past five years. Today, 38% of Japanese asset management companies outsource preparation

of such reports. Outsourcing of other reporting functions, including weekly or monthly fund performance reports for fund distributors and publication of regulatory reports via the EDINET electronic disclosure network, has likewise been growing in prevalence.

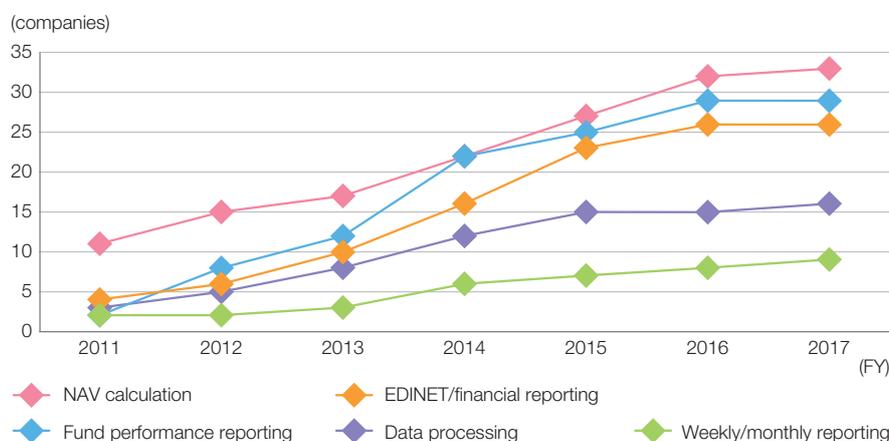
Another task increasingly being outsourced by asset management companies, if only 25% of them at present, is cleansing and verifying data inputs required to calculate NAVs. Such data must be 100% accurate to correctly calculate NAVs. Steps involved in this data processing include reviewing trade executions, confirming trades with brokers, classifying securities by valuation attributes and determining fair values through comparison of multiple vendors' daily market price data. This process requires accurate judgment, as the data inputs largely determine NAV accuracy. In-house processing of such data has consequently long been the standard practice. Today, however, a growing number of asset management companies are realizing that to fully reap BPO's benefits, including labor cost savings, they have to outsource not only data entry but judgmental

**Exhibit 1: Percentage of Japan's asset management companies that outsource (by outsourced function)**  
(%)

	①NAV calculation	②Data processing	③Fund performance reporting	④EDINET/financial reporting	⑤Weekly/monthly reporting
BPO	63	25	38	31	13
In-house	37	75	62	69	87

Based on 2017 survey of 95 asset management companies by NRI Process Innovation.  
Source: NRI Process Innovation

**Exhibit 2: Growth in numbers of Japan's asset management companies that outsource**



Numbers of users of NRI Process Innovation's outsourcing services  
Source: NRI Process Innovation

data-processing tasks also. Outsourcing of the latter has been gradually increasing as a result.

### **Growing interest in partial outsourcing**

In the wake of BPO's growth, recently established asset management companies typically fully outsource whatever business processes they do not want to handle themselves. They seek to focus exclusively on portfolio management and outsource everything else to the maximal extent feasible.

As an alternative to such turnkey outsourcing, partial outsourcing is gaining popularity. Many people's image of outsourcing is of companies not only delegating work previously performed in-house to an external vendor but also offloading their employees that had been doing the work to the vendor. Partial outsourcing, by contrast, aims to help companies' existing employees keep their workloads manageable.

For example, when regulations were changed to require fund performance reports to be split into two separate reports, asset management companies needed additional personnel to meet the new reporting requirements. Anticipating difficulty in staffing up fast enough to avoid a major increase in overtime work for existing employees, some asset management companies outsourced only the incremental workload resulting from the regulatory change. Another use case for partial outsourcing is maternity leave. When an experienced employee goes on maternity leave, employers are often hard-pressed to find a suitable temporary replacement. In such cases, they can outsource the employee's job just for the duration of her maternity leave. Such an arrangement has the added benefit of relieving the employee of pressure to rush back to work before fully bonding with her newborn.

### **Outsourcing caveats**

While BPO offers many benefits, it also entails a couple of risks that require precautions.

First, asset management companies must beware of the risk of losing not only operational know-how but also institutional memory. To avoid such an outcome, asset management companies must ensure that their employees receive adequate training in fund operations. For example, fund NAVs are calculated pursuant to company-specific rules. Although some such rules are prescribed by law or dictated by the Japan Investment Trusts Association, many are simply customary

business practices. Knowledge of such practices is essential when launching a new fund or complying with regulatory changes. It is important for asset management companies to internally preserve such knowledge by having their BPO vendors provide periodic training for their employees.

Second, outsourcing arrangements must be compatible with fulfillment of asset management companies' fiduciary duties. BPO may fail to yield expected cost savings if an asset management company that intended to merely supervise its BPO vendor finds itself inundated with confirmation requests from the vendor and ends up devoting substantial in-house manpower to checking the vendor's work product. Such failures can be avoided by providing the vendor with detailed written procedures for performing outsourced operations, having a platform that enables the fund management company and vendor to jointly monitor progress of outsourced operations and, when problems occur, implementing measures to prevent their recurrence through such means as setting KPI targets to improve quality. It is crucial to select a BPO vendor operationally configured to minimize its customers' oversight burden.

Fund management companies can operate more efficiently by appropriately utilizing BPO solutions tailored to meet their own objectives. BPO is also conducive to better work-life balance, a necessity for Japanese society going forward.

## about NRI

*Founded in 1965, Nomura Research Institute (NRI) is a leading global provider of system solutions and consulting services with annual sales above \$3.7 billion. NRI offers clients holistic support of all aspects of operations from back- to front-office, with NRI's research expertise and innovative solutions as well as understanding of operational challenges faced by financial services firms. The clients include broker-dealers, asset managers, banks and insurance providers. NRI has its offices globally including New York, London, Tokyo, Hong Kong and Singapore, and over 12,000 employees.*

*For more information, visit <http://www.nri.com/global/>*

.....

The entire content of this report is subject to copyright with all rights reserved.  
The report is provided solely for informational purposes for our UK and USA readers and is not to be construed as providing advice, recommendations, endorsements, representations or warranties of any kind whatsoever.  
Whilst every effort has been taken to ensure the accuracy of the information, NRI shall have no liability for any loss or damage arising directly or indirectly from the use of the information contained in this report.  
Reproduction in whole or in part use for any public purpose is permitted only with the prior written approval of Nomura Research Institute, Ltd.

Inquiries to : Business Planning & Financial IT Marketing Department  
Nomura Research Institute, Ltd.  
Otemachi Financial City Grand Cube,  
1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan  
E-mail : kyara@nri.co.jp

<http://www.nri.com/global/opinion/lakyara/index>

.....