

Dissertation – Robert McClean

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“Offshore Outsourcing within the Asset Servicing Industry in Ireland”



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Declaration

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Glossary of Terms

AIFM -	Alternative Investment Fund Manager
AIFMD -	Alternative Investment Fund Managers Directive
AUM-	Assets under Administration
CBI-	Central Bank of Ireland
CCF-	Common Contractual Fund
CSSF -	Commission de Surveillance du Secteur Financier
EFAMA –	European Fund and Asset Management Association
ESMA -	European Securities and Markets Authority
EU -	European Union
FCA -	UK Financial Conduct Authority
GDP -	Gross Domestic Productivity
ICAV -	Irish Collective Asset Management Vehicle
ICMA -	International Capital Markets Association
IF -	Irish Funds Industry Association
LDI -	Liability-Driven Investment Funds
MMF -	Money Market Fund
NAV -	Net Asset Value
OECD-	Organisation for Economic Cooperation and Development
PCF -	Pre-Approved Control Function
UCITS	Undertaking for Collective Investment in Transferable Securities

Abstract

Outsourcing, particular offshore outsourcing has become a key growth strategy within the Asset Servicing Industry and is now seen as a necessary means to maintain a competitive edge, not just in terms of cost reduction but also in terms of utilizing the 24 hour window that global outsourced locations can provide, naturally improving clients Key Performance Indicators (KPI's) and more importantly their distribution capabilities (Wealth Management, 2016). Many Asset Servicing firms have gone one step further and essentially expanded their operations overseas in order to leverage this resource and cost reduction concept. Using a third party, typically in India or Poland, from an Asset Servicing perspective, seems to add to the divide of locations. However many large corporations such as Northern Trust, BoNY, StateStreet and JP Morgan have specifically established their own in house operation in these locations. Having such operations under the banner of "their own firm" feels less removed, allows much greater control and desensitizes the concept for onshore staff, regulators and most importantly the clients themselves, (Gielen, 2015). In fact most top tier Administrators in Dublin have modeled this low cost or "Tier 3" location concept, leased premises, most likely after receiving a local offshore government grant or promise, rebranded the office space and commenced hiring and training of lower cost and typically highly educated labor. Most top tier administrators do this similar to the franchise practice of a McDonalds or Merry Maids, (Forbes, 2009). Right down to the color of the carpet selected, the office space looks and feels identical to the parent onshore office. This has become a highly effective practice and has somewhat reduced regulator, client and onshore staff concerns in having the offshored firm under the banner and control of the parent company. Firms who have completely outsourced to a third party firm, not within their own company tend to get more challenges and regulatory scrutiny than those who have invested in their own offshore operation (Rousseau, 2015). The question of course is how sustainable this strategy is, what long term impacts does it have to onshore and indeed offshore economies and will the competitive advantage it currently brings still remain competitive in a highly evolving technologic world we live in but moreover in the face of ongoing regulatory scrutiny of such arrangements by the Central Bank of Ireland (Burke-Kennedy, 2017). It's also important to analyse some the hype that surrounds Robotic Process Automation (RPA).

RPA is on the cusp of being a major disrupter in the Financial Services Industry, not just with Asset Service companies but also with Asset Managers themselves. Will offshoring itself be diminished with the introduction and takeover of RPA type technologies? Although limited studies exist around RPA and future impacts on Irish Assets Servicing firms, the dominant view is it is likely to play a major role into the future of offshoring (Cline et al., 2017)

This research will look at the implications of the current, evolving and increasingly more stringent regulatory environment within Ireland limiting of limiting the use of offshore outsourcing. The research will further examine the perception and opinions of Asset Managers to offshore outsourcing and rationale of Asset Servicing firms for using offshore outsourcing.

The aim of this study is to examine the overall perceptions of Asset Managers and Asset Service providers in terms of the usage of offshore outsourcing against the regulatory challenges imposed by the Central Bank of Ireland. The main research method will be qualitative face to face interviews with 4 Irish based Asset Managers that will be triangulated with a brief quantitative online survey aimed at a 7 Asset Service providers out of the 31 Asset Servicing firms based in Ireland.

The findings suggest that there are considerable strains emerging within the Industry right now due to evolving products. The net effect of these new products is a higher demand for firms to deliver quicker turnaround for NAV prices, thus causing them to create shift teams in Ireland at a considerable cost. Given the CBI legislation on outsourcing firms are under pressure to outsource less and retain responsibility and accountability in Ireland so using offshore locations is under serious scrutiny. As a result firms in Ireland are now in danger of becoming too expensive to do business with and Asset Managers may look overseas, in particular Luxembourg and the UK for alternatives.

Chapter 1 – Introduction

Introduction

1.1 Relevance of the Research Topic

Asset Servicing firms or Fund Administrators now account for approximately 14,000 jobs in Ireland as at the end of May 2017. Indirectly, it is estimated another 7,000 jobs have been created through peripheral servicing, support and oversight of these firms (Irish Funds, 2017). Auditors, Tax Advisors, Fund Consultants & Legal firms have all enjoyed the steady and consistent growth enjoyed by Asset Managers in Europe over the past decade. Assets under Administration in Ireland alone have grown in excess of €2.8 trillion as at May 2017. Ireland has certainly developed into a prominent and very significant offshore financial service center and one of the top 3 asset servicing centers in Europe. It is estimated that Fund Administrators & Servicing Firms account for approximately €480 million to the Irish exchequer each year, (IDA, 2017).

The run rate of growth stands at around 10% per year on average in terms of pure Assets Under Administration, however, that same growth rate, proportionality, is not reflective within the jobs market in Ireland (Monterey Insight, 2017). In theory, based on research, Ireland should be growing by around 2,000 jobs per year in line with AUM. So the natural question is why are only 400-500 brand new roles being created in this space every year (IDA, 2017). According to the Chairman of Irish funds the types of roles and the style of role being advertised tend to be quite specific, “*specialized*” (Lardner, 2016).

Of course the answer is obvious. Evolution in technology, streamlining of Asset products and more importantly Offshore Outsourcing are the main contributory factors in the misalignment of growth in the jobs sector to that of growth in Assets Under Administration. The ongoing and aggressive evolution of the Funds Industry, globally, has stark contrasts to how the each jurisdiction has developed to support it (Moisson, 2012). Locations like Poland India has, by contrast, grown double in size to the Assets Under Administration comparison, suggesting that those supporting and indirect roles have flourished in these low cost and educational rich environments (Kumar; Paresh, 2015). Kumar Narayan details the rapid growth in India’s financial services sector showing, despite the economic crisis of 2008 that growth has averaged 15% per year in the Mutual Funds Industry space.

The disconnect between Irelands Fund Administration Growth Rate and India’s is critical in analyzing how offshore outsourcing is a major impact to the Irish job market but equally a very necessary concept to support and maintain Asset Management growth. Throughout this paper the researcher will analyze why it’s necessary and why, without it, Ireland is in real danger of becoming competitively disadvantaged in being restricted in how offshoring is regulated by the Central Bank of Ireland.

1.2 Ireland Funds Industry - Background

Ireland has grown and evolved into a powerhouse offshore financial services centre with global asset management firms operating funds that are domiciled, serviced or both by global custody banks operating in Ireland (Appendix 2)

Asset managers, under the regulatory European UCIT's (Undertakings for the Collective Investment in Transferable securities) framework, must demonstrate a clear segregation of activities between the Portfolio Manager placing trades and effectively managing the portfolios strategy to the actual calculation of the Net Asset Valuation (NAV). This segregation has been in place since 1985, however it's fair to say the oversight of this up until the late nineties has been extremely light and service firms have been guilty of being a mailbox for Asset Managers, simply doing as instructed and not independently validating a lot of the data prior to calculating the NAV. Local policy makers have too fallen short in regulating this market to a meaningful level up until the recent financial crash in 2008. Whilst UCIT's policies were in place with clear mandates outlining minimum requirements of Asset Managers and Asset Services Firms, very rarely were these observed formally or audited to any tangible extent. In fact, no published audited papers are accessible prior to 2008 to demonstrate any significant failings within the industry in terms of the regulatory obligations as set out under the 1985 "UCIT's 1" guidelines. Many Asset Servicing firms are open that the local regulator did not have the resource or moreover the skill set to fully understand the mechanics of the Funds industry. Subsequent to the 2008 crash the Central Bank of Ireland was heavily criticized for its failings in overseeing the Irish Banking Industry however the same was true of the Funds Industry albeit less popular in terms of media attention at the time.

The UCIT's regulations itself are a live piece of legislation. Numerous iterations have been enacted every couple of years, typically off the back of broader banking and investment scandals "Bernie Madoff's \$50 billion Ponze Scheme" (Forbes, 2008) or with the introduction of new Investment vehicles and products.

There is also clear evidence and looking outside Ireland but quite relevant to the Irish market that the reason that banking regulation in the US failed so badly was because it was set up to oversee banking activity run by traditional or retail type banks but that the crisis of 2008 was created in the non-traditional and institutional banking sector (Gorton and Metrick, 2013).

Since the 2008 crash local regulators have proactively staffed up and have visibly started to really demonstrate proper oversight and governance of the Asset management and Asset Servicing firms. In fact the Central Bank of Ireland started a targeted and head hunting style campaign in 2009 to attract subject matter experts from the Funds industry in order to gain a deeper understanding of the industry but moreover to have staff whom could really understand and indeed challenge the practices within both Asset Management and Asset Servicing firms.

The latter being more important given the volume of delegated functions carried out in Ireland on behalf of Asset Management firms. The nature of large Asset or Portfolio managers is that they may not always have a physical presence in the Ireland, however under UCIT's regulations, they are perfectly entitled to delegate that activity to a management company located in Ireland, whom are legally acting on their behalf and on behalf of the board of Directors, hence been a "delegated" function. These management companies, along with the Fund board of Directors are fully accountable to the regulator and Fund Investor(s).

At the end of Q2 2017 funds under management in Ireland have reached €2.19 trillion (Irish Funds, 2017). Included in these figures are mutual funds, common contractual funds, hedge funds, money market funds and Exchange traded funds all of which are distributed on a global basis from Ireland. Additionally there is a further €2.23 trillion being serviced in Ireland for investment funds, mostly hedge funds that are not domiciled in Ireland and sit outside the regulatory scope of the Irish or EU policymakers.

There is no longer an argument that Irish Regulators are not visibly concerned or even attempting to control outsourcing of Asset Servicing firms, in fact the opposite could now be argued that the CBI is over regulating the industry and suffocating local expansion and moreover restricting the use of outsourcing production activities to lower cost centres, such as Poland and India, somewhat to the competitive disadvantage of Ireland (Irish Times, 2017). However this strict regulation could too be seen as a key method to protect Irish Jobs whilst harnessing areas of expertise within these firms in Ireland. The funds Industry in Ireland accounts for approximately 13,800 jobs and growing (Irish Funds, 2017). Getting the right balance between regulation, protecting jobs, and still being an attractive and competitive location is key into the future. It's also important to note that another €1.956 trillion is serviced in Ireland; these are not Irish domiciled and somewhat fall outside of the CBI's regulations.

1.3 Ongoing Regulatory Pressures from the CBI

The Central Bank of Ireland have made it crystal clear that their objective is to monitor and enforce the regulation and ensure all Asset Servicing firms are conforming to the current guidance principles (CBI, 2016). As non-prescriptive and subjective as the outsourcing rules appear to be, documented through the CBI's UCIT's Consultation Paper 97, there is no doubt that the CBI are hot on this topic and are not in the mood to ease off on its oversight function and responsibilities as detail in the recent Irish newspaper article (Irish Times, 2017). Whilst no official statement or research exists, comments like this from the CBI do suggest that they are not interested in what this means for Irish Employment.

One could argue their stringent approach will actually go a long way to protecting a large chunk of the Irish based jobs, however that could be equally retorted that the 40% rule, as suggest by Burke-Kennedy (2017) will ultimately result in higher costs being passed on Asset Servicing Clients, the Asset Managers, resulting in Ireland being less competitive than their closest rivals Luxembourg, who don't suffer the same stringent regulation as Irish domiciled Asset Managers (Maese, 2012). This disciplined regime from the CBI has too resulted in very formal thematic reviews being carried out by them on Administrators and Managers every year.

These reviews entail onsite inspections coupled with highly detailed questionnaires being requested, typically at 2-3 weeks' notice (Central Bank of Ireland, 2017). The specific and detailed results of these themed inspections on specifically Asset Servicing Firms and Asset Managers are yet to be published. The publication of similar thematic reviews, are available on their web site. Those reviews results however are limited to Credit unions, who outsource locally to third party financial firms rather than offshore outsourcing. The results however, a comprehensive 16 page document, does provide a good insight into how thorough these thematic reviews actually are and will be into the future (Appendix 3).

Whilst these thematic review results are not public yet both letters from the CBI this year, the first dated the 7th of March and the second one dated the 28th of June, both published on their web-site and formally sent to all Asset Servicing firms, Asset Managers, Audits, Fund Consultants, Legal Firms, and Fund Promoters is very clear that the initial analysis carried out through these thematic inspections has lead them to react publically to their concerns over outsourcing in Ireland, specifically in the Fund Sector.

In their most recent guidance paper, dated the 28th of June, the CBI go into some detail around the expectation on Fund Administrators to satisfy 12 themes. They are:

1. Governance Structures for Outsourcing
2. Outsourcing Records
3. Operational Oversight
4. Take Back/Resilience Testing
5. Formalised Disaster Recovery/Business Continuity Planning (BCP)
6. Training
7. Risk and Compliance Functions
8. Fund administrators' review of their outsourcing arrangements
9. Outsourcing notification to the Central Bank
10. Intra-group outsourcing
11. Maintenance of shareholders registers
12. Preliminary NAV

These points are covered in more detail within Chapter 2, the Literature Review, but it does demonstrate the gravity of the detail that the Central Bank is employing in ensuring, accountability, responsibility, control and oversight is retained in Ireland. These highly prescriptive themes and guidelines are the current boundaries that Irish Asset Managers and moreover Asset Servicers operate within. In the absence of specific results it's hard to determine what Administrators have sent them into regulatory overload, but a basic assumption would be that many are not following the original guidance papers, are flirting with the legislation and have caused the Central Bank to increase their scrutiny on Irish based Administrators. This begs the question how much this enforcement will have on not just existing offshored outsourced arrangements but moreover future requests to offshore more work from Ireland. If current restrictions are diligently enforced and more legislation introduced, Ireland, is in real danger of becoming competitively disadvantaged against its European rivals.

1.4 Asset Servicing and Asset Management Evolution & Regulatory Concerns of both

In the last number of years Asset Management Product evolution and Asset Servicing Technology advancements have meant that regulators have a constantly changing landscape to deal with (Bollenbacher, 2016). More creative product and instruments types, coupled with very innovative foreign exchange and hedging strategies have mean that the level of complexity and associated risk with that complexity have increased dramatically. Tabb Forum, as one of many comprehensive studies, details out the intensity and pressures being placed on Asset Management firms to come up with more creative and innovative strategies in order for Asset Managers to use their funds to outperforms indexes. The competition of active Asset Managers to try and outperform the Indexes, thus having a very attractive investment vehicle(s), has led to greater risk, reduced transparency at times, particularly in the Alternative Asset Management space, but moreover and relevant to Asset Serving Firms, more risk being placed on them to administer these “*new creative complexities*”. This constant evolution is a clear headache for regulators and polices such as AIFMD and MIFD II along with the establishment of the European Securities Market Agency (ESMA) all highlight the concerns local governments and policy makers have around the evolution of Fund Management.

In spite of this increased regulation the market has not stop and the risks and in some cases systemic risks continue to evolve with product evolution (Grasshoff, 2017). The relevance of this evolution of course is the ability of Asset Servicing Firms to deal with the independent administration of these products. Ultimately once a security has been traded and a fair price applied its then very much down to the Administrator (Asset Servicer) to account for this in the Fund and calculate an accurate Net Asset Value (NAV). Some of the new Liability-Driven Investment (LDI) strategies, established by power house Asset Managers such as Legal and General and Insight Investments, can, on any given valuation day or NAV point, hold up to 1000 instrument types, mainly OTC but also many hybrid types such as Swaptions, FX Futures or Contract For Differences. These complex and hard to administer assets are a sample highlight of the underlying complexities, risks and evolution within the entire Funds Industry.

Regulators and Asset Servicing Firms alike have their work cut out keeping up to date with this evolution but moreover ensure current controls and legislation being fit for purpose. The Central Bank of Ireland has clearly a lot of concerns in this space given the introduction of their thematic review strategies on Asset Servicing and Asset management firms alike. Whilst this paper highlights their concerns on outsourcing specifically the thematic reviews do not stop at just that topic. In 2015 the CBI commissioned a number of portfolio driven thematic reviews on Irish Administrators. They specifically focused on “Hard to Value Assets” or in layman’s terms, complex Derivatives instruments, Futures, Options Swap and any other Over the Counter Instrument (OTC).

It's no surprise that following that review and increased scrutiny on firms was applied to Outsourcing. The increased scrutiny and sheer scale of the thematic reviews of all of outsourcing arrangements in place that took place in 2016 and into 2017 was empirical evidence that the findings of their most recent "Hard to Value Assets review prompted them into full scale risk alert. Whilst publically unquoted, my interview research suggests, that the CBI were highly concerned with how complex the Industry had become and the level of risk in play. Their fears of Irish Administrators outsourcing more than their span of control permitted seemed to have prompted the outsourcing thematic reviews and subsequent public clarifications on Consultation Paper 9, particularly in light of the increase complexities and risks evidence through the Hard to Value asset reviews.

Of course the Central Bank is by no means on a solo run here (FT, 2016). They may be ahead of the curve by European standards but the Central Bank of England have also cited concerns around Administrators use of offshore outsourcing and commissioned the famous "Dear CEO" letter back in 2012 (FSA, 2012). Their approach, whilst slightly dated now, is in principle stating that large financial institutions, are talking some liberties and are almost boarding on being cavalier in deciding on what and how much activity they outsource, offshore or otherwise. They focus on the Fund Boards as being the main cohorts whom are allowing these arrangements to be implementing with thorough contingency or back-shoring plans Luxembourg's.

Whilst back-shoring is not a new concept (Kinkel, 2012), most firms did this as a necessary evil oppose to a disaster recovery type event. Something the FSA, CSSF and CBI have all cited as a major concern.

So whilst the level of regulation is mixed across Europe there is synthesis of the core concerns, loss of control, reduced oversight and an inability to take back the work in a disaster type event.

Over the course of this study the researcher will aim to examine the current environment in Ireland for offshore outsourcing whilst examining the perceptions of Asset Managers and Asset Servicing firms in relation to the current and evolving regulation. The researcher, through multiple academic research, but moreover up to date industry white papers and articles will attempt to correlate perceptions within the industry against the reality of the regulatory impact. In the proceeding chapter the researcher examines this online research and furthermore in chapter 4 and 5 outlines the findings of the qualitative and quantitative research through interviews and online surveys to help form a view to the core issues impacting firms based in Ireland and the potential future impacts of the regulations.

Chapter 2 – Literature Review

Literature Review

2.1 Introduction

This chapter will critically investigate and analyze, through numerous journal reviews, academic analysis and even some media reports as to why so many Asset Management and Asset Servicing firms that are physically located in Ireland need to outsource to offshore hubs, up to 50% of their activities in order to maintain growth, a competitive advantage and keep within the boundaries of the local regulations. Michael Hodson, director of the Irish Central Bank argues of course that ongoing reviews, one conducted as recently as March this year, suggest that “outsourcing in larger Fund Administrators is extensive and continues to grow” (Irish Times, 2017). Clearly concern has emerged too from the European Central Bank that Irish administrators are relying far too much offshore outsourcing arrangements to grow their business which they directly attribute to any increase in systemic risk within the European banking sector (ECB, 2017). Their views are supported and underpinned by Mourdoukoutas (2011) who depicts some of the key downsides to offshore outsourcing *“Outsourcing is easy to be replicated by the competition; it leads to fragmentation and disintegration of the supply chain, inviting new competitors into the industry. It also nurtures corporate complacency; and it undermines a company's relations with its labor, customers, and the domestic and local communities”* (Forbes, 2011). Mourdoukoutas (2011) further describes the impact to local communities in diluting job opportunity and impacting product and brand loyalty. But why do Asset Servicing Firms care if that happens as most of their customers are underpinned by foreign investment. The tangible side of a physical product is not there to be disloyal too? Outsourcing could even be invisible to the local communities and they may see such firms as specialist and too hard to get a job in to begin with. Interestingly larger firms who have set up outside of Dublin, the likes of State Street in Kilkenny or Northern Trust in Limerick seem to enjoy and benefit massively from loyalty from their respective communities albeit there is no physical product for their friends and neighbors to buy or boycott. Research shows their volumes of outsourced activity is significantly lower to Dublin based firms hence having a lower entry level (Irish Funds, 2017).

This viewpoint is held by many critics as also cited by Bucki (2016) in an article for the Balance, citing the potential of Bad Publicity and ill will, claiming the internal side effects of outsourcing can be impacting to morale. Conversely an article in the Journal of Finance also challenges that funds that are not outsourced but instead managed entirely in-house and locally get better care and attention which can actually support the growth strategy of the fund *“We find that, in companies that manage both outsourced and in-house funds, in-house funds outperform outsourced funds by 0.85% annually” (57% of the expense ratio)*, (Chuprinin et al., 2015)

That said, and particularly in light of Brexit, Ireland and Luxembourg, two of the fastest growing Fund servicing centers in Europe, both of which stand to gain significantly post Brexit, (Grant Thornton, 2017). If

they can optimize the right model for outsourcing that retains the integrity of service whilst keeping within the boundaries of the CBI regulations, then they will significantly grow its current base of €4.1tn of AUM (Jones, 2009). There lies the core issue which now faces Ireland. So how will Ireland expand and take advantage of Brexit in the face of current concerns from Hodson and the ECB? Outsourcing must continue but we are on the cusp of further reform, likely to be in the form of stringent enforcement of the existing rules, many whom argue are not being followed diligently enough by firms. Many appear to be flirting with the guidelines and are in real danger of repatriating work back on-shore or “back-shoring”. If this happens, how Ireland is positioned against its closest rival Luxembourg is critical and is Ireland now in real danger of becoming competitively disadvantaged as less stringent regulations are enjoyed by Luxembourg firms (KPMG, 2016).

2.2 Why do Asset Servicing Firms Outsource from Ireland?

Cost is fundamentally the number one reason for offshore outsourcing within any organization, though many firms deny this is the core reason and point to shortage in skilled domestic employees as the primary reason (Duke University, 2011). The fundamental evidence suggests a very different story in that carrying out non value added task onshore, in labor markets that tend to be very expensive, is a recipe for the demise of firms trying to compete against eroding fund fee management and fund fee administration costs (QArea, 2017). There is also a misconception that offshoring work simply aims to remove non-value add activity of highly paid and highly skilled onshore employees. This of course is not true in any measure and there is empirical evidence that suggests that offshore resources are both highly skilled and highly capable of taking on even the most complex projects in line with their onshore peers (Jain et al., 2011). Asset Servicing firms are guilty of holding that belief, but more of the core client base of Asset Servicing firms, the Asset Managers themselves don't typically view offshore outsourcing as a value add, more of a necessary evil to reduce their fees from Asset Servicing Firms. Kroes (2009) concludes that numerous industries whom has outsourced do not treat their offshore counterparties or colleagues where they have retained the work in-house but offshored, the same as their onshore colleagues. In fact their mismanagement of these relationships has resulted in a duplication of effort for key projects and clear missed opportunity to leverage their expertise. The preconceived idea that offshore resources are weaker than onshore is bordering on arrogance to say the least, however many firms have got it right too as Matthews (2012) concludes in his view that companies outsource because that's where the sales are. Of course for highly regulated industries such as Asset Servicing gaining sales through an offshore location strategy is less fruitful than say a Walmart, who quoted last year as saying they hire roughly 110,000 people outside of the US. However, Kroes (2009) and Matthews (2012) have a very good argument, both syndicating a misuse of underutilization of offshore resources.

Within the Asset Servicing world a lot is governed, dictated if you like, by what regulators will permit or not. So on paper most firms outsource for the same reason, cost, ability to grow and shrink faster, a better

repository of agile production staff, a better focus and usage of onshore resources and of course the significant and un-researched fact that time zone usage plays a massive role within the Asset Servicing space given the vast volume of products and distribution of same (Gupta, 2009).

2.3 What are the main Disadvantages and Risks associated with Offshore Outsourcing?

Deloitte's (2015) May edition of "In focus" asks Asset Service firms a wide range of questions as to the reasons, concerns and sustainability of offshore outsourcing. A number of firms who responded to the questionnaire cited some of the core reasons behind outsourcing as being a key enabler to support the redirecting and refocusing of key onshore resources to more value added tasks, client focused engagement and strategic planning. Utilization of offshore locations is deemed as a 50/50 strategy and closely monitored through onshore senior management, risk committees and other measurable KPI strategies. Again a theme of the research worries about the evolving regulatory environment and the pressure being placed on firms to perform thorough ongoing due diligence of their outsourced arrangements. Equally the number of fines and penalties being imposed on poor governance is an unplanned cost and a worrying indicator of how regulation is now in danger of smothering these arrangements and driving costs up locally. Those costs then invariably are being passed on Asset Managers and clients which may contribute to making Ireland less competitive against their UK and European service centers, specifically Luxembourg, whom have enjoyed looser regulations and maximized the usage of offshore outsourced arrangements.

Of course this is a just a time in motion study for the best part and the basic day to day challenges of overseeing offshore outsourcing remain for most firms (Oshri, 2011). Quality control and cost management, together with high turnover rates, particularly in India remain the top challenges to date.

Looking solely at Asset Servicing firms is one aspect but it's important to look at consequential risks of outsourcing in the context of client impact, Asset Management firms. Asset servicing firms as outlined in the Introduction are simply administrators appointed on behalf of Asset Managers to act as an independent financial body to that of that manager. Asset Managers, for the most part don't have a veto on how but moreover where an Administrator (Asset Servicing Firm) carries out its work. If the Asset Servicing Firm decides to outsource offshore, be that with a third party or within its own firm, and comply within the guidelines of the Central Bank rules then the Manager has to live with that. Quality of course remains a key concern when outsourcing offshore and parent companies need to closely monitor this, in particular if its outsourced to a third party (Amiti and Wei, 2005)

2.4 What Role does the regulator actually play in Ireland when it comes to Outsourcing?

The increased focus on firms who are outsourcing is by no means a new mandate or a fresh concern by local governments. This is a global regulatory concern that has been closely monitored by all regulators (Meyerson, et al., 2013). The core difference is that the Irish Regulator, The Central Bank of Ireland, has put a more formal framework in place to monitor what outsourcing arrangements are in place with Irish Administrators today and moreover how approval is given for new arrangements (Central Bank, 2017). The CBI have strict rules and guidance in place on what can be outsourced and why. Their pre-approval template located on their website (Appendix 1) is a firm demonstration of how formal they have made it for Administrators to seek to create a new outsourcing arrangement. Bohan and Carney (2016) guide to outsourcing in Ireland further underpins how local legal firms and other key fund advisors and stakeholders have not taken the regulators monitor and scrutiny lightly. Harsh penalties and severe reputational damage are in play where firms fail to follow these rules or where, following deliberate instruction from the CBI to cancel the arrangement fail to do so in a timely manner. Back-Shoring or repatriating the work is costly and embarrassing for both the Asset Servicing Firm and the client themselves (ISB, 2017). The ongoing thematic reviews by the Central Bank (2017) are too further evidence of how serious enforcement is on what's permissible and what's not. But how, if anything does this really actually impact firms operating in Ireland. According to Michael Hodson, Director of Asset Management Supervision, claims that recent reviews have; *"...found that outsourcing in larger Fund Administrators is extensive and continues to grow. Certain good governance arrangements, where firms were adequately managing risks in relation to outsourcing were observed, but some weaknesses in the oversight of service providers remain. Fund Administrators should review the examples of good practice outlined in the Central Bank's letter. The information provided aims to support the development of consistent industry practices to assist in ensuring compliance by firms with the Outsourcing Requirements"*. Their ongoing reviews and restrictions on current and newly requested arrangements are of course having a significant impact on how Irish Firms designing their operation models. Ultimately the CBI is insistent and deliberate with the fact that Irish firms must remain accountable and onshore staff in Ireland must retain control and oversight of final NAV release to Investors.

This restriction, particularly in the face of evolving hybrid product types but moreover increased span of distribution, particularly across Asian Markets means that as markets close and NAV's are produced by India etc. they must pass that work for approval to their Irish colleagues. The instant obstacle here is simple. If an NAV needs to be delivered to a market in Asia as at opening of business then Irish Firms must have a staffing presence in Ireland to approve, sign off and send that work to the relevant Asset Managers and media outlets. That staff presence ranges from 4am to 6am GMT. In not allowing Assets Servicing Firms to send these NAV's from offshore locations directly to the relevant Asset Manager, Media outlet and publication agencies it has in turn forced Irish based administrators to create shift teams based in Ireland.

The cost and challenges of creating onshore shift teams in this era is well documented (Hornberger, 2000) but given the cost/benefit advantages to offshore outsourcing (Narayanan, 2009) the instant impact of the

CBI strict regulations is very evident and restrictive for Asset Servicing Firms. Lardner (2016) in his letter to the CBI is somewhat damning of the rigidity of the regulation calling out over 20 different concerns that the updated legislation is having on the Irish Funds Industry. This frustration is born out of more than just the direct impact to Irish Funds, it's underpinned by the disparity in regulation in the UK and Luxembourg (FCA; CSSF, 2016), both locations allowing the NAV to be released from offshore locations, thus giving them a competitive advantage over Ireland. Ireland have been forced to either create these expensive shift teams to satisfy customer requirements but some have been forced to back-shore the work that previously was offshored and disseminated from India due in no small part to the preliminary results of the thematic reviews carried out by the CBI.

2.5 Is Ireland in danger of becoming competitively disadvantaged in the face of enforced and new regulation?

The core question really comes down to if the CBI is inadvertently protecting Irish jobs(Morgan, 2012) by enforcing the current regulation and evolving the regulation to make it even more complex to use offshore locations (Oliveira et al., 2010) or are they going to indirectly continue to increase the cost of doing business in Ireland, hence passing on those costs to clients and making Ireland competitively disadvantaged against the UK and Luxembourg, the closest rivals to Ireland in terms of number of Funds Administered by Service providers.

Very little data exists that demonstrates the cost disadvantages right now within the funds industry space in Ireland, however, similar studies have been conducted by the Irish Trade Unions (ICTU, 2006) which examine a broad spectrum of Irish Industries and they detail out the “*winner and losers*” and the fact that the impact in not outsourcing offshore is a uncompetitive landscape for Irish firms attempting to compete internationally.

Given the evolving markets in the Middle East and particularly Asia, the need for more and earlier distribution of NAV's (Bridge Fund Management, 2017) more fund advisors are in the space of instructing Asset Managers to be first to market in order to gain a competitive foothold on their competition. Early NAV release and distribution is becoming much more frequent and normal. UK, Offshore and even some Irish Asset Managers are very keen to have a better speed to market. To do that Asset Managers are placing onus on their vendors, the Asset Servicing Industry, to come up with creative ways (Totten, 2016), in order to get NAV's out to the market. In many cases it's a simple case of leveraging their offshore centres but given the strict rules around final NAV release, where the Fund is Irish domiciled, then Irish Asset Servicing Firms are in real danger of falling behind their UK and Luxembourg counterparts. The cost of running a shift team in Ireland can be anywhere from 15% premium to 40% premium.

This naturally is either passed onto the clients, the Asset Managers, or born by the actually end customers, the Investors. More often than not the Service provider will absorb these costs as a necessary evil to

marinating the overall book of business but there is no doubt, given the changing market landscape and the new demand that continues to grow that the cost of doing business in Ireland is increasing at an unprecedented rate.

Some hope in terms of having a more level playing field for Asset Managers and Asset Service providers is emerging from the Luxembourg regulatory, earlier this year they created a public circular outlining similar regimes to that of the (CBI;CSSF, 2017) but enforcement and thematic styles reviews have yet to be initiated and general sentiment is that the CSSF are only the outset of their work to review all existing arrangements. Whilst from an Irish Asset Manager and Asset Servicing perspective the researcher could deduce some form of positivity from this news, it may simply mean more Asset Managers and Asset Servicing providers moving portion of their operations to key distribution centres like Hong Kong, Singapore and Australia, particularly in the face of Brexit (Mooney, 2017).

2.6 Is offshore outsourcing, irrespective of local regulations, in danger into the future given labor cost increases in India?

It's also important to examine the cheapest and primary location for offshoring within the Funds Industry, India (IBEF, 2017). India has long enjoyed underpinning the Asset Servicing community, affording the industry, scalability, massive cost reductions, salaries on average 4 times cheaper across mainland Europe (EY, 2013) and importantly in the context of this paper and specifically the restriction of CP97, a massive 6-8 hour time zone lead benefit. However, we can criticize the Irish regulatory landscape all we want but if labor costs continue to trend in the wrong direction in India then is the entire Industry in danger of becoming too expensive to manage opening the door for the fast tracking of Robots and more technology advancements (Mehta et al., 2006)?

Whilst the primary focus is on the local regulatory environment and knock on impacts of outsourcing some of my research briefly examined the key centres across the world that are used today by Asset Servicing Firms and why those locations could too suffer from too much outsourcing in the long run. Rozinsky (2013) outlines some other key factors to consider in the over usage of tier 3 nations for outsourcing, most specifically India, whom represent around 45% of the world's outsourcing arrangements. Rozinsky (2013) cites that these locations are now in significant danger of almost outgrowing themselves in terms of cost benefit, work ethic, turnover and the quality of staff available.

2.7 Will technology have any part in the future of outsourcing?

The question should be asked, will the introduction of some advanced FinTech solutions in the coming years ultimately lead to junior staff becoming redundant in these locations? Equally it's important to note that the staff cost are “*skyrocketing*” and cost benefit analysis or “*blended*” rates are unfavorable to that of five years ago for all Asset Servicing firms leveraging India today. Shukla (2017) details, in his article for the Economic Times, suggests the current and evolving threat of Robotics will ultimately lead to significant job losses at top banks and other key production driven financial servicing sectors. Given the volume of “preparation” type activity or “less analytical” tasks and work carried out in in India today he believes “Low-Skill workers do not have a bright future, which they will have to reskill or perish!” It's important to bring in this aspect of the research into the overall study because as this landscape changes it simply places more focus on top firms to invest heavily into technology to avoid both offshore cost changes and onshore regulatory obligations. A suggestion could be made that this is very dangerous territory and a silent killer of jobs both onshore and offshore. If Shukla's (2017) predictions are accurate then Irish Firms need to focus more now on how they evolve and enhance their service offering instead of challenging local regulators and inflation spikes in offshore countries.

Gielen (2015), a founding partner for Advantage reply has done up a good analysis of why firms in the Asset Servicing space utilize outsourcing so extensively and what pitfalls and trajectory the industry is currently on against the backdrop of increasing regulatory changes and current restrictions. Gielen (2015) suggests the impacts of FinTech technologies that may ultimately disrupt offshore outsourced arrangements and leave devastation in outsourced and offshore service companies in the Asset servicing arena, somewhat supporting ideas of “Why India is doomed” supporting the misuse of time now in fighting against what's happening in the regulatory space and with Indian GDP rates.

2.8 Conclusion on Literature Review

The literature review, supported by some academic insights (Galvan, 2006), demonstrates the number of variable factors within the Asset Management and Fund Servicing space. It's a period of uncertainty as more demand is placed on firms to reduce costs, become more creative on how they service their clients whilst satisfying local regulatory obligations, of course all the time trying to operate in a 24 hour paradigm (Gupta, 2009).

The impact on Irish jobs now is positive in many regards as the CBI, indirectly is preventing more outsourcing taking place than firms would like to do. This in turns requires these jobs to remain in Ireland until such a time that either regulation eases or technology advancements supersede the need for local oversight of Fund Servicing Activities. This crossroads however is quite dangerous in many regards as Meyerson (2013) outlines the cost of regulatory enforcement and change should not be detrimental to the market or local firms operating in those markets.

The CBI needs to align itself with the Funds Servicing Industry in a practical way, retaining the legal degree of separation and aligned to the government's 2020 vision (Department of Finance, 2017). Asset Managers will continue to place more and more pressure on Asset Servicing firms, both from a cost perspective but also from a timely delivery and distribution perspective. If some compromise cannot be reached with the Irish regulator Firms will simply go down the Technology route and achieve their results in that manner, thus reducing the need for staff in all locations. The research has outlined the increased focus and investment in Robots and this will naturally result in a job loss and local revenue loss situation for all key stakeholders.

The literature review outlines the changing demand by the customers of Asset Servicing Firms, the Asset Managers and their front line Investors, as to seeking early access to NAV prices on the market, effectively forcing a number of Irish firms to create shift teams here in Ireland at unsustainable premium. If this demand continues Irish Firms will struggle to compete with firms in the UK and Luxembourg, but more so with firms willing to create centres of oversight in Hong Kong, Australia and parts of the Middle East. These countries enjoy lighter regulation but more over a more accessible time zone advantage over Ireland, UK and Luxembourg (Levis et al., 2014).

Finally and what is not explicitly covered from an Irish perspective is the impact on FDI and Revenue into Ireland should Firms reduce their footprint in Ireland due to the regulatory environment. (Foster, 2016) argues that *“Central banks can help to foster the necessary stability and investment to make employment and home ownership possible. And to achieve this against a backdrop of relentless social, economic and technological change demands new policy approaches and fresh ways of thinking – in short, the ability to get ahead of the curve”* and that FDI government policies needs to be and can be aligned with the Central bank insofar as supporting economic growth whilst maintaining an appropriate risk framework.

Chapter 3 – Research Questions & Methodology

3.1 Research Objectives

The core aim of the research is to assess the necessity of offshore outsourcing for Irish Asset Servicing providers and to gain a better understanding what impact the Irish regulations is having on these firms when attempting to offshore and the knock on impact to their clients, the Asset Managers.

The objectives of the research are the following,

Research Question 1:

To evaluate the core need for offshore outsourcing with the Asset Servicing industry, specifically in Ireland but also with the UK and Luxembourg as Ireland closest competitors.

Research Question 2:

To evaluate the perceptions of how the current CBI Consultation Paper 97 and tougher enforcement of this legislation plus the ongoing evolution of the offshore outsourcing rules is having on Asset Serving Firms operating in Ireland

Research Question 3:

To explore if Asset Managers have any core concerns with the level of outsourcing being performed by Asset Servicing firms operating in Ireland and the benefits or knock on impacts to their business where too much or too little is being performed.

3.2 Research Significance

There has been much industry debate with the local Irish regulator - the Central Bank of Ireland on the usage of offshore center's to support the Irish Asset Management and Asset Servicing Industry. Strict guidelines have been rolled out post the 2008 crash in terms of the restrictions and rules firms must follow in order to satisfy their regulatory obligations. Other EU jurisdictions have slowly mirrored the Irish regulations, however the fact remains that Ireland is view as the more stringent jurisdiction presently in terms of how much they will allow Irish based firms to outsource offshore.

The Central Banks live paper, CP97, is somewhat ambiguous and contradictory to earlier publications provided in AIF (Alternative Investment Funds) and ANNEX II which is not 100% clear on what activities can be truly outsourced and what needs to remain on shore. The CBI has also never publicly explained their true rationale for having such rules in place. They have cited ownership and accountability but these could be deemed mute points in that the restrictions are in place to protect Irish jobs and ensure Dublin remains as a centre of excellence for Asset Servicing. Most research however has not explored the possibility that the CBI has multiple agenda's in adopting these rules. What's more interesting is the enforcement of these rules. Looking at the world pre 2008, the financial services crash, a visit from the CBI meant a polite and box ticking get together.

From the researchers own firsthand experience a visit from the regulator is combined with 6-8 weeks of information gathering and thematic reviews. Not so much as a company logoed brio would be accepted by the CBI. Today's interactions are incredibly formal, sterile and precise. Couple that with their hiring strategy and there are no loop holes anymore in terms of explaining away unique outsourcing arrangements. They know exactly what they require and are well educated and trained to look for anomalies.

The purpose of this research is to determine if Asset Servicing Firms in Ireland are helped or hindered by local regulation and will also look to briefly explore the future of Asset Servicing in Dublin in the face of continued outsourcing but moreover significant advancements in Technology. The research will also explore what role can the regulator play in helping shape that future, good or bad.

3.3 Research Questions

Following consultation and advice from the research supervisor, the researcher reduced the original six questions to three in order to narrow the focus of the investigation to a more fundamental set of issues. They are:

- A. To briefly evaluate the core reasons and benefits to offshoring within the Funds Service Industry in Ireland.
- B. To investigate the current and evolving regulatory barriers to offshore outsourcing Fund Service work from Ireland and the impacts to Ireland as an Asset Servicing Centre.
- C. To investigate the feedback from Asset Service Providers in relation to maintaining solid service standards and Key Performance Indicators(KPI's) where Administrators(Service Providers) have excessively outsourced and flaunted with the regulatory restrictions and equally where firms have not outsourced at all or enough and the impacts of that to Asset Managers(the Client).

3.4 Research Base Selection

The research base has been selected from a number of Asset Servicing firms, Fund Boards and Asset Managers whom are operating in Ireland with an offshore presence, specifically in either - India, Manilla or Poland. The selection criteria employed was as follows:

- ❖ 1 – Must have an office in Ireland managing a minimum of 10 Asset Management Portfolios
- ❖ 2- Must fall under the CBI supervision guidelines for outsourcing, CP97.
- ❖ 3- Must employ a minimum of 50 FTE in Ireland
- ❖ 4- Must have portfolios that are cross jurisdictional, i.e. distributed in Asian or non GMT time zones
- ❖ 5- Must have an offshore office or third party offshore vendor supporting their business.

Each firm was approached based on prior interactions through the researchers' employment within the industry. In 5 cases the delegates were previously known to the researcher and agreed to do the survey once

they could remain anonymous. In one case the contact re-assigned the online survey to a more senior member in the company whom had voting rights on offshoring within his company. All candidates chosen were either at Director or Executive Managing Director level.

Six of the seven Service Companies who have participated in the brief quantitative survey have responded to the questionnaire. The researcher also conducted four semi-structured interviews with Asset Managers based in Ireland to get their perspective on the usage of outsourced offshoring. Again these were selected based on criteria 1-5.

The approach of a questionnaire, aimed at Asset Service firms and a semi-structured interview aimed at the client, Asset Managers in this case, has allowed me to get two distinct perspectives against the backdrop of the regulatory environment and constraints in Ireland for these firms.

3.5 Research Methodology

The basis of the research questions (Appendix 4), formal analysis of the market in Ireland and specifically the analysis conducted through the literature review helped shape the research methodology. In reviewing numerous sources of research literature the researcher has adopted a multi-strategy approach (Gillham, 2006) combining both quantitative and qualitative descriptive data to help answer my objectives (Borg and Gall, 1989). According to Williams (1977) the cost benefit analysis of good research can vary significantly from one another and having a good mix of research methods is critical to help support the answering of the core questions. Whilst qualitative is the main body of research conducted to obtain the most relevant perceptions the researcher has supplemented that with an online survey, attempting to triangulate the responses to what the sentiment and perception is within the Asset Service firms.

The basic qualitative research (Holloway, 1997) will be carried out through 4 semi-structured interviews with Irish based Asset Managers. This research is the core research supporting the study. Whilst these managers may also have other jurisdictional presence in the UK, Luxembourg or even Asia, for the purpose of this research the researcher will focus solely on their Irish domiciled funds that are being serviced by Irish based Asset Servicing Firms. Previous research conducted by (Spinks and Reid, 2008) suggests that this face to face individual form of research is one of the best ways to get a deeper perspective of the processes in play and allows us to gather a broader and richer data than simply a survey. For ease of structure the researcher has called each Asset Manager 1-4, i.e. Asset Manager 1, 2, 3, 4.

In addition to the semi-structured interviews the researcher will look to employ a descriptive quantitative online survey aimed at 7 Asset Servicing Firms based in Ireland. Wehrs (1992) explains the benefit in have a

descriptive research methods in addition to other methods and how that method can result in a clear hypothesis of the issue and even recommendations. Saunders (2007) supports a combined research theory and states that surveying is a must in any field of research as it allows the subject in answer in free terms and without judgement. The online survey will be conducted through an online portal type application called, Survey Monkey. Given the sensitivities and competition of the research topic the respondents have agreed online to participate once their names and company names are anonymous. The survey has specifically targeted highly influential and key decision makers in the respective six firms. These individuals range from the Chief Operating Officer to the Chief Risk Officer to the Chief Executive, all of whom will have slightly different view-points on Offshore Outsourcing but are aligned on client demands and expectations. All are at a Director or Managing Director level. These are the official corporate titles.

This mix of methods Bryman (2006) will allow the researcher to gain a much deeper and broader understanding of the research topic and the Irish market sentiment on the use of Offshore Outsourcing against the back drop of the regulatory environment. The mixed approach will allow a degree of correlation between client and service provider whilst both being challenged about the same regulatory challenges. Creswell (2003) support the view that mixed method describes the process of attempting to integrate both quantitative and qualitative data into one combined study, thus have a greater overall view of the problem being researched. It's important to note that whilst a mixed approach is taken, the researcher is focused on the qualitative feedback and is triangulating that research with the online quantitative survey results.

A sample of the questionnaire can be reviewed in (Fig.1) in sampling strategy and approach.

The interviewee's will be asked a number of structured questions as outlined in Sample 1 (Fig.2) but also a free format style and open ended set of questions will be asked at the end to gain any other perceptual views. The interviews will be based on the researchers own knowledge and experience in the Funds Services Industry and from some previous research studies conducted in this space (Kavanagh, 2014). All participants have been carefully chosen given their experience and tenure in the industry combined with their influence within their own respective organizations. They were either at a Director or Managing Director level. As previously outlined all interviews were conducted in private and participants will remain anonymous, this has helped create a more open and safe environment (Mohiuddin and Zhan, 2010). All interviews were recorded and supplementary notes taken. In advance of the interviews taking place a mock set of questions was established and the researcher performed the interview on a work colleague. Following that test it was concluded to narrow down that set of questions from ten to five as ten questions took too much time and was creating more subjectivity thus allowing perceptions to rule reality.

The online survey, conducted via Survey Monkey, an online portal, was aimed at purely senior staff in each of the Asset Servicing Firms based in Ireland. As detailed, candidates were selected on seniority, ability to

influence outsourcing decisions internally, influence outsourcing decisions with the clients themselves and having some level of responsibility, directly or indirectly, of the company's profitability. Respondents were permitted 2 weeks to populate the online survey. The survey and asset management questions have been formed based on the literature research performed and by previous studies on this topic (Kavanagh, 2014). Seven Firms were selected. Six firms responded to the survey online.

3.6 Sampling Strategy & Approach

The researcher will seek to support each objective **1-3**, by combing both descriptive and exploratory research methods which will require separate sampling techniques to be utilized to complete the primary research.

In order to overcome any bias in the sampling approach only asset managers and administrators physically located in Ireland will be included in the initial survey and interview as per criteria 1-5. Whilst there are now a high number of administrators located throughout Ireland, some 31 in total Irish Funds (2017), some of them physically located outside of Dublin. The researcher has deliberately not distinguished those locations or excluded them from the online survey. These locations that have Asset Servicing specifically are Cork, Limerick and Kilkenny. Despite these locations being relatively new in the scheme of Fund Administration in Ireland they have still been impacted by Offshore Outsourcing in a positive and negative way.

So for the purposes of having an Ireland picture the researcher has included them in my research. Ireland is regulated as an entity not by county or province so my approach was to include them and look at Ireland as one centre.

1. Is outsourcing a key factor to running your business successfully from Ireland

- Somewhat
- Definitely
- Its Critical to running my business

2. Has outsourcing added risk to your business

- Not at all
- Somewhat
- Yes but I can't deliver to my clients without it
- Marginally but nothing that worries my clients

3. Do you feel current CBOI outsourcing regulation is too strict or sufficient

- Too strict but manageable and not commercially impacting my business
- Too strict and having a commercial impact on my business
- Sufficient
- Not sufficient and should be more stringent

4. Do you think Ireland is in danger of becoming competitively disadvantaged due to outsourcing regulation

- Yes
- No
- Yes, particularly post Brexit
- Yes, against Luxembourg
- Remains to be seen but not impacting to date

5. Do you think Clients suffer from too much outsourcing

- No
- No, they actually benefit
- Yes, quality can be somewhat impacted but not commercially damaging
- Yes, Local knowledge is impacted and clients feel that over time
- Yes, but only if firms have insufficient oversight and quality assurance

Fig 2 – Sample Interview Questions

Asset Manager Interview on use of Offshore Outsourcing.

	Question(s)
1	Is offshore outsourcing a critical to your fund product range or are you immune to it?
2	Have you noticed any risk impacts to your service as a result of your provider outsourcing work?
3	Do you feel the CBI's regulation is fair, excessive or in need of more stringent rules?
4	Do you think Ireland is in danger of becoming competitively disadvantaged due to outsourcing regulation?
5	Do you think Irish firms outsource to offshore locations too much or too little and the client fallout from both?

3.7 Research Limitations

There is significant secondary research in relation to the potential cause and effect of outsourcing into tier 3 (Labbe, 2013) locations and more over the long term sustainability of this activity in those countries given the significant technology advancements in the last 2 years, predominately borne by Robotic Automation tools designed by large FinTech Companies such as IBM and BluePrisim (Fersht, 2017). There may be limitations to the results given the span of the surveys and the fact that many Administrators may be bias towards outsourcing, focusing solely on the significant cost benefits attain in performing this activity not the potential side effects to the domestic and foreign economies in adopting this approach.

The research will also be somewhat subjective in that each Asset Manager and Administrator will have a slightly different view on what determines true outsourcing. Many Asset Servicing firms describe outsourcing as either “full” outsourcing or outsourcing “lite”. Those adopting outsourcing lite may be insulated to some degree in terms of the true benefits and draw backs whilst those firms utilizing full outsourcing may have a different feel to the full benefits and challenges.

It is also important to differentiate firms who have outsourced to their own company, albeit in a Tier 3 location, to those firms who have outsourced to a third party in those locations, further decoupling the importance of the work that has been outsourced (Warner and Hefetz, 2012). The experience and feedback could be quite different and again skew the results somewhat given that some of the firms interviewed have both arrangements in place, 3rd part providers offshore and their own firms operation offshore.

3.8 Ethical Considerations

The participants who agreed to be part of this study did so knowingly and willingly. They were initially asked via e-mail or verbal request if they would agree to participate. One firm chose not to respond to the online survey and cited that they had a conflict of interest with the CBI right now. The interviews were recorded on a password protected I-Phone and subsequently transposed to a password protected Microsoft word document. The interviewees were informed that the interview was solely for the purpose of this dissertation and that it would not be shared or used for any other purpose. They were also informed that their name would not be included and that they would be referred to as Manager 1-4 and Asset servicing firm 1-6. All participants approved the transposed version of the interview by e-mail.

3.9 Conclusion

In conclusion the survey and interview approach that was adopted has given a synthesis of the perceptions and views from the client, Asset Managers and service firms, the Asset Service Providers. Taking seven firms was a strong subset of the Irish Industry and whilst only four face to face interviews were conducted, they gave very good insights into how the client feels about outsourcing and the current regulations in play in Ireland. The questions in the interview were deliberately constructed to see how Asset Managers responded to a similar line of questioning on the general use of offshoring, the regulatory constraints and the current and future competitiveness of the industry as a result of both. These broad, quite leading and open ended style questions were constructed in such a manner to extract informal sentiments as much empirical views on the topic.

Chapter 4 – Results

Survey & Interview Findings

4.1 Description, Data Analysis and Synthesis

The following section details the results of the research findings from both the semi structured interviews and the online survey, explained in greater detail in chapter 3, research's question and methodology. The researcher has attempted to summarize the results into the key themes, gathered from both the online survey with Asset Service Providers and the Asset Managers semi-structured interviews. The questions and structure of the Asset Manager interviews attempted to follow the themes highlighted by the survey response and included four managers that were based in Ireland and were directly impacted, positively or negatively by the use of Offshore Outsourcing by their vendors, the Asset Service providers.

There was a satisfactory response to the online survey request, with 6 out of the 7 firms selected returning a completed survey. The survey target was to include 7 firms and have a minimum of 5 completed responses. In having 5 responses it was felt that this then represented over 20% of the Asset Servicing firms based in Ireland and as such helped to provide a reasonable indication of the general perceptions on Outsourcing and the Sentiment of CBI regulation. The individuals selected to complete the online survey on behalf of their firms were all at a senior level whom were in charge of very large operation or had direct decision making powers on what was outsourced or not.

In terms of the face to face and telephone interviews conducted, 4 clients or Asset Managers were carefully selected, all of whom operate in Ireland but may have portfolios and activity in other EU jurisdictions. All 4 selected agreed to the interview. All were very open and candid about the use of Offshore Outsourcing by their key vendors, the Asset Service firms and allowed some additional perspectives on their views of the industry into the future.

The researcher has attempted to synthesize the online survey responses of Asset Servicing firms with that of the responses from the clients, the Asset Managers in order to correlate the hypothesis of this dissertation.

Empirical Findings

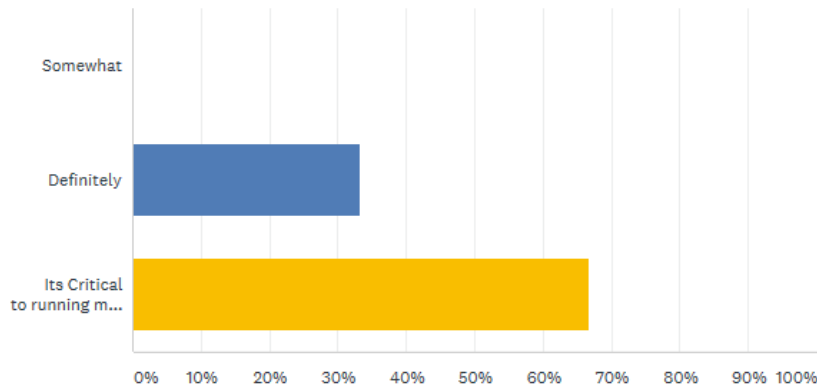
4.2 The need for Offshore Outsourcing within Fund Administration in Ireland

This questions was posed in the online survey and semi-structured interviews as to how critical offshore outsourcing actually is to a) running your business and b) benefit and need to the clients themselves.

Firstly analyzing the online survey results, 4 of the 6 respondents defined the use of offshore outsourcing as "Critical to running their business". This result is a key indicator in how strongly firms feel about the need of offshore outsourcing. 2 of the 6 responded as its "Definitely" a factor in running their business but not necessarily critical whilst no firm responded to it as not being a factor for running their business.

Is outsourcing a key factor to running your business successfully from Ireland

Answered: 6 Skipped: 0



ANSWER CHOICES	RESPONSES
▼ Somewhat	0.00% 0
▼ Definitely	33.33% 2
▼ Its Critical to running my business	66.67% 4
TOTAL	6

Interview correlation analysis – Asset Manager(s) 1-4

This survey was further supported by the 4 semi-structured interviews. For this point the researcher asked the Asset Managers a similar question to understand the need for outsourcing against the products they oversee, products which are all Irish Domiciled vehicles. “Is offshore outsourcing a critical to your fund product range or are you immune to it?”

Asset Manager 1 responded to this in stating:

“I have been an Asset Manager for number of years now and whilst primarily based in Ireland, I have worked in Luxembourg and the UK. For me the industry landscape has evolved so much in recent years that it’s impossible not to use offshore locations to gain not only cost savings but moreover time saving advantages in using India or Manilla. I don’t really see the benefit of Poland from a time zone perspective and whilst some firms have secondary or tier 2 locations, again, bar a better bandwidth of resources, I don’t see the distribution or earlier distribution advantage. So to answer, yes it’s a massive factor for us given not just the competitiveness in terms of cost but getting earlier delivery of our funds”

Asset Manager 2 responded to this in stating:

“Cost is a massive factor nowadays, some firms are charging close to nothing for some fund administration activities, how I don’t now but they are. For me it’s critical to be competitive in terms of our product range. Higher fees equals lower fund performance so the cheaper the better in my book, once of course accuracy is retained. It’s kind of a given now that service firms get the NAV and TA deals right, but maybe that’s not always the case where offshore centers are used. Its key for us in terms of cost but given our product range we have no issue with timings yet. I know other managers have ICAV’s and CCF’s etc. that may need an earlier NAV but our product range has yet to have the need for early distribution so really cost is paramount. I don’t see how service firms could be as cheap as they are without using India”

Asset Manager 3 responded to this in stating:

“100% - there is no way we could get our NAV’s and reports delivered on time for us to perform our own validation. What customers forget is the fact the CBI and other regulators have hit the industry in a two prong approach, asking the Asset Managers to perform sufficient oversight of their vendors asking the vendors to in turn retain responsibility onshore. To do this we need to get time back in our day, time that only India or the likes of Manilla give us. The states can help too but the cost of doing work there is even higher than here, so yes it’s critical to us”

Asset Manager 4 responded to this in stating:

“Yes we have a lot of products that are multi-manager and I know from performing due diligence on one of our providers last year that if they did everything in Dublin we would not get out NAV prices until around 5pm each day. This simply would not work for us and we need our prices by lunch time so to perform our own checks before on the same day, so yes it’s very important to us”

The results of both the survey and interviews here are very similar in terms of both firmly underscoring the importance of offshore outsourcing in today’s industry. Interestingly one Asset Manager highlighting the fact that the *“CBI and other regulators have hit the industry in a two prong approach, asking the Asset Managers to perform sufficient oversight of their vendors asking the vendors to in turn retain responsibility onshore”* suggesting that firms are indirectly being forced into using offshore locations in any event, so to satisfy Asset Manager regulatory obligations.

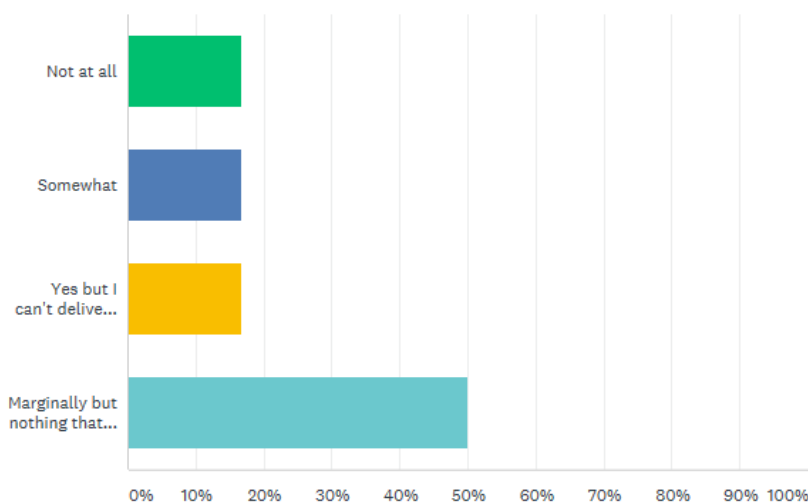
4.3 The risk impact of Offshore Outsourcing

This question was posed in the online survey and semi-structured interview as to what risk Offshore Outsourcing actually has to running your business and potential knock on impacts to Asset Managers.

Briefly analyzing the responses from the 6 service providers there are some mixed responses within the industry. Half of the firms believe that it has added marginal risk to their but they felt it was manageable risk and risk that did not directly impact their clients. One firm, whom interestingly has outsourced most of their work to the Philippines, cited that it has indeed added risk bit they simply can't deliver to their clients without it. One firm, who has some of the most complex CCF structures in the industry, cited that it added no impact to their risk profile.

Has outsourcing added risk to your business

Answered: 6 Skipped: 0



ANSWER CHOICES	RESPONSES
Not at all	16.67% 1
Somewhat	16.67% 1
Yes but I can't deliver to my clients without it	16.67% 1
Marginally but nothing that worries my clients	50.00% 3
TOTAL	6

Interview correlation analysis – Asset Manager(s) 1-4

This survey was further supported by the 4 semi-structured interviews. For this point the researcher the Asset Managers a similar question to understand the risk impacts to their business from their vendors using offshore locations for outsourcing.

Asset Manager 1 responded to this in stating:

“I don’t see it as adding risk per say but possibly the ownership and accountability has decreased somewhat. Too often my Valuations or Nav Manager will say that they will follow up with Offshore Fund Accounting to see what happened there. This feels like a little bit of lack of accountability on their part, almost passing the blame when things go wrong. These issues are infrequent though and for the most part service is good and my KPI’s are met. So no, not added direct risk just a subtly degradation in service”

Asset Manager 2 responded to this in stating:

“Initially yes, but after a few months the service was excellent. We felt the handover was rushed at the outset and it caused about 3 significant issues for us and our clients. We would have liked to see our provider physically send someone over for a period of time before going live with our work from their offshore centre. Last year we did a due diligence, as the regulator insists! On our offshore vendors offices in India and we were pleasantly surprised at how professional it all felt, we have no concerns now but have insisted a more transparent handover occurs for future outsourced arrangements”

Asset Manager 3 responded to this in stating:

“Absolutely no risk added, in fact our KPI’s have improved. Timeliness and accuracy have shot up and we have been able to spend more time of strategic items with our provider in Dublin. We have a very diverse international product range and risk is critical to us but we have no complaints on compliments around the use of India. We fell the add something too in how they go about their work, they are culturally very process focused and that really is important when specific and repetitive controls need to be followed”

Asset Manager 4 responded to this in stating:

“It’s hard to say it its added risk. Previously we had few issues when all our work was performed in Dublin and since, about 6 years ago now I think, they started to use India offshore locations we have not seen any difference in service really, it took some time for the transfer savings to be passed on mind you!, but no I can’t see how it has added any risk, particularly given the fact the team in Dublin still review our work before final sign off, the regulator won’t allow for them to send our prices directly from India”

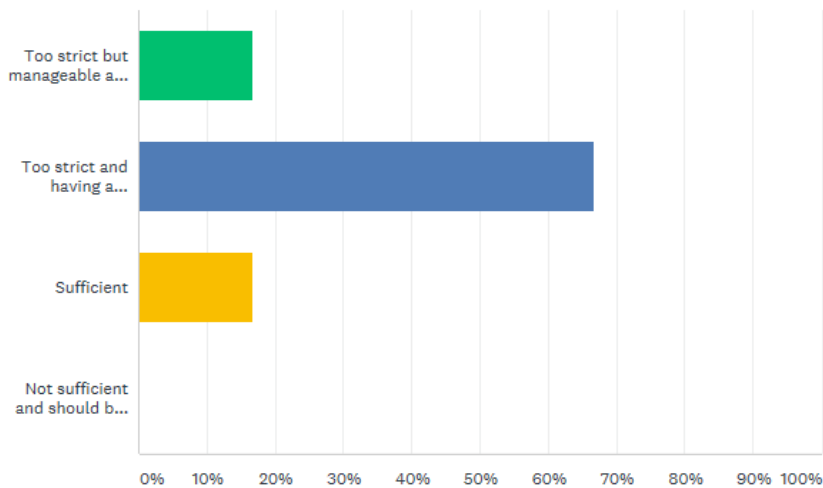
The results of both the survey and interviews here are quite mixed but the underlying theme is that outsourcing has not dramatically increased risk to either the Client or Vendor. In fact, some citing the *“fact our KPI’s have improved”*, since using outsourced locations.

4.4 Regulatory Impact for Firms in Ireland who rely on Offshore Outsourcing

This question was posed in the online survey and semi-structured interview as to what impact the Central Bank of Ireland regulation, CP97, actually has on Irish based firms, and if the regulation is too strict, too lenient or just right for firms operating in Ireland. No firm responded in stating that it was not sufficient or implying it as being too lenient. The vast majority fell into categorizing it as being too strict and having a commercial impact on their business. Commercial impact implying that its impacting the Irish based firms overall profitability in not being able to outsource more. One firm citing whilst it was too strict it was manageable and not currently having a commercial impact on their business.

Do you feel current CBOI outsourcing regulation is too strict or sufficient

Answered: 6 Skipped: 0



ANSWER CHOICES	RESPONSES
Too strict but manageable and not commercially impacting my business	16.67% 1
Too strict and having a commercial impact on my business	66.67% 4
Sufficient	16.67% 1
Not sufficient and should be more stringent	0.00% 0
TOTAL	6

Interview correlation analysis – Asset Manager(s) 1-4

This survey was further supported by the 4 semi-structured interviews. For this point the researcher asked the Asset Managers a similar question to understand their view on the CBI’s regulatory environment and if they had similar views on appropriateness of the regulation or whether it was too strict and impacting their business. The results were very mixed.

Asset Manager 1 responded to this in stating:

“I don’t see the regulation as overly excessive. I think there inconsistency in application though and possibly interpretation as to what the CBI deem as outsourcing. To date a lot of their analysis on what’s outsourced and what’s not is based on the numbers of staff in each location. This is not always a good indicator, particularly in a world of evolving automation. They have been clear on items like preliminary NAV etc. and the fact that service providers based in Ireland need to approve the final and official NAV before release to the market. In reality, operationally, that can look very different from firm to firm. So no I don’t think it’s too stringent just quite inconsistent”

Asset Manager 2 responded to this in stating:

“Yes it’s far too stringent and detached from what’s happening in the market. Customers are demanding more innovative products, products that take time to do and in order to be competitive need to be available as soon as possible. We need faster distribution of our products and waiting until 9am GMT to get a NAV that could be ready by 5am GMT makes little sense to us. Managers will simply end up re-papering if they have to other locations, UK or Netherlands etc., to be able to leverage offshore centers. The CBI needs to work with the industry on this topic, it’s not as black and white as they CP97 paper would lead you to believe.”

Asset Manager 3 responded to this in stating:

“I don’t think the CBI care too much about Irish jobs or offshore jobs etc., whether they are helping of hindering this situation is irrelevant to the consultation papers they have produced on the topic. I think we need to be careful as a country as to how the regulation aligns to job impact. On one level having the level of oversight required in Ireland is great. It basically means that and Irish registered fund, that’s Irish domiciled and non-Irish domiciled don’t forget, needs to be approved here. That simply means that someone needs to be physically in Ireland to approve and send, so basically their job is safe? Hmm I am not so sure.

As Asset Manager need more and more earlier deliverables it will simple require Irish firms to have overnight shift teams and or early morning shift teams, big cost and by the way big risk as staff volunteering for these arrangements are not your top performers, at least from my experience. What happens when robots can do this job into the future or will the CBI restrict that too? The cost of running a business from Ireland may not be commercially sustainable in 10 years’ time?”

Asset Manager 4 responded to this in stating:

“I think the rules are right. I would be very concerned if they are reduced, how much of an open season type scenario we would be faced with as service firms outsource everything that isn’t client facing and costly to run here in Dublin. I like to meet my servicing team face to face, so they understand our products, concerns and risks. With respect travelling to India a few times a year is not cost effective or appealing to us, we want to be able to have face to face contact. In my view it makes a big difference”

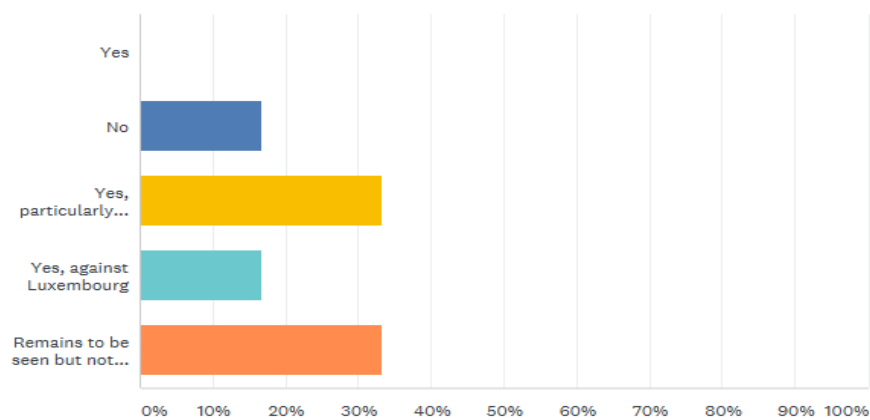
The results of both the survey and interviews here are quite mixed but the underlying theme is very much that Asset Managers are conflicted to some degree on the subject, many making valid points about local interactions and having that “*face to face*” contact. Equally and as will be discussed in much greater detail in the discussion and conclusion section, there appears to be a slight misunderstanding as what actual outsourcing looks like. Yes the final NAV is clear but is everything else open? Based on the numbers of staff ratio in each location it’s a crude measurement by the CBI.

4.5 The competitive future of Asset Servicing Firms in Ireland

This question was posed in the online survey and semi-structured interview as to what impact the competitive future looks like for Asset Servicing firms in Ireland particularly off the back of the Literature review and the previous questions posed around the role of the CBI in helping or hindering the industry. The results were again very varied from firm to firm, much of which underpins, in the researchers opinion, the future unknowns of what will happen post Brexit and in a world of constantly evolving technology advancements. Again half of firms believe that Ireland is in danger of becoming competitively disadvantaged against Luxembourg and in the face of the pending Brexit regulation being enacted. Given this significant percentage there is clearly underlying concerns and conversations happening within the industry around this topic and where Ireland specifically will lose out in the years to come.

Do you think Ireland is in danger of becoming competitively disadvantaged due to outsourcing regulation

Answered: 6 Skipped: 0



ANSWER CHOICES	RESPONSES
▼ Yes	0.00% 0
▼ No	16.67% 1
▼ Yes, particularly post Brexit	33.33% 2
▼ Yes, against Luxembourg	16.67% 1
▼ Remains to be seen but not impacting to date	33.33% 2
TOTAL	6

Interview correlation analysis – Asset Manager(s) 1-4

This survey was further supported by the 4 semi-structured interviews. For this point the researcher asked the Asset Managers a similar question to understand their view on the competitive landscape of Ireland as an Asset Servicing center into the future given the current and evolving regulatory environment.

Asset Manager 1 responded to this in stating:

“I think it’s hard to gauge right now as there are many grandfathered typed arrangements in play with the industry whereby Asset Service firms, typically off the back of historical client requests have been allowed to perform all their work, including the sending and publication of the NAV from offshore locations that these maybe masking the overall usage of offshore center. If we had one clear picture right now, in percentage terms, of how much is offshored that has fallen between the gaps of the updated legislation then we may know how much these arrangements are protecting or masking the use of commercial impacts to the industry.

Asset Manager 2 responded to this in stating:

“Right now, no I don’t think so. However we are all seeing an increased demand for earlier delivery of our products and this is naturally placing the Asset Service Firms under more pressure to have shift teams in Ireland. It remains to be seen how competitive that feature will become, earlier delivery and how Irish based firms can cope with that and make money from it. It may be simply a loss leader for them in terms of Fund Accounting and Transfer Agency but overall the business they retain from this flexibility may outweigh those costs. Honestly I am more worried about offshore locations and the future use of robots for lower skilled activity. The complex stuff seems to still remain onshore, irrespective of NAV approval or not?”

Asset Manager 3 responded to this in stating:

“I don’t think it’s already having a degree of impact. We have two products that we decided to repaper to the UK so to maximize the use of India. Basically they now send the NAV’s at 4am GMT to us, allowing us massive lead time and review before market opening. It has given us an edge I would say. In the UK they still review and are accountable for the NAV but their regulation has allowed them to do a retrospective review of our funds later in the day oppose to having to review before releasing, as is the case in Ireland. We have seen no negative impact from this model and approach, I am not sure why the CBI would not allow this practice as, in my view, everyone wins? ”

Asset Manager 4 responded to this in stating:

“I think the scale of products right now in play, that are registered in Ireland, I would have to say no but the market is becoming more demanding and innovative so it remains unclear in the next 5-10 years if this current legislation will truly impact Irish business and moreover Irish jobs, in either retaining them or reducing the need onshore, thus creating job loss, that’s a highly likely possibility too if the CBI reduce regimes.”

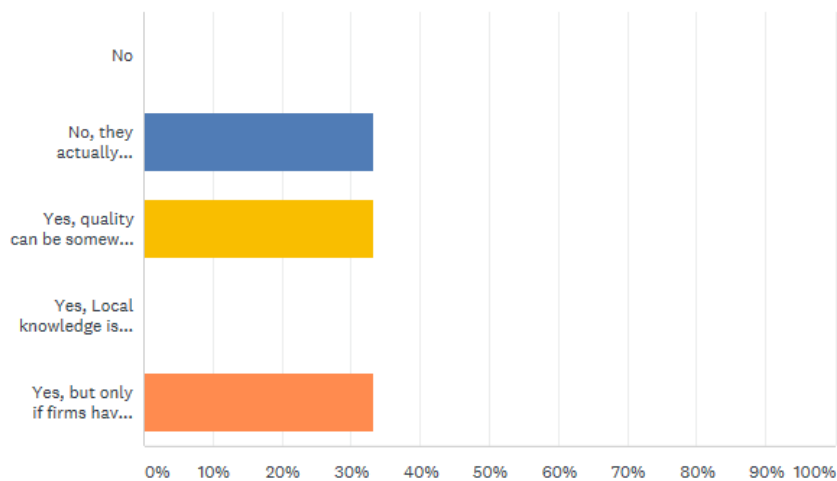
The results of both the survey and interviews here are quite aligned albeit slightly different viewpoints but in the researchers view similar themes are emerging. Interestingly one client believes the UK have something that the Irish regulator could adopt, where “everyone wins”, inferring clients, service providers and regulators could have a framework and boundary to operate within. The researcher will explore this point further within the recommendation section.

4.6 Do Irish Firms outsource offshore too much or too little

This question was posed in the online survey and semi-structured interview as to whether Irish firms are viewed as outsourcing too much or too little and any negative client impacts. This question was very much a raw indicator and snappy question both in the survey and through the interviews to simply gauge sentiment. The results, whilst basic did back up and correlate the previous outcomes of the 4 questions.

Do you think Clients suffer from too much outsourcing

Answered: 6 Skipped: 0



ANSWER CHOICES	RESPONSES
▼ No	0.00% 0
▼ No, they actually benefit	33.33% 2
▼ Yes, quality can be somewhat impacted but not commercially damaging	33.33% 2
▼ Yes, Local knowledge is impacted and clients feel that over time	0.00% 0
▼ Yes, but only if firms have insufficient oversight and quality assurance	33.33% 2
TOTAL	6

Interview correlation analysis – Asset Manager(s) 1-4

This survey was further supported by the 4 semi-structured interviews. For this point the researcher asked the Asset Managers a similar question to understand their views if Asset Service firms outsource too much or too little and any side effects, good or bad to clients. This was very much a wrap up question to tie all the previously answered questions together.

Asset Manager 1 responded to this in stating:

“Clients are not impact by outsourcing as arrangements stand right now, if done properly and with a solid project plan, the long term benefits to me outweigh any short term headaches, so yes outsource more if its helps the overall service and key client KPI’s, however I still want someone onshore owning my funds, even if they are not primarily sending the NAV”

Asset Manager 2 responded to this in stating:

“I think we should do more yes, but once its sensible and accountability remains in Ireland. The CBI could look at other models in other jurisdictions and maybe adopt some hybrid approach that satisfies all local requirements, manages risk and allows Asset Managers and the Service providers to profit from without necessarily doing mass redundancy programmes”

Asset Manager 3 responded to this in stating:

“Like I said we should do more and adopt the UK model, we are in trouble if the regulator doesn’t listen to us and new products get repapered to the UK etc. So yes more but in a responsible way.”

Asset Manager 4 responded to this in stating:

“Clients as evidence through our own market research benefit from outsourcing so Ireland can do more. Control and Ownership, on this point, I fully agree with the CBI but they need to come to the table and conduct thorough research with us to demonstrate how we mitigate risk, manage offshore locations and future proof Ireland. To date the engagement is too formal, rigid and without a broader, social and political perspective being incorporated. Clients will demand more, they won’t suffer if we go about it in a transparent and sensible way”

The results of both the survey and interviews here are very aligned and more analysis will be explore in the discussion and recommendations section but the researcher believes it’s fair to say that service providers and clients are aligned in that the impact is broadly a positive one if constructed in the right way

4.7 Conclusion on Survey & Interview Results

This chapter has gained some excellent feedback from the core client base of Asset Servicing firms operating in Ireland, the Asset Managers themselves. Combined with the online survey it has explored and answered some of the original hypothesis as to a) why firms use offshore outsource, b) the challenges of the current regulatory framework in play form the CBI and c) how that framework may impact the competitive advantage of Irish firms into the future. The details and some of the underlying themes which have emerged and also some possible recommendations will be discussed in greater detail in chapter 5, Discussion, Conclusion and Recommendations.

Chapter 5 – Discussion, Conclusion & Recommendations

Discussion, Conclusion and Recommendations

5.1 Discussion

This chapter will review the key learnings from the research, the findings and themes which emerged through the course of the Literature review, Quantitative survey and Qualitative interview research that was conducted. It will aim to synthesize with the overall hypothesis and the basis for this dissertation. It will also explore recommendations for each objective. It's clear that outsourcing is a fundamental activity of any Asset Service provider in Ireland. Informal research which the researcher gained through the course of this study found that of all 31 Asset Service providers based in Ireland none of them manage to avoid using outsourcing. Some are at the extreme end of the guidelines in place whilst some have very limited outsourced arrangements. On average most seem to have around 50% of their daily activities for Fund Accounting and Transfer Agency offshored. None of them have deliberately outsourced to an Irish or UK firm as they felt based on the cost benefit analysis there was little to be gained by using tier 1 providers, bar "scalability". In that respect most of the medium to large firms have either set –up their own offshore operational center or used a recognized provider to help service their book of business. Mankiw and Swagel (2006) suggest that outsourcing is predominately underpinned by the need to reduce costs. This is absolutely true for the most part, but within the Funds Service Industry there is a distinct need to use the time zones across the globe more effectively and efficiently. This requirement, the researcher believes, through the empirical research is actually more of a driver into the future than pure costs. Of course any firm deciding on the approach and model to employ need to understand their client requirements, their current but moreover future operating model (Kremic et al., 2006) and truly understand all the key benefits and risk in deciding on what to outsource offshore. Ireland's Asset servicing industry has grown substantially over the past 20 years (Irish Funds, 2017; Monterey Insight, 2017) and what my research and others does not detail is the systematic link the Asset Servicing Industry has to the broader Financial in terms of employee development and feeding numerous other sectors. A significant amount of Financial Services staff based in Dublin specifically have come from the Asset Servicing world. The skills they obtain through working in segments such as Fund Accounting, Transfer Agency, Fund Compliance etc. all compliant other roles and are all transferable skills. You could say Asset Servicing grooms a lot of senior folks within Financial Services given the variety of the roles in Asset Servicing. Without it, that supply chain of talent, would be significantly reduced. This social and political element of my research is not covered but it's important that regulators begin to look at the side effects, not just from a pure tax revenue perspective, but future proofing Ireland to retain this talent and continue to be seen as a center of excellence. There is not simply costs at play here for Asset Servicing firms there is much more to this topic and regulators need to listen to the industry and commence a more comprehensive study of the funds industry and what role they can play in the future development and retention of functions and staff in Ireland.

5.2 Research Objective 1 -

To evaluate the core need for offshore outsourcing with the Asset Servicing industry, specifically in Ireland but also with the UK and Luxembourg as Ireland closest competitors.

Conclusions

Theme 1 – Timings & Evolving Client Demands

Prior research on the subject of offshore outsourcing suggests that cost is the only real factor when it comes down to it, that's not entirely the case for Asset Servicing firms and the hope of the researcher is that some of the research has helped dispel some of these myths (Harrison and McMillan, 2006) around Ireland or any other EU location when it comes down to the numerous benefits to use offshore locations. There is clear evidence that the increasing and innovative product range and speed to market of same is the core driving factors for requesting new exemptions from the ruling from the CBI. Allowing firms in Ireland to release NAV's from offshore locations would greatly increase their competitive advantage and most importantly help retain the business in Ireland.

Theme 2 – Cost and Scalability

Of course cost is still a massive factor and the cost of doing business onshore is increasing each year. It's well documented that cost plays a significant role but it's currently matched with the fact that Ireland is struggling to fill all open roles in the market, according to Irish jobs.ie It's a good complaint that Ireland continues to grow yet attracting local talent is somewhat saturated, according to a number of local recruitment agencies. Agencies such as Morgan McKinley have recently opened marketing recruitment campaigns in Poland and Scotland in order to attract talent to Ireland. So whilst cost plays an obvious role, having access to people, to physically do the work, is critical (Peck, 2017). The lead time to fill roles in India is 6-8 over Dublin's 2-3 months on average.

Theme 3 – UK and Luxembourg as a Competitor

UK and Lux have less stringent rules right now on offshore outsourcing, specifically in terms of NAV release. As one Asset Manager indicated he feared if Ireland does not change Asset Managers may look to repaper their funds to be UK domiciled. Interestingly he did not cite Luxembourg as the CSSF are increasing their regulations presently (CSSF, 2017) to look a lot more like the CBI's, however, final NAV release or retrospective review being permissible is unclear. The UK will also embark on Brexit over the next two years and it remains to be seen if repapering continues to be a back door for Asset Managers and Asset Service providers seeking to have their products released early in the GMT day. So it's hard to determine how much Ireland should worry at this point but certainly both jurisdictions need to be closely monitored over the next 18 months (Clott, 2007).

5.3 Research Objective 2

To evaluate how the current CBI Consultation Paper 97 and tougher enforcement of this legislation plus the ongoing evolution of the offshore outsourcing rules is having on Asset Serving Firms operating in Ireland.

Conclusions

Theme 1 – Frustration across the Industry

There is a perception that suggests a palpable frustration across the Funds Industry in Ireland, based on the research, that the current legislation is too rigid and inflexible. Against the UK, Luxembourg or other locations it may appear that Ireland is much more stringent and moreover backing that up through the intense thematic reviews on outsourcing. Asset Managers and Asset Service providers believe that this may be a future disadvantage for Ireland given the ongoing evolution of products out there and the demand for early deliverables.

Theme 2 – Inconsistency in Application

There is sentiment that the application of the current CP97 legislation isn't as consistent applied as it should be. Grandfathered arrangements and inconsistency in other historical arrangements that some Service firms and the Clients have availed of and enjoyed is frustrating to firms. For example when a firm is pitching for business from an incumbent service provider/administrator the arrangements are not typically transferrable. This in itself limits the competitive edge of other firms pitching for the business as the new firms would likely have to use a shift team at a much higher cost. The CBI has not really tackled this issue which again underpins the inconsistency theme.

Theme 3 – UK Model is viable and Robotics

The UK model of allowing the offshore service providers to send the final NAV from those locations, typically much earlier in the GMT day to Ireland, is a massive competitive advantage for them. Asset Managers, all four of them, say complete sense in this model as they ownership and accountability still remains with the team in the UK. The only difference here is the fact that the review of the final NAV is performed retrospectively, typically before midday UK time. Managing the business through better process evolution could in fact help (Bharadwaj and Saxena, 2009) providers. Service providers and Asset Managers also touched on the fact that Robotics will likely play a significant role within both the Asset Management and the Asset Servicing industry into the future. The general and tongue in cheek comment here, questioned if the CBI would change the legislation to ultimately block the use of Robots onshore (Manning, Massini and Lewin, 2008).

5.4 Research Objective 3

To investigate if Asset Managers have any core concerns with the level of outsourcing being performed by Asset Servicing firms operating in Ireland and the benefits or knock on impacts to their business where too much or too little is being performed

Conclusions

Theme 1 – Onboarding and Transparency

One Asset Manager was quite direct in their poor experience of work being moved to an offshore location to then only have immediate issues with their book of business, some leading to direct reputational impact. Whilst the Manager did not elaborate on that fact the researcher derived, given the narrow focus of the topic, that an NAV error had possibly occurred. They felt that if firms are to outsource a solid and transparent project plan should be used, appropriate sign off before go live and a solid and permanent quality assurance oversight review performed, outside of the daily NAV reviews.

Theme 2 – Retention of ownership and Accountability

All of the four managers cited, that local ownership and accountability, remain paramount, when outsourcing. Each of them reiterated this point several times throughout the interviews. Even if the UK approach was to be adopted as a stop gap whilst a review of the current legislation takes place, they were insistent that their day to day contacts were local and that those contacts remain as the primary owner and in the event of any issue occurring, offshore or onshore that they were fully accountable. Some managers were also at pains to point out the cost side of having to travel to India or Manila etc. on a regular basis as an impractical scenario, again re-enforcing local contact.

Theme 3 – Could in principle outsource more work but once service is maintained

All four managers were broadly in favor of more outsourcing being permissible. Once of course the look through cost savings were passed on in terms of fee reductions and local ownership remained in place they broadly were ok with the suggestion. None of them felt that there was a material negative impact to date and once managed appropriately they felt it was a reasonable conclusion. Some managers did point out that the definition of what is outsourcing in the eyes of the CBI was not a consistent and accurate measure. If there was to be a level playing field that outsourcing criteria, right down to the specific activity, needed to be better defined than simply taking NAV release or the number of staff in each location as the percentage split of what's onshore to what's offshore.

5.5 Recommendations

Based on these conclusion and themes the researcher would make the following **5** recommendations:

- 1- Asset Managers and Asset Service provider do some analysis and projections of the current and future demand to help lobby the lightening of the regulation and align that analysis to job and exchequer revenue losses if the regulation won't allow for such exemption going forward.
- 2- A working group is formed with the CBI to analyze the current legislation against the risk generated by reducing legislation and that that reviews is then correlated with a European wide review, with their counterparts in the FCA and CSSF.
- 3- Exemptions are made on a case by case basis so to avoid Irish firms having to create shift teams in Ireland. Shift teams that not only have a significant cost associated with them but also the human impact and risks of staff working such unhealthy and unsociable hours. An impact study may be useful to support this.
- 4- All current arrangements in place to be re-reviewed to ensure consistency of application is in place across all firms and that no firm is unfairly disadvantaged, from a competitive standpoint against a rival firm.
- 5- A short to medium term adoption of the UK model may also be worth exploring. This model may be a long term solution too but certainly viable in short term as accountability still remains with the Irish offices and Irish Management as PCF.

5.6 Future Research

The research carried out during the course of this dissertation does indeed indicate some other areas for further and future research.

There are 3 core areas that the researcher believes would benefit from future research to help shape and evolve the regulation.

- 1) Research on the cost impacts to Irish firms of not offshoring enough/more over the next 10years. Will Ireland still be able to compete if other jurisdictions around the world are afforded lighter or more practical regulations?
- 2) Research on the exact rationale behind CP97, focusing solely on NAV release and why final NAV release is required to be from Ireland going forward when grandfathered arrangements still remain active. This would support the risks or not associated with reducing down the regulation to permit offshore firms send the NAV from there an earlier time but with retrospective daily reviews being carried out in Ireland?
- 3) Internal Regulations on Asset Servicing firms. Research to understand what is happening in every jurisdiction today, not just the large centers like the UK, US and Luxembourg but all countries where Asset Servicing is performed, particularly APAC.

These areas for future research would be beneficial to help lobby any new approach or change to legislation and shape better cases as to why exceptions to the rules need to be looked at carefully on a case by case basis into the future, to truly understand the short, medium and long term impacts of the current blanket legislation.

5.7 General Limitations

In addition to the research limitations outline in chapter 3 and possible future research that could be explored as discussed in section 5.6 of this chapter some of the other limitations that the researcher faced were the fact that we did not get access to the CBI in terms of their perspective on the regulation. They were unable to comment and given my own role, forcing the matter with them may be deemed somewhat a conflict of interest. Equally further research into evolving Asset Service Centers such as China and Australia would have been useful comparison to Ireland given the cost profile. The volume of literature review was very limited in this specific area. Whilst a lot of previous research has been carried out on the basic rationale for outsourcing and offshore outsourcing, little exists that is specifically analyzing the Funds Service industry, not just in Ireland but globally. Finally on a personal level I think better preparation earlier in the semester, as early as last September, would have afforded me more research time. This would be a recommendation I would suggest to future students, to start you research as early as possible.

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Appendices

Appendix 1 – CBI Approval Template for Outsourcing

Central Bank Investment Firms Regulations 2017

Outsourcing Template Notification**Firm Name****Date****Outsourcing Proposal**

The firm must submit written confirmation from Senior Management¹ that the Outsourcing Requirements in Part 4 Chapter 2 of the Central Bank Investment Firms Regulations 2017 have been fully complied with in relation to the outsourced activities

Separate sign off letter is required.

Required Information

Details / Explanation – can be contained on a separate page if necessary

1. Detailed rationale for the proposed outsourcing arrangement.

2. Specific fund administration activities to be outsourced.

3. Outsourced Service Provider details (to include full address, full entity name, if the firm is part of the Fund Administrator’s Group and regulated status).

Specific details of any chain outsourcing to be included if applicable.

4. Proposed ‘Go Live’ dates.

5. (i) Impact that the proposed outsourcing arrangement will have on the firm in Ireland.

(ii) Details of the core competence at senior level retained within Ireland.

1 Regulation 2(1) of the Central Bank Investment Firms Regulations defines “senior management” as the persons who effectively run the business of the fund administrator including, but not limited to, the following:

(a) the fund administrator’s board of directors (or equivalent in the case of a partnership or other unincorporated body of persons);

(b) irrespective of the title provided to the role, persons within the fund administrator responsible for

-

(i) core management functions,

(ii) high level decision making, or

(iii) implementing the strategies devised and policies approved by the board of the fund administrator;

(c) persons appointed to perform a pre-approval controlled function as defined in section 18 of the Central Bank Reform Act 2010 (No. 23 of 2010);

6. Details of the staffing arrangements within the outsourced location related to this proposal (including levels of expertise).

7. Proposed oversight arrangements

- Operational and Governance

For Final NAV Release (if applicable)

Applicable fund(s) and client(s).

Number of sub-funds.

Fund type (e.g. bond, equity, ETF etc.)

Fund Timelines (in both GMT and local time zone):

Valuation point

Delivery time

Dealing frequency

Details of circumstances which necessitates the release of the final NAV outside of normal Irish business hours (8am – 6pm) in order to facilitate investor dealing as per Guidance Reference “Outsourcing notification to the Central Bank Section (d)”.

Proposed operating model (i.e. diagram of process flow of activities including timelines along with details of consideration given to Q&A ID 1013).

For Preliminary NAV Release as per Guidance definition (if applicable)

Applicable fund(s) and client(s).

Number of sub-funds.

Fund type (e.g. bond, equity, ETF etc.)

Details of all parties to receive the preliminary NAV from the outsourced location.

Details of any onward transmission of NAV information (e.g. by the client).

Proposed operating model (i.e. diagram of process flow of activities including timelines).

For change/extension to existing outsourcing arrangements (if applicable).

Provide details of current arrangements in place.

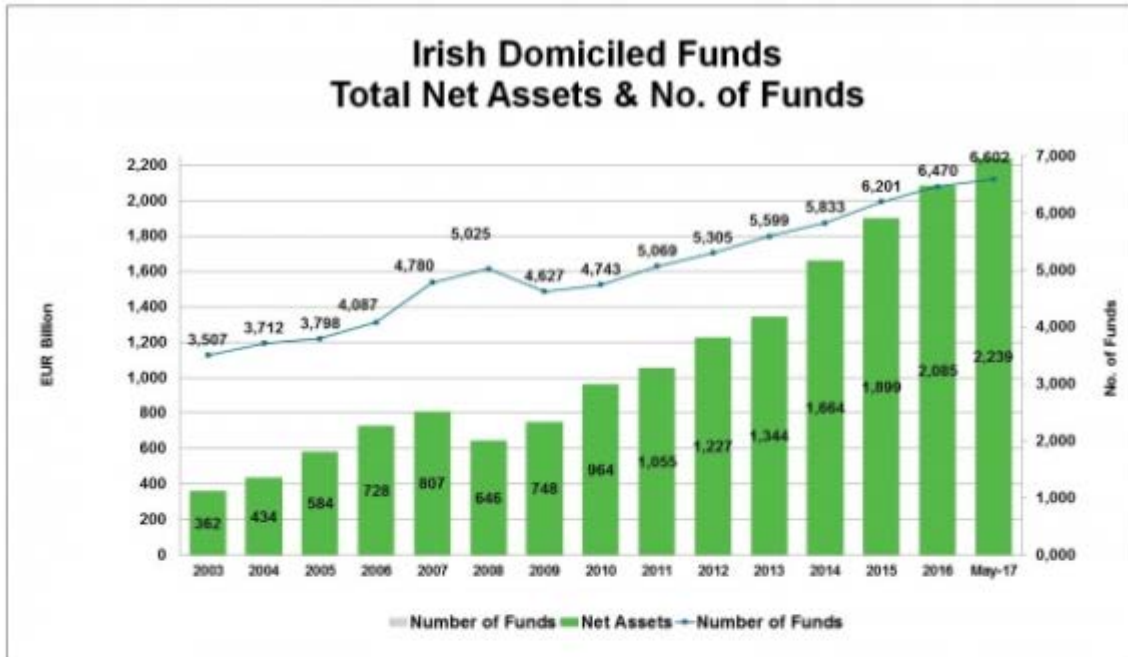
Provide copies of approval letters issued by the Central Bank prior to 2011.

For outsourcing approvals which did not go live within the 12 month period, please elaborate on the delay which stopped the activities from being outsourced to the Outsourcing Service Provider within that timeframe?

For funds/clients transitioning from another administrator (if applicable).

Current Administrator (name / address).

Source: Central Bank of Ireland



Year End	Net Assets (€ Million)	Annual Asset Growth (%)	No. of Funds Including Sub Funds
2004	434,477	20	3,712
2005	584,000	34	3,798
2006	728,000	25	4,087
2007	807,000	11	4,780
2008	646,000	-20	5,025
2009	748,000	16	4,627
2010	964,000	29	4,743
2011	1,055,000	9	5,069
2012	1,227,425	16	5,305
2013	1,344,340	10	5,599
2014	1,663,895	24	5,833
2015	1,898,823	14	6,201
2016	2,084,749	10	6,470
May-17	2,239,329	7	6,602

Analysis of Ranking

Of the 16 credit unions included in the thematic review, 3 were ranked as 4 "Strong", 6 ranked as 3 "Reasonable", 5 were "Weak" and 2 were ranked as "Ineffective". This equates to a simple average score of 2.6 across the sector suggesting that the processes and controls around outsourcing in the overall sample of credit unions are between weak and reasonable.

We further considered the rankings to examine if there was a link between the size of the credit union (based on total assets) and the strength of the ranking. The average asset size of the credit unions in each sector are set out in the table below.

Ranking	Number	Average size
4 Strong	3	€197 million
3 Reasonable	6	€121 million
2 Weak	5	€91 million
1 Ineffective	2	€14 million

It should be noted however that the average size for the cohort ranked as strong is skewed somewhat by the presence of an individual credit union whose asset size is significantly higher (+ €154 million) than the next largest. Controlling for this outlier the average of the other 2 in the strong ranking reduces to €101 million.

For comparison purposes, the table below illustrates the difference in the credit unions in the sample over and under €100 million in asset size.

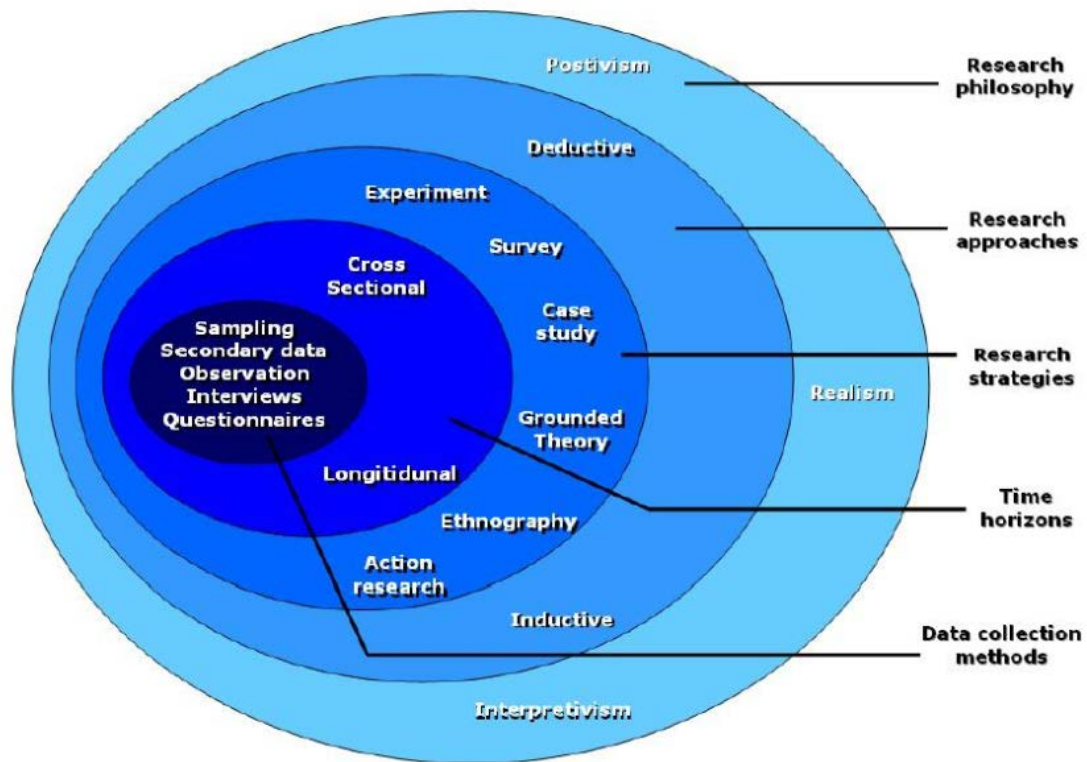
Size	Number in sample	Average ranking
>€100 million +	6	3.17
<€100 million -	10	2.30

Based on the data, as set out above, the difference in the average ranking of 0.87 suggests that there may be a link between asset size and compliance with outsourcing requirements (given the small sample size it is not possible to extrapolate this to the full population). Only one credit union over €100 million (ML) received a ranking of 2. All but 3 of the credit unions in the under €100 million cohort ranked 1 or 2.

There was one notable exception to the overall trend. This credit union which was ranked as a 4, has an asset size of <€30 million and was the fourth smallest credit union within the selected sample. This credit union received this ranking as:

- The CEO demonstrated a good level of understanding of what is required from an outsourced provider;
- The credit union has a strong outsourcing policy;
- The credit union displayed a good awareness of the outsourcing framework;
- There was evidence of discussion of outsourcing at Board level;

Appendix 4 – Saunders et.al Research Approach



Appendix 5

Thesis Submission Form

Submission of Thesis to Norma Smurfit Library, National College of Ireland

Student Name: **Robert McClean**

Student Number: **15019365**

School: **National College of Ireland** Course:

Master of Business Administration

Degree to be awarded: **Master of Business Administration**

Title of Thesis: **Offshore Outsourcing in the Funds Industry in Ireland**

One hard bound copy of your thesis will be lodged in the Norma Smurfit Library and will be available for consultation. The electronic copy will be accessible in TRAP (<http://trap.ncirl.ie/>), the National College of Ireland's Institutional Repository. In accordance with normal academic library practise all theses lodged in the National College of Ireland Institutional Repository (TRAP) are made available on open access.

I agree to a hard bound copy of my thesis being available for consultation in the library. I also agree to an electronic copy of the thesis being made publically available on the National College of Ireland's Institutional Repository TRAP.

Signature of Candidate: _____

For completion by the School:

The aforementioned thesis was received by: _____

Date: _____

This signed form must be appended to all hard bound and electronic copies of your thesis submitted to your school.