Building a high-velocity back office: Scaling for success

In the first article of our "Building a high-velocity back office" series, "A view from consultants," we shared insights from leading industry consultants about how investors can meet the demands of today's complex, fast-moving operating environment.

Three key dimensions emerged from those discussions: a growing focus on flexibility and agility, an emphasis on efficiency through outsourced providers, and an increased investment in data and digital platforms.

As institutional investors become increasingly reliant on a diversified product offering, the need is growing for a more modular, flexible back-office operating model that can scale. For example, automating processes and achieving a single view of investments including public and private assets can allow firms to work faster, collaborate with confidence and make better decisions.

In this article — the third in our series — we focus on ways to construct a more agile back office that can scale when needed. We spoke with executives from two institutional investors — the California State Teachers' Retirement System (CalSTRS) and Hargreaves Lansdown, an investment services firm — to learn more about how they are approaching the transition to a more nimble, high-functioning back office.

The insights they shared highlight the value of two critical elements for agility and scalability: people and technology.

CalSTRS is putting its people front and center

One institutional investor that has discovered the value of an integrated approach between the front and back offices is CalSTRS. It is the largest educator-only public pension fund in the world, and the second-largest pension fund in the United States, with assets totaling over US$340 billion as of June 2024.[1]

For April Wilcox, its director of Investment Services, successfully building an agile back office relies on how the back engages with the front. She notes, "To be agile you need tools and technologies, and you need to be able to automate — but the essential foundation is a strong team."

Wilcox highlights three critical components of a strong relationship. First is achieving the right mentality, based on a culture of partnership between front- and back-office teams, which has to be led by senior management, she emphasizes.

The second component is for team members to establish connections with the front-office teams making investment decisions. "Building relationships and having trust are critical," says Wilcox.

[1] "Investments." CalSTRS.

In the past, back-office colleagues were left out of early-stage conversations about new products — but now, front-office teams at CalSTRS actively seek input from their back-office colleagues. “When we’re proactively part of conversations, we can react quickly and help guide new strategies to make implementation more seamless,” says Wilcox.

The third element is empowerment and distributed leadership. “I want everyone in my team, at all levels, to take ownership of their work, contribute to solutions, and innovate,” explains Wilcox. Open discussions about the team’s vision and priorities ensure strategic alignment, while strong internal controls and management oversight ensure that people stay on track.

Creating the right culture

“It takes a lot of energy and a lot of management time to lead a team to go out there, be more empowered and be more open,” says Wilcox.

One of the biggest impacts comes from coaching team members on how to collaborate effectively with the front office. Investment services teams are asked to schedule the same in-office days as the asset classes, and to work on the same office floor. In-person conversations are favored when compared to emails, to strengthen relationships.

Wilcox brings the investment services division together every quarter to ensure it stays aligned with the business' needs. "We start off with, 'What is our vision? What is our approach? What are our priorities this year?' We might have talked about it a quarter ago, but we're always revisiting and always tweaking," says Wilcox.

Those adjustments are informed by performance data, which includes both qualitative feedback and quantitative metrics. The front office is surveyed annually about their collaboration with their back-office colleagues. Data is monitored on several activities such as trade volumes, markets, the number of portfolios supported, along with data on risk management and audit performance.

This allows the company to demonstrate the impact of a strong partnership between the back and front offices. Trends and key successes are shared via internal communications channels, putting a spotlight on the back office's contribution for the front office to see. "That takes time and effort but it's definitely worth it, as we need their support," says Wilcox.

Three steps for an agile back-office team

1

Lead from the top

A clear set of expectations from senior leaders within the back office about how the back and front office can work together can help build strong partnerships, rooted in trust. Such a partnership can help the back office be more agile and effective in delivering solutions — and allow the front office to focus on key priorities.

2

Encourage collaboration

Promote a culture of learning, where back-office teams can benefit from training on how to build relationships with front-office colleagues.

3

Measure what matters

Qualitative surveys of front-office teams can reinforce partnership behaviors and help ensure a 'customer service' mindset from the back office. Quantitative data is also vital to track the impact of solutions that help the business be agile and scalable, while also protecting the firm's assets by managing risks and ensuring regulatory compliance.

Hargreaves Lansdown's approach to modernizing investment operations

As important as people and culture are for agility and scalability, investors of all types cannot overlook the fundamental importance of the technology platform. In the second article of our series, "Data and technology to power the back office," we explored how robust data management is essential in driving better investment decisions. As Hargreaves Lansdown's experience demonstrates, digitally enhancing investment operations isn't just important for accuracy, it's also crucial for scalability.

In recent years, many investors have transformed their back-office processes, automating a mountain of work that was once manual. There have been significant benefits: Deloitte research has found that the 'winning firms' who outperformed the competition during the decade after the Global Financial Crisis were in part defined by their success in modernizing their operations. Winning CEOs took ownership of their organizations' data and technology vision, recognizing that it would separate their firms from the pack.[2]

Tom Cunningham, head of Investment Operations at Hargreaves Lansdown, has both observed and led that shift. He recognized the need for the firm to automate its workflows and reduce its reliance on manual data processes, as rising market expectations and regulatory changes made increased speed for producing data on the firm's assets necessary. "Ten years ago, you could have data coming in weekly or monthly," recalls Cunningham. "Now it has to be daily."

Another challenge was scaling to keep pace with larger volumes of trades. "People were manually checking hundreds or thousands of lines of trades a day, but you can't do that with more complex structures," Cunningham points out. "A typical corporate bond fund might hold 3,000 positions. If you've got 40 funds, you can't manually process that without making a lot of mistakes. It's got to be automated."

To meet those challenges, Hargreaves Lansdown worked with outsourcing providers to eliminate slow, labor-intensive work and automate those processes. "We've removed almost all the manual processing we used to do," says Cunningham. Traders or dealers just want to enter the minimum data needed to settle a deal, he points out. However, the back office needs more information, such as currencies or withholding taxes. "We did a lot of work over recent years to enrich the data at the front end. Now, it's all loaded in right from the start, so there's no back and forth between the fund manager or the dealer and the operations people trying to find all the additional data."

[2] "Winning asset management and investment strategies." Deloitte.

What have been the benefits for Hargreaves Lansdown of automating its back-office processes?

Cunningham highlights several advantages.

The first is speed. “When I joined Hargreaves Lansdown, it took six and a half hours to reconcile the position of the funds every day. Now, it can be done in minutes instead of hours. Timeliness and accuracy are the two biggest benefits,” says Cunningham.

Improved speed has provided near real-time visibility of fund liquidity — and this has enabled the firm to reduce its overdraft fees. Those are charged to funds, which directly boosts performance. “You’re talking one or two basis points — but every point counts,” says Cunningham. In addition, traders better understand how much they can reinvest, and what sums can go into money market funds on a short-term basis. “This all aggregates up,” says Cunningham. “Every accumulation makes a difference.”

Another big advantage is improved workflow. Analysis of trading data allows problems to be identified and proactively fixed, rather than managed reactively. “We can see when a broker, a market, or an instrument has caused problems in the past, and fix the issue before it breaks again,” says Cunningham.

The visibility of bottlenecks afforded by digital platforms also supports better overall system performance. That’s essential for complex business models that span different global markets, involving multiple front and back offices.

Cunningham is clear about the need for institutional investors to augment their back office. “The front will give you more granularity, but the back will give you the scalability,” he says. “As the market’s changed and people have consolidated, you need the scalability.”

In the end, the ingredients for agility and scalability are simple, says Cunningham. “Good people, good data, good technology. That’ll do it.”

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Head of Investment Operations at Hargreaves Lansdown

Three steps for a scalable technology platform

1

Start with data

Every digital transformation begins with data. Ensuring reliability and accuracy is key. Identify the biggest opportunities, such as areas where automating inputting or checking processes could yield significant wins in terms of speed and accuracy.

2

Consolidate providers

Institutional investors often have a patchwork of systems and outsourcing providers, which can be a legacy of earlier mergers and acquisitions. It's worth assessing the potential for consolidating providers and improving the integration of back-office systems to reduce costs and improve the capability to respond quickly to new requirements.

3

Invest in talent

A more complex operating environment creates new technology challenges. The ability to see the big picture and understand technology's end-to-end role is invaluable. However, Cunningham points out that today's technology framework limits the opportunities younger workers have to build a broader perspective. As such, it's important to help their teams develop that breadth, as well as hiring experienced talent to support the technology strategy for the future.

The way forward

In today's fast-paced financial world, the back office must be more than efficient — it must be agile. This necessitates transforming from a reactive support function into a proactive asset that anticipates and responds to new demands quickly. For institutional investors, this agility isn't just essential; it's a competitive edge.

Read all of the articles in our series for new insights on building a high-velocity back office. Stay tuned for the final report on how to increase efficiency through outsourced providers.

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