ABN Amro Outsourcing Operations to BoNY

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Bank of New York has gained an important boost in its bid to come out ahead of the crowd of competing separate account outsourcing providers. ABN Amro Investment Fund Services has outsourced its operations to BoNY as it enters the managed account market.

The deal is the second for BoNY's managed account services division following its assumption of ING Managed Account Group's operations in February. The difference in this deal is that ABN Amro is a new entrant to managed accounts, whereas ING is an established player.

"Any deal gives a firm added credibility," comments Daniel Seivert, a managing partner at 3C Financial Partners, a merchant bank that provides investment banking and strategy consulting for the developers and distributors of investment products and services. Seivert points out that the total number of deals to date where a firm has outsourced managed account operations is still in the single digits. "Anything an outsourcing vendor can do to light up the scoreboard is beneficial. Every deal is very highly-contested," he points out. There are six or so players vying for what will eventually be just three or four places, Seivert believes.

Other outsourcing providers include Mellon Financial, BISYS, State Street Corp., PFPC and most recently SEI Investments.

Bank of New York believes that new entrants will prove fertile ground for outsourcing business. There are a lot of managers still looking to get into this business, says Andrew Bell, a senior v.p. with BoNY. They don't want to go through all the work and investment required to set up the technology infrastructure, Bell continues. New entrants are an easier sell than firms already established in the market, because they start with a clean slate, he points out.

3C's Seivert agrees that almost all new entrants, with some exceptions, will choose to outsource operations instead of building it themselves. Some firms are so large, or expect to get so large, that they can afford the necessary technology and waiting time to get to scale, he says. In contrast, other firms may choose to stay small. They will focus on a handful of sponsor relationships or products and they could also probably do it themselves. "For everyone else, it's a no-brainer," Seivert asserts.

"It's very compelling from a cost standpoint, as well as reducing headaches, accessing technology and allowing marketing teams to offer multiple products," he recites. He estimates a 20% to 30% saving on a per account basis.

BoNY's SmartSource division will take on all middle- and back-office functions related to ABN Amro's managed account business. Those include trade support, model and rotation management, account maintenance, investment accounting, reconciliation, AIMR-compliant performance measurement and billing. ABN Amro did not return phone calls seeking comment.

According to BoNY, sponsors welcome a manager outsourcing its operations. "Sponsors have got to know us and are happy when a manager outsources to us," argues Walter Makaruche, a v.p. with BoNY. "They know what we do already and it makes their processing easier," he explains. ABN Amro is already in the door at a couple of sponsors and accounts should start to flow in soon, Makaruche notes.

ABN Amro manages $52 billion in assets in the U.S.

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