

BUILDING A BETTER ASIAN INFRASTRUCTURE

Asia can create efficient cross-border fund distribution infrastructure at a relatively early stage, using Europe's growth as an example, says Fundsquare.

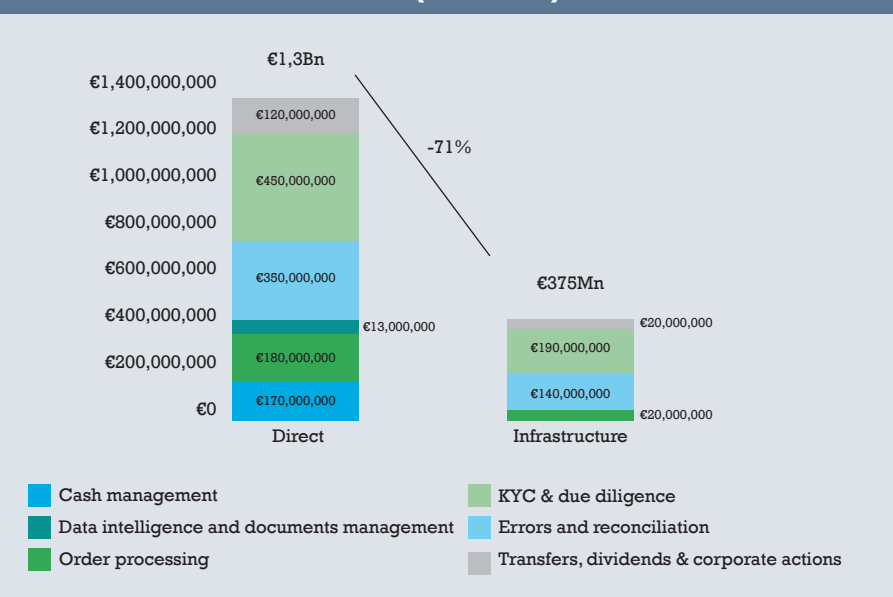
MILLIONS OF DOLLARS a year are being wasted by European fund distributors. From reporting, to regulatory filings, to know-your-customer tasks, to document management, and more. Most distribution chain relationships are a complicated network of point-to-point connections. Not only is this costly, but it invites higher error rates.

The consultancy Deloitte has put the cost of current arrangements at about \$1.5 billion a year. A more efficient hub-and-spoke model could cost less than \$0.5 billion, as well as realise benefits of greater reliability and ease of use. The US market epitomises this, with widespread use of mutualised utilities to keep costs down. The cross-border domiciles Luxembourg and Ireland are using these techniques more often, meaning their costs are lower than when domestic products from Germany, the UK and France (for example) are sold internationally.

The market is responding to this challenge. Know-your-customer (KYC) utilities have emerged, with providers building databases of client data. A mutualised approach to KYC and distribution is simplifying the current 'many to many' model giving:

- A single point of access to up-to-date and verified documentation
- Lower operational costs
- Increased quality and consistency of controls
- Shortening the on-boarding process for new clients and counterparties

SPLIT OF SAVINGS GENERATED THROUGH A STREAMLINED DISTRIBUTION SUPPLY CHAIN (OVERALL)



- Single requests for documents towards the distributor rather than individual requests per fund promoter
- Focus on core business

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Where multiple players are offering this service, the market is fractured and so efficiency is compromised. Industry discussions are under way to streamline the market. These efforts show the way, but more needs to be done. Greater standardisation and automation through mutualised hubs would cut costs and errors.

With the advent of mutual recognition schemes and fund passports, Asian distributors will hope to increase the number of products sold cross-border into several markets. As well as these

regulatory advances, this pan-Asian activity would be spurred by increased efficiency from mutualised, central utilities.

"The European industry dealt with problems as they arose, and is only now taking strategic action," says Olivier Portenseigne, managing director of Fundsquare, Luxembourg's user-owned and user-governed platform for investment fund order routing and information services. "Asia can learn from these mistakes and take a more infrastructure-focused approach."

Even if Asia is some way from having a single market for cross-border funds, pan-regional distributors can take a short cut by avoiding Europe's mistakes. Mutualised fund servicing utilities might even help to unify the Asian fund distribution market.