



# Collateral Management: Outsourcing vs. Insourcing

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# Collateral Challenges for Asset Managers

Regulations on bank capital requirements and on OTC derivatives are driving asset managers to change the way they manage collateral. Failure to implement timely and efficient solutions will impact investment performance.

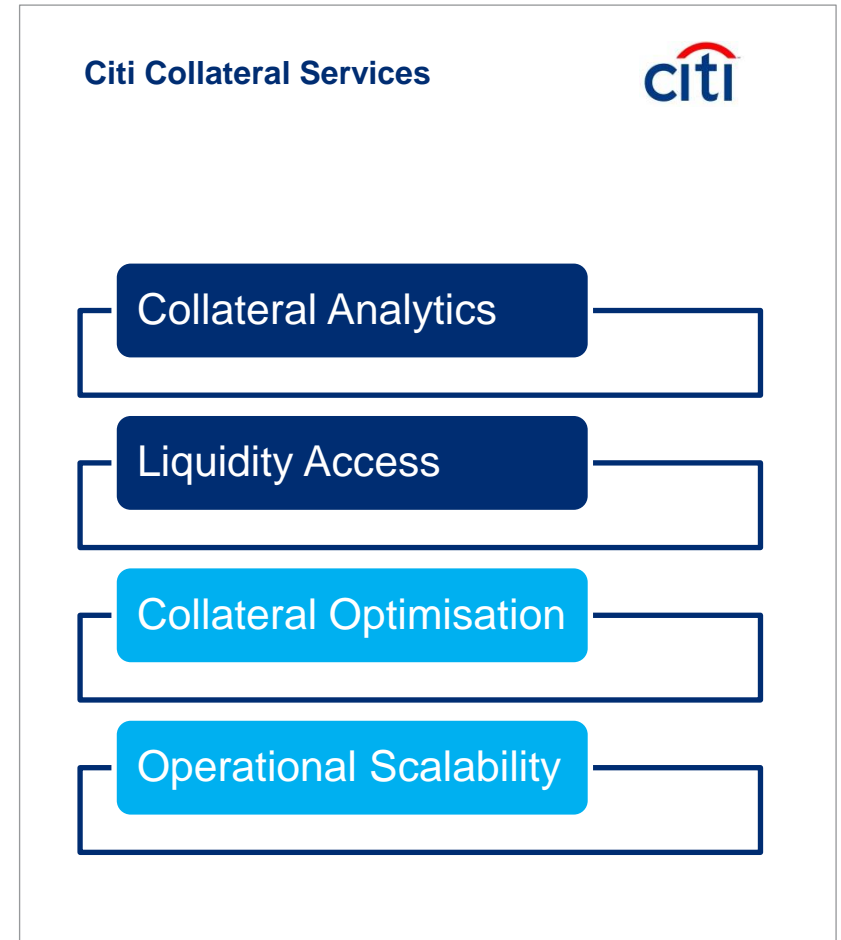
- **Global regulations** on OTC clearing and on margining of un-cleared OTCs are fundamentally changing the role of collateral management at asset management firms
- **Increased levels of margin** and new constraints on the type of collateral that can be used will have a material impact on investment performance for many institutions
- **Access to liquidity** and integration of liquidity and collateral functions have now become critical issues for LDI funds
- **Compliance with regulatory deadlines** on margining rules is placing significant burdens on legal and operational teams
- **OTC trading strategies** are increasingly complicated by the division of the OTC market between cleared and un-cleared and by allocation of dealers' capital costs
- Firms that lack **broad market access, comprehensive operational capabilities and insightful analytics** will be unable to define and execute optimal collateral and liquidity strategies



# Collateral Capabilities Required

Front office teams need data on the availability and cost of collateral and tools to minimise performance drag; operational teams require systems to automate the optimal flow of collateral across all counterparties.

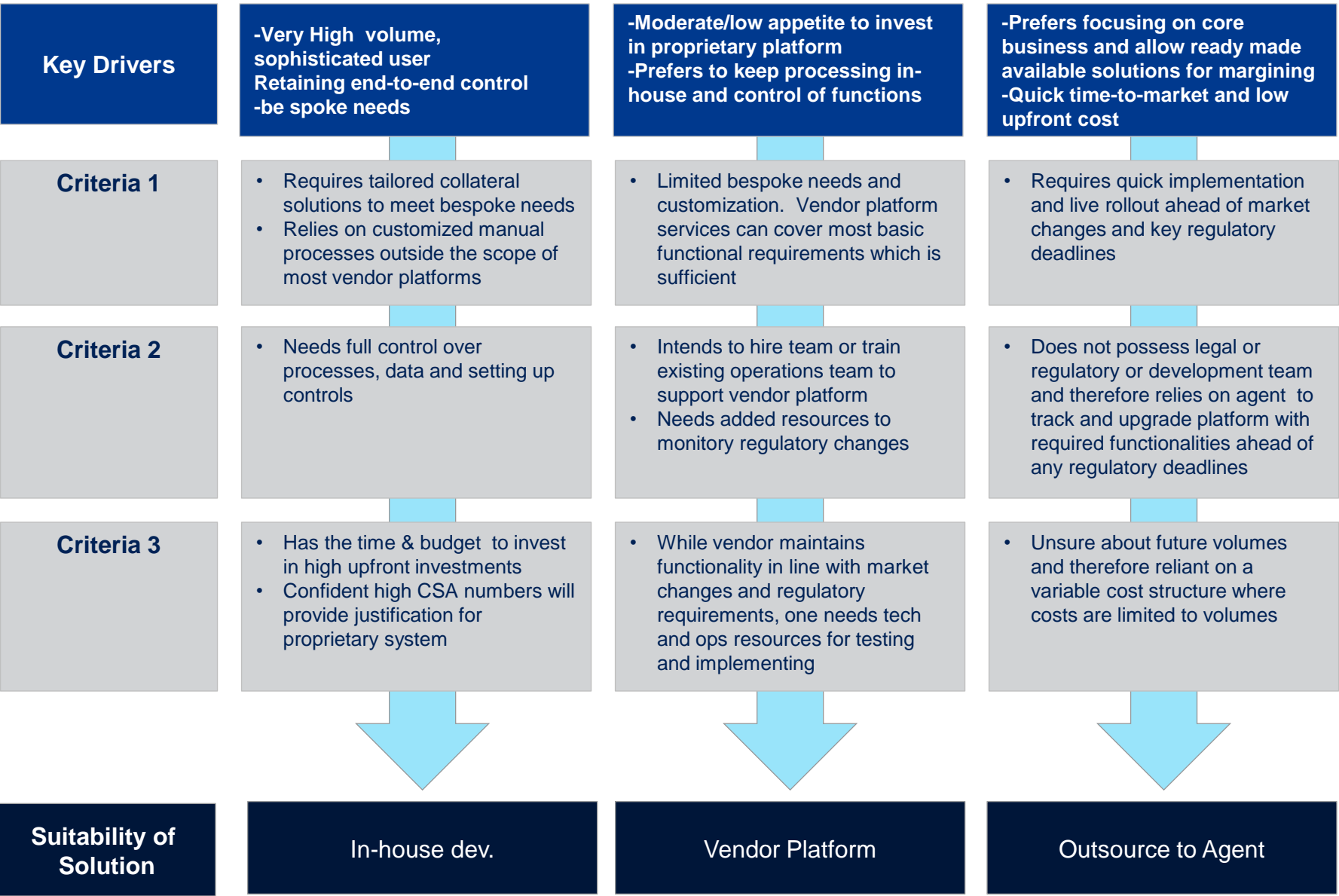
- **Portfolio managers** need analytics to determine the impact of collateral and liquidity strategy on investment performance
- **Traders** want to understand the potential collateral impact of their trading decisions
- **Risk managers** need to assess sufficiency of collateral to withstand market shocks
- **Treasury managers** require greater access to liquidity and efficient solutions for reinvesting excess cash
- **Legal and compliance teams** need to ensure that collateral processes conform to the new RTS
- **Collateral managers** require capabilities to optimise collateral and liquidity allocation across different fund types and trading strategies
- **Operations teams** need to support and increasing range of margining functions, across a wider range of collateralised products and within a shorter settlement window
- **Fund administrators** continue to require accurate and timely information across all margining activities



# Insourced vs Outsourced Model Assessment Criteria

Criteria	In-House Development	Vendor Platform	Outsourced to Agent
Fixed or Variable Costs	<ul style="list-style-type: none"> <li>Large upfront and fixed costs + variable costs</li> </ul>	<ul style="list-style-type: none"> <li>Significant upfront and fixed costs + variable costs</li> </ul>	<ul style="list-style-type: none"> <li>Variable costs</li> </ul>
Time to Market	<ul style="list-style-type: none"> <li>Long</li> </ul>	<ul style="list-style-type: none"> <li>Medium</li> </ul>	<ul style="list-style-type: none"> <li>Short</li> </ul>
Pace of Implementation	<ul style="list-style-type: none"> <li>Step by step (release model)</li> </ul>	<ul style="list-style-type: none"> <li>One-off + Step by Step</li> </ul>	<ul style="list-style-type: none"> <li>One-off</li> </ul>
Implementation Risk	<ul style="list-style-type: none"> <li>Very high</li> </ul>	<ul style="list-style-type: none"> <li>High to Medium (connections to internal feeds)</li> </ul>	<ul style="list-style-type: none"> <li>Medium to Low</li> </ul>
Operational Risk	<ul style="list-style-type: none"> <li>Insourced</li> </ul>	<ul style="list-style-type: none"> <li>Insourced</li> </ul>	<ul style="list-style-type: none"> <li>Outsourced</li> </ul>
Ops Resources	<ul style="list-style-type: none"> <li>Direct function of activity</li> </ul>	<ul style="list-style-type: none"> <li>Direct function of activity</li> </ul>	<ul style="list-style-type: none"> <li>Limited and lower correlation with activity</li> </ul>
IT Resources	<ul style="list-style-type: none"> <li>High</li> </ul>	<ul style="list-style-type: none"> <li>High</li> </ul>	<ul style="list-style-type: none"> <li>Low</li> </ul>
	Build + maintenance	Integration + maintenance	Connectivity
Operational Scalability	<ul style="list-style-type: none"> <li>Low to Medium</li> </ul>	<ul style="list-style-type: none"> <li>Low to Medium</li> </ul>	<ul style="list-style-type: none"> <li>Medium to High</li> </ul>
Functionality	<ul style="list-style-type: none"> <li>Defined by business requirements and implementation phases</li> </ul>	<ul style="list-style-type: none"> <li>Defined by Vendor capabilities and modules bought / integrated.</li> </ul>	<ul style="list-style-type: none"> <li>Defined by Agent's service scope, readily available</li> </ul>
Upgrades/New Regulation	<ul style="list-style-type: none"> <li>New release requiring resources and planning</li> </ul>	<ul style="list-style-type: none"> <li>New software version requiring integration resources and planning</li> </ul>	<ul style="list-style-type: none"> <li>Rolled out as part of agent's services</li> </ul>
Control	<ul style="list-style-type: none"> <li>All process managed by the entity</li> </ul>	<ul style="list-style-type: none"> <li>Dependency on software vendor but control on Operations</li> </ul>	<ul style="list-style-type: none"> <li>Dependency on provider</li> </ul>

# Qualitative Comparison of the 3 Models



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